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Foreword

Afro-Eurasian Studies is a new academic journal that aims to contribute academically to the fields of economics, international trade and business and politics focusing in particular on the areas of Africa, the Middle East, Asia and Europe, more correctly labelled as Afro-Eurasia. MUSIAD (the Association of Independent Industrialists and Businessmen), a leading association of businessmen (in Turkey) supports this journal. The World has been changing at an enormous speed when observed in its economical, commercial and political contexts. Therefore, we are still striving to understand and grasp the new economical, commercial and political facts that are emerging. It seems that the priorities of world economy and politics will be found in Asia, Africa, Eurasia and the Middle East over the next century. However, it does not mean that the West, Europe and the North America, will not remain one of the core regions of the World. MUSIAD is an association of business people; however we believe that a successful businessman should read correctly where the world is heading both in an economic and political sense and the new commercial, and business, economic and political realities that are beginning to dominate the World. We hope that Afro-Eurasian Studies will contribute academically to a more prosperous, democratic, free and just world.

Ömer Cihad Vardan
President
Association of Independent Industrialists and Businessmen

Toward Post-Western World and Afro-Eurasia

Ali Resul Usul

One particular question has been discussed in academic and non-academic intellectual circles in several parts of the world: What is happening to the Western-dominated world? Will the next century continue to be a Western century, or will "the Rest" instead of the West dominate the worlds of politics, economy and culture? These discussions on "the rise of the rest" have started to resurface in academic circles, as well as in a more general form through media such as magazines or the columns of newspapers. The discussions in this regard seem to focus on three general areas: world politics, world economy and popular culture. The discussions regarding the coming nature of international politics attempt to analyze the dynamics of international relations over the coming decades and to answer a couple of core questions such as whether the US will continue to constitute the 'hegemon' of the system or, as "declinists" argue, the current principal player in world affairs will still be a great power but not the hegemon of the newly-emerging international system. Will the unipolarity, in political and military senses continue or will an anti-hegemonic alliance emerge onto the world stage and counterbalance the influence of the US in the coming decades?

As a noteworthy example of contributions to the discussion of "grand strategy", "macro-history", "the future of the World politics and economics", I am going to first refer to Charles Kupchan's very recent book No One's World: The West, The Rising Rest, and the Coming Global Turn". He argues, like some other scholars, that it is true that "the rest" is rising but it does not mean that the rest will gain superiority over the West. Kupchan, in his book, symbolically referred to"the Copenhagen Summit", held in 2009, which had as its central focus the attempt to arrive at an environmental agreement to limit the emissions that increase "global warming". Referring to the American and European failure to convince China, Brazil and India at the meeting, Kupchan argues that "the twenty-first century marks not the ultimate triumph of the West, but the emergence of a global landscape that is headed toward a turning point rather than an end point. The West is losing not only its material primacy as new powers rise, but also its ideological dominance." He concludes that in the coming world "numerous power centers" will emerge and coexist and these centers will encompass their own versions of modernity (Kupchan, 2012: 2-4).

Richard Falk mentions a more radical shift in the world in his book, the Declining World Order: America's Imperial Geopolitics. He calculates the possibility of a "post-Western" world order in the future, and argues that "a definite post-Westphalian scenario is now likely to take shape within the next decade or so, and thus the contours of a new emergent world order are likely to change dramatically as the structure and dynamics of globalization evolve in the years ahead…" (Falk, 2004: 36). This is because the existing "Westphalian modes of regulatory authority" will not be in a position to manage the complexities of the world and countries following such modes will find themselves in a more difficult situation over the next decades. He accepts that the movement for humane global governance will not necessarily prevail, concluding that "such world order inconclusiveness is an insignia of this era!" (Falk, 2004: 37).

Of course here are observed competing views in this regard. Not all "strategists" believe that the Western powers would automatically be eclipsed by the 'rising rest'. They believe that if the Western smart decision-makers could successfully manage the economic and political challenges of the twenty first century, the West would continue to dominate the world. John Ikenberry, for example, argues that the US-dominated international order will remain in the twenty first century, provided that the Western states "work to strengthen the rules and institutions that underpin that order… sink the roots of this order as deeply as possible" (Ikenberry, 2008: 24-5).

Fareed Zakaria also mentions about "the Post-American World" and "the rise of the rest", and argues the world now is experiencing "the third

great power shift of the modern era" (Zakaria, 2008: 2). However, Zakaria thinks that the coming world will be no dominated by 'the rest' because "the world we're entering will look like Bollywood. It will be thoroughly modern-and thus powerfully shaped by the West-but it will also retain important elements of local culture." Zakaria, 2008: 82). Although Zakaria also explains how the "local and modern is growing side by side with global and Western" (Zakaria, 2008: 82), he in fact describes a Western-shaped World which will be further diluted by non-Western powers and cultures if they exist in any perceptible sense. Some authors anticipate more strongly the continuation of the existing order in the twenty-first century in spite of some deep crisis in the Western world (Kagan, 2012; Brzezinski, 2012).

Whether the coming world order will be Western or Post-Western, non-Westhalian or post-Westphalian, nobody suspects that Asian, African and Eurasian values will contribute more to the existing Western-shaped world order. This will be not only in the areas of politics and economics, but also those of international business and trade, as Alvarez and Sauvant put it (Alvarez et al, 2011). When "the rising rest" is mentioned, Asiatic giants, China and India come to the fore correctly. Nonetheless, the rising Africa should not be neglected. According to famous British magazine The Economist, "over the last decade six of the world's ten fastest-growing countries were African. In eight of the past ten years, Africa has grown faster than East Asia, including Japan. Even allowing for the knock-on effect of the northern hemisphere's slowdown, the IMF expects Africa to grow by 6% this year and nearly 6% in 2012, about the same as Asia" (The Economist, 2011). This is also true for Middle Eastern, Caucasian and Central Asian states.

We publish Afro-Eurasian Studies in Turkey to contribute to the discussions that will shape the coming World in terms of economics, business, trade and politics. We believe that Turkey, occupying an extremely important geopolitical location between the Occident and Orient; the Middle East and Europe; the Caucasia and the Mediterranean Sea; the North and the South, is at the epicentre of the changing World.

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Understanding the 'Arab Spring': Justice, Dignity, Religion and International Politics

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Abstract

The so-called 'Arab Spring' (or the Arab Awakening) has caught the world -Middle Eastern rulers and analysts of the region alike- off guard. The region's notoriously 'docile' people, who have long been oppressed under authoritarian rulers, have revolted against and overturned a number of the long-standing regimes in the region and threatened to do the same to others. This article attempts to make sense of how this historic event came into being, arguing that the Arab Spring is the result of an interplay between external and internal factors, i.e. between the changing structure of the international politico-military order and domestic economic and cultural influences. It offers an explanation of these phenomena by focusing on three sets of factors: the 'immediate factors' that include the people's search for social and economic justice, their demand for social and political liberties, and their desire for dignity and respect based on their frustration with the existing oppressive regimes. The 'background factors' are two, which are broad in scope: the international politico-military context and the impact of religion. Finally, the article focuses on four distinguishing features of the Arab Awakening: the role of the military, the significance of cities and the urban youth as the principal actors of uprisings and/or revolutions, as well as their use of ICTs for organizational and ideological purposes which may have significant implications for the study of social movements and revolutions.

Keywords: *Arab Awakening, 'Arab Spring', globalization, ICTs, International Politics, Islam, Middle East, revolutions, urban youth.*

Introduction

Once again, the Middle East has been going through troubling times. In such tumultous periods, small groups and their seemingly unimportant activities may create unexpected effects. In the present era of globalization, moreover, the political butterfly effect may have become a reality, as indicated by the widespread demonstrations and uprisings occuring in a domino fashion on a global scale, from the Middle Eastern "Arab Awakening" to the Trans-atlantic "Occupy Wall Street."

The series of chaotic events called the "Arab Spring" -a label that its own actors do not like due to its implication of foreign intervention and backing- is both a product of the tumultuous times that the region has been going through, and a case of large-scale recasting and reconstruction of social relationships, albeit in a chaotic manner in the Arab world. For the 'wick' ignited by a young, unemployed college graduate who set himself on fire on December, 17th 2010 (and the subsequent release by Wikileaks of classified American documents on the Tunisian regime), eventually turned into a huge conflagration (and a kind of spring-cleaning) that incorporated massive events, including the killing of thousands of citizens, the wounding and dislocation of tens of thousands of them, and the toppling of dictatorships of over thirty years in Tunisia, Egypt, Libya, Yemen (and perhaps Syria in the near future) by the ordinary people. Moreover, the heat of this fire has been felt in East and West, from Israel to China and USA.

Although the process is still unfolding, and is thus difficult to explain completely at present, it is imperative to understand the Arab Spring in order to make sense of the recent (and future) transformations of the region. This article is an attempt to explain some of the major sociological factors that have influenced the process of the emergence and unfolding of the Arab Spring. Subscribing to an essentially Weberian methodology that favors multi-causal explanation in understanding complex human phenomena, the discussion in the paper tries to avoid reducing the causes of the Arab Spring to a single, all-embracing and all-determing factor, such as class conflict or religious fervor. Given the multiplicity of the backgrounds, social and ideological compositions, as well as grievences and demands of the actual actors who have taken part in the uprisings in different countries, ranging from Tunisia to Syria and Yemen, a multi-causal approach accompanied by a macro-sociological perspective is useful in explaining this highly complex issue.

Thus, the factors shaping the Arab Spring to be discussed in the article entail three sets of causes. First, the "immediate factors" essentially include the people's , and in particular the youth's, reactions to persistent poverty and their demand for economic justice on the one hand, and their more general (and long-oppressed) aspirations toward social and political liberties and justice, on the other. As reflected in one of the common slogans chanted across the region, "Bread, freedom and social justice," these two motives were complemented and were encouraged to be put into action by the people's search for dignity in the face of frustration with social and economic policies. A second set of factors include the main actors and components that fundamentally shaped the entire process, including the role of the militry, the significance of cities and urban youth, as well as their use of ICTs for organizing their protests and spreading their message. Third, the background, or second-order causes include two major factors: Islam's influence on political culture and the international politico-military context. While Islam (though not the only ideological factor) seems to have played the most important part as a unifying ideological background influence during this process, the international political context basically refers to the end of the Cold War and the polarization of the superpowers, which led to a crisis of legitimacy as well as an absence of economic, political and military support for the (former) dictatorial regimes in the Middle East. The recent US-led "war on terror" campaign further weakened the power and sovereignty of regimes in the region. International politics have also played a significant role in the configurations of the actions and reactions of major actors, such as the Muslim Brotherhood(s) and national armies.

At this point, it might be useful to raise the question of whether it is possible to examine the "Arab Spring" as one single entity covering a large territorial and social space, given the diversity of national contexts and country-specific conditions that underlie the events that have been unfolding since the early 2010. The answer to this question must be a cautious 'yes', for two main reasons. First, the Arab world obviously shares, in addition to certain economic and political commonalities, the same language, history and, to a lesser extent, ethnicity and religion. Second, it is possible to analyze a large set of events from a macro-sociological perspective without jeopardizing the historical specificity of each case, if one is cautious enough not to make all-encompassing generalizations about these cases. In this regard, the long tradition of comparative-historical

sociology helps us avoid the traps of making across-the-board generalizations while investigating macro-social phenomena. John Stuart Mill's famous formula, the "method of similarity," applied as part of the "logic of scientific experiment" for comparative studies is particularly helpful. This method entails finding key similarities among similar events taking place in different contexts (in terms of both time and space) without making bold claims about the context-bound specificities of these events. A well-known example of the application of this method is Skocpol's (1979) comparative study of the three revolutions that took place in radically different times and places: France (1789), Russia (1917-21), and China (1911-49). Supporting the famous motto, "revolutions are not made, they come," Skocpol argues that all three revolutions were essentially an *unintended* consequence of the actions of revolutionary movements due to the breakdown of state structures under intense competition with other states, which created a power vacuum and a loss of legitimacy, enabling the revolutionary groups to take over the regime. In the case of the Arab Spring, too, we might be able to discover a number of key similarities, such as the ones mentioned above, which are applicable to different national contexts.

In making sense of the Arab Spring through these macro factors, the analysis presented here is supported by a historical perspective, incorporating an examination of the historical processes that culminated in the current state of affairs in the region; it also emphasizes the somewhat distinctive aspects of this phenomenon –the role of the military, the significance of cities and the urban youth as the principal actors of the uprisings and/or revolutions, and their effective use of ICTs, including the use of 'social media' and satellites in particular, in organizing and spreading their message: "The people demand the fall of the regime." Our examination of this process begins with the very question of whether the (at times violent) conflicts and transformations that make up the Arab Spring should be called a rebellion, or a revolution.

The Arab Spring: A Rebellion, or a Revolution?

Scholars studying political revolutions do not agree on what constitutes a revolution or when a rebellion (or revolt) turns into a revolution. Goodwin (2001: 9) defines a revolution broadly as "any and all instances in which a state or a political regime is overthrown and thereby transformed by a popular movement in an irregular, extra-constitutional and/or violent

fashion." There are also a variety of approaches in explaining the causes of revolutionary uprisings. While early, "first-generation" scholars such as Gustave Le Bon ([1913] 2004) and Pitirim Sorokin (1925) focused on crowd psychology to explain revolutions, the second generation focused either on psychological states (discrimination, frustration and aggression) (e.g. Schwartz [1971] 1997 and Morrison 1978), or on the disequilibrium within the "social system" from a functionalist perspective (e.g. Johnson 1966, Smelser 1962), or on power struggle and resource mobilization among different socio-economic groups (e.g. Huntington [1968]2006, Tilly 1978, 1995, Stinchcombe 1995). Both generations, moreover, primarily focused on the revolutions that took place in Europe and America. A third generation of scholars (e.g. Paige 1975, Moore 1978, Skocpol 1979), however, both expanded the scope of the study of revolutions by focusing on non-Western cases, and paid attention to 'external factors' (e.g. competition among states) as well as domestic ones (e.g. class conflict and elite struggles). Finally, starting from the mid-1980s, a fourth generation of scholars (e.g. Sewell 1985, Halliday 1999) both criticized and refined the earlier literature by paying attention to the role of ideologies and human agency, emphasizing the significance of the international context, integrating knowledge accumulation in the study of revolutions with that of social movements, and by further expanding the scope of the literature beyond Western conflicts (see Goldstone 1980, 2001, 2003; Foran 1993).

Furthermore, we see that the literature on revolutions usually stipulates three essential conditions for a movement to be considered as a revolution (or for a rebellion to turn into a revolution): (a) The revolt movement must become a mass social movement; (b) the process of revolution must lead to radical and systemic or structural changes and reforms, such as regime change; and (c) the revolutionary movement must use, or threaten to use, violence in the revolutionary process –though this latter condition is a contested one (Huntington [1968] 2006). Clearly, the scope of all three of these conditions is based on essentially context-bound and *subjective*, rather than universal and objective, criteria. That is to say, it is almost impossible to *objectively* determine the point or moment at which a protest group has turned into a mass movement, or the extent to which the changes that have been (or might be) brought about as a result of the uprising are 'structural', and finally, the intensity of the use or threat of violence by the revolting group(s): all these are based on essentially subjective considerations, i.e. the methodologically, politically and ideologically informed point of view of the investigator. Furthermore, the above model

of revolution is based on the examination of the extremely violent revolutions of the 20th century, particularly with regard to the final condition concerning the (potential) use of violence, which may not necessarily be applied to all cases in the 21st century. Moreover, the notion of "peaceful" or "non-violent" revolution has already been recognized in the relevant literature (see Sharpe 1973, Lakey 1976).

Jack Goldstone (2011) posits more objective and more nuanced criteria:

> For a revolution to succeed, a number of factors have to come together. The government must appear so irremediably unjust or inept that it is widely viewed as a threat to the country's future; elites (especially in the military) must be alienated from the state and no longer willing to defend it; a broad-based section of the population, spanning ethnic and religious groups and socioeconomic classes, must mobilize; and international powers must either refuse to step in to defend the government or constrain it from using maximum force to defend itself.

Thus, by looking at the general picture in the countries presently and potentially affected by the Arab Spring in light of the above criteria, we can roughly make the following observations. All four of Goldstone's conditions were present in Tunisia, Libya and Egypt, but not in Syria, the Gulf states and monarchies (Morocco, Jordan, Bahrain, Kuwait, Oman, and Saudi Arabia). On the other hand, "revolutionary violence" has been sufficiently intense in Libya, where many (former) governmental forces and officers were killed (with NATO's crucial help) and the regime leader Qaddafi was even lynched, and in Syria, where a portion of the army has defected and joined the opposition, as well as to some extent in Egypt; however, it has not reached comparable levels in Yemen, Bahrain and Tunisia. The main reason for the lack of high levels of violence in the latter countries, especially the first two, is that the regimes that have confronted the revolts in them have applied excessive violence (as was the case in Libya and Syria), and yet the opposition forces have not been successful in accumulating enough power to respond with similar violence. (In Tunisia and Egypt, however, the revolutionaries carefully avoided using violence, which has eventually proven to be a successful strategy.) Nevertheless, in terms of the first condition, the opposition forces in all these countries could be said to have created mass movements that have been more or less unified (against the oppressive regimes) as actors of the uprisings.

In terms of the second condition, which concerns the revolt's success in bringing about radical and structural changes, the situation is relatively clear only in Tunisia and Libya: Free elections were held in the former, resulting in the success of *al-Nahda* Party, an organization with Islamic roots, which could be considered a radical change given the former regime's famous (or infamous) enmity toward, and suppression of, any expression of Islam in the public sphere. In Libya, the former regime created and maintained by Qaddafi has been violently and completely wiped out, just like the man himself, with the crucial help of NATO forces, which put 'special emphasis' on this oil-rich country. However, real systemic changes have yet to come in Libya, a country that struggles with vital issues including the still-powerful influence of tribalism on politics and organizational problems in the maintenance of economy and everyday life.

As for Egypt, where the army and the remnants of the *ancien regime* are still dominant in post-conflict politics, though structural changes have not yet been enacted in political and economic institutions, there have been indications of change (such as the election results marking the victory of the Muslim Brotherhood) and 'hope' regarding such a systemic change. For this reason, Egypt can be considered to be a country where the 'revolutionary process' is still continuing. In Yemen, Bahrain and Syria, on the other hand, the possibility of a radical political change is not very high in the short run; for the Gulf countries and the US seem to have made a deal with the rulers of the first two (which involved the resignation of Ali Abdullah Saleh in the former), and two major powers, Russia and China, continue backing Bashar al-Assad's brutal regime in the latter. Therefore, we can only speak of a rebellion, rather than a revolution, in these countries. The determinant factor here will remain the fluctuations in the balance of power in international politics, and particularly the intensity of the pressures by the "international community." However, due to all these revolts, some armed and others more peaceful, the possibility (and hope) of the survival of a revolutionary change in the Arab world have become widespread.

Revolt and Revolution: Why Here, Why Now?

Since the American (1776) and French (1789) revolutions, which have come to be regarded as the 'classic' versions of this phenomenon, all political and military revolutions, including the Bolshevik revolution of

1917, have taken place in 'developing' countries, rather than in the economically advanced, Western-capitalist countries as was expected by Marx. This implies that, historically speaking, revolutions usually take place in less developed countries and in periods when the modernity's 'discontents' are experienced most sharply. In other words, the last three centuries of revolutionary history show us that radical changes/revolutions occur in the earlier, rather than later, phases of economic development (Halliday 1999).

In this context, it is not much of a surprise that a number of revolutions have taken, and possibly will take place in a number of Arab countries that are economically relatively backward but which are simultaneously experiencing many of the negative consequences of political and cultural modernization. In other words, the Arab Spring has shown that a non-Western society that has been marginalized by the global capitalist system and suffers -due to this position- severe economic inequalities and political and social problems under authoritarian regimes backed up by the international order can (and does) develop a revolutionary dynamic (and consciousness) that may change the fate of its people.

Beneath the Commotion: Justice, Equality, and Dignity

As mentioned at the beginning of the article, there are three main "immediate factors" that have contributed to the emergence of the Arab Awakening, including the people's (especially the youth's) search for social and economic justice, their demand for social and political liberties, and their desire for dignity and respect based on their frustration toward the oppressive regimes in the region. The self-immolation of Mohamed Bouazizi in Tunisia, which sparked the protests, is a semiotic microcosm of the entire process and its carriers: A 26-year-old college graduate, who would have been expected to have become either an educated, urban professional or government employee, was willing to pay the ultimate price in protest because he was unable to find formal work and not even allowed to work in the informal sector as a vegetable vendor due to lack of economic freedoms, as well as facing humiliation by a female police officer (as a representative of the oppressive, patrimonial, corrupt security state) as well as a likely future of persistent poverty.

It is no secret that most Middle Eastern (including North African) societies have for a long time been ruled by autocratic dictators who have oppressed their own people with an iron rule, particularly through mili-

tary and police violence and an accompanying security apparatus, and have been supported by major powers in the "international community," particularly by the two superpowers, in return for the protection of the latter's economic, political, and ideological interests in the region. Saudi Arabia and the Mubarak Egypt backed by the US on the one hand, and Syria and Saddam-era Iraq supported by the Soviet Union (and then Russia) on the other, are prime examples in this context. These *mukhabarat* (secret service) regimes, as has been well known, have long denied their own people some of the basic human rights and liberties, including those of political participation, freedom of expression, association and travel etc., in the name of security and stability (see below).

Furthermore, people living under these dictatorial regimes in the Middle East have also suffered from perpetual poverty and economic inequalities since the very beginning of these regimes. Though not constituting the only cause of the current chain of explosions, economic factors cannot be mistaken. As Perry Anderson (2011:9) puts it:

Beneath the commotion now shaking the Arab world have been volcanic social pressures: polarization of incomes, rising food prices, lack of dwellings, massive unemployment of educated—and uneducated—youth, amid a demographic pyramid without parallel in the world. In few other regions is the underlying crisis of society so acute, nor the lack of any credible model of development, capable of integrating new generations, so plain.

These regimes established a corporatist system that concentrated economic activities and resources in the regimes and their loyalists, which was beneficial for the small group of autocratic rulers and their cronies but destructive for the masses -their wealth, life styles and economic freedoms- leading to economic stagnation and dire poverty. Moreover, the ruling elites have always shared the vast majority of their countries' resources, notably the oil, with Western capitalists and the Soviet bloc in return for protection from public upheavals as well as monetary reward, leaving their own populations under dire economic conditions. The failure of neo-liberal policies across the Arab world has created high rates of inflation (rapidly rising food prices, in particular) and unemployment, and a huge income gap between the elites and the masses, leaving the middle class as quite small in size –and creating "middle-class poverty" particularly in Egypt (Ibrahim 2002a, Zubaida 2011). A similar situation exists at the country level, creating stark differences between a small of group of

oil-rich countries and poor ones. For example, Saudi Arabia's per capita income was more than ten times that of the neighboring Yemen --$24,020 vs. $2,330 in 2009, respectively (Roudi 2011: 3). In addition to low wages, people had to face a region-wide 32% rise in food prices in 2010, and a soaring youth unemployment rate of 23% across the Middle East, which doubles the global average, in 2009 (Goldstone 2011). Although there have recently been high rates of economic growth particularly in Egypt and Tunisia, these have not been translated into reduction of inequality: ordinary people still face persistent poverty amid extravagant wealth concentrated in the hands of a few. Such economic inequalities have been accompanied by widespread corruption and patrimonial mechanisms that have favored a small segment of the society, thus leading to an even greater 'gap' in terms of social and economic justice in many Arab countries (see Radwan 2002, El-Laithy et al. 2003, Ayadi et al. 2007, Assaad 2009, Bibi and El-Lahga 2010, Alexander 2012).

Coupled with the lack of basic social and political liberties, these economic hardships might be said to have created a great potential for revolt. For continuous violence and humiliation, as well as widespread corruption, patrimonial-clientalistic relations and favoritism, have worsened the effects of perpetual inequality and poverty, perhaps leading to the emergence of back-to-back revolts by (young) people as initiated by Mohamed Bouazizi. The psychological derive underlying all these factors was the search for dignity and respect by the long-oppressed and humiliated people of the Arab world based on their anger and frustration resulting from a long history of discrimination and violence, which shows -to both the rulers and analysts- that a non-material factor, something as 'elusive' as dignity or honor may well play a significant role in the initiation of a series of large-scale rebellions and revolutions, helping actors transcend the psychological barrier (the threshold of fear) necessary to embark on such a risky endeavor. Though most rebellions and revolutions probably entail an element of a search for dignity, the magnitude of its impact seems to be a distinctive feature of the Arab Awakening, as in the case of the Palestinian *Intifada*.

There are several other distinctive aspects of the 'Arab Spring' as well. For one thing, it has been more effective in one-party, presidential systems than in monarchies. For the rulers in the former are widely perceived as despots due to their direct rule whereas the royal rulers often suc-

cessfully act as trusted mediators of competing interests with their status above politics, as recently exemplified by Morocco's King Muhammad VI and Jordan's King Abdullah (Brumberg 2011). Furthermore, monarchies are inherently more flexible: in the face of popular challenge, kings can still retain power while conceding a degree of legislative authority to elected parliaments, thereby absorbing some of the anti-regime energy and avoiding a systemic change or revolution:

In times of unrest, crowds are more likely to protest for legislative change than for abandonment of the monarchy. This gives monarchs more room to maneuver to pacify the people. Facing protests in 1848, the monarchies in Germany and Italy, for example, extended their constitutions, reduced the absolute power of the king, and accepted elected legislatures as the price of avoiding further efforts at revolution (Goldstone 2011).

The Rebellious City

Moreover, perhaps for the first time in history, cities played a major role in the series of revolts and revolutions. The 'Arab city' has functioned as the basic physical and social space of resistance and struggle: it has been the major site of organizing protests and mobilizing masses on the one hand, and the repression of these protesting masses (which consisted mostly of the urban youth) by the regimes, on the other. Thus, the uprisings in the 'Arab street' have not been organized in the countryside thus turning into a guerilla war (Libya being a partial exception), but rather occurred in the streets and squares (the most famous ones being Cairo's Tahrir and Tripoli's Green/Martyrs' squares), in conference halls and campuses, and on the virtual space that has been an integral part of the urban life style. (Even in the Libyan case, a number of cities have been recognized as major sites of massacre, bombing, resistance and revolution, such as Benghazi, Tripoli, Sirte, and Misrata.) A significant consequence of the urban character of the uprisings has been that the level of violence enacted by the protesters, who have usually adopted the strategy of occupying and camping on squares and streets, has generally remained very low – Libya being a notable exception again. On the other hand, the regimes challenged by activists have committed intensive violence (particularly via the army and police); however, this kind of violence often backfired, thus significantly undermining their own legitimacy and strengthening that of demonstrators in the national and international arena.

Moreover, the city and its squares also emerged as the "democratic space of revolutionary occupation" (Döşemeci 2011) during the Arab Awakening. This is true particularly for the Tahrir Square, the symbolic and actual site of the Egyptian revolution. The main strategy of the activists during the first phase of the rebellion was to physically occupy the square: hundreds of thousands of them poured into Tahrir and stayed there day and night for three weeks. The security forces gradually withdrew, and protestors grew in number, at times up to a million people (especially on Fridays), which left them paradoxically with both an opportunity and a challenge: they owned the square with which they showed their force and determination, but they had to provide their own security, food, cleaning and health services. Thus, different groups with different ideological backgrounds shared both the responsibility and joy of their collective action in Tahrir. In other words, they both challenged the oppressive regime and learned how to live together as an actual functioning community; and Tahrir became the site of these two (political and communal) forms of collective action. In this sense, the urban space functioned, albeit temporarily, as the stage of the presentation of a communal self and of the construction of a new, cosmopolitan identity. This double function, together with the basic strategy of occupying a physical (and social) space, has been an inspiration for social movements in other contexts (e.g. the OWS movement in the US) –and a challenge to the study of new social movements in social sciences.

The ICTs as 'Weapons of Mass Communication'

Though occupying the urban space was a major strategy of revolution, there was a lot of collective action organized in the 'virtual space' as well. Thus, the distinctive role played by information and communication technologies (ICTs) constitutes another urban characteristic of the Arab Spring: large-scale protests and demonstrations were mostly organized through the use of previously unavailable ICTs, including so-called 'social media' (particularly *facebook* and *twitter*), cell phones and satellites (particularly *Al-Jazeera*). In making this argument, however, one needs to be careful about technological determinism: Although technology is not just an instrument that actors use however they wish, as it can and does influence social relations depending on the socio-historical context, it does not have an agency of its own, either (MacKenzie and Wajcman 1999). Treat-

ing modern technology as an independent, even omnipotent, force on its own misses the fact that no technological tool exists in a void but instead is created in and through social relations, including economic interests, military and political power relations, normative meaning systems and even ideological derives. Thus, the actors' use of new technologies during the Arab Awakening is only meaningful in (and dependent on) the social circumstances that conditioned the events. For instance, it was the youth, rather than the regimes generally ruled by old people, who made most effective use of *facebook* and *twitter* for organizational purposes –the 'old' regimes did not even appreciate the significance of 'social media' in terms of their potential to pose a danger for themselves until it was too late.

Within these limits, then, one may argue that these products of globalization and technological revolution have functioned as "weapons of mass communication" (Mann 2003) against the regimes and for opposition groups. Three kinds of ICTs have played an important role in this respect: the satellite TV, the cell phone, and the internet, including *Wikileaks*, which helped to some extent to the sparking of protests by revealing some of the dirty secrets of regimes, as in the case of the Ben Ali family's corruption and wealth in Tunisia (see *Wikileaks* 2009). While some remain skeptical of the social media's impact (e.g. Gladwell 2011, Heaven 2011, Kravets 2011, Penny 2011), a recent study based on an analysis of over three million tweets, gigabytes of YouTube content and thousands of blog posts suggests that they actually "played a central role in shaping political debates in the Arab Spring" by spreading, among others, inspiring stories of protest and "democratic ideas across international borders" (Howard et al. 2011: 2).

Moreover, different forms of the ICT have been used in different ways and degrees: While text-messaging probably played a limited part due to its geographical limits (though it was important in organizing protests –see Kravets 2011), various youth groups participating in the protests have created many facebook pages, and used them together with twitter and text-messaging in organizing their specific activities, in communicating with fellow demonstrators in their own country and abroad, and in spreading their messages across the globe from the early weeks of the Arab Spring (Ackerman 2011, Beckett 2011, J. Rosen 2011, R. Rosen 2011, Vargas 2011). In Tunisia, for example, internet censorship was always common; already ranked below China and Iran in the rankings on internet liberty by Freedom House in 2009, Ben Ali's regime also regularly

checked email content, prevented attachments and blocked some websites, such as *Dailymotion* and *YouTube* in 2007 and then *facebook* before general elections in 2009. However, while there were over 800,000 facebook users in the country by October 2009; this number had reached 1.97 million, approximately a fifth of the total population and over half of the Tunisians online, by the time Ben Ali fled the country in January 2011 (Pollock 2011).

The use of ICTs provided the activists not only with effective communication and organization, but also with the opportunity to gain worldwide recognition, legitimization and solidarity with the people inside and outside the region. Such recognition and justification have probably affected the dictatorial regimes' and other governments' attitudes and plans regarding the opposition groups in the Arab Spring. By the same token, these electronic networks (and the non-state media in the Arab world) have also played a role in undermining the legitimacy of oppressive regimes across the region, and perhaps speeded up the fall of some of them. Finally, 'social media' has also rendered the news coverage of the events more pluralistic, partly breaking the monopoly (and manipulation) of media conglomerates, particularly in the West (Schillinger 2011).

In addition to 'social media', and often in conjunction with them, another venue that not only helped shatter the monopoly of the Western media but also contributed to the revolts and revolutions by spreading the activists' messages and undermining the credibility of the regimes has been satellite TV networks. The total number of TV networks broadcasting in Arabic is estimated to be 700 (Fandy 2007). While the regimes used their state TVs as their mouthpiece to control the flow of information (and people), a plethora of private regional TV channels broadcasting in Arabic and other languages, especially 24-hour news channels such as *Al Jazeera, Al-Arabiyya,* and *TRT al-Turkiyya*, the majority of which took a pro-opposition stance, functioned as alternative sources of news and opinion from different points of view. These TV networks were both popular across the region and often integrated the 'social media', particularly twitter, facebook and Skype, as well as their own websites, into their broadcasting. While western media outlets such as CNN and BBC that have their own Arabic versions as well, generally adopted a more 'balanced' perspective, the alternative media based in the region were more influential in spreading activist messages and fuelling anti-regime feelings around the region through their live coverage and by broadcasting often dramatic images.

Al Jazeera is a case in point, which deserves special attention. For though owned by the Qatari royal family, it has long been an important news source for the people of the region, building a reputation for professionalism and independence from political power centers in the eyes of the people in the 'Arab street', who had lost confidence in their national media. The latter were mostly controlled by a "Ministry of Information" in every country, which became a euphemism for censorship and propaganda (Allen 2011, Hasan 2011, Souaiaia 2011). Moreover, *Al Jazeera*'s coverage of the wars in Iraq and Afghanistan increased its audience worldwide, particularly through its English-language satellite TV and website; the killing, arrest and imprisonment of its reporters by the US army also added to its popularity. But it was during the Arab Awakening that its popularity and influence skyrocketed:

> Al Jazeera has consistently been able to influence public opinion. Many Arab rulers had accused it of inciting protest and dissent. Undoubtedly, the role Al Jazeera played in the Arab Spring was unprecedented, especially during the Tunisian and Egyptian uprisings. Many Tunisians credited the channel with speeding the overthrow of Ben Ali's regime. In general, Al Jazeera was loved by the Arab peoples and loathed by the Arab authoritarians. … The role of Al Jazeera in inspiring the Libyan and Yemeni protesters is also undeniable (Souaiaia 2011).

In addition to Al Jazeera and other ICTs, what is called the "demonstration effect," probably played a role particularly in the initial phases of the process: the activists in Tunisia and Egypt showed the others that toppling the region's dictators was achievable. They also showed them what kinds of tactics and tools to use for successful protests. The new media technologies may have also been instrumental in sustaining this demonstration effect.

The Youth as the Principal Actor

These ICTs have been effective only to the extent that there was a group of actors capable of making an effective use of them: the urban youth. Composing more than half of the population in the region, the young had already been taking part in 'everyday politics' under authori-

tarian regimes, though in a much less active manner (Bayat 2009). This time they constituted the bulk of the protesting groups everywhere -from Tunisia to Yemen- and have played a crucial role in initiating and sustaining the uprisings. Thus, in Egypt, it was students and unemployed youth who first occupied Tahrir; it was also members of the April 6 Movement, young workers of the *Mahalla Kubra*, and the youth branch of the Muslim Brotherhood, who were most actively involved in the protests. Armed with different kinds of media and know-how (see below), these youth took advantage of the old regime elites' inability to appreciate the potential political impact of this advanced technology –for these elites were mostly interested in a different ('hard') kind of technology, such as fighter jets, arms and ammunition. In addition to this 'generation gap', a second probable factor in the emergence of the educated, urban youth as a principal actor of the Arab Spring is the fact that they were the ones who most strongly felt the effects of the increasingly widening distance between their expectations regarding social justice, economic opportunities and liberties on the one hand, and the reality of their own life, on the other. Coupled with constant humiliation by security forces, this realization probably constituted the most critical psychological threshold factor in the formation of a 'revolutionary consciousness' among them. They probably also observed different lifestyles entailing relative freedom and a level of affluence people enjoyed not just in the West but in some Muslim countries, such as Turkey, through the internet, TV serials and tourism (Salem 2011). It is clear that the persistence of poverty and lack of freedom in the Arab world directly contradicts with their economic potential given the abundance of their natural resources. Moreover, there is another significant generational difference here: unlike their parents, these educated urban youth were not accustomed to living in closed societies under oppressive regimes and dire poverty as they had the opportunity to connect to the urban youth elsewhere in an increasingly connected world. Thus, it should not have been difficult to realize the enormous gap between their expectations --that like their peers they could also benefit from the fruits of globalization and/or economic growth-- and the realities of their societies.

Cooperation among youth groups was not limited to squares and campuses; it also involved shared plans and know-how. Moreover, it sometimes went beyond national borders. For instance, the "April 6 movement,"

aimed to be the core of the "secular youth movement of the Egyptian uprising—a counterpart to the youth movement of the Muslim Brotherhood" (Pollock 2011), collaborated with the Academy of Change, an Arabic online group promoting civil disobedience, to train its own members:

> [The Academy's] inspiration was Optor, a youth movement cofounded by a Serbian revolutionary, Ivan Marovic, which helped overthrow Yugoslavia's Slobodan Miloševic in 2000 by means of a "Bulldozer Revolution" that was remarkably peaceful: only two people died. Marovic later cofounded the Center for Applied Non-Violent Action and Strategies (Canvas), which has since trained activists from more than 50 countries. In the summer of 2009, April 6 sent an activist named Mohammed Adel to train with Canvas in Serbia. He returned with a book about peaceful tactics and a computer game called A Force More Powerful, which lets people play with scenarios for regime change. Taking advantage of the game's Creative Commons license, April 6 members wrote an Egyptian version (Pollock 2011).

Thus, the educated urban youth and the 'rebellious' Arab city that were at the center of revolt and revolution in 2011 in a sense represent the "global political subject" influencing many other cities and their young residents around the world, thereby turning themselves into active 'makers' of globalization rather than simply its objects. These young people, from Mohammad Bouazizi of Sidi Bouzid to Wail Ghonim of Cairo and many others, have inspired many of their peers, joining the protests centered on social justice and economic issues in different cities across the globe, from Israel to Britain and the US. Of course, capitalism's capacity to absorb oppositional movements is notorious, and many of these movements have rapidly been fading away in the central cities of the capitalist world. (Though the "Occupy Wall Street" movement may seem to be an exception, it does not seem to have a potential for sustaining a radical reform process in the US.)

This inspirational moment symbolically invokes the 'pre-modern' period when the direction of social change (and of emulating and reproducing this change) followed mostly an East to West trajectory. At the same time, it demonstrates that the changes and transformations experienced in, and by, cities during the globalization processes can transcend their own localities and help create global connections across different regions. In fact, as demonstrations in the Tahrir Square, which genuinely inspired the

OWS movement, show, the protest movements emerged within the Arab Awakening, and various instruments and principles (ranging from their organizational aspects to their slogans) that they have employed have been transferred to political contexts radically different from the Arab street. In this way, these methods and principles have been circulated around the world. Therefore, it is safe to say that the inspirational character of the Arab Spring for the rest of the world also poses a conceptual challenge to social sciences that usually prefer to explain social movements and revolutionary process with reference to local factors.

The Military as the 'Switchman'

A final significant element that has shaped the unfolding of the Arab Spring has been the military's behavior. Military establishments behaved differently in different countries; their positions vis-à-vis protestors and regimes have also shifted over time in some cases. In Yemen, security forces opened fire at students protesting against the regime on a university campus wounding over 90 of them on March 9, 2011 (*BBC*, 3. 9. 2011). The Yemeni army also violently suppressed demonstrations until the recent elections in late February 2012. Despite this, however, Ali Abdullah Saleh had to abandon power eventually for three reasons: first, the army largely controlled by his family was divided when his brother and a high-ranking general defected; second, the Yemeni opposition has remained largely unified; and third, the regime's foreign support (by the US and Saudi Arabia) has steadily declined over time. In Syria, where the dictatorial oligarchy is still intact, military violence began around the same time: on March 23, 2011, security forces killed 15 demonstrators; since then, according to UN statistics, the death toll has exceeded 7,500 (*CNN*, 23. 3. 2011, *CNN*, 28. 2. 2012). Forces that have defected from the Syrian military have recently formed a rebel army, the "Free Syrian Army," which has been carrying out armed opposition to the regime. A larger-scale defection from the Libyan army had quickly led to the loss of territory by Qaddafi, and eventually to that of his own life and regime. However, both Qaddafi's ruthlessness and determination to stay in power *and* NATO's air strikes made Libya the most violent of all cases. In Tunisia, where the army and police have traditionally been weak (Brumberg 2011), the revolutionary process was relatively peaceful, and the dictator toppled relatively easily and fairly quickly –he left the country on 14 January 2011. It was ironically Ben Ali's own

policy of keeping the military at a distance (though he himself came from the military), which eclipsed its role in politics, and left him defenseless. His family's notorious corruption and wealth may also have led to resentment by the military (Goldstone 2011).

It was in Egypt that the military's behavior was most ambiguous: Traditionally the army was popular among the people of Egypt, as the police and the *Mukhabarat* (secret service) were the main perpetrators of regime violence in the country. That is partly the reason why the army did not crack down on mass protests, particularly during the early phase of the revolution. A second important reason was the military elite's resentment of Gamal Mubarak, the heir-apparent to the regime, whose power was built, unlike his father who was originally a professional military officer, on business establishment and connections to political cronies, who had made large fortunes through government monopolies and privileged credits. Thus, as in the case of Tunisia, increasing corruption and concentration of wealth have alienated the military (Goldstone 2011). Despite this, however, the Egyptian military has never wanted to abandon power, and still blocks smooth transition to democracy (Martini and Taylor 2011). In the early days of the revolution (February 13, 2011), they refused the protestors' demand for transition to democracy, though not violently repressing them (El Deeb 2011); more recently, the Supreme Military Council declared their plans to remain in power until 2013 (Shenker 2011a). However, they did not hesitate to use violence if necessary: when the protestors re-occupied the Tahrir Square, the security forces violently took the square back on August 1, 2011 (Shenker 2011b); more recently, on November 19, 2011, the security forces opened fire on the demonstrators in Tahrir, killing 2 of them and wounding over 600 (Shenker 2011c). Therefore, the military's behavior (its activity and passivity) functioned as a 'switchman', to use Weber's famous metaphor for the role of ideas in history, that affected the *direction* of the events unfolded in various ways in different contexts.

We have thus observed that a number of military, socio-economic, political, technological and psychological factors have contributed to the emergence and spread of the revolts in the Arab world, some of which have taken the form of revolution. Thus, these material and non-material factors might be considered among the significant specific causes of the Arab Spring. In addition to these "immediate factors," we can distinguish two broader and long-term factors that form the background of these spe-

cific causes, and help them succeed and produce significant results in the Arab Spring movement. These macro-social factors include, as mentioned, the international politico-military context and the impact of religion (Islam) on political culture. Let us start with the analysis of the impact of international politics.

International Politics: End of Cold War, Foreign Intervention, and the 'Post-Spring' Situation

It is best to attribute the emergence and unfolding of the Arab Spring to a combination of domestic dynamics of the Middle East and 'external' factors. As Fred Halliday (1999) points out, revolutions usually occur in countries in transitional periods as a result of the pressures exerted by certain international developments as well as the internal contradictions of these societies.

Foreign Intervention

From this perspective, the effects of current international politics on the unfolding of the Arab Spring could be detected in at least three forms: military and political interventions by the "international community" into the countries in which conflicts had taken place, the consequences of the end of the Cold War for the region, and the possible positions that the principal actors of the Arab Awakening will take in the post-conflict period. The first of these, international intervention, which is the most concrete dimension and the easiest one to detect, has taken two forms: direct and indirect intervention. It is of course the case of Libya that represents the prime (and so far the only) example of direct military intervention by the "international community." Shortly after the armed battle between the opposition forces and Qaddafi's military and paramilitary forces turned into a civil war, the NATO countries, led by France and Britain, decided to provide humanitarian aid and military assistance to the 'revolutionaries'. They quickly started bombing Qaddafi's forces and compounds badly hurting them so that the opposition forces could relatively easily win an otherwise near-impossible victory over the central army. Some NATO countries, notably Turkey, were not involved in military campaigns but provided humanitarian aid only, in the form of money, medication, food, health services and shelter. Turkey and Germany as well as Russia, China and Brazil were initially opposed to the military campaign, but France and

Britain, supported by the US, were determined to topple the old regime in return for oil deals with Libya's National Transitional Council (NTC) in the post-Qaddafi period (Roberts 2011). Thus, the direct foreign intervention proved crucial for the success of the 'revolution' in Libya.

As for indirect intervention, we have observed plenty of occasions where international powers and regional countries have tried to influence the direction of events in different countries for their own interests. Some of these occasions include the efforts by P5 and the Gulf Cooperation Council (GCC) (particularly the US and Saudi Arabia) to impose peace in Yemen, those of Iran and -again- Saudi Arabia in Bahrain, and the ongoing rivalry between Russia and Iran on the one hand, and Turkey, the EU and the US on the other, over Syria, where the former countries supported the Assad regime in order to protect their strategic interests and the current privileges they enjoy, and the latter powers supported the rebellious Free Syrian Army and opposition groups . Russia and China's vetoes on a recent UN bill that called for sanctions against the Assad regime and the former's symbolic military gesture as well as the subsequent efforts done by Turkey and the Arab League and supported by the West to apply further pressure on the regime demonstrate the intensity of competition between the two blocks in the process of indirect intervention in Syria.

End of the Cold War, End of Sovereignty

Secondly, the end of the Cold War created a context in which the two super-powers did not much require the presence of dictatorships in the Arab world, which in turn led to a crisis of legitimacy on the part of these oppressive regimes –or rather, revealed the *absence* of legitimacy of these regimes among their citizens. Furthermore, as Sayyid (2012: 3) argues, the post-9/11 'War on Terror' campaign launched by the US has fundamentally threatened the national sovereignty of many Muslim states, including the Arab regimes that had previously relied on external, super-power support for sovereignty as well as on an internal security establishment (consisting of the army, the police and intelligence services). Thus, the *mukhabarat* states' lack of popular legitimacy, combined with the withdrawal of strong external support, have together led to a crisis of legitimacy and sovereignty, and prepared the ground for popular uprisings and fall of oppressive regimes in the Arab world.

Therefore, the 'Arab Spring' is in a sense a product (perhaps an unintended one) of a fundamental change in the international order: the end of the bi-polar politico-military order as a result of the collapse of the Soviet Union, and the emergence of a "new imperialism" (Mann 2003) in the form of US interventionism following the September 11 attacks, which together undermined the already limited legitimacy and sovereignty of dictatorships in the Arab world. For these regimes were in the first place products of the bi-polar international order: they came into being as a result of a series of nationalist 'revolutions' (read military *coup d'état*s) that took place during the 1950s and 1960s, following the formal decolonization of the Middle East and North Africa. As military juntas, many of these regimes (of Nasser in Egypt, Syria and Iraq's *Ba'ath* parties, Algeria's FLN, Libya's Qaddafi and similar groups in Yemen) did not rely on popular legitimacy (though some of them, like Nasser, temporarily enjoyed popular support during episodes of conflict with Israel and 'Western imperialists') but were instead supported by the Soviet Union and the Cold War atmosphere, adopting the Soviet state system and an ideology of "Arab socialism" (Zubaida 2011). Others (e.g. Saudi Arabia and pre-1979 Iran) relied on the support of the capitalist bloc and the US in particular. Following the *coup d'état*s, the former regimes eliminated all potentially rival political and economic power centers by destroying the previously-instituted parliaments and political competition, nationalizing the economy and strangling civil society. They used their political branches (the Jamahiriya in Libya, the Arab Socialist Party in Egypt and the Ba'ath in Iraq and Syria) as tools of domination and control in politics, thereby leaving no space for opposition and civil initiatives (Ibrahim 2002b, Hamzawy 2003, Pratt 2007, Lust-Okar and Zerhouni 2008). However, this was not entirely successful, as the Islamic opposition in particular has successfully used informal networks for their primarily underground political activities (see below). In order to survive, all of these regimes relied on external politico-military and economic support (receiving substantial amounts of money, arms, information and know-how from the US and the Soviet Union as well enjoying their protection in the international arena) and on patrimonial mechanisms in economy and politics (creating a small of group beneficiaries loyal to the regime) as well as violent security measures and an espionage system in managing domestic affairs during the Cold War.

However, all this has recently been changed: as men tioned above, most of them have lost the external support systems following the collapse of the Soviet Union (and thus of the bi-polar international order) and accelerated American expansionism during the last decade. This has led to a situation where the axis of threat to these regimes has shifted from internal (domestic opposition) to external (undermining of their national sovereignty) and they did/do not have much power to alleviate it. For this was a context where their fundamental problem of a lack of legitimacy had been revealed. Consequently, they were no longer able to enjoy the previously available political, economic and ideological privileges –they were left simply with dominant military power, and, as discussed above, the armies' behavior (itself a function of the generals' cost-benefit calculations in terms of legitimacy and power, rather than a completely 'free choice') has so far been important for the direction of the events during the uprisings, proving different consequences in different countries (e.g. Egypt as opposed to Syria).

At this point, it is important to emphasize that the 'Arab Spring' is not a conspiracy planned and put into action by international forces (e.g. USA or capitalism). For since the beginning of the process, two particular conspiratorial narratives, which have found adherents from both liberal and leftist circles, have been put forward particularly in the popular media. The first narrative holds that the capitalist system's need for new markets is the driving force behind the Arab Spring, for multi-national corporations, assumed to be controlling the major political centers and decision-making processes in the West, wish to expand geographically to sell their products to new markets either in order to recover from the existing financial crisis, or as an intrinsic drive to increase their profits. According to these accounts, "transnational capital" is often portrayed ambiguously as both an omnipotent actor in itself and a helpless creature in an unrecoverable existential crisis (e.g. Robinson 2011, Jones 2011). The second narrative, on the other hand, has two variants: The 'leftist' one holds that though these 'revolutions' started out as pro-democratic, anti-imperialist uprisings, they may soon be 'stolen' by Western imperialism –as has happened in Libya. The adherents of this position also often argue that the participants of the revolutions other than socialist, 'progressive' ones, are prone to be easily co-opted by imperialism and to fall prey to the imperialist ambitions of Western governments, Washington in particular, which operate behindthe curtains financially and militarily helping the 'reactionary' opposition forces

(e.g. Mackler 2011, Badio 2011, Achcar 2012). The second, 'liberal' version is more sympathetic toward this process, seeing it as part of a long march toward democracy in the non-Western world and as a sign of the failure of Islamism in Muslim society. This view holds that the 1989 Revolutions that occurred after the collapse of the Soviet Union followed by various "color(ed) revolutions" in post-communist countries (Poland, Romania, Czechoslovakia, Serbia, Georgia, Ukraine, and Moldova, respectively) and others (the failed Cedar Revolution in Lebanon [2005], and fall of governments in Philippines [2001] and in Ecuador [2005]) were part of the same singular process that had begun with Huntington's "third wave" of revolutions in 1974, and that the Arab Spring is part of the fourth, and final, episode of these glorious "waves of democratization" putting an end to a century-old "Arab exceptionalism" (Huntington 1991, Dobson 2011, Ergil 2011, Gershman 2011, Grand 2011, Mason 2011, Taşpınar 2011, *WMD* 2012).

All these arguments, whether sympathetic or not, not only suffer from one-sidedness and a myopic view of the events, but they also deny the participants of the revolts and revolutions in the Arab Awakening any agency: they imply that the Arab-Muslim people of the Middle East cannot be a true actor in history and that, as Sayyid (2011:1) puts it, "history and the political are the patrimony of the West and societies that are considered to be non-western can import history but cannot make it." For some of them assume -with no evidence- that the Arab Awakening has been inspired (if not created) by a US strategy (or conspiracy) to mobilize the masses of people toward democratic transformation, and that the US (or the West) thus undermines hostile and/or useless regimes in order to reaffirm its hegemony in the region. Another flaw of this conspiratorial approach is that even the anti-American or anti-imperialist versions of it help perpetuate the existing US hegemony (that is, both its economic, political and military dominance *and* its ideological preponderance) by preventing any imagination of agency and power without an American/Western agitation. In this sense, it is incorrect to call this process the "Arab Spring" –though I use the term for the sake of simplicity here.

Therefore, in understanding the Arab Spring, neither "Arab exceptionalism" nor "democratic universalism" holds true, for the "assumption that the Arab world was stuck in the deep muck of an authoritarian past is as misleading as the assertion that it suddenly rose up to join the teleology of global democratization" (Brumberg 2011). I do not deny, of course,

that there is a movement toward democratization in some parts of the world and that the color revolutions in the post-socialist regions are to some extent connected with each other. (For instance, in the aftermath of the 2005 parliamentary elections in Moldova, the Christian Democratic People's Party adopted orange for its color in reference to the 'revolution' in Ukraine.) Moreover, international powers (particularly the US, the EU and Russia), have probably tried to develop (multiple and shifting) strategies to influence the direction of events in both Eastern Europe and the Middle East. However, such reductionist views that see the various unfoldings of the Arab Awakening (or 'color revolutions' for that matter) as a function of the capitalistic need for new markets, or of a long global march toward democracy led by a metaphysical 'invisible hand' (implying the imagined end of history), or of an outright American conspiracy, not only miss the incredible complexity of the events that are presently taking place by attempting to explain them with reference to an over-arching single factor, but they also reproduce the age-old *Orientalist* prejudices against non-Western peoples, and Arabs in particular. A proper method instead takes both international forces (without resort to any conspiracy) and domestic ones, trying to see this complex issue within the plurality of different (economic, political, military and cultural) sorts of power relations.

Thus, I argue that the Arab Spring is a result of an interplay between external and internal factors, between, in other words, the changing structure of the international politico-military order on the one hand, and domestic disturbances (in the form of economic inequalities and poverty, lack of justice and freedom, and denial of dignity for the ordinary people) as well as the actors' use of technology and the effects of Islamic political culture, on the other (see below). Such an interaction between domestic and international developments is also likely to influence the configurations of the preferences of different actors, groups and countries during and in the aftermath of the Arab Spring, which constitutes the final dimension of the role of international politics to be discussed here.

The 'Post-Spring' Politics

The 'post-Spring' elections held in Tunisia and Egypt have shown two significant tendencies: the emergence of divisions within the opposition forces, and the ascendance of Islamism. Transitional periods are al-

ready difficult in themselves, and post-revolutionary divisions among the diverse groups that came together against the regime as their common enemy are only natural. On the other hand, these elections have also revealed an already known fact: the strength of Islamic groups in Arab politics (see also below). Long oppressed by autocratic regimes, Islamic political groups, particularly the Muslim Brotherhood (*Ikhwan*) in Egypt and *al-Nahda* in Tunisia, have finally found a relatively free atmosphere –and a chance to capture state power. The future of these two revolutions could thus be said to depend upon the configuration of relations (conflictual or consensual) that these groups will form with other revolutionary groups, the armies, and the "international community." It will be their main challenge to strike a balance between their own programs and bases on the one hand, and the demands and pressures of the latter three groups, on the other. The Western powers, the USA in particular, are already aware of this fact and try to find ways of making favorable deals with the prospective ruling blocks, as they have already done in Libya. According to *Al-Ahram*, the US attitude toward the Egyptian *Ikhwan* has recently taken a positive turn:

> In the early days of the revolution US officials hinted that aid could be cut if the Brotherhood came to power. In recent meetings, however, US officials have adopted a conciliatory tone. In a 4 November address to the Atlantic Council William Taylor, the State Department's special coordinator for Middle East transition, said Washington did not view an Islamic-led Egypt as a threat as long as it was the result of free and fair elections (Abdel-Razek 2011).

In turn, the Brotherhood has made similar friendly gestures, particularly regarding their positive view toward a free-market economy and willingness to allow foreign capital into the country (Taşkın 2012: 86). *Al-Ahram* further reports that many foreign investors who met with Khairat El Shater, the *Ikhwan*'s deputy supreme guide, "were positively surprised to find ... the Brotherhood to be mostly capitalist in nature" (Abdel-Razek 2011). In Libya, on the other hand, the victorious National Transitional Council has already made deals with Western governments as well as Muslim ones such as Turkey and Qatar that had helped the opposition topple Qaddafi. Needless to say, Libya's rich oil resources have attracted many capitalists, and despite local conflicts, a relatively peaceful transition

to the new order (not necessarily a full democracy) is likely to occur, also most likely with the help of foreign governments. Other countries of the Arab Spring where revolution has not occurred (or been completed) have yet to face the challenge of establishing a post-conflict order, which will necessarily entail negotiations and/or deals with foreign powers.

A second dimension of the post-Spring effects of international politics concerns the relations with regional powers. There are three major regional actors that are likely to have an impact on the new order: Turkey, Iran, and Saudi Arabia. These countries have the potential to influence both the people 'on the street' and the prospective elites of the Arab Spring, which is the reason why they are often mentioned in the public debates over the possible 'model countries' for the Arab world (e.g. *Euronews* 2011, Choksy 2011, Kinzer 2011, Slackman 2011, *NPR* 2012, Yezdani 2012). Turkey stands out as a possible 'model' due to her several advantages: She has demonstrated the compatibility of Islam and democracy, largely tamed her once-unruly military, has made (is still making) a peaceful transition to a full democracy, and has achieved a high level of economic growth even in a period of global financial crisis. Her rising profile as a regional and increasingly global actor and her 'soft' power (consisting of her active, independent and trustworthy diplomacy, her principled criticism of Israel, her democracy, and her lifestyle –as exhibited to the Arab world particularly through highly popular TV serials) also support her status as a possible model, as indicated by the popularity of her charismatic prime minister on the 'Arab Street' (Duran and Yılmaz 2011; cf. Salem 2011: 1-3). However, her domestic problems, particularly the chronic Kurdish question, has hurt her image and status as well.

Iran, on the other hand, has a considerable influence over the Shia populations of the Arab world. A quasi-theocratic regime, she nevertheless places a version of Islam at the center of domestic and international politics, and frequently attempts to translate her status as the most powerful Shia state into a regional influence, which will very likely to increase if Iran is able to transform into a nuclear power. The difficult international conflicts with the West and her domestic disturbances constitute her weak aspects, however. Finally, Saudi Arabia, which represents the authoritarian model, also has her own weaknesses, including being a patrimonial state organized around a royal family (much like the toppled dictatorships of Egypt, Tunisia and Libya), and relative lack of social and economic liberties. However, her close ties with the West, which secures her from

foreign attacks (the only effective threat to her security is al-Qaida), and the religious ideology of Wahhabism constitute her strengths. She actively supports the spread of the Wahhabi ideology and lifestyle around the world, and has already influenced some Arab countries, including Egypt in particular where the salafi-oriented *al-Nur* Party won the second highest number (about 20%) of votes in recent elections.

The intensity of the activities by, and the attractiveness of the abovementioned advantages of, these regional powers will be effective in shaping the preferences of the new elites of the post-Arab Spring countries. The former's economic and soft (ideological) power influences will be particularly important in this regard. Although it is not possible to make keen predictions for the future at this point, we can observe that Tunisia's *al-Nahda* and Egypt's *Ikhwan* (and perhaps Syria's Brotherhood as well) seem more sympathetic toward the Turkish model; Yemen and Bahrain can, like Iraq, be more open to Iran's influence with their large Shia populations –unless, of course, Saudi Arabia and the West prevent this from happening. Other Gulf kingdoms do not seem likely to escape from the spheres of influence of Saudi Arabia and the West in the near future (cf. Duran 2011). Having discussed various aspects of the impact of international politics on the Arab Spring, we can now turn to that of ideology.

The Ideological Background of the Awakening

There is of course a variety of groups that have been involved in the Arab Awakening with their differing demands, expectations, motivations and ideologies, ranging from liberals and socialists, to Islamists and the 'ordinary' religious people. They all brought their own views and beliefs to the struggle, though most of them seemed to have withdrawn from a radical expression of their ideologies –except perhaps for the socialists who have been a very vocal minority. In some cases, moreover, they have formed coalitions to fight against the common enemy -the regimes- such as the Egyptian *Kifaya* movement led by Islamic and secular activists putting their particular ideological motivations aside, but also keeping them intact (see below). I argue that among these different ideological orientations, Islam has been the strongest and most popular in the sense of appealing to more people during the uprisings. Though global media outlets and some analysts often shy away from acknowledging the impact of Islam (e.g. Bamyeh 2011, Grand 2011, Rock 2011, Zubaida 2011, Brumberg 2011), its

influence on the political culture in Arab societies and on the psychological motivations of the people has been an important background factor in making the Arab Spring possible. This can easily be detected with a glance at the slogans and discourses of the activists taking part in the uprisings and revolutions, from the '*mujahids*' fighting against Qaddafi in Libya and the insurgents in Syria to the revolutionaries in Tunisia and Egypt and still to the protesters in Bahrain and Yemen, most of whom chanted "God is Great," referred to different Qur'anic verses and Islamic idioms, called the victims of revolutions "martyrs," and prayed collectively during demonstrations.

Moreover, the effects of religious (and nationalist) ideologies on the 'Arab Spring' could also be detected when one puts the latter into its proper historical context. For the recent roots of the current 'awakening' go back to the early 2000s, when people across the Muslim world took to the streets in solidarity with the Second Palestinian *Intifada* (2000) and later to protest against the American invasion of Iraq (2003):

In Egypt as elsewhere, the upsurge in democratic activism was not born in a vacuum. For many young activists in Egypt, the second *intifada* was the initial galvanising event that bonded their hitherto isolated voices. The anti-Iraq war movement (known in Arabic as *20th March* in reference to the first day of the US-led invasion) marked its coalescence (Azimi 2005, cf. Nez à Nez. 2011).

The activism born as a reaction to these two developments eventually culminated in more organized movements (sometimes coalitions of groups with different ideological orientations) targeting more specific issues, such as the *Kifaya* movement, a coalition of Islamic and secular activists that was formed in Egypt in 2004-2005 to prevent the re-election of Hosni Mubarak. However, the *Kifaya* could not achieve its goal then, partly because of its leadership's reluctance to cooperate with the (illegal but highly active) *Ikhwan*, which prevented it from becoming a mass movement (Azimi 2005, cf. Rosefsky Wickham 2011, Hirschkind 2012).

During the current Spring, too, many Islamic groups have actively participated in the protests since the very beginning. Even in Egypt, where Islamic political activism had for a long time been suppressed and thus remained relatively invisible, the Muslim Brotherhood that initially preferred to keep low profile has played a leading role in both organizing the demonstrations and providing logistical and political support for the activists (Rosefsky Wickham 2011, Hessler 2011, Abu Toameh 2011). Unlike

many analysts, Western politicians knew this: In fact, during the first days of the Egyptian revolution (2 February 2011) when Mubarak's supporters -armed and on camels- attacked the protestors in the Tahrir Square, Tony Blair congratulated Mubarak and warned him "against a rush to elections that could bring the Muslim Brotherhood to power" (*The Guardian*, 2 February 2011). As the results of the first round of elections have shown, Blair was right in this respect: the Brotherhood's FJP received about 40% of votes and won 49% of seats in the parliament whereas the salafi-oriented *al-Nur* Party got over 20% of votes. On the other hand, it has also been the Syrian *Ikhwan* that organizes most of the protests against the Assad regime; in Tunisia, too, it was the Islamic opposition represented by *al-Nahda* that played a leading role in anti-governmental demonstrations and eventually won the recent elections. The Tunisian *Hizb-ut-Tahrir*, a more 'radical' and less popular Islamic group, was also at the forefront of protests in Tunisia (Grira 2011).

Furthermore, in some cases, the attitude of Islamic groups has played a decisive role in the extent to which a regime has been influenced by the Arab Spring. Morocco is a case in point: When King Muhammad VI supported constitutional amendments enacted in June 2011, which somewhat enhanced the authority of the parliament and opened up more space for political participation, the Islamist opposition led by the Justice and Development Party accepted this compromise once the King promised that Islam would still be kept as the basis of national identity and law in the revised constitution. Advantageous for both the King (who reaffirmed his position as the "Commander of the Believers" above politics) and Islamists (who gained more power and recognition), this bargain was crucial for the *absence* of a potentially revolutionary upheaval in Morocco. Though it may have appalled secular groups and elites, who have no revolutionary potential in or by themselves, the deal has so far both saved the regime and satisfied the Islamic opposition that preferred to settle with reforms and peaceful transition (Brumberg 2011).

Moreover, the way many (though not all) of these activists often voice their demands and grievances also attests to Islam's influence. Protesters have frequently drawn on the rich repertoire of anti-oppressive material emphasizing justice, which could easily be found in the cultural 'toolbox' provided by Islamic sources (e.g. *The Qur'an* 2:193, 16:90, 42:39). In this connection, Friday prayers and sermons, already an important venue for spreading Islamic messages, have become increasingly politi-

cized during the peak times of protests; and many mosques (particularly those controlled by the *Ikhwan*) functioned as a locus of anti-government agitation and logistical centers of preparation for demonstrations (Abu Toameh 2011, *The Telegraph* 2011, Hessler 2011). Furthermore, prominent religious leaders' calls (through not only sermons but also the internet and *Al Jazeera*) for the people to stand against oppression and join anti-regime protests across the region have been influential in some circles of society who were less likely to be moved by secular groups and motives. Finally, the fact that activists in both Tunisia and Egypt have expressed solidarity with Palestinian resistance against Israel from the very beginning generating a positive response by the latter (in fact, having left Syria, Hamas has also recently announced its full support for the Syrian opposition), undermines the argument that the 'Jasmine' and 'Nile' revolutions "seemed to eschew religion and nationalism in favour of classic political demands of liberty, democracy and economic justice" (Zubaida 2011), an argument that also ignores the fact that justice and overthrow of tyranny are core elements of the Islamic opposition's discourse in the region.

In fact, it is no surprise that much of the ideological ground for the Arab Awakening has been nurtured by Islamic concepts and motives, given the fact that the political culture of these countries has been deeply influenced by religion and that Islam has historically been one of the most important social forces in them. Furthermore, Islamic opposition movements have almost always constituted the biggest challenge to the secular regimes in the region (Ibrahim 2002c, Rosefsky Wickham 2002, Hirschkind 2006). As mentioned above, these regimes emerged in the Cold-War atmosphere, adopting socialist or nationalist policies –and often a mixture of both. Various Islamic groups, particularly the *Ikhwan al-Muslimeen*, an international organization active especially in Egypt and Syria, were not only armed with a spirit of resistance derived from a modern(ist) and highly politicized re-interpretation of the Qur'an and the *Sunna*, but they also had the "advantage of being able to work through mosques and charities, and the ability to dispense goods, services and jobs [which] became ever more important after the withdrawal of state services and subsidies" (Zubaida 2011). Working independently of the state, Islamic welfare and charity organizations have played a significant role in alleviating poverty and reducing inequality; they were also effective in strengthening social networks that connected middle-class people, particularly professionals, with lower class citizens through volunteers and activists. Solidarity and

trust were fostered "along these horizontal lines, indirectly leading to the development of new social networks and, potentially, the diffusion of new ideas" (Clark 2004: 4). Islamic opposition has also capitalized on the neo-liberal policies that have "led to the transfer of state assets to a narrow circle of cronies around the dynasties of ruling figures, opening the way for much gain through contracts, licenses and rampant corruption" since the 1980s (Zubaida 2011).

Meanwhile, the autocratic regimes in the Arab world often worked as "protection rackets" which provided different "groups -ethnic or religious minorities, the business sector, and secular activists- with a haven from the uncertainties of an open democratic process" (Brumberg 2011, cf. Shehata 2009). They were crystallized either as "total autocracies" that did not allow any civil political activity as in the cases of Ba'athist Syria and Iraq or Bahrain, or as "liberalized autocracies" (Morocco, Algeria, Egypt, Jordan, and Yemen) that needed some measure of open, but state-controlled, participation in electoral politics, civil society and the media (Brumberg 2002). Though it made them dependent on the regime, secular groups (and big business) were generally happy with this system because they had bought into the idea of an Islamist threat successfully marketed by the dictators "via the state-controlled press, state-owned think tanks and universities" (Brumberg 2011). More recently, however, this protection system began to malfunction due to above-mentioned 'immediate' and 'background' factors (increasing inequality and perpetual poverty, worsened repression and corruption, lack of liberties, and international pressures etc.). Consequently, there has been a rapprochement between Islamic and secular groups during the Arab Awakening, resulting in the emergence of alliances (e.g. the *Kifaya* movement in Egypt). 'Post-Spring' competition and elections show, however, that it is the Islamic groups that have taken advantage of the erosion of the old system through their deeper penetration into the society.

Conclusion

Revolutionary transformations in the modern world are an *unintended* consequence of the interplay between internal contradictions and the dynamics of the societies in transition on the one hand, and the pressing impact of international structures and institutions upon those regimes that try resist to changing circumstances, on the other. Also, the desire for a speeded-up economic development plays a part in such transformations

as well. All three factors have been present in Libya, Tunisia, and Egypt; and they are relevant (in different degrees) to others that have not experienced revolution (yet), such as Syria, Yemen, Iran, and many of the former Soviet republics.

The series of revolts and revolutions that have occurred in a domino fashion in the Middle East during the so-called 'Arab Spring' exemplifies a near-inevitable end of the authoritarian regimes that fail to meet the needs and expectations of their citizens, particularly the educated urban youth, in a context in which political openness is a norm and a certain level of economic growth has been achieved (or seems achievable) in an increasingly integrated world due to the globalization of goods, services, ideas and images. However, these events are not to be understood teleologically as the last episode or "wave" of the global democratization process that has been ongoing for the last two decades, an idea that assumes the centrality of the Western institutions and thought, and denies agency to the actors of the Arab Awakening. Rather, this event refers to a reconstruction of the Middle East within the framework of the aspirations and demands of the new generations, who have grown up in cities and are educated, for justice, dignity, affluence and freedom that have brought the end of the Western-backed oppressive regimes. Finally, although it is ultimately the organizational power that matters, the Arab Spring also means, considering Mohamed Bouazizi (and others) who defied the overwhelming authority of regimes by setting their bodies aflame, that ordinary 'butterflies' with fire in their wings can actually turn into larger-than-life figures by helping to tear seemingly invincible structures to shreds and topple the seemingly indestructible dictators who are attracted like moths to the glittering flames of power.

Footnotes

1 İstanbul Şehir University, Sociology Department. Altunizade Mah. Üsküdar, İstanbul. The author wishes to thank Ayşe Meryem Gürpınar for her assistance for the archival research.

2 Personal conversation with Nadia Mostafa, a professor of International Relations at Cairo University and a leader of the "Egyptian Revolution" (July 2011).

3 On May 3, 2011, the Swiss government declared that it would freeze $1 billion worth of assets that belonged to Qaddafi, Mubarak and Ben Ali (BBC, May 3, 2011). The Mubarak family is reported to have accumulated a wealth of between $40 billion and $70 billion, and 39 officials and businessmen close to Gamal Mubarak to have made fortunes averaging more than $1 billion each (Goldstone 2011). According to an official Egyptian survey done in 2005, 92% of all those unemployed were below the age of 30. About half of all the unemployed were in the 20-25 age group; and the unemployment rate for this group was between 30-40% during 1995-2005. Moreover, the unemployment rate was much higher among the better educated, and the rate among women was three times higher than among men. The rates were also slightly higher in urban areas (Hassan and Sassanpour 2008: 4-7). Furthermore, 25% of self-employed households in non-agricultural activities were poor (El-Laithy et al. 2003). According to another survey by the Egyptian Information and Decision Support Center (IDSC) done in 2007, 70% of jobs were secured through favoritism (Hassan and Sassanpour 2008: 11).

4 In fact, the Palestinians had already proven (and still continue to do so) that 'dignity' can very well form the föoundation of a strong and relatively successful resistance against the occupation and brutal oppression of a major military power constantly backed up (politically, militarily and financially) by a superpower.

5 The impact of technology on social relations has been more visible during the last decades, as in the examples of nuclear weapons, computer technology, the TV, the internet, and the cell phone, which have revolutionized all spheres of social life from military relations to economy and everyday life.

6 The Ba'ath regime in Syria, which is still holding, is an exception to this: not only are there many pro-Assad facebook sites but a number of online activists, who call themselves the "Syrian Electronic Army," have also been waging a cyber war against Western and oppositional targets (see Syrian Electronic Army 2012, Amos 2011, Noman 2012).

7 In fact, the use of information technologies by political opposition groups is not new in the Middle East. Hirschkind (2006) has shown how a popular Islamic media form, the cassette sermon, produces an "ethical soundscape" and different forms of Islamic "counterpublics" thereby transforming the political geography of the region. The quick adoption of new ICTs by protestors in all countries affected by the 'Arab Spring' can thus be read as a reproduction of an already familiar strategy in religious-political struggle –though it is by no means only the religious opposition that has made use of ICTs.

8 Pollock (2011) further shows that a Tunisian online activist group called the "Takriz," who helped incite and organize mass protests against the regime, had actually started their online (illegal) activities back in 1998 against the regime despite heavy censorship on the internet.

9 That is why the Mubarak regime shut down nearly entire internet activity on 28 January 2011, which involved the "withdrawal of more than 3,500 Border Gateway Protocol (BGP) routes by Egyptian ISPs." Also aimed to block the communication among the activists, this ban resulted in the shutting down of the 88% of the Egyptian internet access on that day (Williams 2011). Likewise, Qaddafi ordered the turning off of the internet service in Libya as of February 18, 2011 (Reuters, Feb 19, 2011).

10 Recently, influential Islamic scholar Yusuf al-Qaradawi praised Al Jazeera at a Friday sermon in Qatar, saying that it was "doing a great job siding with the repressed masses in Syria" (The Peninsula 11 February 2012). But Souaiaia (2011) also notes that when the waves of protest reached the Gulf States, Al Jazeera's coverage became "inexplicably tame" and plagued with "double standards." Soon its managing director Wadah Khanfar resigned (or was forced to do so) and replaced by a "member of the Qatari ruling clan."

11 In fact, journalist William Dobson reports that Mohamed Adel, a youth leader he interviewed in Cairo, emphasized the impact of Tunisian protesters on embarking on their own Egyptian revolution in early 2011 (Dobson 2011). Similarly, Carl Gershman reports that Sam Rainsy, a Cambodian exile, told him that "They [the Middle Eastern revolutionaries] showed that it can be done. Now people have the idea that change is possible, and that's the most important thing of all" (Gershman 2011).

12 According to UN statistics, half of population in the MENA region is under the age of 25; the number of young people aged 15 to 24 has doubled in the last 30 years, increasing from 44.6 million in 1980 to 88.1 million in 2010. Also, median age for MENA countries, except for Qatar, UAE and Bahrain, was below the world average (which is 29) in 2010: it was 24 for Egypt, 21 for Syria and Jordan, and 17 for Yemen. Moreover, it has been the young people who have been hurt the most by worsening economic conditions: over 80 percent of the unemployed were below the age of 30 in Egypt in 2006, and 82% of the unemployed had never worked before; likewise, about 75% of the unemployed were below the age of 30 in Jordan in 2007 (Roudi 2011: 2-5, cf. Assaad and Barsoum. 2007).

13 During this process, Hillary Clinton herself had a secret meeting with opposition forces in late 2011. (Personal conversation with a Turkish reporter who was in Yemen at the time; Istanbul, January 2012.)

14 Pratt (2007: Ch. 2) also argues that the activities of some NGOs actually helped consolidate the authoritarian regimes in the Arab Middle East, rather than undermining them: these regimes manipulated civil society by frequently resorting to nationalist and anti-imperialist rhetoric and the discourse of modernization that helped shape the civil society and justify authoritarianism in Iraq, Syria, Egypt, Tunisia, and Algeria. Lust-Okar and Zerhouni (2008: Ch. 1) agree, but also emphasize that this manipulation did not completely undermine civil society and political participation.

15 Others (e.g. Amin 2010) argue that the Arab Spring represents the last big crisis of capitalism that started in 2008, which will necessarily lead to its collapse and the rise of socialism worldwide. The socialist participants of the Arab Awakening themselves often characterize their action as a "fight against global, transnational capital(ism)" (see e.g. *Comrades from Cairo* 2011). The Western (particularly

American) corporations' quick response and greedy attitudes in terms of investing in the region (e.g. in Libya after the fall of Qaddafi) feed this image (see e.g. Shane 2011).

16 Another version of this narrative simply claims that the Arab Spring is an imperialist conspiracy, as "Americans are directly behind the turbulence or are helping the trouble makers [in order to] install new puppets" throughout the region (*Communist Party of India* 2012). These narratives based on a charge of capitalist-imperialist conspiracy are sometimes 'synthesized'; a good example of this is a succinct comment (left on a webpage featuring Arab Spring photos taken by Zoran Bozicevic) by an anonymous reader who goes by the nickname "WolfyW": "There is no Arab Spring. Just agitation by Soros-funded interest groups to unseat dictators and replace them with foreign bodies" (Bozicevic 2011).

17 A case in point is a recent visit by John Kerry, an influential member of the US Senate, to Egypt where he only visited three places: the Supreme Military Council, the Prime Ministry, and the Ikhwan's Freedom and Justice Party (Ikhwanweb 2011, Taşkın 2012).

18 Here I use the term "ideology" in a broad sense to refer to a more or less coherent body of beliefs, images, ideas and ideals shared by a certain group of people. Islam, of course, is more than an ideology, entailing also a set of moral principles, practices, and main tenants of a specific life style, but it also provides its adherents with a distinctive set of political ideas and ideals.

19 Islam's influence on political values is not necessarily confined to highly politicized, truly 'Islamist' ones. I use the term 'political culture' in a broader sense to refer to a large set of values and symbols that carry political (also in a broad sense) underpinnings that go beyond narrower ideological doctrines and party politics. Islam, I argue, has influenced the Arab Spring in both narrower (Islamist political groups) and broader senses. For example, leaders of Libya's National Transitional Council (NTC) announced Qaddafi's death at a press conference, "even secular Muslim journalists started chanting 'Allahu Akbar!' [God is Great!]." The NTC also announced that Islamic sharia would be adopted as the main source of law in post-Spring Libya (Abu Toameh 2011).

20 A well known symbolic turning point in the Libyan 'revolution' was the re-naming of Tripoli's Qaddafi-era "Green Square" as "Martyrs' Square" by the rebels who captured it on August 22, 2011. On April 5, 2011, journalist Sarra Grira observed for France 24 that "Islamists are at the forefront of anti-government protests" in the more secular Tunisian society. A video posted on YouTube about the March 1 protests in Tunis shows some people chanting "God is Great" and "There is no God but Allah" and carrying Islamic banners (http://www.youtube.com/watch?v=HxN-ZgzvXl8). A month later, the protests resumed "but this time with a new twist: the emergence of a strong Islamist movement. During the last protest on Friday, April 1, in an unprecedented move, they even organised a mass prayer in the street" attended by thousands of people. A protester, Mohamed Amine Jelassi, 17, a student, complained that "women who wear the headscarf have less rights than those who don't: headscarves are still banned in schools and universities, for example. We're denouncing this kind of injustice and calling for the veiled woman to be set free." Badiaa Boulila, 24, a 'secular' student, said: "The religious slogans chanted by protesters on March 31 paved the way for the public prayer on April

1. Some people were saying that they were ready to 'die as martyrs', and claimed they were ready to face the police. Their positions are already quite extreme" (Grira 2011). In Egypt more recently, Sheikh Mazhar Shaheen, who is a popular figure in the Tahrir Square, chanted "God protect the revolution," in response, thousands of protesters shouted "God is great" (Egypt Independent January 27, 2012).

21 The Brookings Institute's Stephen Grand (2011) claims that "what has been most striking about the protests in Tunisia and Egypt is their non-ideological character," and to the extent they were ideological, "it is greater freedom and democracy, and not Islam, that they have been calling for…" He further claims that the Brotherhood in Egypt "was late to the party, joining the demonstrations in large numbers only on the fifth day of the protests." This is a typical long-distance Western 'analysis' that reflects more the analyst's wishful thinking and prejudices than the reality on the ground. He turns a blind eye to the hundreds of thousands of people chanting Islamic slogans and praying collectively in the Tahrir Square and elsewhere. Although there certainly were secular (liberal and socialist) groups among the activists in both countries (and they got plenty of attention by the Western media), Grand cites no evidence showing that they constituted the majority. Moreover, a 5-day delay in joining the protests should not be considered significant given the long history of tyranny and persecution of the Ikhwan in Egypt, unlike the secular groups that had not been subject to regime violence (Ibrahim 2002c, Rosefsky Wickham 2002, Brumberg 2011).

22 Khaled Abu Toameh, a journalist who does not hide his dislike of the Islamists, acknowledges that: What many Western observers have failed to notice is that most of the antigovernment demonstrations that have been sweeping the Arab world over the past ten months were often launched from mosques following Friday prayers. This is especially true regarding Egypt, Yemen, Syria and Jordan (Abu Toameh 2011).

23 For example, Sheikh Yusuf al-Qaradawi, arguably the best known and one of the most influential Islamic scholars in the world, has not only called repeatedly on the people to support the uprisings, but has also publicly condemned the leaders of the oppressive regimes to this day. On February 21, 2011, a few days into the Libyan uprising, he gave a sermon at the Friday prayer attended by tens of thousands of people in the Tahrir Square congratulating the Egyptian revolutionaries and calling on the Libyan people to join the insurgency. In a later interview with Al Jazeera, he also condemned Qaddafi's violent response to protests and pronounced a fatwa calling for his assassination by the insurgents (Michot 2011). He further urged Muslim governments to recognize the NTC, and to send arms and ammunition to Libyan rebels (Gulf Times 2011). More recently, Sheikh al-Qaradawi has issued several fatwas and declarations encouraging the Syrian people to fight against Assad and condemned the latter for his oppression (see e.g. al-Qaradawi 2012). Recognized as a leading religious authority, not only are his fatwas and speeches very popular and widely circulated in the Muslim World, but his popular TV program, "Sharia and Life" broadcast on Al Jazeera, also "reaches an audience of tens of millions worldwide" (Kirkpatrick 2011, see also Rock 2011).

24 For an examination of the historical roots of the role of Islam in shaping politica culture among both Islamists and secularists in the Middle East, see Ardıç 2012.

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A Comparative Analysis Of Economic Policies And Performance Of The Opec And Non-Opec Countries Of The Middle East Region Since The 1980S

By M. Raquibuz Zaman*

Introduction

The creation of the Organization of Petroleum Exporting Countries, OPEC, dates back to September 14, 1960 by Saudi Arabia, Iraq, Iran, Kuwait, and Venezuela. For the next decade and a half the OPEC members controlled very little of the decisions regarding how much to produce and what prices to charge for the oil. The real owners of the oil—size of production and the price—were the Western oil companies, especially those from the USA and the UK. In August 1960 the average price of a barrel of crude oil was $3.00 (WTRG Economics, 2011). After the first oil embargo, towards the end of 1973, price jumped from an average of $4.20/bbl. to $5.20 in December (Ibid.). The lower grade crude price remained relatively stable through 1978, ranging from $5.20 to $5.84 in December 1978. The Iran-Iraq war of 1979-1980 began to have adverse effect on oil supply and consequently, by February 1982 price jumped to $34.00/bbl (Ibid.). This rise in price was short lived. By April 1986, the price came down to $12.50.

As will be shown later, the oil prices have been fluctuating wildly during the last two decades. For this study it is important to show that no matter how high or low the petroleum prices were, and how the revenues earned from oil exporting have been utilized by the OPEC members of the Middle-East for their economic growth and diversification, their performance has not been markedly different than that of the non-OPEC members of the region. For this study, the OPEC members selected were: Algeria, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and

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United Arab Emirates. The non-OPEC countries selected were: Egypt, Morocco, Sudan, Tunisia, and Yemen. The analysis of comparative economic performance has been for the period 1981-- 2010.

The objective of the study is to analyze 15 basic economic indicators of each of the selected countries over the period 1981-2010 (data for 2010 were not available for all countries) to discern any pattern of divergent economic growth between the two sets of countries, and to gauge what positive and/or negative contribution oil money made to their economic development and performance. It also aims to show the role of socio-political institutions in diversification of economic activities, and distribution of economic benefits in the countries concerned.

Economıc Performance Of The Mıddle-East Opec Countrıes

Tables 1 through 9 present data on the basic economic indicators of selected OPEC member countries between 1981 and 2010.The basic economic indicators are GDP in current US Dollars; Per capita GDP; percentage contribution of agriculture, industry, manufacturing, and service sectors to the GDP; exports as percentage of GDP; dollar value of imports, sub-divided into merchandise and services; dollar value of exports; and the contribution of oil in export revenues; oil as percentage of total exports; FDI net outflows as percentage of GDP; and FDI net inflows.

Before the data for individual OPEC countries are analyzed it is imperative that the annual average prices of oil should be shown here:

Year	$ Av. Price/bbl	Year	$ Av. Price/bbl
1981	Feb. 6.99	1996	20.46
1982	31.55	1997	18.97
1983	29.00	1998	11.91
1984	27.50	1999	16.55
1985	26.50	2000	27.40
1986	14.64	2001	23.00
1987	17.50	2002	22.81
1988	14.87	2003	27.69
1989	18.33	2004	37.41
1990	23.19	2005	50.04/49.81
1991	20.19	2006	58.30
1992	19.25	2007	64.20
1993	16.74	2008	91.48
1994	15.66	2009	53.56/53.48
1995	16.75	2010	71.21

Source: WTRG Economics, http://www.ioga.com/Special/crudeoil_Hist.htm

As can be seen from the above table, oil prices remained quite low for extended periods of times between 1986 and 1999, fluctuating widely from early 1981 to 1985, and then from 2004 through 2010. Impact of these fluctuations can be seen from the movements in the GDP of the OPEC countries. Let us examine the basic economic indicators one country at a time.

Note: 2010 population figures in millions for the selected countries were as follows: Algeria: 36.3; Iran: 75.29; Iraq: 31.67; Kuwait: 2.74; Libya: 6.36; Nigeria: 158.42; Qatar:1.70; Saudi Arabia: 27.14; United Arab Emirates: 8.26; Egypt: 80.22; Morocco: 32.14; Sudan: 43.55; Tunisia: 10.55; and Yemen: 22.49]. Source: List of Countries by Population, Wikipedia (http://en.wikipedia.org/wiki/List_of_countries_by_population).

TABLE 1: ALGERIA							
	End Notes	1981	1985	1990	1995	2000	2001
GDP (Current US$ Billions)	1	$44.372	$61.132	$61.892	$42.066	$54.749	$54.745
Per capita GDP (Current US$)	2	$2,305.510	$2,753.700	$2,473.510	$1,499.140	$1,800.010	$1,772.870
Agriculture, value, % of GDP	3	9	9	11	10	9	10
Industry, value, % of GDP	4	57	54	48	50	59	53
Manufacturing, Value, % of GDP	5	11	24	11	11	7	8
Services value, % of GDP	6	34	37	40	39	33	36
Exports, % of GDP	7	35	24	23	26	41	36
Imports ($Billions)	8	$13.69	$15.49	$15.47	$12.11	$11.70	$11.92
Merchandise	9	$11.30	$9.84	$9.78	$10.10	$9.17	$9.94
Services	10	$2.70	$2.57	$1.32	$ -	$ -	$ -
Exports ($ Billions)	11	$15.34	$13.66	$14.55	$10.94	$22.56	$20.00
Oil	12	$13.07	$9.67	$12.35	$9.73	$21.06	$18.53
Oil as % of total exports		85.18%	70.76%	84.90%	88.92%	93.36%	92.65%
FDI net Outflows as % of GDP	13	0.03	-	0.01	-	-	-
FDI net Inflows (Millions)	14	$13.210	$0.398	$0.335	$70.0	$438.0	$1,196.0
Note: For sources and notes see end of Word Document.							

ALGERIA

Table 1shows that the Algerian GDP barely grew between 1981 and 2001 (a period spanning twenty years) from around $44.4 billion to $54.7 billion. The 1985 and 1990 GDP figures reflect the spike in oil prices since the end of 1981. The per capita GDP in 1981 was higher than in 2002. Periodic oil price hikes did not improve the economic condition of the Algerian public until around 2003. Even then the improvement in the GDP and GDP per capita can be directly attributed to the oil price increases. An examination of the contributions of various economic sectors during the 1981-2010 period shows that these remain essentially un-

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
$54.745	$56.761	$67.864	$85.343	$103.220	$117.288	$134.303	$170.228	$139.763	$160.270
$1,772.870	$1,810.140	$2,130.860	$2,636.990	$3,136.820	$3,470.070	$3,904.170	$4,939.870	$3,925.920	$4,435.430
10	10	10	10	8	8	8	7	12	
53	53	55	56	61	62	61	62	55	-
8	8	7	6	6	6	5	5	6	
36	37	358	33	30	30	31	31	34	-
36	358	38	40	48	49	47	46	40	
$11.92	$14.49	$16.24	$21.81	$24.84	$25.21	$31.63	$39.17	$50.77	$ -
$9.94	$11.97	$12.38	$18.17	$20.36	$21.46	$27.63	$39.48	$39.29	
$ -	$ -	$ -	$ -	$4.78	$4.80	$6.77	$11.08	$11.68	
$20.00	$20.01	$26.03	$34.07	$48.76	$56.95	$63.30	$79.12	$56.80	$ -
$18.53	$18.11	$23.99	$31.55	$45.54	$53.61	$59.61	$77.19	$44.41	$58.59
92.65%	90.49%	92.17%	92.61%	93.39%	94.13%	94.18%	97.56%	78.19%	0.00%
-	-	-	-	-0.02	0.03	0.22	0.19	0.15	-
$1,196.0	$1,065.0	$633.8	$881.9	$1,081.0	$1,769.0	$1,662.0	$2,595.0	$2,760.0	$ -

changed. The contribution of the agriculture sector remained around 10 percent, industry (i.e. oil, see the definition of industry in end note 4 for details) around mid 50s to low 60s; manufacturing mostly less than 10 percent; services, which is a good indicator of overall economic growth, hovered around 30 percent (Gelb, 2010).

Algeria's exports as percentage of GDP have been around mid to high 40s depending on any hikes in the price of oil. Oil as percentage of total exports has been in the high 90s in most years, indicating extreme dependence of Algeria in petroleum revenues. FDI net inflows to Algeria have been negligible. It possibly reflect that proceeds from oil exports have been sufficient to meet the needs of its under achieving economy.

IRAN

A decade long war with Iraq devastated the economy of Iran. Its GDP declined from $106.6 billion in 1981 to $79.9 billion by 1985. From a $2,609 GDP per capita in 1981, it hovered around $1, 700 through 2002. Between 2003 and 2010 per capita GDP in Iran doubled to $4,741, despite Western sanctions against it and its economy.

Iran's economy is relatively more diversified than that of Algeria's. Its service sector contributes more to the value added, and its exports as percentage of GDP is lower than that of Algeria. Figures for oil as percentage of exports are not available since 2001, but indications are that

these are not as high as that of Algeria. GDP and GDP per capita exhibited consistent growth since 2003, reflecting not only appreciation in oil prices, but also significantly improved management of the economy by the Iranian authorities. Since 2001 FDI net inflows in Iran was significantly higher than some of the OPEC countries as is shown shortly.

IRAQ

Among the Middle Eastern OPEC countries Iraq suffered most—first, because of the decade long Iran-Iraq war, and second for the US. Invasions in 1991, followed by another invasion and occupation of Iraq since 2003. Table 3 presents the basic economic indicators of Iraq for the period of the study. Before the First Gulf War of 1991 Iraq had a per capita GDP of $2,817 in 1985.

It was not until 2008 did Iraq achieve economic growth to surpass that level. However, the GDP/capita fell drastically in 2009, corresponding to the fall in oil revenue, with a slight improvement in 2010 when oil revenue increased by $12 billion from that of 2009.

Iraq Had negative FDI net flows from 2000 to 2003, indicating that part of oil revenues flowed out of the country in the form of direct investment abroad, possibly to the U.S.A. Its economic future is debatable, since there are lot of domestic issues that have not been solved by the prolonged conflict and occupation by foreign forces.

KUWAIT

Oil rich Kuwait has done quite well during the period of study. It financed the Iraq invasion by the U.S.A.(and some other countries' forces persuaded by the U.S.A.) from its hoarded oil revenue of the past. The decline in the GDP and per capita GDP in 1990 did not last long. GDP per capita rose as high as $58, 384 in 2008, reflecting sharp increase in oil price, and as the oil price declined in 2009, the GDP/capita declined by $17,000!

Table 4 data clearly show that Kuwait's economy is essentially based on oil, and a very little, if any, diversification has taken place over the years. The contribution of agriculture is zero and that of manufacturing is around 1 or 2 percent (data after 2003 not available). Contribution of the service sector (possibly related to management of excess oil export generated funds) was around 50 percent of GDP in 2002-2003. Data were not available for the recent years. Oil exports as percentage of the total exports have been around 80 percent. In short, Kuwait is a rich oil country, but is not a well diversified developed country.

LIBYA

Table 5 presents the basic economic indicators for Libya. Libya with a population of merely 6.4 million people with a vast supply of high quality oil demonstrates that the oil money was not invested in economic development. The economy is overly dependent on oil revenue—oil as percentage of total exports exceeded one hundred percent seven years of the total of fourteen years for which data are shown in Table 5. Through 2002 GDP and GDP/capita kept on going up and down significantly with the movement of oil prices. This is also evident from the data for the years between 2003 and 2009, the last year for which data were available.

Like the other OPEC countries discussed above, except for Iran, agriculture and manufacturing contributed little to the GDP value added. Diversification and economic development were clearly not the goal of the Libyan rulers. FDI net inflows exceeded billion dollars since 2004, and these investments were clearly in the petroleum industry.

NIGERIA

Among the selected OPEC countries, Nigeria has the largest population—158.42 million. It is relatively a poor country where exports as percentage of GDP hover around 40 percent (see Table 6). But most of the export revenue is derived from oil. Agriculture sector contributes a little over 30 percent to the GDP value added. Manufacturing sector contributes very little to the GDP. In other words, it is heavily dependent on oil revenue for survival.

It appears that the major chunks of the FDI net inflows were in the petroleum sector. Nigeria, a democratic country, with divided ethnic minorities who are enemies to each other, is poorly governed.

Population pressure and preponderance of corruption have been keeping Nigeria as the poorest member of the OPEC bloc of countries.

QATAR

Qatar, the tiny principality with a population of less than 2 million boasts the largest per capita income in the world. According to estimates by IMF, the World Bank, and the CIA, Qatar's GDP per capita for 2010 were $88,222, 89,769, and 179,000, respectively

(Wikipedia, List of Countries by GDP (PPP) per capita, http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita). According to the same sources Luxembourg is the second richest with $81,466, $80,229, and $141,100, respectively.

Table 7 does not show the export revenue from natural gas, which is considerable. Qatar is the world's largest exporter of liquefied natural gas, LNG. According to the CIA estimates the value of its LNG exports in 2010 was over $58 billion (Qatar Economy 2011, CIA World Factbook www.theodora.com/wfbcurrent/qatar/qatar_economy.html). It seems Qatar is much richer than the size of its GDP shows in Table 7. The country has invested heavily in developing LNG and its exports. The size of FDI net inflows have been over billion dollars since 2004. It is not only the home of Al-Jazeera news network, but has become the cultural and education center of the Arabian Gulf area.

SAUDI ARABIA

Population of Saudi Arabia is the fourth largest amongst the OPEC countries, after Nigeria, Iran, and Iraq, and has the world's largest proven reserve of oil. Its economy is the largest among the OPEC countries. Yet, we see that the country has not been able to reach the level of per capita GDP it enjoyed in 1981 ($17, 617). Rapid growth in the population could be partly responsible for this.

Saudi Arabian economy is relatively more diversified than the other members of the OPEC. It has a respectable size of the service sector, and it also has a manufacturing sector that contributes around 10 percent to the GDP. Percentage contribution of the service sector has been declining since 2004 from the 40s to 30s. Oil as percentage of total exports has consistently been over 80 percent over the years. FDI net inflows have been considerable since2005. From the data on contribution of the various economic sectors to the GDP, it appears the FDI went to energy related industries.

UNITED ARAB EMIRATES (UAE)

UAE has less than one-third of the population of Saudi Arabia. Its GDP per capita (see Table9) is the third largest after Qatar and Kuwait. Its economy has experienced relatively less fluctuation than the other OPEC countries, partly because it is more diversified with larger service and manufacturing sectors. Since 2003 UAE attracted large amounts of FDI net inflows, especially in Dubai in the development of recreation and financial centers, shopping malls, artificial island, and a bevy of fancy high rises. UAE suffered heavily from the 1999 financial markets meltdown, as can be seen from the decline in GDP and GDP/capita from 2008 to 2009 (Coury, 2009).

Until the global financial markets, especially the banking sector, recovers from the European (and the U.S.) debt crises, Dubai's recovery would continue to falter, and there is no guarantee that the other members of the UAE would come to its further rescue.

EGYPT

Egypt with a population of over 80 million has the largest population among the Arab countries, and relatively a poor country with a per capita GDP of $2,698 in 2010. However, its economy is quite diversified. Unlike the OPEC, exports as percentage of GDP is relatively low, at around 30 percent. The contribution of the service sector to the GDP has been around 50 percent. As economy grew over the years, the contribution of the agriculture to the GDP value declined from 20 percent in 1981 to around 10 percent in 2010, while those of the industry and manufacturing rose to cover the decline.

Egypt has been a significant recipient of FDI net inflows since 2004. These flows have been instrumental in the growth of the industry (see end notes for clarifications) and manufacturing sectors. It has been also a beneficiary of substantial amount of U.S. military and economic aid over the years. It does not appear that the country has managed its resources properly and efficiently. As explained shortly, Egypt's near future economic outlook is not that bright. It takes time to achieve some semblance of stability after a major revolution that occurred in the Spring of 2011 and continued unrest since then.

MOROCCO

Like Egypt Morocco has a diversified economy. Agriculture contributes around 15 percent to the GDP, and those from industry and manufacturing are around 30 and 15 percent, respectively. The contribution of the service sector is around 50 percent. Exports as percentage of the GDP, is around 20 percent.

Morocco with a population of around 40 million (40 percent of Egyptian population) has slightly higher GDP/capita than that of Egypt. It should have done much better.

SUDAN

Sudan with a population of 44 million is the second largest country after Egypt in North Africa. It has been a nation in turmoil with civil war, and ethnic conflicts throughout the study period. It is only in 2007 that the GDP/capita in Sudan rose over $1,000. Agriculture still contributes around one-third to the GDP. The contribution of the industry sector, that includes mining, will fall drastically in the near future because the oil is extracted and exported from Southern Sudan which is now a separate state.

Exports as percentage of GDP have been falling in recent years. Western sanctions against Sudan because of conflict in Darfour area and South Sudan possibly explain this precipitous fall. FDI net inflows since 2003 have been over a billion dollars. It is not clear whether Sudan would be able to attract sizable FDI in the near future.

TUNISIA

Tunisia with a population of around 11 million is the second smallest country after Libya in North Africa. As the data in Table 12 shows, it made steady progress in economic diversification and development over the study period. Changing contribution of the various economic sectors is a good indication that the economy is growing in the right direction. It has not been a significant recipient of FDI flows over the years.

Tunisia is a good example that one does not need oil money for economic development in the Middle East. Its per capita GDP of $4,199 is higher than that of oil rich Libya next door. Tunisia is the first country in the region to get rid of a dictator and in creating democracy. It may also set an example of how to better manage an economy.

YEMEN

Yemen with a population of 22.5 million is slightly smaller than Saudi Arabia, its northern neighbor. Since it is not endowed with oil resources and it is run by a dictator for decades, it has made very little progress economically. It is the poorest nation in the region. Its GDP/capita rose above $1000 only in 2008. Data on sectoral distribution of GDP are not available after 2001. Till then industry, and service sector each contributed around 40 percent to the GDP. Agriculture contributed around 14 percent in 2001. Manufacturing contributes little to the GDP. Exports contributed 27 percent to the GDP in 2009.

Yemen's economic future is a question mark since political turmoil continues at this time.

Analysıs Of The Comparatıve Data Of Opec And Non-Opec Countrıes

The economic performances of the OPEC countries are not that dramatically better than those of the non-OPEC countries. The latter's economies are a little bit more diversified than the oil exporting nations, and they have experienced less fluctuations in their economies than the former. How do the oil exporting nations spend their bounties when oil prices jump has drawn a lot of attention from analysts interested in the subject. Chun (2010) has some interesting observations that are worthwhile to present here:

"Nations that depend on oil sales or raw materials for their major source of government revenue might act much differently from industrialized or developed countries. States that rely on rents from the sale of their raw materials, royalties, and other payments have motives to control these raw materials. Such *rentier* economies may have few options to develop wealth other than from raw materials extraction. The governments that oversee these economies could use these revenues to placate or silence critics, create a society that depends on government largesse, or divert profits for the personal enrichment of government officials. If the economy is not fully developed, then the government might be the major source of economic strength and power in the state. The national leadership may feel the need to control the sale of raw materials, like oil, to maintain its position in society. Government officials who control all aspects of the economy, politics, and society may employ this wealth to underwrite large defense budgets to enhance their own security or to create a capability to counter a national security threat." (Chun 2010, p.vii).

Chun's observations remarkably apply to the Middle Eastern OPEC countries. In these countries the oil or natural resources do not belong to the citizens of the countries, but to the ruling dynasties (for example, to the royal families in Saudi Arabia, Kuwait, Qatar, and UAE) and the dictators (for example, Libya) that rule them. These nations spent fortunes in defense expenditures (Zaman 2000; see also Albdel Rahman, 2001, Al-Farhan, 2003, and Looney,1994).

One common pattern of governance in the region, whether or not mineral rich country, is that of autocratic rule. Nigeria is the only exception after the military governments gave way to democratic rule. It is now clear that the long term rulers of Egypt, Tunisia, and Libya stashed away

billions of their countries' dollars for their own benefits abroad. If the money were invested in their economies for the benefit of their citizens, they all would have been better off along with their national economies.

The billions of dollars that the oil principalities spent and continue to spend on defense, only benefit the arm merchants of the West (also some from Russia and China). These countries cannot defend themselves from external attacks. The ordinary citizens would not volunteer to fight to preserve their corrupt rulers.

Egypt, Libya, and Tunisia are most likely to see continued chaos for a while, at least until legitimate governments are elected and are able to institute institutional reforms for economic growth and development. Nigeria appears to be facing increasing ethnic and religious conflicts and its economy may likely to be regressed in the near future. Iraq is by no means out of danger of ethnic, religious, and regional conflicts, and the departure

Table 15: Percentile Distribution Of Wealth For Selected Opec During Surveyed Years

Country	Survey Year	Gini Index	Lowest 10%	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%	Highest 10%
End Notes	17	18	19	20	21	22	23	24	25
Algeria	1988	40.19%	2.56%	6.54%	10.79%	14.82%	20.67%	47.18%	32.67%
	1995	35.3%	2.8%	7.0%	11.6%	16.1%	22.7%	42.6%	26.8%
Iran, Islamic Rep.	1986	47.42%	1.81%	4.58%	8.60%	13.39%	20.70%	52.73%	36.86%
	1990	43.6%	2.06%	5.21%	9.56%	14.39%	21.43%	49.41%	33.55%
	1998	44.1%	2.07%	5.15%	9.32%	14.17%	21.46%	49.89%	33.74%
	2005	38.28%	2.62%	6.43%	10.91%	15.54%	21.96%	45.16%	29.63%
Iraq	2007	30.86%	3.79%	8.7%	12.75%	16.69%	21.98%	39.88%	25.24%
Kuwait	-	-	-	-	-	-	-	-	-
Libya	-	-	-	-	-	-	-	-	-
Nigeria	1985	38.68%	2.47%	6.02%	10.41%	15.52%	23.04%	45.01%	28.21%
	1992	44.95%	1.42%	4%	8.8%	14.57%	23.26%	49.37%	31.53%
	1996	46.50%	1.89%	5%	9.12%	13.55%	20.22%	52.11%	37.1%
	2003	43.7%	1.9%	5%	9.6%	14.5%	21.7%	49.2%	33.2%
Qatar	2007	41.1%	1.3%	3.9%	0.0%	0.0%	0.0%	52.0%	35.9%
Saudia Arabia	-	-	-	-	-	-	-	-	-
United Arab Em.	-	-	-	-	-	-	-	-	-

of the foreign forces may serve as an impetus for some mayhem. Iran may not be able to maintain steady flow of oil without significant investments in the industry. With continued and possibly stricter sanctions against Iran by the West this task would be quite hard.

Sources Of Data

The World Bank Indicatory & data bank (http://databank.worldbank.org/ddp/home.do)

Economy Watch Economic Statistics Database (http://www.economywatch.com/economic-statistics/country/)

International Financial Statistics database (extracted from International Monetary Fund)

The Gulf States of Saudi Arabia, Qatar, and UAE have accumulated billions of dollars from oil revenue over the last few decades. They are the darlings of the West and spent and invest considerable sums in the USA, and Europe. It is not clear how long the new generation of highly educated citizens would put up with autocratic rulers who pocket bulk of the earnings in their secret accounts abroad.

It seems that one important fact that the OPEC forget is that oil is a nonrenewable asset and its supply would not last for long. Extraction of oil and natural gas require plenty of sweet water, supply of which is quite limited. Sooner or later the major importers of oil and gas would find their own supplies, and/or develop alternative sources of energy. Without investing heavily in developing diversified economies these countries would regress economically.

Conclusıon

The World Bank's annual publication, *World Development Indicators*, presents data on distribution of income or consumption for the member countries. These data are collected by surveys, and consist of Gini Index, and distribution of income/consumption by percentiles. Except for Algeria, Iran, Iraq, Nigeria, and Qatar, there are no data for Saudi Arabia and UAE (see table 15). From the data for Qatar one can guess what would the numbers indicate for these two Gulf states—highly unequal distribution of income.

It is imperative that the OPEC nations make earnest efforts to govern their countries democratically and invest their hoarded wealth for economic diversification that benefit their citizens, before oil money runs out. The Gulf oil exporting nations have been investing money in education and their educated masses need to witness real economic opportunities and fair play. If not, they should be on guard for uprisings like the one Libyans just witnessed.

Footnotes

1. Values are based upon GDP in national currency and the exchange rate projections provided by country economists for the group of other emerging market and developing countries. Exchanges rates for advanced economies are established in the WEO assumptions.
2. GDP is expressed in current U.S. dollars per person. Data are derived by first converting GDP in national currency to U.S. dollars and then dividing it by total population.
3. Agriculture corresponds to ISIC divisions 1-5 and includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. Note: For VAB countries, gross value added at factor cost is used as the denominator.

4 Industry corresponds to ISIC divisions 10-45 and includes manufacturing (ISIC divisions 15-37). It comprises value added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water, and gas. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. Note: For VAB countries, gross value added at factor cost is used as the denominator.

5 Claims on other sectors of the domestic economy (IFS line 52S or 32S) include gross credit from the financial system to households, nonprofit institutions serving households, nonfinancial corporations, state and local governments, and social security funds.

6 Services correspond to ISIC divisions 50-99 and they include value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal services such as education, health care, and real estate services. Also included are imputed bank service charges, import duties, and any statistical discrepancies noted by national compilers as well as discrepancies arising from rescaling. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without

making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The industrial origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. Note: For VAB countries, gross value added at factor cost is used as the denominator.

7 Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments.

8 Imports of goods and services comprise all transactions between residents of a country and the rest of the world involving a change of ownership from nonresidents to residents of general merchandise, goods sent for processing and repairs, nonmonetary gold, and services. Data are in current U.S. dollars.

9 Merchandise imports show the c.i.f. value of goods received from the rest of the world valued in current U.S. dollars.

10 Services (previously nonfactor services) refer to economic output of intangible commodities that may be produced, transferred, and consumed at the same time. International transactions in services are defined by the IMF's Balance of Payments Manual (1993), but definitions may nevertheless vary among reporting economies. Data are in current U.S. dollars.

11 Exports of goods and services comprise all transactions between residents of a country and the rest of the world involving a change of ownership from residents to nonresidents of general merchandise, goods sent for processing and repairs, nonmonetary gold, and services. Data are in current U.S. dollars.

12 Value is equal to the price per unit of quantity of oil exports multiplied by the number of quantity units

13 Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net outflows of investment from the reporting economy to the rest of the world and is divided by GDP

14 Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors. Data are in current U.S. dollars.

15 GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. For a few countries where the official exchange rate does not reflect the rate effectively applied to actual foreign exchange transactions, an alternative conversion factor is used.

16 GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars.

17 Year in which the underlying data were collected.

18 Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

19 Percentage share of income or consumption is the share that accrues to subgroups of population indicated by deciles or quintiles.

20 Percentage share of income or consumption is the share that accrues to subgroups of population indicated by deciles or quintiles. Percentage shares by quintile may not sum to 100 because of rounding.

21 Percentage share of income or consumption is the share that accrues to subgroups of population indicated by deciles or quintiles. Percentage shares by quintile may not sum to 100 because of rounding.

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23 Percentage share of income or consumption is the share that accrues to subgroups of population indicated by deciles or quintiles. Percentage shares by quintile may not sum to 100 because of rounding.

24 Percentage share of income or consumption is the share that accrues to subgroups of population indicated by deciles or quintiles. Percentage shares by quintile may not sum to 100 because of rounding.

25 Percentage share of income or consumption is the share that accrues to subgroups of population indicated by deciles or quintiles. Percentage shares by quintile may not sum to 100 because of rounding.

26 Data on distribution are compiled by the World Bank's Development Research Group using primary household survey data obtained from government statistical agencies and World Bank country departments. Data for high-income economies are estimated from the Luxembourg Income Study database.

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Income Distribution In Europe And Its Effect On Investment Priorities

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Abstract

This paper focuses on the measurement of regional priorities and their effect on the allocation of regional funds in the European Union (EU) looking at the less well of countries. The application of distributional welfare weights in the appraisal of development projects is emphasized in the guidance provided by the European Commission (EC). Application of such weights in a regional context is an important consideration given that the EC has provided a large budget of over €300bn to finance investment projects in the European Union over the period 2007-2013. The main beneficiaries of these funds are the 12 less well off new member states some of whom have suffered considerably during the latest economic crisis.

Living standards in the new member states, based on the gross domestic product (GDP) exhibit substantial regional variation, and thus it is of interest to explore the potential funding allocation impact resulting from the application of regional welfare weights in the social appraisal of investment projects in the EU-12 region. This paper develops a suitable model for the application of regional welfare weights in cost benefit analysis and then applies it to a number of new EU member states and one negotiating country, Turkey.

Keywords
European structural funds, regional priorities, income distribution, economic development.

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1. Introduction

Pareto welfare criterion based on people's willingness to pay for a project's output is regarded by many as a narrow interpretation of improvement in social well-being. A broader opinion is that even though poorer individuals may be less able to pay for a particular benefit, they may obtain greater utility from it. In line with the broader opinion, this paper looks at country based welfare weights in the European Union with a special emphasis on relatively poor countries who became members recently. Welfare weights now have a high policy profile in the European Union in relation to distribution of funds between member and member to be countries. They can also be used in cost-benefit analysis to give priority to infrastructure projects in underprivileged areas.

According to Pareto rule a society would be made better off if at least some of its members improved their position without making anyone worse off. Some economists realised that as no project is likely to meet this rule, then no project should ever be approved. Addressing this problem, Kaldor and Hicks modified the Pareto rule by suggesting that a project should be allowed if it improved the well-being of some people even though others might lose out, provided that the gainers compensate the losers and still are no worse off. However, this has been criticised on the grounds that, in reality, compensation is not paid and thus the rule simply gives an excuse to governments to go ahead with projects, especially of environmental variety, that may create lasting injury to some members of society

Layard and Glaister (1994) contend that if incomes were optimally distributed, $1 would mean the same to everybody regardless of who gets it. If incomes are not optimally distributed most would argue that it should be re-distributed by taxation and subsidies not by using cost benefit analysis. But what if the money can not be re-distributed in this way? Then there would be a need to value the poor person's extra $1 more highly than the rich person's $1. If the government is unable to re-distribute income by using fiscal measures there would be a compelling case to allow for welfare weights to be used in cost benefit analysis.

Some argue that cost-benefit analysis should not be separated from the rest of public policy in which the government's overall aim is to maximise the welfare of its citizens, which may also include a more equitable

income distribution than the one at present. Seen in this wider context, plus the fact that income will be re-distributed between existing members of society as well as between generations, the analyst will, inevitably, face the difficult task of judging projects' effects on the well-being of all those affected.

One short cut would be to pretend that distributional and other moral issues are outside the cost-benefit analyst's area of competence and that they are best left to the government to handle. Indeed, some economists, owing either to the difficulty of the task or their own indifference, try to steer clear of such thorny questions.

For example, Pearce (1983, p. 3) argues that: "As a procedure for aggregating the preferences of our set of individuals, we establish something of a fundamental importance at the outset: cost-benefit analysis makes no claim to produce morally correct decisions. What cost-benefit analysis produces and what is morally correct may coincide if, and only if, we adopt a further rule, namely, that some aggregated set of preferences of individuals is morally correct way of making decisions."

Not all economists would agree with this viewpoint. In effect, economics, as a social science, has an old and rich tradition of just conduct in all areas of its jurisdiction. Concepts such as fair competition, fair employment practices, just wage, just profits have always preoccupied the profession. Of course, the next question is, what is the morally correct position in the main body of economics and in its various branches such as cost-benefit analysis? This is an issue that needs to be discussed; 'sweeping it under a carpet' will not be helpful to policy makers or to practitioners of cost-benefit analysis.

2. Theoretical framework

Economic theory provides a framework for giving greater weights to income accruing to the poor rather than to the rich; the 'diminishing marginal utility of income', which is one of the oldest concepts in economic theory, for its roots can be traced to the writings of Dupuit, Gossen and Jennings in the mid-nineteenth century. Despite its great potentiality in economic analysis, this theory had gone unnoticed for a long period of time, which led Stigler (1972) to express concern that this was largely due to lack of professionalism in economics. More than eighty years after its

first appearance in the literature, Irving Fisher (1927) used the diminishing marginal utility of increasing income in justification of progressive income tax which is now used in most countries of the world.

The concept is important for intragenerational distribution of income. This theory, which is backed by substantial empirical evidence, (see below), helps us to calculate welfare weights which can be used in cost-benefit analysis. Generally speaking, welfare weights mean the relative values attached to unit increments in incomes accruing to various sections of the population. The introduction of distribution effects explicitly into cost-benefit analysis would be to supplement estimates of the total costs and benefits that stem from investment projects with indications of how these are divided amongst the population. If the distributional dimensions of a project are to be made explicit then there must be a decision concerning which distributional dimensions are worthy of consideration. There can be a number of criteria that income distribution can be applicable; regions, gender, ethnicity, religion, age, and so on.

Let us assume, for the end of simplicity, an identical consumption utility function for individuals in the community. Each individual's utility derives from his/her own consumption; that is, there are no interpersonal externalities in the form of envy or pity. The social welfare function includes all individuals in the community that is:

$$SW = f\,(U_1, U_2, U_3, \ldots\ldots) \qquad (1)$$

where SW is social welfare, which is a function of utilities of individuals/households (Us) in the community. From this expression the change in communal welfare may be aggregated on the basis of increments in individual income. That is:

$$\Delta SW = \Sigma\, U_i \Delta Y_i \,(2) \qquad (2)$$

where U_i is the ith person/household's utility resulting from a change in its income, Y_i.

Let us consider regions as the case material in this paper and modify our utility function in this way:

$$SW = f(U_A, U_B, U_C, \ldots) \quad (3)$$

where each subscript refers to a region. In this, it is postulated that the government is considering a social welfare function from the viewpoint of the regions, a highly realistic position in many countries including the EU. Regions can be defined strictly by political/administrative borders, e.g. states, counties, or loosely by taking some broad geographical factors into consideration such as central, southern or northern Turkey. Each region can, of course, be put into various sub-sections. In theory, the policy maker can have as many regions as it wishes, although in reality most regions are established by geographical, historic and political considerations.

As can be seen from the shape of the total utility curve, Figure 1, the absolute level of utility is increasing all the while as income level grows, but this increase occurs at a diminishing rate. There is a long-winded debate in economic literature as to whether a person's utility can be measured and compared by using a cardinal index. Some believe that cardinal utility is a problematic concept and thus they prefer ordinal utility; which leaves us with the Pareto criterion, which is not very helpful in this case.

Assume a hypothetical public project that can benefit any given region of additional income. Clearly, there is a strong case for locating the project in Region a (poor region) rather than in Region B (rich region) for additional income will bring greater utility to the former. If, in a timeless world (which avoids problems of discounting and intergenerational equity), the social welfare function is the sum of all individual utilities, there will be a greater increase in communal welfare when the poor (Region A) becomes the beneficiary:

$$U_A\, U_A' > U_B\, U_B'.$$

When there are n regions in the country the social welfare function will be:

$$SWF = \sum_{i=1}^{n} U_i \quad (4)$$

where U_i is the utility of the ith region.

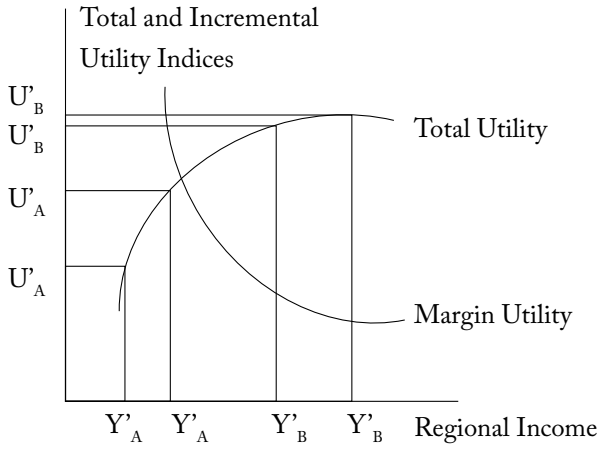

Figure 1 Regional and Total and Marginal Utility Functions

Since the regional utility indices are to be summed up we must find a common unit of measurement and this is taken to be the per capita regional income. The assumption that there is a strong correlation between income and utility levels between regions is supported by migration in most countries of the world from deprived areas to the better off regions and this is highly conspicuous in developing countries. When income levels vary sharply between the regions of a country the use of regional welfare weights in cost benefit analysis may become an additional policy instrument (in addition to maximisation of social welfare) to moderate the movement of the people by giving poor regions priority in the location of public and private sector projects to generate much needed income and employment in these areas. This has already been done in the European Union where poor regions are looked after by way of regional development aids, which, in the main, support investment projects in various regions.

The use of regional welfare weights in cost benefit analysis would give priority to poor areas in the choice of venues. In addition, the government by way of a financial support policy may wish to attract private sector projects into the disadvantaged regions. Regional welfare weights may help to decide the extent of a support package.

However, it has to be pointed out that a project may be located in a poor region but in fact may benefit the better off individuals there. It is often the case that income distribution in poor regions is more skewed than in rich regions. It is not automatically guaranteed that the choice of location alone would achieve the desired objective. Therefore, the public sector

policy maker may have to devise further measures to ensure that rich in a less favoured area do not capture most of the benefits.

3. A model for welfare weights

We have already mentioned that as the consumption levels raise the utility increases at a decreasing rate. What is the extent of this decrease? For this we need to consider the marginal utility function in Figure 1. In this function the elasticity of marginal utility of consumption is assumed to be constant then;

$$U_i = \frac{C_i^{1-e}}{1-e} \tag{5}$$

where Ci is the per capita consumption in the region, e is the elasticity of marginal utility of income.

The incremental, or marginal, utility would be:

$$\frac{dU_i}{dC_i} = C_i^{-e} \tag{6}$$

The elasticity of this function becomes:

$$\frac{d^2U_i}{d_iC^2}\frac{C_i}{dU_{i_i}/dC_i}. \tag{7}$$

which yields –e.

There is nothing sacrosanct about the constancy of the elasticity of marginal utility of consumption. This assumption is made because it is mathematically convenient, and also because it yields good results in calculations. Most importantly, empirical research lends support to this assumption. For example, Blue and Tweeten (1997) by using data on incomes taken from US Social Surveys construct a quality of life index, a proxy measure for utility, in which consumption levels turn out to be the most significant variable amongst all the factors considered. Furthermore, the majority of regression models used in their study confirms the shape of the marginal utility function, Figure 1.

In cost-benefit analysis, we are mainly interested in comparing consumption increases between different regions/groups. To see whether marginal utilities differ across regions, we can look at the following ratio:

$$\frac{MU_i}{MU_j} = \frac{C_i^{\,e}}{C_j^{\,e}} = \frac{C_j^{\,e}}{C_i} \qquad (8)$$

The distributional weight, W, of region i to the average level of consumption in the country, $\overline{C}$, would be:

$$W = \frac{\overline{C}^{\,e}}{C_i} \qquad (9)$$

By choosing the average consumption level in the community as our yardstick, we can compare the welfare effects of a project to individuals in different income groups, or in different regions.

4. The use of welfare weights

The welfare weights can be implemented in a variety of ways in the European Union. First, how much a member state should contribute to the European Union's structural funds? In fact it was Irving Fisher (1927) who recommended the use of the concept of diminishing marginal utility of consumption, which is the foundation of welfare weights, in justification of a progressive income tax scheme. If the rich pay more in terms of taxes compared with others then welfare loss to the community would be minimized. Second, welfare weights can also be used in the allocation of funds between member states. Money given to a relatively poor country would generate greater welfare in the community then the same amount given to a well off country, Evans (2004) and Evans *et al* (2005). Third, welfare weights can also be used in the appraisal of European communal projects. For example an infrastructure project located in a relatively deprived location would rise in prominence when its net present value is multiplied by the relevant welfare weight.

One important issue in cost-benefit analysis is to define the boundaries of the economy in which investment projects are located. In the past the national borders were used. Discount rate, shadow prices, welfare

weights and valuation methods were all based on the national economic conditions. From the viewpoint of the European Union there is a convincing case that boundaries should be the jurisdiction of the Union including all member states. Especially when member states contribute to the common pool of money from which allocation is made to support various infrastructure and other projects the entire map of the European Union should be considered. That is from a theoretical perspective the European Union based welfare function should replace the national ones. The EU has already been harmonising the social discount rate, another crucial parameter in cost-benefit analysis, in the 27 member countries, which is an indication of moving towards a Europe wide calculation.

Here we look at regional based welfare weights for three countries of the European Union; Slovakia, Bulgaria, Romania and one negotiating country, Turkey, who is to become a full member in due course. Their per capita incomes based on the purchasing power parity (PPP) unit of measurement are shown in Table 1.

Country	**Income p.c. $**	**p.c. of EU Average**
Slovakia	18 700	72.2
Bulgaria	11 300	41.3
Romania	10 700	40.9
Turkey	11 600	45.8
EU Average	26 177	100.0

Table 1. Per capita real incomes; estimates for 2008
Source: Eurostat 2009

For the third parameter in equation (8) we need estimates of e. In a recent article Evans (2005) calculated elasticity of marginal utility of income, e, for twenty countries thirteen of which belong to the European Union. His estimates centre on a figure of 1.5, which is used in welfare weight estimates in our four countries. The figures are:

Slovakia	1.39
Bulgaria	2.42
Romania	2.45
Turkey	2.18

All these numbers are greater than unity. That is, in an EU wide cost-benefit analysis of, say, infrastructure projects, the net present value figures for them to be multiplied by the relative regional welfare weights which would increase their priority. If the European Union assumes that well being of all member states are equally important then there would be a case for using welfare weights in raising revenue for structural funds in the allocation of money to member states and last but not least in cost benefit analysis of structural projects.

It has to be mentioned that regional disparities exist even in well of countries of the European Union. For example Evans *et al* 2005 look at the case in the United Kingdom and argue that a greater priority should be given to Northern Ireland. In effect, HM Treasury (2003) in its latest guidance on the appraisal and evaluation in central government spending has raised the policy profile of distributional impact of social projects favouring the underprivileged regions. Similar cases can be made for various regions in other countries of the European Union such as Sicily in Italy, Eastern part of Germany, South and North Cyprus, Evans and Kula (2011), etc.

5. Conclusion

The use of distributional weights normally produces a systematic bias in investment analysis favouring projects that benefit the poor rather than the rich. This should not be regarded as being a distortion in the rational use of scarce resources, bit rather a manifestation of fundamental socio-economic objectives of the European Community who may wish to consider equity and efficiency objectives simultaneously.

Although welfare weights may or may not be decisive for any particular project, it is quite clear that this type of broader analysis will result in a pattern of decisions that would differ significantly from the one that would emerge if distributional considerations were continuously ignored. This does not mean that in determining the social value of public projects

appraisal standards would be diminished. On the contrary, the introduction of welfare weights into cost-benefit analysis involves a broader and more rigorous analysis than before that proposals meet more than one objective.

With the use of, say, regional welfare weights the cost-benefit analysis will make poor districts of the European Union a more favourable venue than richer ones. The issue of regional spending is becoming even more important in Europe given the large number of countries have recently become members of the Union and more due to join in due course. There is a substantial scope for further work in relation to European regional policy and regional welfare weights in all parts of Europe to include not only the new 'poor' countries but also the old 'rich' countries containing their relatively poor regions.

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Are Sukuk Securities the Same as Conventional Bonds?

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Abstract

Sukuk securities have some similar features with conventional bonds, which is probably the reason why the financial press describe them as if they are the same. Mass media names sukuk as Islamic bonds. This paper investigates this matter empirically by first examining if the yield to maturities of sukuk securities and conventional bonds of same quality rating gives same returns to investors. We also conduct a test to see if there is a causal relationship between the two. Resultsshow a significantdifference in yieldof sukuk against yield of conventional bonds. Moreover, results of Granger causality test do not show causal relation between yields of these two types of securities. Some differences between yield curves of Islamic securities and conventional bonds of different types of issuers are identified. Finally, the effect of issuance of ijarah sukuk on issuing firm's beta is studied. The results shows that the absolute change in beta of the firm is significant, which needs careful interpretation so possibly providing a clue to the difference in yield of two securities.

1. Introduction

Sukukand conventional bond securities have some similarities that probably prompted practitioners,mass media journalists,even some academics to consider sukukas being similar to conventional bonds. The only difference pointed out is that regulations consistent with Islamic principles of financial trading apply tosukukbonds. However, there exist some

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fundamental differences between these two financial instruments so such a characterization is misleading. These differences lie mainly in the very underlying nature or purpose of funding as well as the way sukuk bonds are structured. However, both sukuk and conventional bondsecurities are traded in secondary markets with the same trading mechanism, so the differences could not be coming from the trading differences. Sukuk securities are priced in the market, presumably by experts in the market,as is also the case of conventional bills and bonds.

This chapter aims to investigate this matter empirically. We do it by analyzing the yields of look-alike securities from both types. Whether securities issued by same issuer (i.e. same risk class) for the same period of time (i.e. same duration or maturity) as Islamic and conventional bonds traded in the same market provide similar yields to maturity. If the result is contrary to this expectation, then the conclusion should be that the two are different securities.

Furthermore, since issuance of some types of sukuk securities, especially in large amounts, may affect balance-sheet of the issuer (e.g. case of ijarah sukuk), the risk structure of the issuer might be affected. In other words, by issuing sukuk (particularly asset-backed sukuk such as ijarah), ownership of some certain parts of the assets of the issuing entity is transferred to the intermediating entity (i.e. Special Purpose Vehicle, or SPV) which is owned by the sukuk-holders. Moreover, the profit stream of a sukuk-issuing firm is not dedicated to the equity-holders anymore. Some portion of this profit is distributed among the sukuk-holders. Thus, to capture the impact of issuance of sukuk on risk structure of the firm, a second objective of this chapter is to report our findings on the impact of the issuance of sukuk on the risk structure of the firm.

The rest of the chapter is organized as follows. Section 2 is a description of the data set to be used and the methodology applied. Since the literature on sukuk securities does not cover this issue at all, we chose not to describe the relevant literature. The findings are presented in section 3 followed by concluding remarks in section 4.

2. Method and Data

Conventional theory suggests that bonds are priced as per the bond valuation theory(Williams, 1938), which suggests the theoretical value of cash flows to bondholders to be the present value of the stream of payments discounted at current cost of borrowing (yield to maturity) as in:

$$P = \frac{M}{(1+r)^N} + \sum_{t=1}^{N} \frac{C}{(1+r)^t}$$

Where, P is the market price of a bond, C is the amount of pre-fixed periodic coupon payments; M is the amount of maturity payment (i.e. the face value of a bond certificate); r is the discount rate (i.e. market required yield at the time of pricing), and N is the issue tenure (i.e. number of payments).

Yield-To-Maturity (YTM) is the internal rate of return earned by a bondholder who buys a bond certificate today, at market price, and hold it until the maturity, entitling the bondholder to all coupon payments as well as maturity payment (Ariff, Cheng, and Neoh, 2009; Bodie, Ariff, and Rosa, 2007; Cox, Ingersoll, and Ross, 1985).

In order to investigate the possible existence of a difference between yields to maturity (YTM) of sukuk securities and that of conventional bonds for the same duration and same issuer, a paired-sampled t-test is conducted. This test was performed on various types of issuers including sovereign (Government of Malaysia, andCentral Bank of Malaysia), quasi-sovereign (Cagamas Bhd , KhazanahNasional Bhd), Financial institutions (AAA Rated), and Corporate (Corporate Guaranteed AAA, and Corporate AAA) for various maturities ranging from 3 month to 20 years.

Second objective is to examine the impact of sukuk issuance on the market's perceived risk of the firm (i.e. beta). In order to capture this effect, beta is calculated as:

$$\beta_i = \frac{\mathrm{cov}\,(r_i, r_m)}{\mathrm{var}(r_m)}$$

Where ri is the return on the equity and rm is the return of the market. Beta is calculated for pre- and post-issuance periods.

In order to test this objective, only ijarahsukuk issues have been included in the sample. The rational for this filtering is based on the Shariah principle that ijarah sukuk contract requires the issuer to transfer the ownership of an asset to the SPV. In other words, by issuing ijarah sukuk, the balance-sheet of the issuer will be affected, so asper standard finance theories, the beta of the firm must change due to capital structure change.

YTM data for first working day of each month for the period of August 2005 to January 2011 werecollected from BondStreamdatabase.

Data on daily prices and market index (Kuala Lumpur Composite Index, KLCI) are obtained from DataStream. The statistical tests were done using Excel,SPSS and Eviews software: this may introduce some errors arising from lack of corrections for BLUES estimates. This is a preliminary study, so its aim is to provide preliminary results.

3. Results and Discussion

3.1. Graphs

Yield curve is the relation between cost of borrowing and time to maturity of a security for a given issuer or a given class of issuers. Yield curves for Islamic securities and conventional bonds issued by various issuers are plotted and presented in figures 1-4. These plots are divided into four sub-graphs for four types of issuers, namely: sovereign, quasi-sovereign, financial corporations, and corporate issuers.

(Insert Figure 1 about here)

As Figure 1suggests, yield of Government Islamic Issues (GII) is higher than that of conventional bonds issued by the same issuer(Malaysian Government Securities, or MGS). Thedifference between sukukyield and conventional bond yield tends to be larger for maturities between 2 years and 15 years. The maximum difference between yields of sukuksecurities and conventional bonds issued by government occurs for securities with 3 years maturities and the difference is 6.86 basis points. Figure 1 also depicts the yield curve of the BNM issued sukuksecurities as well as conventional bills. Thesesecurities are only issued with maturities up to two years. As the graph shows the yield of former is higher than that of conventional yields, for all maturities.Moreover, difference between these yields increases as the maturity of the pair of securities increases. The maximum difference between yield of sukuk securities and conventional bills issued by Bank Negara Malaysia is 5.30 basis points for securities with 2 years maturity.

Figure 2 shows the yield curves of securities issued by quasi-government (i.e. government agencies)firms namely, Cagamas Berhad and Khazanah Nasional Berhad.Yield of sukuksecurities issued by Cagamas Berhad is higher than the yield of Cagamas conventional bonds. This difference increases as the tenure period of the securities growsbeyond 5 years. The maximum difference between yields issued by Cagamas occurs

for securities with 20 years maturities at6.44 basis points. In contrast to Cagamas securities, yield of Khazanah Nasional issued securities shows a very small difference. The maximum difference between yields of securities issued by Khazanah Nasional is for securities with 1- or 2-year maturities with -1.52 basis points. The yield is lower for sukuk.

Figure 3 shows the yield curves for securities issued by AAA rated financial institutions. Yield of Islamic securities tend to be very close to yield of conventional bonds for securities with maturities less than 10 years. However, for securities with longer maturity periods, yield ofsukukis higher than that for conventional bonds. The maximum difference between yields of securities issued by financial institutions with AAA ratingfor 20 years maturities is 7.59 basis points.

Figure 4 shows the yield curves for securities issued by AAA rated corporate issuers. Yield curve is generated for both guaranteed securities as well as general forms of securities. For corporate issues, yield of sukuk securities shows to be less than the yield of conventional bonds with maturities less than 10 years. However, yield of sukuksecurities is more than the yield of conventional bonds for maturities more than 10 years. The maximum difference between yields of Islamic securities and conventional bonds issued by corporate issuers with maturities of 2 years -8.69 basis points. However, the maximum amount of this figure for securities with maturities longer than 10 years is +10.56 basis points for securities with 20 years maturity.

For corporate guaranteed issues, yield appears to be less than yield of conventional bonds for maturities less than 15 years. However, yield of sukuk securities is more than yield of conventional bonds for maturities equal to or more than 15 years. The maximum difference between yields of guaranteed sukuksecurities and conventional guaranteed bonds of corporate issuers with maturities less than 15 years is observed for securities with 2 years maturities with -7.07 basis points. However, the maximum amount of this figure for securities with maturities longer than 10 years is +3.76 basis points for securities with 20 years maturity.

3.2 Descriptive Statistics

Summary of descriptive statistics for various sukuk securities and conventional bonds are presented in Table 1. In market level, as the statistics suggest, the mean yield of sukuk securities for all types of issuers and for all forms of maturities is 4.0283 percent. However, it varies between

a minimum of 2.8326 (sukuk securities issued by BNM with 3 months maturity) and a maximum of 5.8724 (sukuksecurities issued by AAA rated corporate with 20 years maturity). On the other hand, the mean yield ofconventional bonds for all types of issuers and for all forms of maturities is 4.0235 percent. However, it varies between the minimum of 2.8212 (conventional bills issued by BNM with 3 months maturity) and the maximum of 5.7668 (conventional bonds issued by AAA rated corporate with 20 years maturity).

At issuer level, highest mean yields of sukuk securities (for all issue tenures) is for AAA rated financial institutions' issued Islamic securities with 4.439 per cent, while the lowest mean yield is for sukuk issued by Bank Negara Malaysia (agency) with 2.937 per cent. On the other hand, the highest conventional mean yield is for aAAA rated corporate issuers with 4.428 per cent, while the lowest mean yield is for conventional bills and notes issued by Bank Negara Malaysia with 2.911 per cent yield.

At particular issue level, minimum mean of sukuk yield is 1.82 per cent which is for 3-month maturity issued by either BNM or government of Malaysia. However, the maximum average sukuk yield is 6.92 per cent, which is for 20 years maturity issued by AAA rated financial institutions. On the other hand, minimum average conventional yield is 1.82 per cent which is for the 3-month maturity securities issued by either BNM or government of Malaysia (similar to sukuk issues). However, the maximum average conventional yield is 6.73 per cent, which is for 20 years maturity securities issued by AAA rated corporate issuers.

The median yields of Islamic securities of all types of issuers and for all forms of maturities is 4.0692 percent. However, it too varies between minimum of 2.94 (sukuksecurities issued by BNM with 3 months maturity) and maximum of 6.05 (sukuk securities issued by AAA rated corporate with 20 years maturity). On the other hand, the median yields of conventional bonds for all types of issuers and for all forms of maturities is 4.0704 percent. However, it varies between the minimum of 2.94 (conventional bills issued by BNM with 3 months maturity) and maximum of 5.86 (conventional bonds issued by AAA rated financial institutions with 20 years maturity).

The mean of standard deviation of yields of Islamic securities for all types of issuers and for all forms of maturities is 0.4699. However, it varies between the minimum of 0.3047 (Islamic securities issued by AAA rated corporate guaranteed with 3 years maturity) and the maximum of 0.6838

(Islamic securities issued by AAA rated financial institutions with 20 years maturity). On the other hand, the mean of standard deviation of yields of conventional bonds for all types of issuers and for all forms of maturities is 0.4644. However, it varies between the minimum of 0.3207 (MGS conventional bonds with 5 years maturity) and the maximum of 0.6599 (conventional bills issued by BNM with 3 months maturity).

3.3 Comparison of Yield of Islamic Securities and Conventional Bonds

This section is to offer proof, if any, on the two types being the same or different. Results of the paired sample t-test are summarized in Table 2, which is divided into two panels:one for test of means and the other for test of medians as further calculations are conductedbased on both. We perform test on medians to overcome the criticism that the test on means is likely to have errors due to the distribution of yields being leptokurtic.

(Insert Table 2 about here)

Mean Yields: Out of the 64 tested pairs of mean yields ofsukuk and conventional bonds, 46 cases (i.e. 72 per cent of all pairs) showed significant differences in their yields to maturities. In 32 cases, the null hypotheses were rejected at 0.01significance levels. Thus, one can conclude that the yield to maturity of sukuk securities does differ from conventional bond, where the issuer and the issue tenure are the same. Although, from a general perspective, the yields of sukuk differ from the yields of conventional bonds, this is not exactly the same for all issuers. This variation in the significance of difference between means of yields of sukuk and conventional bonds, which suggest that issuertype may have some impact on the yield of sukuk security.

Meanyield of sukuk and that of conventional bond are significantlydifferent for all forms of securities issued by Bank Negara Malaysia.The difference between means is a positive figure, indicating that Islamic securities tend to yield more than conventional bonds issued by Bank Negara Malaysia,ceteris paribus. For securities issued by the Government of Malaysia, the difference is significant for all cases except for 20-year maturity securities. The difference between means is a positive figure, indicating that Islamic securities tend to yield more than conventional bonds issued by government of Malaysia,ceteris paribus.

For securities issued by government agencies such as Cagamas Bhd, the mean yields of sukuk securities and conventional bonds are significantlydifferent except for securities with 1 or 2 years maturity.The difference between means is a positive figure, indicating that Islamic securities tend to yield more than conventional bonds issued by Cagamas Berhad,ceteris paribus. However, mean of yield of sukuk and conventional bonds is significantlydifferent for only 5 pairs of securities issued by Khazanah Nasional (6 months, 1, 2, 3, and 7 years maturity). The difference between means is a positive number for securities with 10 years maturity or less, while, for securities with 15 years maturity or more, the difference is negative. In other words yield of Islamic securities issued by Khazanah Nasional is higher than its conventional bonds only for issues with less than 10 years maturity. For the securities with long term maturities (15 or 20 years) the mean yield is less than the conventional bonds, ceteris paribus. This is an exception to the general observation.

The mean yield of Islamic securities and conventional bonds issued by AAA rated financial institutions are significantly different for 2 pairs (15- or 20-year maturity). The difference in means is a positive number for securities with 6 months maturity or less, or with 7 years or more. However, for securities with maturity between 6 months and 7 years, the difference is negative. In other words the mean yield of Islamic securities issued by AAA rated financial institutions is higher than that of conventional bonds for issues with 6 month or less maturity or with 7 years or more maturity. And for the securities with maturities between 6 months to 5 years, the mean yield of Islamic securities is less than the conventional bonds, ceteris paribus, another exception.

For AAA rated corporation issued securities, the mean of yield of Islamic securities and conventional bonds are significantlydifferent for all cases except for 10-year maturity. The difference between means is a negative number for securities with 7 years maturity or less, while, for securities with 10 years maturity or more, the difference is positive. In other words, the mean yield of Islamic securities issued by AAA rated corporate issuers is lower than its conventional bonds for issues with 7 years or less maturity. And for the securities with long term maturities (10 years and more) the mean of yield of Islamic securities is more than the conventional bonds, ceteris paribus.For AAA rated corporate guaranteed securities, the yield of Islamic securities and conventional bonds are significantly different for all cases except for 15-years maturity securities. The difference between

the means is a negative number for securities with 10 years maturity or less, while, for securities with 15 years maturity or more, the difference is positive. In other words yield of Islamic securities issued by AAA rated guaranteed corporate issuers is lower than its conventional bonds for issues with 10 years or less maturity. And for the securities with long term maturities (15 years and more), the mean yield of Islamic securities is more than the conventional bonds, ceteris paribus.

Median Yields: Similar tests were applied on the median yields of sukuk and conventional bonds. Out of 64 pairs of securities, 48 pairs (i.e. 75%) showed a significant difference between median of the yields of sukuk securities and conventional bonds. Moreover, for 35 pairs, the difference was significant at 0.01 significance level. In other words, the null hypothesis (yields of sukuk and conventional bonds are equal, holding the issuer and tenure the same) is rejected in 48 out of 64 cases.

The median yields of Islamic securities and conventional bonds issued by Government of Malaysia are significantly different for all 10 tested pairs. Difference is positive for issues with maturities ranging from 2 years to 7 years and for issues with 15 years maturity or longer. However, difference between median yields of Islamic securities and conventional bonds issued by government with 1 year maturity or less and issues with 10 years maturity is negative. For securities issued by Bank Negara Malaysia, medians of yields of Islamic securities do not significantly differ from medians of yields of conventional bills.

Median yield of Islamic securities issued by Cagamas Bhd is significantly different from the median of its conventional bonds only for issues with maturities of at least 3 years. The difference between median of Islamic securities and conventional bonds issued by Cagamas Berhad is positive, indicating that Islamic securities, generally, yield higher than their conventional counterparts, ceteris paribus. Median of yields of Islamic securities issued by Khazanah Nasional Berhad is significantly different from their conventional counterparts except for securities with maturity of 15 years or more. In contrast to Cagamas issued securities, difference between median of Islamic securities and conventional bonds issued by Khazanah is negative for issues with maturity of 10 years or less.

Median yield of Islamic securities issued by AAA rated financial institutions is significantly different from median of yields of conventional bonds for maturitiesof 6 months, 1 year, 3 years, 7 years, 10 years, and 20 years. The difference is negative for issues with maturity of at most 10

years, and is positive for issues with maturity of 15 years or more. This indicates that the median yield of Islamic securities is less than their conventional counterparts for maturities of 10 years, or less, ceteris paribus.

Median yields of Islamic securities issued by AAA rated corporate issuers is significantly different from median of yields of conventional bond issued by same class of issuer, for all pairs. Difference between median of Islamic securities and conventional bonds is negative for issues with at most 7 years maturity. However, the difference is positive for issues with at least 10 years maturity. For guaranteed securities issued by AAA rated firms, median of yields differ from the median of yield of conventional bonds except for issues with maturity of 15 and 20 years. The difference between median of yields of Islamic securities and conventional bonds is negative for issues with maturity of at most 10 years. This indicate that the median of yields of Islamic guaranteed securities issued by AAA rated firms is less than the median of yields of conventional bonds issued by same type of issuer, ceteris paribus.

As a summary, these results suggest that the perception that sukuk are Islamic bonds is not statistically supported. In other words, sukuk and conventional bonds are two different types of financial products as priced by the market players, although they have some similar features. Thus, a distinct and separate model for valuation of sukuk is required. This could be due to basic differences in the cash flows and also in the asset-backing principle of sukuk. These are yet investigated, so a study of why three-fourth of issues are priced differently is an effort worthy of undertaking as a serious study.

3.4 Granger Causality Test between Yields of Islamic Sukuk and Conventional Bond

Previous section showed that the mean yield of Islamic sukuk is statistically different from the mean yield of matched conventional bonds I the same market. Thus, one may conclude that sukuk securities and conventional bonds are two different types of securities. However, since each pair of securities is issued by the same issuer for same period of time, it is expected that the correlation between yield of these securities would be high. This may be a cornerstone for a hypothetical argument that they have causal relations. As a result, one may want to know if changes in one can cause change in the other one. In other words, one may want to test for Granger Causality (Granger, 1969) between yields ofsukuk securities and conventional bonds.

In order to test the causal relationship between yields of sukuk and conventional counterparts, two Granger causality testswere conducted on each pair of securities. First, do changes in yield of Islamic sukuk cause changes in yield of conventional bonds? In other words, it is tested that the yield of Islamic sukuk Granger cause yield of conventional bonds. The second test is the converse of the first: change in yield of conventional bonds cause change in yield of Islamic sukuk. In other words, it is tested that the yields of conventional bonds Granger cause yields of Islamic sukuk. Results of pair-wise Granger causality test on each pair is presented in Table 3.

(Insert Table 3 about here)

As the Table 3 suggests, out of 64 pairs of securities tested, in only 10 pairs the null hypothesis was rejected at 0.05 significance level. In other words, yields of Islamic securities Granger cause yield of conventional bonds in only 10 out of 64 pairs (or 15 percent). This indicate that one may not generally conclude that yield of Islamic sukuk securities Granger cause the yield of all conventional bonds counterparts. Results show that yield of Islamic sukuk issued by BNM (6 months, 1 year, and 2 years), Khazanah (2 years), AAA rated financial institutions (3 months, 6 months, 10 years, and 15 years), AAA rated guaranteed corporate (2 years), and AAA rated corporate (2 years) Granger cause their conventional bonds counterpart. Results do not show a concrete pattern in terms of issuer or maturity of the security for having a Granger causal effect. However, 8 out of 10 tests observed a Granger causal relations pertaining to securities with maximum 3 years maturities. Moreover, Granger causal relation between Islamic sukuk and conventional bonds is more common among the securities issued by BNM (3 out of 4 pairs) and financial institutions (4 out of 10 pairs). However, it should be highlighted that these mentioned semi-patterns are not conclusive.

The second test conducted is a check for availability of Granger causal relation between conventional bonds and Islamic sukuk. Out of 64 pairs of securities tested, in only 13 pairs the null hypothesis was rejected at 0.05 significance level (i.e. 20 percent). This indicates that one may not generally conclude that yield of conventional bonds Granger cause the yield of Islamic sukuk security counterparts. Results show that yield of conventional bonds issued by Khazanah (1 and 2 years), AAA rated financial institutions (3 months, 6 months, and 1 year), AAA rated guaranteed corporate (6 months, 1 year, 2 years, and 20 years), and AAA rated corpo-

rate (3 months, 6 months, 1 year, and 2 years) Granger cause their Islamic sukuk counterpart. Results do not show a definite pattern in terms of issuer or maturity of the security for having a Granger causal effect. However, 12 out of 13 observed Granger causal relations pertain to securities with maximum 2 years maturities. Moreover, Granger causal relation between conventional bonds and Islamic sukuk is more common among the securities issued by AAA rated guarantied corporate (4 out of 10 pairs), AAA rated corporate (4 out of 10), and financial institutions (3 out of 10 pairs). However, it should be highlighted that these mentioned semi-patterns are not conclusive.

Finally, as the Table 3 suggests, bi-directional Granger causality (as expressed in Enders, 1995; Hossain, 2005) between yield of Islamic sukuk and conventional bonds is observable in 5 out of 64 pairs (or 7 percent). In other words, in 5 pairs of securities, both null hypotheses are significantly rejected, or, yield of Islamic sukuk Granger cause yield of conventional bonds and the other way around. This may signal that both of these variables are Granger caused by a third variable yet to be explored. Results show that yield of Islamic sukuk and conventional bonds have bi-directional Granger causal relation in securities issued by Khazanah (2 years), AAA rated financial institutions (3 months, and 6 months), AAA rated guaranteed corporate (2 years), and AAA rated corporate (2 years).

3.5 Does the Beta Change as Impact of Issuance of Ijarah Sukuk?

In order to investigate the impact of issuance of sukuk security on firm's risk, 16 companies that issued ijarah sukuk were selected. This selection criterion was purposely imposed because issuance of ijarah sukuk requires transferring of (i.e. backing security with) an asset from issuer company's balance sheet to the Special Purpose Vehicle company. Then, two betas for each of these firms were calculated, one for a period of one year before the issuance, and the other for the period of one year after issuance. Then, the null hypothesis was tested on whether the beta before and after issuance of ijarah sukukare equal. Result of this test is summarized in Table 4.

(Insert Table 4 about here)

As Table 5 suggests, the impact of issuance of ijarah sukuk on firm's risk (the change in beta) might be either positive or negative. This variation in the direction of changes in beta results in a situation that no unidi-

rectional conclusion can be made on the effect of issuance of ijarah sukuk on issuing firm's risk. Therefore, a further study is suggested for identification and determination of the causes of this variation in direction of changes in beta due to the issuance of ijarah sukuk. Some possible points to investigate are the industry and the size of issuing firm.

In a further attempt, absolute changes in beta were computed. Onlythen, one could conclude that the issuing firm's beta (after issuance) is significantly different from issuing firm's beta (before issuance). We find a t-statistic of 4.16, which is significant at 0.1 significance level with 15 degrees of freedom. In other words, if one does not concern about the direction of change in beta, one may conclude that issuance of ijarah sukuk will changes the firm's beta, either in a positive or negative way.

4. Conclusion

Some practitioners as well as some scholars assume that theories and models that have been developed for conventional bonds could be used to value sukuk securities with no modification to accommodate the significant design differences. If so, this paper observes and documents an anomalousbehaviorto this belief in the market place because we observe significant differences between yields to maturities of sukuk securities and conventional bonds, controlling for the issuer, risk, market practices and issue tenure.The magnitude and the sign of this difference are fairly apart for various issuers or maturities.

Results of pair-wise Granger causality tests do not show a general and definite relation between yield of Islamic sukuk securities and conventional bonds. In other words, changes in yield of Islamic sukuk or conventional bonds do not generally cause a change in the other. It implies that not only yields of Islamic sukuk differ from yields of conventional bonds, but also these yields do not have causal (in terms of Granger causality) effect on with each other. Yield changes in conventional bonds of different classes affect each other, not so with sukuk.

Another finding of this research is the significant effect of the issuance of ijarah sukuk on the risk behavior of the issuing company. It is documented that the risk,in terms of absolute changes in CAPM beta, before and after issuance of the security is significantly different from zero. However, the direction of changes in beta is not the same for all cases, and, the influential factors on the direction of change are yet to be studied. Our main conclusions are: sukuk securities should not be priced the same way as conventional bonds; the market for equity of issuing companies appear

to suggest that the risk of the firm changes significantly because of the issue of ijara sukuk certificates. Testing and documenting the reasons for differences in the behavior of what is assumed to be similar securities is a challenge to be addressed in future research.

Figure 1: Yield Curve of Government Issued Securities(Islamic vs. Conventional)

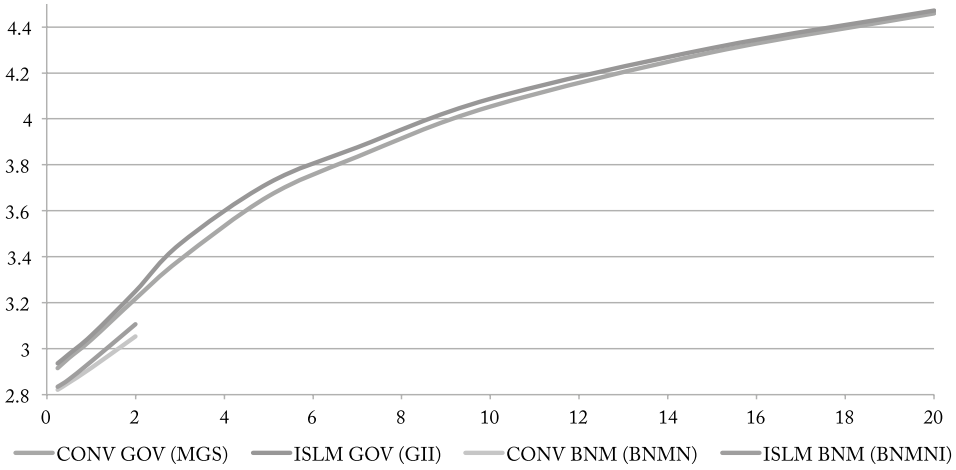

Figure 2: Yield Curve of Quasi-Government (Agency) Issued Securities (Islamic vs. Conventional)

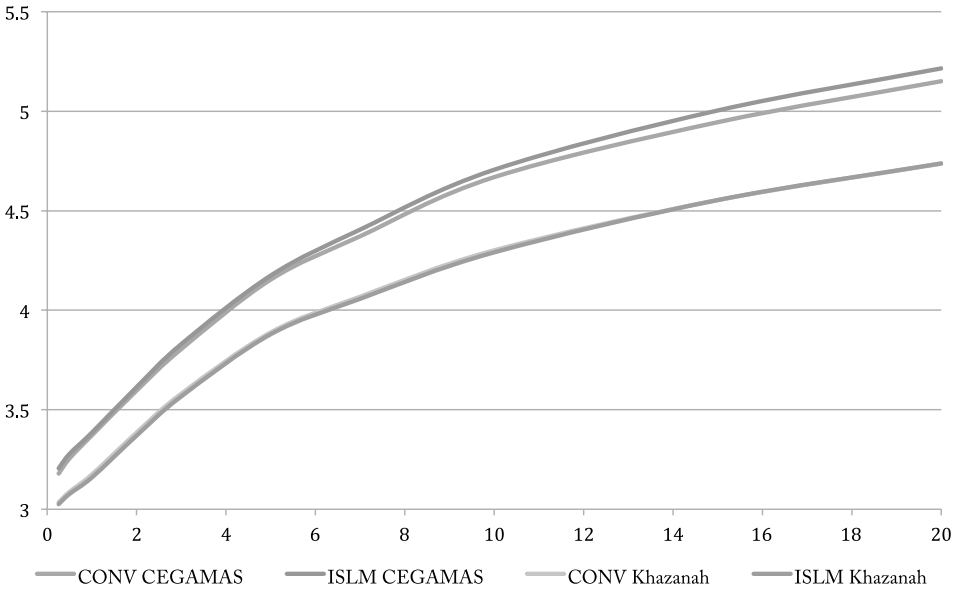

Figure 3: Yield Curve of Financial Corporate (AAA Rated) Issued Securities(Islamic vs. Conventional)

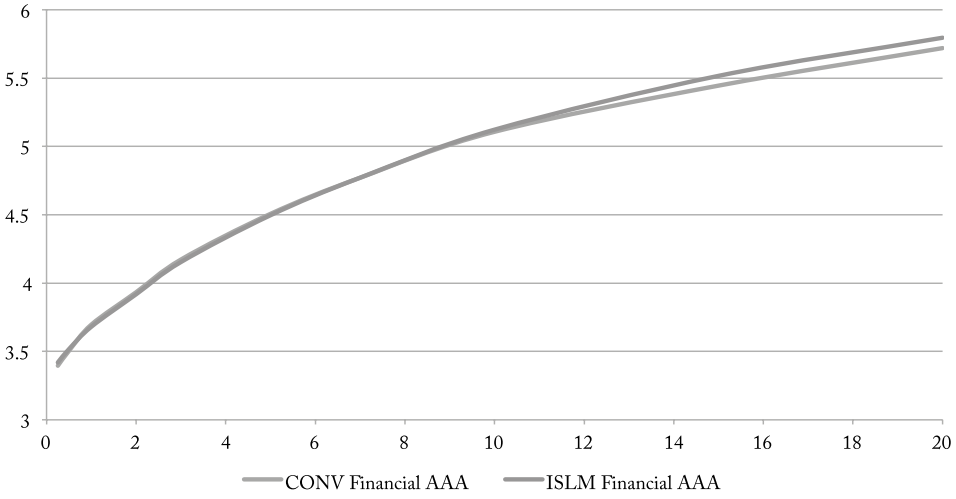

Figure 4: Yield Curve of Corporate (AAA Rated) Issued Securities(Islamic vs. Conventional)

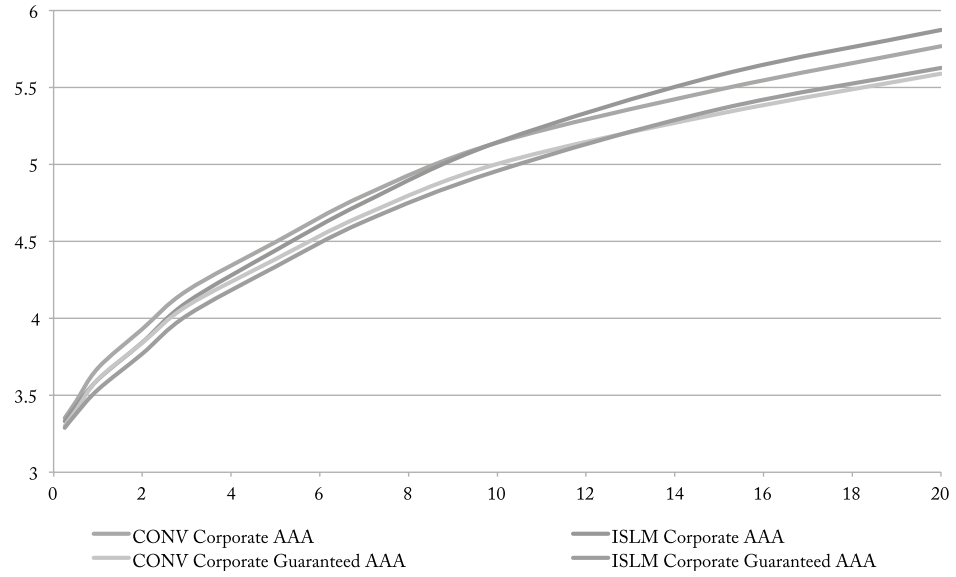

Table 1: Descriptive Statistics of Sukukvs. Conventional Bonds

	N Valid	Mean	Std. Error of Mean	Median	Mode	Std. Deviation	Range	Minimum	Maximum
Government Issued securities (MGS vs. GII)									
CONV(3M)	66	2.9148	0.07591	3.205	1.88	0.61669	1.84	1.82	3.66
CONV(6M)	66	2.9594	0.07704	3.245	1.92	0.62585	1.98	1.85	3.83
CONV(1Y)	66	3.038	0.07653	3.31	2.86	0.62175	2.06	1.92	3.98
CONV(2Y)	66	3.2171	0.06423	3.35	3.04a	0.52178	2.1	2.2	4.3
CONV(3Y)	66	3.3867	0.05233	3.39	3.2	0.42513	2.13	2.37	4.5
CONV(5Y)	66	3.6638	0.03948	3.665	3.45a	0.32077	1.8	2.78	4.58
CONV(7Y)	66	3.8353	0.04061	3.805	3.91	0.32991	1.84	2.91	4.75
CONV(10Y)	66	4.0538	0.0482	4.11	4.19	0.39156	1.93	3.09	5.02
CONV(15Y)	66	4.2902	0.0511	4.305	3.91a	0.41517	1.77	3.35	5.12
CONV(20Y)	66	4.4591	0.04963	4.505	4.15	0.40323	1.58	3.6	5.18
ISLM(3M)	66	2.9362	0.07863	3.19	1.88	0.63876	1.96	1.82	3.78
ISLM(6M)	66	2.9764	0.07938	3.225	1.92	0.64492	2.04	1.85	3.89
ISLM(1Y)	66	3.0567	0.07723	3.28	2.86	0.62738	2.11	1.97	4.08
ISLM(2Y)	66	3.2497	0.06286	3.37	3.04	0.51068	2	2.3	4.3
ISLM(3Y)	66	3.4553	0.0475	3.44	3.24	0.38591	1.84	2.63	4.47
ISLM(5Y)	66	3.7205	0.03967	3.69	3.69	0.32231	1.8	2.85	4.65
ISLM(7Y)	66	3.8762	0.04069	3.85	3.64a	0.33055	1.79	3	4.79
ISLM(10Y)	66	4.0876	0.04535	4.095	3.77a	0.36846	1.81	3.17	4.98
ISLM(15Y)	66	4.3085	0.04925	4.325	4.51	0.4001	1.67	3.45	5.12
ISLM(20Y)	66	4.4715	0.04884	4.545	4.30a	0.39678	1.5	3.68	5.18
BNM Issued Securities									
CONV(3M)	50	2.8212	.09333	2.9400	1.88	.65998	1.90	1.82	3.72
CONV(6M)	50	2.8522	.09285	2.9750	1.92	.65656	1.91	1.85	3.76
CONV(1Y)	50	2.9158	.08947	3.0200	2.86	.63268	1.90	1.92	3.82
CONV(2Y)	46	3.0535	.07334	3.0600	3.04	.49740	1.77	2.20	3.97
ISLM(3M)	50	2.8336	.09516	2.9400	1.88	.67289	1.92	1.82	3.74
ISLM(6M)	50	2.8662	.09493	2.9750	1.92	.67123	1.95	1.85	3.80
ISLM(1Y)	50	2.9440	.09027	3.0200	2.86	.63831	1.93	1.97	3.90
ISLM(2Y)	46	3.1065	.07364	3.0600	3.04	.49947	1.77	2.30	4.07
Cagamas Berhad Securities									
CONV(3M)	66	3.1782	.06516	3.4200	3.53	.52934	1.93	2.21	4.14
CONV(6M)	66	3.2561	.06299	3.4550	3.56	.51177	1.87	2.34	4.21
CONV(1Y)	66	3.3721	.06090	3.4900	3.64	.49477	1.83	2.50	4.33

CONV(2Y)	66	3.5968	.05154	3.6000	3.36	.41872	1.65	2.95	4.60
CONV(3Y)	66	3.8058	.04461	3.6850	3.53	.36245	1.59	3.23	4.82
CONV(5Y)	66	4.1545	.04424	4.1150	3.92	.35938	1.40	3.51	4.91
CONV(7Y)	66	4.3721	.04724	4.2800	4.11	.38377	1.46	3.72	5.18
CONV(10Y)	66	4.6692	.05659	4.5550	4.32	.45977	1.87	3.80	5.67
CONV(15Y)	66	4.9452	.06021	4.8500	4.80	.48914	2.16	3.89	6.05
CONV(20Y)	66	5.1512	.06688	5.0650	5.08	.54334	2.39	4.02	6.41
ISLM(3M)	66	3.2056	.06795	3.4200	3.53	.55207	1.93	2.21	4.14
ISLM(6M)	66	3.2791	.06523	3.4450	3.56	.52994	1.87	2.34	4.21
ISLM(1Y)	66	3.3858	.06289	3.4900	3.73	.51092	1.83	2.50	4.33
ISLM(2Y)	66	3.6147	.05099	3.6100	3.33	.41424	1.57	2.95	4.52
ISLM(3Y)	66	3.8305	.04288	3.7300	3.53	.34834	1.45	3.23	4.68
ISLM(5Y)	66	4.1748	.04314	4.1350	4.32	.35048	1.38	3.53	4.91
ISLM(7Y)	66	4.4055	.04683	4.3000	3.95	.38048	1.45	3.73	5.18
ISLM(10Y)	66	4.7064	.05591	4.6450	4.28	.45422	1.85	3.82	5.67
ISLM(15Y)	66	5.0042	.05959	5.0300	5.33	.48413	2.11	3.94	6.05
ISLM(20Y)	66	5.2156	.06552	5.2250	5.08	.53226	2.37	4.04	6.41
Khazanah Nasional Berhad Securities									
CONV(3M)	66	3.0339	.07272	3.3250	2.09	.59081	1.86	1.94	3.80
CONV(6M)	66	3.0882	.07396	3.3750	3.46	.60085	1.96	1.97	3.93
CONV(1Y)	66	3.1752	.07454	3.4300	2.20	.60553	2.02	2.06	4.08
CONV(2Y)	66	3.3858	.06322	3.5150	3.09	.51362	2.14	2.42	4.56
CONV(3Y)	66	3.5811	.05107	3.5650	3.69	.41487	2.07	2.72	4.79
CONV(5Y)	66	3.8889	.04038	3.8800	3.80	.32802	1.81	3.05	4.86
CONV(7Y)	66	4.0682	.04040	4.0100	3.91	.32818	1.81	3.19	5.00
CONV(10Y)	66	4.3014	.04605	4.3100	4.02	.37408	1.81	3.40	5.21
CONV(15Y)	66	4.5538	.04944	4.6100	4.69	.40167	1.61	3.70	5.31
CONV(20Y)	66	4.7368	.04915	4.7600	4.77	.39929	1.70	3.81	5.51
ISLM(3M)	66	3.0256	.07341	3.2750	2.09	.59636	1.86	1.94	3.80
ISLM(6M)	66	3.0776	.07379	3.3200	3.37	.59950	1.92	1.97	3.89
ISLM(1Y)	66	3.1600	.07480	3.3700	2.20	.60772	2.11	2.06	4.17
ISLM(2Y)	66	3.3706	.06196	3.4600	3.09	.50336	2.03	2.42	4.45
ISLM(3Y)	66	3.5676	.05012	3.5300	3.69	.40717	1.94	2.72	4.66
ISLM(5Y)	66	3.8798	.03966	3.8450	3.80	.32220	1.80	3.05	4.85
ISLM(7Y)	66	4.0576	.03978	4.0000	3.85	.32318	1.78	3.19	4.97
ISLM(10Y)	66	4.2912	.04489	4.2700	4.02	.36470	1.74	3.40	5.14
ISLM(15Y)	66	4.5539	.04881	4.6150	4.82	.39657	1.61	3.70	5.31
ISLM(20Y)	66	4.7380	.04976	4.7750	5.00	.40422	1.68	3.83	5.51

AAA Rated Financial Institutions Securities									
CONV(3M)	66	3.3948	.06764	3.5950	3.62	.54954	2.16	2.26	4.42
CONV(6M)	66	3.5044	.06191	3.6300	2.66	.50296	1.87	2.58	4.45
CONV(1Y)	66	3.6965	.05583	3.7000	3.11	.45358	1.52	3.08	4.60
CONV(2Y)	66	3.9335	.05096	3.8000	3.50	.41396	1.43	3.50	4.93
CONV(3Y)	66	4.1724	.04836	4.0000	3.91	.39287	1.57	3.66	5.23
CONV(5Y)	66	4.5070	.05082	4.4500	4.49	.41287	1.67	3.74	5.41
CONV(7Y)	66	4.7711	.05258	4.8100	4.60	.42720	1.81	3.84	5.65
CONV(10Y)	66	5.1071	.06195	5.2000	5.35	.50330	2.04	3.98	6.02
CONV(15Y)	66	5.4447	.07093	5.5600	5.76	.57622	2.19	4.17	6.36
CONV(20Y)	66	5.7191	.07372	5.8600	6.16	.59889	2.20	4.35	6.55
ISLM(3M)	66	3.4189	.07465	3.5700	3.57	.60642	2.27	2.22	4.49
ISLM(6M)	66	3.5171	.06870	3.5950	2.62	.55809	2.05	2.54	4.59
ISLM(1Y)	66	3.6811	.05844	3.6700	3.04	.47480	1.62	3.04	4.66
ISLM(2Y)	66	3.9186	.05344	3.7900	3.46	.43412	1.41	3.46	4.87
ISLM(3Y)	66	4.1544	.04972	3.9600	3.96	.40393	1.44	3.63	5.07
ISLM(5Y)	66	4.4968	.05451	4.4250	4.49	.44285	1.75	3.71	5.46
ISLM(7Y)	66	4.7712	.05577	4.7700	4.56	.45307	1.74	3.81	5.55
ISLM(10Y)	66	5.1226	.06769	5.1600	4.51	.54991	2.16	3.95	6.11
ISLM(15Y)	66	5.5162	.08372	5.5850	4.79	.68018	2.63	4.13	6.76
ISLM(20Y)	66	5.7950	.08417	5.9800	6.16	.68384	2.60	4.32	6.92
AAA Rated Corporate Issued Securities									
CONV(3M)	66	3.3521	.06621	3.5650	2.28	.53788	2.17	2.28	4.45
CONV(6M)	66	3.4576	.05995	3.6100	2.68	.48703	1.90	2.60	4.50
CONV(1Y)	66	3.6770	.05304	3.7200	3.11	.43088	1.59	3.10	4.69
CONV(2Y)	66	3.9302	.04844	3.8850	3.52	.39356	1.61	3.32	4.93
CONV(3Y)	66	4.1785	.04597	4.0500	4.02	.37348	1.55	3.68	5.23
CONV(5Y)	66	4.4945	.04544	4.4600	4.51	.36915	1.53	3.91	5.44
CONV(7Y)	66	4.7988	.04693	4.7650	4.57	.38125	1.70	4.03	5.73
CONV(10Y)	66	5.1408	.05140	5.0900	5.37	.41755	1.85	4.21	6.06
CONV(15Y)	66	5.4853	.05465	5.4900	5.80	.44397	1.98	4.41	6.39
CONV(20Y)	66	5.7668	.06167	5.7750	6.22	.50098	2.12	4.61	6.73
ISLM(3M)	66	3.3312	.06639	3.4900	3.10	.53933	2.17	2.24	4.41
ISLM(6M)	66	3.4276	.05884	3.5400	2.64	.47804	1.90	2.56	4.46
ISLM(1Y)	66	3.6020	.05128	3.6000	3.04	.41658	1.61	3.04	4.65
ISLM(2Y)	66	3.8433	.04432	3.7600	3.48	.36005	1.56	3.30	4.86
ISLM(3Y)	66	4.1029	.03988	4.0100	3.98	.32403	1.48	3.64	5.12

ISLM(5Y)	66	4.4406	.04026	4.4150	4.38	.32706	1.52	3.88	5.40
ISLM(7Y)	66	4.7529	.04447	4.7250	4.38	.36124	1.69	4.00	5.69
ISLM(10Y)	66	5.1430	.05039	5.2000	4.58	.40939	1.84	4.18	6.02
ISLM(15Y)	66	5.5789	.06429	5.6550	5.80	.52231	2.15	4.38	6.53
ISLM(20Y)	66	5.8724	.06490	6.0500	6.15	.52724	2.11	4.58	6.69
AAA Rated Corporate Guaranteed Issued Securities									
CONV(3M)	66	3.3009	.06349	3.5150	3.60	.51577	2.16	2.26	4.42
CONV(6M)	66	3.3998	.05677	3.5450	3.63	.46120	1.87	2.58	4.45
CONV(1Y)	66	3.6036	.04904	3.6650	3.09	.39840	1.52	3.08	4.60
CONV(2Y)	66	3.8405	.04423	3.7500	3.50	.35936	1.54	3.27	4.81
CONV(3Y)	66	4.0786	.04245	3.9600	3.91	.34490	1.48	3.62	5.10
CONV(5Y)	66	4.3836	.04366	4.3350	4.49	.35467	1.57	3.74	5.31
CONV(7Y)	66	4.6717	.04833	4.6000	4.53	.39262	1.75	3.84	5.59
CONV(10Y)	66	5.0023	.05539	4.9500	4.94	.44998	1.91	3.98	5.89
CONV(15Y)	66	5.3282	.06051	5.3600	5.76	.49161	2.05	4.17	6.22
CONV(20Y)	66	5.5883	.06843	5.6300	6.16	.55596	2.20	4.35	6.55
ISLM(3M)	66	3.2880	.06455	3.4800	3.08	.52440	2.16	2.22	4.38
ISLM(6M)	66	3.3774	.05662	3.5150	2.62	.45994	1.87	2.54	4.41
ISLM(1Y)	66	3.5365	.04779	3.5550	3.02	.38824	1.54	3.02	4.56
ISLM(2Y)	66	3.7698	.04084	3.6900	3.46	.33176	1.47	3.28	4.75
ISLM(3Y)	66	4.0170	.03751	3.9400	3.96	.30477	1.41	3.58	4.99
ISLM(5Y)	66	4.3347	.04162	4.3150	4.14	.33815	1.56	3.71	5.27
ISLM(7Y)	66	4.6282	.04884	4.5600	4.40	.39679	1.74	3.81	5.55
ISLM(10Y)	66	4.9574	.05783	4.9000	4.51	.46983	1.98	3.95	5.93
ISLM(15Y)	66	5.3580	.06599	5.3900	4.79	.53607	2.39	4.13	6.52
ISLM(20Y)	66	5.6259	.07147	5.6400	6.16	.58063	2.34	4.32	6.66
a. Multiple modes exist. The smallest value is shown.									

Table 2: Paired Samples t-Test Results

	Mean				Median			
	Islm	**Conv**	**Δ (Islm-Conv)**	**t-Stat**	**Islm**	**Conv**	**Δ (Islm-Conv)**	**t-Stat**
Government issued Securities								
3M	2.93621	2.91485	0.02136	2.83173***	3.19000	3.20500	-0.01500	-1.98823*
6M	2.97636	2.95939	0.01697	2.48913**	3.22500	3.24500	-0.02000	-2.93361***
1Y	3.05667	3.03803	0.01864	2.44532**	3.28000	3.31000	-0.03000	-3.93637***
2Y	3.24970	3.21712	0.03258	3.48209***	3.37000	3.35000	0.02000	2.13784**
3Y	3.45530	3.38667	0.06864	5.01124***	3.44000	3.39000	0.05000	3.65057***
5Y	3.72045	3.66379	0.05667	5.27822***	3.69000	3.66500	0.02500	2.32863**
7Y	3.87621	3.83530	0.04091	5.21940***	3.85000	3.80500	0.04500	5.74134***
10Y	4.08758	4.05379	0.03379	3.84338***	4.09500	4.11000	-0.01500	-1.70625*
15Y	4.30848	4.29015	0.01833	2.52973**	4.32500	4.30500	0.02000	2.75970***
20Y	4.47152	4.45909	0.01242	1.59958	4.54500	4.50500	0.04000	5.14987***
BNM issued Securities								
3M	2.83360	2.82120	0.01240	3.12757***	2.94000	2.94000	0.00000	0.00000
6M	2.86620	2.85220	0.01400	2.90762***	2.97500	2.97500	0.00000	0.00000
1Y	2.94400	2.91580	0.02820	4.69102***	3.02000	3.02000	0.00000	0.00000
2Y	3.10652	3.05348	0.05304	5.28937***	3.06000	3.06000	0.00000	0.00000
Cagamas issued Securities								
3M	3.20561	3.17818	0.02742	2.57431**	3.42000	3.42000	0.00000	0.00000
6M	3.27909	3.25606	0.02303	2.54902**	3.44500	3.45500	-0.01000	-1.10681
1Y	3.38576	3.37212	0.01364	1.38724	3.49000	3.49000	0.00000	0.00000
2Y	3.61470	3.59682	0.01788	1.60928	3.61000	3.60000	0.01000	0.90011
3Y	3.83045	3.80576	0.02470	1.82965*	3.73000	3.68500	0.04500	3.33378***
5Y	4.17485	4.15455	0.02030	1.80001*	4.13500	4.11500	0.02000	1.77315*
7Y	4.40545	4.37212	0.03333	3.07513***	4.30000	4.28000	0.02000	1.84508*
10Y	4.70636	4.66924	0.03712	3.22850***	4.64500	4.55500	0.09000	7.82746***
15Y	5.00424	4.94515	0.05909	3.92177***	5.03000	4.85000	0.18000	11.94631***
20Y	5.21561	5.15121	0.06439	3.69117***	5.22500	5.06500	0.16000	9.17148***
Khazanah issued Securities								
3M	3.02561	3.03394	-0.00833	-1.12137	3.27500	3.32500	-0.05000	-6.72823***
6M	3.07758	3.08818	-0.01061	-1.87699*	3.32000	3.37500	-0.05500	-9.73351***
1Y	3.16000	3.17515	-0.01515	-1.78514*	3.37000	3.43000	-0.06000	-7.06914***
2Y	3.37061	3.38576	-0.01515	-2.31072**	3.46000	3.51500	-0.05500	-8.38791***
3Y	3.56758	3.58106	-0.01348	-1.98442*	3.53000	3.56500	-0.03500	-5.15058***
5Y	3.87985	3.88894	-0.00909	-1.26050	3.84500	3.88000	-0.03500	-4.85291***
7Y	4.05758	4.06818	-0.01061	-1.76690*	4.00000	4.01000	-0.01000	-1.66593*
10Y	4.29121	4.30136	-0.01015	-1.39402	4.27000	4.31000	-0.04000	-5.49287***

15Y	4.55394	4.55379	0.00015	0.01832	4.61500	4.61000	0.00500	0.60471
20Y	4.73803	4.73682	0.00121	0.12358	4.77500	4.76000	0.01500	1.52933
AAA rated Financial issued Securities								
3M	3.41894	3.39485	0.02409	1.48635	3.57000	3.59500	-0.02500	-1.54244
6M	3.51712	3.50439	0.01273	0.79370	3.59500	3.63000	-0.03500	-2.18267**
1Y	3.68106	3.69652	-0.01545	-1.14231	3.67000	3.70000	-0.03000	-2.21743**
2Y	3.91864	3.93348	-0.01485	-0.86667	3.79000	3.80000	-0.01000	-0.58368
3Y	4.15439	4.17242	-0.01803	-0.98500	3.96000	4.00000	-0.04000	-2.18521**
5Y	4.49682	4.50697	-0.01015	-0.60624	4.42500	4.45000	-0.02500	-1.49298
7Y	4.77121	4.77106	0.00015	0.00997	4.77000	4.81000	-0.04000	-2.63166**
10Y	5.12258	5.10712	0.01545	1.08484	5.16000	5.20000	-0.04000	-2.80783***
15Y	5.51621	5.44470	0.07152	2.89460***	5.58500	5.56000	0.02500	1.01188
20Y	5.79500	5.71909	0.07591	3.00430***	5.98000	5.86000	0.12000	4.74931***
AAA rated Corporate issued Securities								
3M	3.33121	3.35212	-0.02091	-3.60215***	3.49000	3.56500	-0.07500	-12.92075***
6M	3.42758	3.45758	-0.03000	-4.94022***	3.54000	3.61000	-0.07000	-11.52719***
1Y	3.60197	3.67697	-0.07500	-6.19760***	3.60000	3.72000	-0.12000	-9.91616***
2Y	3.84333	3.93015	-0.08682	-5.87313***	3.76000	3.88500	-0.12500	-8.45607***
3Y	4.10288	4.17848	-0.07561	-5.06519***	4.01000	4.05000	-0.04000	-2.67978***
5Y	4.44061	4.49455	-0.05394	-4.41073***	4.41500	4.46000	-0.04500	-3.67974***
7Y	4.75288	4.79879	-0.04591	-5.45912***	4.72500	4.76500	-0.04000	-4.75646***
10Y	5.14303	5.14076	0.00227	0.16350	5.20000	5.09000	0.11000	7.91325***
15Y	5.57894	5.48530	0.09364	3.01045***	5.65500	5.49000	0.16500	5.30483***
20Y	5.87242	5.76682	0.10561	3.13599***	6.05000	5.77500	0.27500	8.16618***
AAA rated Corporate Guaranteed issued Securities								
3M	3.28803	3.30091	-0.01288	-1.70436*	3.48000	3.51500	-0.03500	-4.63186***
6M	3.37742	3.39985	-0.02242	-3.67632***	3.51500	3.54500	-0.03000	-4.91832***
1Y	3.53652	3.60364	-0.06712	-6.27946***	3.55500	3.66500	-0.11000	-10.29095***
2Y	3.76985	3.84045	-0.07061	-6.12982***	3.69000	3.75000	-0.06000	-5.20903***
3Y	4.01697	4.07864	-0.06167	-5.43580***	3.94000	3.96000	-0.02000	-1.76296*
5Y	4.33470	4.38364	-0.04894	-5.97686***	4.31500	4.33500	-0.02000	-2.44256**
7Y	4.62818	4.67167	-0.04348	-5.72970***	4.56000	4.60000	-0.04000	-5.27052***
10Y	4.95742	5.00227	-0.04485	-3.81509***	4.90000	4.95000	-0.05000	-4.25331***
15Y	5.35803	5.32818	0.02985	1.50480	5.39000	5.36000	0.03000	1.51244
20Y	5.62591	5.58833	0.03758	1.80178*	5.64000	5.63000	0.01000	0.47951

Note:

* *: significant at 10% confidence level*

** *: significant at 5% confidence level*

*** *: significant at 1% confidence level*

Table 3: Pair-wise Granger Causality Tests with Lags = 2

Null Hypothesis:		**Islamic security does not Granger Cause conventional bond**		**Conventional bond does not Granger Cause Islamic security**	
Issuer	Maturity	F-Statistic	Prob	F-Statistic	Prob
Government of Malaysia	3M	0.34519	0.7095	0.79763	0.4552
Government of Malaysia	6M	1.14021	0.3267	0.92106	0.4037
Government of Malaysia	1Y	2.01711	0.1421	1.62934	0.2048
Government of Malaysia	2Y	2.4677	0.0935*	1.74653	0.1833
Government of Malaysia	3Y	2.03257	0.1401	3.0036	0.0572*
Government of Malaysia	5Y	2.33696	0.1055	0.18222	0.8339
Government of Malaysia	7Y	1.4874	0.2343	0.42059	0.6586
Government of Malaysia	10Y	0.49017	0.615	0.00342	0.9966
Government of Malaysia	15Y	0.59211	0.5564	0.63444	0.5338
Government of Malaysia	20Y	0.72132	0.4903	0.84739	0.4337
Bank Negara Malaysia	3M	3.19713	0.0508*	1.1049	0.3405
Bank Negara Malaysia	6M	3.87792	0.0283**	1.27774	0.289
Bank Negara Malaysia	1Y	3.87543	0.0283**	1.28265	0.2877
Bank Negara Malaysia	2Y	6.69401	0.0032***	0.04729	0.9539
Cagamas Berhad	3M	0.60556	0.5491	1.04359	0.3586
Cagamas Berhad	6M	0.75851	0.4729	1.34253	0.269
Cagamas Berhad	1Y	0.33637	0.7157	1.40114	0.2544
Cagamas Berhad	2Y	0.18505	0.8315	1.45948	0.2406
Cagamas Berhad	3Y	0.02044	0.9798	1.71886	0.1881
Cagamas Berhad	5Y	0.2527	0.7775	0.9499	0.3926
Cagamas Berhad	7Y	0.48095	0.6206	0.64343	0.5291
Cagamas Berhad	10Y	1.26431	0.29	0.31832	0.7286
Cagamas Berhad	15Y	0.72152	0.4903	0.5529	0.5782
Cagamas Berhad	20Y	0.77824	0.4639	0.99743	0.375
Khazanah Nasional Bhd	3M	1.03189	0.3627	0.42567	0.6553
Khazanah Nasional Bhd	6M	0.53596	0.5879	1.41411	0.2513
Khazanah Nasional Bhd	1Y	1.20193	0.3079	4.19971	0.0197**
Khazanah Nasional Bhd	2Y	3.53823	0.0354**	6.86593	0.0021***
Khazanah Nasional Bhd	3Y	1.86807	0.1634	2.74366	0.0726*
Khazanah Nasional Bhd	5Y	1.37281	0.2614	0.84235	0.4358
Khazanah Nasional Bhd	7Y	1.17423	0.3162	1.71483	0.1888
Khazanah Nasional Bhd	10Y	0.83247	0.44	0.52187	0.5961
Khazanah Nasional Bhd	15Y	0.90517	0.41	0.66422	0.5185

Khazanah Nasional Bhd	20Y	1.75895	0.1811	0.9794	0.3816
Financial Institutions	3M	3.54323	0.0352**	7.48127	0.0013***
Financial Institutions	6M	4.08397	0.0218**	10.292	0.0001***
Financial Institutions	1Y	1.15298	0.3227	6.36711	0.0031***
Financial Institutions	2Y	0.31232	0.7329	0.08468	0.9189
Financial Institutions	3Y	0.59571	0.5545	0.46707	0.6291
Financial Institutions	5Y	1.55843	0.219	1.29125	0.2826
Financial Institutions	7Y	1.37617	0.2605	0.42458	0.656
Financial Institutions	10Y	3.9264	0.0251**	2.42546	0.0972*
Financial Institutions	15Y	5.22312	0.0082***	1.92561	0.1548
Financial Institutions	20Y	2.59499	0.0831*	1.78947	0.176
Corporate Guaranteed	3M	0.37358	0.6899	2.13929	0.1268
Corporate Guaranteed	6M	0.95116	0.3921	5.01841	0.0097***
Corporate Guaranteed	1Y	2.81344	0.0681*	4.57898	0.0142**
Corporate Guaranteed	2Y	3.1759	0.049**	3.34018	0.0422**
Corporate Guaranteed	3Y	0.71377	0.494	0.55671	0.5761
Corporate Guaranteed	5Y	1.33584	0.2708	0.07716	0.9258
Corporate Guaranteed	7Y	2.10385	0.131	2.72633	0.0737*
Corporate Guaranteed	10Y	0.44789	0.6411	1.76991	0.1793
Corporate Guaranteed	15Y	0.76395	0.4704	3.26967	0.045**
Corporate Guaranteed	20Y	0.57224	0.5674	4.89831	0.0108**
Corporate	3M	1.28917	0.2831	5.09382	0.0091***
Corporate	6M	1.90303	0.1582	6.9031	0.002***
Corporate	1Y	2.72408	0.0739*	5.36952	0.0072***
Corporate	2Y	4.78233	0.0119**	3.33042	0.0426**
Corporate	3Y	0.91903	0.4045	1.07251	0.3487
Corporate	5Y	0.19322	0.8248	0.24604	0.7827
Corporate	7Y	1.35816	0.2651	1.3245	0.2737
Corporate	10Y	0.52103	0.5966	1.05824	0.3536
Corporate	15Y	0.64973	0.5259	1.60216	0.2101
Corporate	20Y	0.55904	0.5748	1.2833	0.2847

Note:

* *: significant at 10% confidence level*

** *: significant at 5% confidence level*

*** *: significant at 1% confidence level*

Table 4: Impact of Issuing Ijarah Sukuk on beta of the Issuing Company

	BETA (before)	BETA (after)	Change in the Beta (Δ)	Absolute Change in the Beta (IΔI)
1	0.317228394	0.032458241	-0.284770153	0.284770153
2	0.41508531	-0.838206113	-1.253291423	1.253291423
3	0.862130125	1.24015704	0.378026915	0.378026915
4	0.934349131	1.301284633	0.366935502	0.366935502
5	1.298498972	0.83061133	-0.467887642	0.467887642
6	0.928654479	1.116754332	0.188099854	0.188099854
7	0.864626149	1.009726652	0.145100503	0.145100503
8	1.275320621	0.86142791	-0.413892711	0.413892711
9	1.328631895	0.906465478	-0.422166417	0.422166417
10	0.644744635	0.579820055	-0.06492458	0.06492458
11	0.538683079	0.360819283	-0.177863796	0.177863796
12	0.644744635	0.579820055	-0.06492458	0.06492458
13	0.791269107	0.856378036	0.065108929	0.065108929
14	0.093782564	0.337989072	0.244206508	0.244206508
15	0.170695456	0.047211479	-0.123483977	0.123483977
16	1.200444706	1.058985453	-0.141459253	0.141459253

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Generalized Formulae Forislamic Home Financing Through The Musharakah Mutanaqisah Contracts

Abstract

The origin of Musharakah is an Arabic term which signifies the sharing of an item. In the system of Musharakah, all parties share the profit or loss in a joint enterprise. It arose as an ideal alternative for interest-based financing systems for both the production and service sectors (Usmani, 1999).
The model of Musharakah Mutanaqisah Partnership (MMP) is an interest-free financing model in which capital is not permanent and every repayment of capital by the entrepreneur will diminish the total capital ratio for the capital provider. When the capital ratio for the capital provider declines to zero, the entrepreneur becomes the sole owner for the business (Abdul Rahman, 2007).
Generally, the MMP models are related to home financing and repayments are constant. In this study, general formulae are derived for the case in whichrepayments occur as a linear-gradient series for theMMP model. In addition, an illustrative exampleis presented.

Keywords: Musharakah Mutanaqisah Partnership, Home Financing, Interest-free Mortgage

Introduction

The Musharakah Mutanaqisah Partnership (MMP) model is an Islamic finance model based on a diminishing partnership concept (Meera and Razak, 2005).The MMP model works as follows for home financing: A customer signs a contract with a financial institution to buy a home a certain percentage of which is financed by the customer and the remaining part of which is financed by the financial institution. The customer moves into the home and pays rent to the financial institution. The sharing of the rent occurs at the end of each month according to the proportions of each

party.The customer also pays some amount of money in addition to his share of the rent to the financial institution each month to become in due course the 100% owner of the home.Therefore, the share of the customer increases with rental payments and repayments and reaches a figure of 100% some time after the application of the MMP model ends.

Greco, and Matthews et al.compared conventional mortgage models with the MMP model and concluded that the MMP model has some advantages over a conventional mortgage (scheme). These authors labeled the MMP model as an 'Islamic mortgage' or 'share equity home financing model'.

The general formulae where repayments are constant are obtained by Meera and Razzak (2005). Numerical examples are given by Abidin et al., Hijazi and Hanif, Meera and Razzak (2009), Rammal (2004), and Siswantoro and Qoyyimah. There would be other models with variable repayments too. Eroglu et al.(2010) derived general formulae for the model with geometric gradient repayments.

It is important to reach more customers to provide for an increase for the repayment options in the MMP model. In this study, general formulae for the model with repayments as linear gradient series are derived and the modelis supported with a numerical example.

The following notations are used in this study:

C_0 buyer's initial equity,

C_k buyer's equity at the end of k^{th} month,

B_0 financing institution's (or coop bank's) initial equity,

P purchasing price of the property, therefore, $P = C_0 + B_0$,

A_k repayment to the financinginstitution at the end of kth month,

A repayment to the financing institution at the end of 1th month, i.e. $A = A_1$,

R monthly rental income of the home,

R_k rental income belonging to buyer at the end of k^{th} month, i.e., $R_k = R\left(\frac{C_{k-1}}{P}\right)$,

n number of repayments.

Derivation Of Generalized Formulae Forthe Mmp Model With Repayments Occuras A Linear Gradient Series

The MMP model works as follows: A home with the purchasing price of P is bought while the amount of C0is paid by the customer and the remaining amount (B0) is paid by the financing institution. The customer moves into the home and the share of the customer becomes C0/P. The customer pays his/her rent to the financing institution at the end of each month. The customer's portion of the rent [$R_k = R\left(\frac{C_{k-1}}{P}\right)$] is accepted by the financing institution as repayment at the end of each month. Thus, repayment from the rent increases with respect to theprior month. The customer can become the 100% owner of the home in a shorter time by paying some amount of money (D_k) in addition to his share of the rent to the financial institution each month. In this case, the frequently-used repayment plan is one of repayments in constant amounts. In addition, repayments can be calculated as geometric or linear gradient series. Having more repayment options for financing institutions are very important in terms of reaching more customers. In this section, general formulae are derived for the case in which repayments occur as a linear-gradient series for the MMP model. The situation described by a linear gradient series of repayments could be defined as follows: Repayments occur as periods, e.g. months, and the difference between the repayments of sequential periods is constant. If the amount of change in repayments (increase or decrease) in a sequential period is defined with vthen the formula of the amount of repayments by the customer can be written as follows:

$$A_k = A + (k-1)v\,,\quad k = 1, 2, \text{L}\,, n\,. \qquad (1)$$

In other words, equation (1) forms the conditions of repayments for the linear gradient series.

Since, the buyer's equity at the end of kth month equals the summations of the buyer's equity at the end of (k-1)th month, the rental income owed by thebuyer at the end of kth month and the repayment to be paid by the buyer at the end of kth month, can be written as follows:

$$C_k = C_{k-1} + R_k + A_k$$
$$= C_{k-1} + \left(\frac{C_{k-1}}{P}\right)R + A_k \qquad (2)$$
$$= C_{k-1}F + A_k \ , \ k = 1, 2, \text{L} \ , n$$

where. $F = 1 + \frac{R}{P}$.

The following expressions can be obtained from the equation (2) for k= 0, 1, 2, …, n:

$$C_0 = C_0$$

$$C_1 = C_0F + A_1$$
$$= C_0F + A$$

$$C_2 = C_1F + A_2$$
$$= C_0F^2 + AF + A + v$$
$$= C_0F^2 + A(1 + F) + v$$

$$C_3 = C_2F + A_3$$
$$= C_0F^3 + AF^2 + AF + vF + A + 2v$$
$$= C_0F^3 + A(1 + F + F^2) + v(1 + F) + v$$

$$C_4 = C_3F + A_4$$
$$C_4 = C_0F^4 + A(F + F^2 + F^3) + v(F + F^2) + vF + A + 3v$$
$$C_4 = C_0F^4 + A(1 + F + F^2 + F^3) + v(1 + F + F^2) + v(1 + F) + v$$

$$C_j = C_0F^j + A\left(\sum_{k=0}^{j-1} F^k\right) + v\sum_{m=0}^{j-2}\sum_{k=0}^{m} F^k \quad \textit{(see appendix)}$$

$$= C_0F^j + \left(\frac{P}{R}\right)\left[A + \left(\frac{vP}{R}\right)\right](F^j - 1) - \frac{vjP}{R} \ , = j \quad 1, 2, \text{L} \ , n \qquad (3)$$

Since the buyer's equity would be P at the end of nth month, the following equation is derived from equation (3):

$C_n = P$or

$$P = C_0F^n + \left(\frac{P}{R}\right)\left(A + \frac{vP}{R}\right)(F^n - 1) - \frac{vnP}{R} \quad (4)$$

The following equations can be obtained from equation (4):

$$v = \frac{R\left[P(A+R) - (C_0R + PA)F^n\right]}{P\left[P(F^n - 1) - nR\right]}, \quad (5)$$

$$C_0 = \frac{P - \left(\frac{P}{R}\right)\left[\left(A + \frac{vP}{R}\right)(F^n - 1) - vn\right]}{F^n}, \quad (6)$$

$$A = \frac{P\left(R + vn + \frac{vP}{R}\right) - F^n + \left(C_0R \quad \frac{vP^2}{R}\right)}{P(F^n - 1)} \quad (7)$$

Example

A customer signs a contract with a bank and buys a home worth $100,000 and moves into the home. Let's assume that the customer makes a down payment of $ 20,000 and $80,000 of the home would be financed by the bank. Thus, the customer owns 20% of the home and the bank owns 80% of the home. The rental income of the home is $500 per month. The customer pays the rent to the bank at the end of each month. Both parties share the rental income according to their portion on the home. Therefore, the customer's proportion of the rental income is paid to the bank as repayment. Also, the customer pays some amount of money in addition to his share of the rent to the bank. If the customer wants to end the mortgage period within 120 months when monthly repayments increases by $3, what would be the first monthly repayment(A=A1)?

$$P = 100{,}000\ C_0 = 20{,}000,\ B_0 = 80{,}000 n = 120\ R = 500,\ v = 3$$

A is calculated as *$227.51* from equation (7). Table 1 summarizes the buyer's equity, rental share, repayments, and the financing institution's equity and rental income for 120 months.

Table 1: Solution Results for Repayments with a Linear Gradient Series

The Order of The Payment (k)	The Buyer				The Financing Institution (or coop bank)		
	Equity ($) ($C_k$) [from (3)]	Equity Percentage [(Ck/P)*100]	Rental Share ($) ($R_k$)	Repayment ($) ($A_k$) [from (1)]	Equity ($) (P-$C_k$)	Equity Percentage	Rental Share ($) (R-$R_k$)
	20,000.00	20.000	---	----	80,000.00	80.000	-----
0	20,327.51	20.328	100.00	227.51	79,672.49	79.672	400.00
1	20,659.66	20.660	101.64	230.51	79,340.34	79.340	398.36
2	20,996.47	20.996	103.30	233.51	79,003.53	79.004	396.70
3	21,337.96	21.338	104.98	236.51	78,662.04	78.662	395.02
4	---------	-----	------	-------	-------	-----	-----
--	29,633.89	29.634	145.94	299.51	70,366.11	70.366	354.06
25	30,084.57	30.085	148.17	302.51	69,915.43	69.915	351.83
26	--------	------	-------	-------	-------	-----	-----
--	66,939.94	66.940	330.65	479.51	33,060.06	33.060	169.35
85	67,757.15	67.757	334.70	482.51	32,242.85	32.243	165.30
86	-------	------	-------	-------	-------	------	-----
---	97,850.12	97.850	483.94	578.51	2,149.88	2.150	16.06
118	98,920.88	98.921	489.25	581.51	1,079.12	1.079	10.75
119	100,000.00	100.00	494.60	584.51	0.00	0.000	5.40
120							

If v=0, then equations (3), (6) and (7) reduce to equations (8),(9) and (10) respectively.

$$C_j = \left(C_0 + \frac{AP}{R}\right)F^j - \frac{AP}{R}, = j \quad 1, 2, \text{L} \ , n$$

$$C_0 = \frac{P\left[R - A\left(F^n - 1\right)\right]}{RF^n},$$

$$A = \frac{PR - F^n C_0 R}{P\left(F^n - 1\right)}.$$

The equations (8),(9) and (10) belong to the MMP model with constant repayments.

CONCLUSION

Generally in Islamic home financing models, repayments are constant. Offering different repayment options for financing institutions allows access to a greater number of customers.Therefore, introducing new finance models is extremely important. In this study, a new MMP model

is presented where the repayments are different than the current financing models. The repayments of the presented model form a linear gradient series. General formulae are derived for the model and the model is supported with an example. This study constitutes a basis for new finance models for future research purposes. Different types of finance models help financing institutions to reach more diverse customer profiles and generate greater profit, so providing an opportunity to the general economy to realize increasedturnover.

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Apex

$$\sum_{m=0}^{j-2}\sum_{k=0}^{m}F^{k}=\sum_{m=0}^{j-2}\left(\frac{F^{m+1}-1}{F-1}\right)$$

$$=\left(\frac{1}{F-1}\sum_{m=0}^{j-2}F^{m+1}\right)+\frac{1}{F-1}\sum_{m=0}^{j-2}(\quad 1)$$

$$=\left(\frac{F}{F-1}\right)\left(\frac{F^{j-1}-1}{F-1}\right)+\frac{1-j}{F-1}$$

$$=\left(\frac{1}{F-1}\right)\left[\frac{F\left(F^{j-1}-1\right)}{F-1}+1\quad j\right]$$

$$=\left(\frac{P}{R^{2}}\right)\left[PF\left(F^{j-1}-1\right)+R\left(1\quad j\right)\right]$$

Turkey In The World Trading System And The Wto: Activism Under Global Challenges And The Eu Process

M. Sait Akman*

Abstract

Turkeys increasing engagement in world economy and international trade invites her to take a proactive approach in the WTO and in regional trade agreements. Exogenous factors including her accession process to the EU, and the obligations under the Customs Union; as well as current state of negotiations within the realm of the WTO, and developments in the world trading system are important factors to shape this strategy. In this context, Turkey plays role of a middle-power actor who positions herself between developed and developing economies. The study argues, this dilemma reflects her Janus-face and can be avoided by her own choice. In this context, what Turkey needs is to establish a single identity that focuses on long-term competitiveness to transform its economy towards the production and export of medium-high technology sectors; and to be able to formulate a more comprehensive trade policy beyond a mere export strategy by considering vertical integration in global production and trade patterns; services, access to supplies; and the emerging global trade agenda in trade-related matters. This will help her to achieve the aspiration to become a regional leader and an influential global actor.

Keywords: *Turkey, Trade Policy, World Trade Organisation; European Union, Customs Union.*

Introduction

Turkeys increasing engagement in the global economy has changed its trade regime and thereupon its trading position within the world trading system over the last couple of decades. Turkey does not play a major role in the WTO and Doha Development Round (Doha Round). main-

ly because it represents only a small figure of world exports and imports in world merchandise trade, and in trade in services. More importantly, Turkeys trade position is largely shaped by its obligations under its Customs Union with the European Union (the EU). and other bilateral trade agreements in enters thereof. However, Turkey can be regarded as a middle power that can be described as an emerging market destined to join the EU, and therefore represents a political gravity centre in its own neighbourhood. These changing parameters have helped Turkey to develop an assertive trade policy in the multilateral and bilateral spheres. Three important motives induced Turkey to initiate a more self-confident and offensive approach in its trading relations within the WTO.

First, the Turkish economy experienced a major transformation after 1980 adopting the principles of the market economy. In this context, export-oriented industrialisation in conjunction with policies such as flexible exchange rates; a more liberal import regime, new foreign investment policy; measures to create a liberal financial market and for the modernisation of the capital market; export promotion policies; and institutional restructuring have brought about a spectacular change in the structure of Turkish imports and exports. The dominant role of agricultural products in exports was terminated in favor of a rise in industrial products. Also the product range was diversified and the volume of foreign trade as a consequence increased significantly. Apart from the implications of several unilateral economic measures, the economic sectors had to reorient themselves to the changing multilateral discipline within the framework of the GATT/Uruguay Round and the WTO. Therefore, as an open, market-oriented economy Turkey could not be remain oblivious to the developments in the international trading regime gathered around the WTO and had to define its interests accordingly. Secondly, Turkeys close relations with the EU, a leading actor in the GATT/WTO system since early 1990s, forced Turkey to reposition its stakes in line with those of the EU providing that its accession process links with the Customs Union (CU) necessitated this. In this context, the EU position and assertiveness can stimulate Turkey to take initiatives in many areas of trade negotiations when they converge with the intentions of the EU. Third, the domestic actors started to define their interests in response to global developments such as new production networks, supplier-oriented industrial upgrading, technological and communication improvements, and advancements in financial markets. Gradually, export-oriented sectors sufficiently matured

so they can strongly pressure the policy-makers for enhanced market access, while domestic import-competing sectors had to react more firmly to preserve their existing market share. Both actors started to play more visible influence on the governments. As a result, the governments had to be more involved in international trade regime and multilateral negotiations to balance domestic interests (i.e. putting themselves under WTO commitments) so as to obtain political support to pursue market-oriented policies to favour liberalising groups, as well as to defend the position of protectionist groups via available WTO mechanisms.

The multilateral aspect of Turkish trade policy encompasses WTO commitments with regard to trade in goods and services, trade-related intellectual property rights, trade-related investment measures, and various trade policy rules in areas within the WTO domain. Following the establishment of the WTO Turkey started to take an active role in negotiations (especially after the launch of the Doha Round) in issues pertinent to its evolving production and trade patterns. However, Turkeys position within the WTO system is largely shaped by a behavioural pattern reflecting its dual face. Accordingly, it keeps its developing country status as much as possible so as to preserve the rights already bestowed to such countries, and to benefit special and differential treatment in areas of negotiations if its interests require this. On the other hand, Turkey has to remain in close cooperation with industrialised nations, mainly with the EU because of the fact that, Turkey has already lowered its industrial tariffs, and liberalised its customs regime to a further extent than many other developing countries in line with its CU engagement. This is not a surprising case when Turkey has common interests with the EU but faces similar problems with other developing countries in world trading regime. This brings Turkey at the crossroads of national, regional and global forces as illustrated by Öniş and Mutlu (2008, p. 103). This unique position that requires a balancing between developing and developed economies and so makes Turkey an interesting actor to analyse.

This article focuses on the issues of central importance to Turkeys case within the WTO system and the Doha Round, in particular. It aims to explain the main priorities and concerns in the Round by referring to its special relationship with the EU. The latter was embedded in Turkeys transformation process. Before an investigation of Turkeys interests and position in several negotiation areas, the study initially provides a review of the Turkish trade structure, particularly its changing trade patterns, the

priorities in evolving trade strategy, and the challenges thereof. The study finally provides for the conclusive remarks about Turkeys position in the WTO.

A Synopsis Of Turkish Trade Regime And Prospects For A Changing Trade Strategy

Turkeys trade structure has radically changed, following post-1980 reforms in foreign trade regime and the establishment of the CU. This change induced by several unilateral trade liberalisation measures had significant impact on Turkeys trade position in the international trading system, particularly in GATT/WTO arena. This part summarises the main shifts in Turkeys trade patterns to provide an overall understanding about Turkeys position within the global trading system.

II. 1 Turkish Trade Regime in Post-1980

Turkey has followed an inward-oriented trade policy largely based on import substitution, and exportation of primary agricultural and labour-intensive manufactured products mainly to European markets until 1980. A more liberal trade policy was adopted in 1980 with a view to integrating the Turkish economy into the world economy. This turn has largely been a consequence of the need for transformation in Turkey following developments in domestic politics and the world economy. However, this evolution has not been an exceptional case for Turkey alone in this era. This was a phenomenon observed in many other developing countries in early 1980s, too. According to Rodrik (1992, p.31) the most important reasons for the above-mentioned changes relate to the economic circumstances in which most developing countries found themselves in as a consequence of the prolonged macroeconomic crisis in which higher inflation, and negative or slower growth were experienced. This eventually induced many of these countries, including Turkey to endeavour to prevent the deterioration in economic conditions and to focus beyond a mere concern about distributional considerations which included the import-competing interests of rent-seeking sectors. Economic stability measures in January 1980 were adopted to repair the downward economic trends including a tackling of resurrected current account deficits. In what followed, Turkey

abondened its import substitution policy and started an export oriented industrialisation strategy with the subsequent opening of import markets in 1980s. In the export side, Turkish Lira was devalued by almost 50 percent against the US dolar to limit domestic demand, while the fixed exchange rate policy was replaced by a more flexible one with the aim of boosting exports. A package to encourage exports by means of tax rebates, export credits, and subsidies helped manufacturing industry to reach ever larger export values. In the realsm of imports the strict licensing mechanism was liberalised, quantitative restrictions were progressively phased out, tariff rates were eliminated, especially on imports of intermediate and capital goods, and nominal tariffs were lowered progressively from 77 percent in early 1980s, down to 40 percent in 1990, and then to 20 percent in 1994 (İzmen and Yılmaz, 2009, p. 175).

However, external conditions such as economic stagnation in the world economy in the late 1980s and during the 1990s, the Gulf War, the economic embargo against Iraq, and chronic domestic problems such as high inflation rates, budget deficits, rising debt stock, produced a severe economic crisis in 1994 in Turkish economy. Devaluation of Turkish Lira and economic measures to combat the crisis had positive impact on the competitiveness of Turkish exports in the short run. In the subsquent peirod exports rose by 18 percent after a modest 4 to 8 percent increase over the preceeding three years, while imports dropped by 21 percent in that year.

II. 2 Turkeys Relations with the EU based on a Customs Union

Turkeys ambition to become a part of the European Union (then the EC) and volatility in her economic structure induced policy-makers to take the radical step to finalise the CU with the EC in spite of domestic reactions from import-competing sectors. However, export-oriented industries forcibly supported this process in order to capture a much bigger and sustainable share in the European market. The CU that entered into force in 1996 had a significant effect on the Turkish economy, ultimately increasing the competitiveness of Turkish manufacturing industry and the shares in domestic production and export of relatively more technology-intensive products. Within this framework, Turkey has adopted a large body of EU trade legislation. The CU brought four main substantive re-

quirements on Turkish trade policy. First, Turkey had to remove all tariffs and quantiative restrictions on industrial products imported from the EU member states, and open Turkish domestic market to European competition. Apart from textiles and clothing the EU had eliminated most tariffs and quotas on imports of manufactured products from Turkey. Therefore the most notable effect of the CU for Turkish exports was the abolition of existing European quantitative restrictions applied in these sectors. This was welcomed by Turkish textile and apparel industry which considered Europe as the most sustainable and stable market for their products, at that time. The free movement of goods within the customs union applies to all products, including those imported from third countries into either the EU or Turkey. Turkey was to abide by EU textile policy, as well. Secondly, Turkey had to align with the Common Customs Tariff (CCT) of the EC on imports of industrial products from third countries. The average weighted industrial tariffs under the CCT are as low as 3.6 percent, and this incurs Turkey to implement a strategy in line with the EU, and other OECD countries in NAMA (non-agricultural market access) negotiations to pressure other developing and emerging powers to reciprocate by lowering their tariffs. Turkey has adopted the Community Customs Code and has started to implement the new import and export legislation since the beginning of January 1996. Third, Turkey was expected to adopt the preferential trading arrangements, including the Free Trade Agreements (FTAs) of the EU. Therefore, Turkey started to negotiate such arrangements with European Free Trade Association countries, several CEECs (later many of whom became the EU members) as well as Israel, Macedonia, Croatia, Bosnia-Herzegovina, Palestinian Authority, Tunissia, Morocco, Syria, Egypt, Albania, and Georgia as a result of its obligation under the CU. These agreements represented the first wave of such bilateral trade schemes ever held by Turkey, (its CU link being an exception) provided an easier access for Turkish exports into these territories. Turkey has also based its Generalised System of Preferences (GDP) on that of the ECs. However, their significance for Turkish exports was secondary as Turkish industry was more concerned with the EU market in this period. Subsequently, Turkey had to follow several other EU preferential arrangements in the form of FTAs with major trading partners, when the EU trade policy switched to the arena of regional trade schemes in the aftermath of the failure in Cancun Ministerial in 2003. Finally, in accordance

with the Decision of the CU, Turkey started to implement trade policy measures similar to those of the EU in the areas of imports, exports, and matters relating to customs. Turkey also adopted measures in areas directly relevant to the functioning of the CU. In intellectual property matters, Turkey brought copyright and patent laws into line with the EU, and had to implement the Uruguay Round rules on patents for pharmaceutical processes and products by the beginning of January 1999, thereby establishing a Patent Intitute. Competition was another vital issue. Turkey has aligned its laws fully with the EU. The law on competition was adopted and enforced in 1994, and it set up an independent Competition Authority, in 1997. Standards and technical barriers to trade were important areas to achieve free trade between the EU and Turkey. Accordingly, Turkey had to harmonise its technical legislation with that of the EU.

The CU can be regarded as a form of unilateral trade liberalisation by Turkey. However, it should be noted that the EC had previously eliminated a substantial part of its tariffs and non-tariff barriers facing Turkish exports, and it was nothing but a late reciprocal step by Turkey. In any case, the CU brought a much easier market access for Turkish products expecially in the fields of textiles and clothing following the EUs elimination of the existing quantitative restrictions. Additionally, the CU strenghtened Turkeys privildged position in the EU market vis-a-vis third country products.

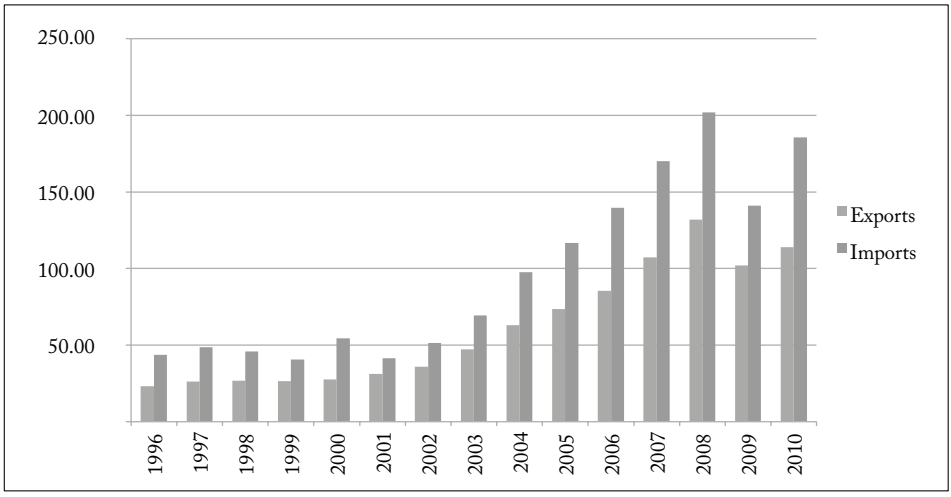
The CU was the most important step in Turkish trade regime in the 1990s and changed Turkeys foreign trade structure by increasing the capacity of Turkish industry to cope with competitive pressures and global imbalances. In addition to its implications for the competitiveness of Turkish industry, the CU also provided a new outlook for Turkish trade and customs policy which became more EU-oriented in multilateral trade negotiations within the WTO negotiations. The new trade patterns in post-CU period led Turkey to formulate its priorities by taking into consideration of its commitments towards the CU and the EU accession process. Despite several inconsistencies and mismatching priorities, the EU effect should not be underestimated in shaping Turkeys negotiating position in different areas in the Doha Round, particularly in industrial products (NAMA). and trade facilitation matters.

II. 3 The Changing Patterns of Turkish Trade Policy

Strategies and policy choices focusing on export-oriented growth have become fundamental elements to shape the structure of Turkish trade in post-liberalisation era. Nonetheless, both international developments and domestic policies to confront globally-induced challenges were important determinants to understand the shifts in specific periods. For instance, the expected implications of the CU were not realised in exports until early 2000s for two main reasons. First, it was too early to feel the stimulating effect of the CU on the Turkish economy before Turkey adopted a substantial number of harmonisation measures. Second, several exogenous factors such as the economic crisis in Asia in 1997 and in Russia in 1998; and the 1999 earthquake that hit several Turkish industrial premises led Turkish economy into crisis in 2001. The post-crisis adjustment measures helped to increase the exports and the exports/production ratio for almost all manufacturing sectors only after 2002. Furthermore, the crisis-driven shrinking domestic demand forced many Turkish producers to search for new export markets, in addition to those of the EU. In this context, the Undersecretariat of Foreign Trade-UFT (renamed as the *Ministry of Economy*, in 2011) timely initiated the *Strategy of Neighbouring and Surrounding Countries* in 2000, and the *Strategy of African Countries* in 2003, in order to reduce regional dependency in export markets. In this period, the start of the Doha Round of negotiations was also welcomed by Turkey as liberalisation schemes to be adopted by 2005 (the original deadline for the Round) were expected to provide better market access opportunities for Turkish exports.

Indeed, this benefitted Turkish exporters in helping them find alternative destinations in the following period. Several motives can explain the rising levels of exports, i.e. dropping real-labour costs, improving financing facilities, a better regulated banking sector in the post-crisis period, higher prices for export products in international markets, and a positive development in euro/dolar parity in favour of Turkish exporters. But, more convincingly it can be argued that, the long-run effects of te CU were better realised in Turkish manufacturing industry regarding the increases in productivity, technological development, reduced x-inefficiencies thanks to stiff competition, and better exploitation of the economies of scale by Turkish enterprises (Figure 1).

Figure 1. Turkish exports and imports after the CU (1996-2010). billion $



Source: Turkish Statistical Institute (TÜİK) and Ministry of Economy (formerly the UFT).

The volume of imports also increased reflecting the change production patterns in Turkish manufacturing industry with a notable increase after 2003, yet an exceptional decline in 2009 as a result of global economic and financial crisis.

The shares of the trading partners also changed considerably as a result of both global and domestic structural changes in the economy during the last decade and a half. The EU-15 share in total Turkish trade declined from over 50 percent to 46 percent in 2010**,** while the share of Middle East and North Africa (MENA). Russia, Central Asian Republics, and Asian countries increased substantially. In imports, a similar trend took place where EU products were significantly replaced (the total share of the EU-27 was only 38.9 percent in 2010 compared to 52 percent in 1996) by imports from Asian countries and Russia. Between 1996-2010, the share of imports from the Far East, and South Asia doubled while it almost tripled from Russia and Central Asian countries **(**see, Table 1). The EUs share in the total trade deficit fell significantly from 57 percent to 14 percent while trade with Asian countries started to represent the substantial part of Turkeys trade defict (78 percent). The rise in imports from Asia was predominantly a result of diverted Turkish demand for intermediates from Asia (i.e. Far East Asia, mainly China) because these countries were competitive and priced their goods in dollar terms. Turkey also sourced most of its energy products such as oil and natural gas from Russia and Central Asia in order to diversify its energy supply markets. The political atmosphere between Russia and Turkey also helped this process to make

the former as the second major import destination in Turkey following the EU-27, in 2009. **Yükseler and Türkan** (2008, p.15) noted that the trend reflected an Asianisation of imports to Turkey. Meanwhile, the share of MENA and African countries in the volume of Turkeys exports increased slightly over time with a constant share in imports from the region. The region represented an exceptional case whereby Turkey experienced occasional trade surpluses in particular due to its enlarged market access to Iraq (Turkeys second-rank export market in 2009 after the EU-27).

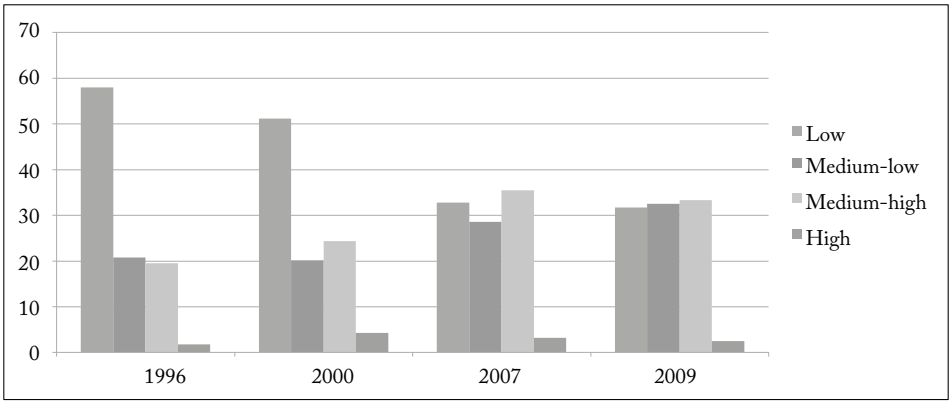
Table 1. Change in Turkeys exports and imports by country groups (%) in the post-CU period

	1996	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total share in exports (%)										
EU-15	49.7	54.0	52.2	51.4	51.2	51.8	51.6	48.8	47.9	46.7
EU-10	2.3	2.1	2.1	2.3	2.8	3.0	2.9	3.4	3.6	4.3
Other Europe	5.1	5.2	5.3	4.7	5.3	6.0	6.1	7.2	8.0	8.9
Americas	7.8	10.2	12.4	11.1	10.4	8.7	8.7	7.7	6.8	4.8
Asia I	5.7	3.3	3.2	3.0	3.7	3.4	2.5	2.5	2.7	2.8
Asia II	11.2	5.6	5.7	6.1	6.1	6.0	5.9	6.5	7.7	8.9
Africa & M. East	13.3	13.6	12.2	13.4	12.5	14.3	15.5	16.7	16.0	16.5
Free zones	1.9	2.9	3.2	3.0	4.0	4.1	4.1	4.0	3.5	2.7
Other	2.8	3.1	3.7	5.0	4.1	2.8	2.7	3.1	3.7	4.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total share in imports (%)										
EU-15	53.0	52.6	48.8	44.2	45.2	45.7	43.4	38.9	36.4	34.1
EU-10	0.9	1.1	1.4	1.6	2.3	2.6	3.2	3.2	3.1	3.3
Other Europe	4.6	4.1	4.3	5.8	7.2	7.4	6.9	7.0	6.5	6.5
Americas	10.2	9.0	8.6	9.1	7.6	6.8	6.5	6.5	6.5	6.9
Asia I	9.9	11.4	11.6	11.2	11.7	13.0	14.9	16.6	17.0	18.1
Asia II	6.9	9.1	10.4	11.1	10.6	11.1	13.1	14.7	16.6	18.2
Africa & M. East	11.6	8.6	10.4	13.2	10.7	10.3	9.8	11.2	12.1	10.7
Free zones	0.7	1.2	0.9	0.7	1.1	0.8	0.8	0.7	0.7	0.7
Other	2.1	2.8	3.5	3.1	3.6	2.2	1.4	1.3	1.3	1.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Trade balance share (%) - deficit / + surplus										
EU-15	-56.8	-50.1	-43.3	-21.5	-31.4	-32.7	-28.4	-22.2	-18.1	-12.6
EU-10	0.8	1.0	-0.8	0.7	-1.2	-1.7	-3.6	-2.8	-2.3	-1.5
Other Europe	-4.0	-2.2	-3.4	-9.0	-11.7	-10.5	-8.4	-6.6	-4.0	-2.4
Americas	-13.0	-6.9	-4.7	-2.8	-1.0	-2.9	-2.4	-4.5	-6.0	-10.4
Asia I	-14.7	-26.6	-20.4	-36.6	-30.4	-33.4	-37.6	-40.6	-39.5	-44.2
Asia II	-2.1	-15.7	-15.2	-26.8	-21.2	-21.9	-26.3	-28.5	-30.6	-34.0
Africa & M. East	-9.6	0.9	-8.5	-12.8	-6.4	-1.7	0.6	-1.6	-5.7	-0.8
Free zones	0.7	1.9	1.5	6.3	5.6	6.1	5.1	5.1	3.7	2.7
Other	-1.3	-2.4	-3.3	2.7	-2.3	-1.2	1.0	1.6	2.5	3.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Yükseler and Türkan (2008, p. 84).

Turkey experienced a structural change in its exports shifting from conventional and unskilled labor-intensive sectors to more technology intensive-sectors requiring more skilled labor. Increase in exports, was substantial in sectors which can be classified as medium-low and medium-high-technologies between 1996 and 2010. This was especially the case in basic metals (by 50 percent). machinery and equipment n.e.c. (by 100 percent). and motor vehicles, trailers and semi-trailers (3 times). while traditional share of low-technology products such as textiles and clothing industries declined four times from over 40 percent to 20 percent from 1996 to 2010. Other declining sectors as a share in total exports were low-technology food products and beverages (from 12 to 6 percent) and chemicals (medium-high) in this period. Accordingly, the total share of medium- tech sectors accounted for 65.8 percent in 2009, while its total sum (medium-low and medium-high in aggregate) was only 40. 3 percent in 1996 (Figure 2). The share of low-tech exports mainly in textiles and clothing dropped sharply from 57.8 percent in 1996 to 31.7 percent in 2009.

Figure 2. Change in technology-intensiveness of sectors in Turkish manufacturing exports (1990-2009) (%)



Source: Turkish Statistical Institute (TÜİK).

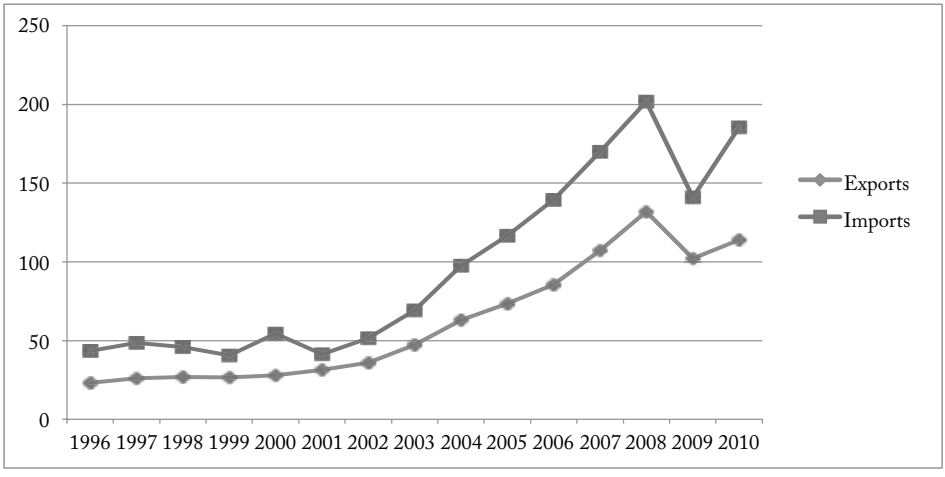
This trend is also reflected in Turkeys trade policies within WTO when Turkey proposed its trading partners to lower their tariffs in export-oriented sectors, while it instituted safeguard measures in declining industries in which reduced competitiveness provoked domestic producers to search for protection against rising imports. In 2006, for example Turkey was in favour of a scheme for emergency measures in textiles and clothing sectors to offset the domestic implications of the quota phase-out process in the post-Uruguay Round period.

II. 4 Challenging Factors for Turkish Trade Policy

Following the introduction of an export-oriented strategy and implementation of trade liberalisation policies, Turkey became an offensive exporting country with the share of industrial products rising progressively to almost 92 percentas as part of its total exports in 2010, only constituted 36.6 percent in 1980. However, several factors continue to challenge the rising trend of success in Turkeys trade in the last three decades.

The first challenge is the emergence of persistent trade imbalances which has repercussions on the countrys current account deficits. Actually, the *trade deficit* is not a new phenomenon, but it has been a characteristic in Turkeys trade operations since the end of the Second World War, this amounted to over 70 billion dollars, in 2010. Following the CU, the deficit continued (indicated in Figure 3). while the export/import ratio has remained on average only 65 percent. Substantial increase in exports did not increase this ratio of exports to imports, in any discernable way. However, the ratio of trade deficit to the GDP rose from 15.9 percent in 1980, to 19.4 percent in 1995, finally reaching to 45 percent in 2008, with a peak of 56.3 percent in 2006. Energy imports have been an important factor contributing to Turkish trade deficits (in fact export/import ratio raises from 65 to a more satisfactory level of 81 percent between 2002-2010 if energy imports are excluded).

Figure 3. Turkish trade deficit in dollars (1996-2010)

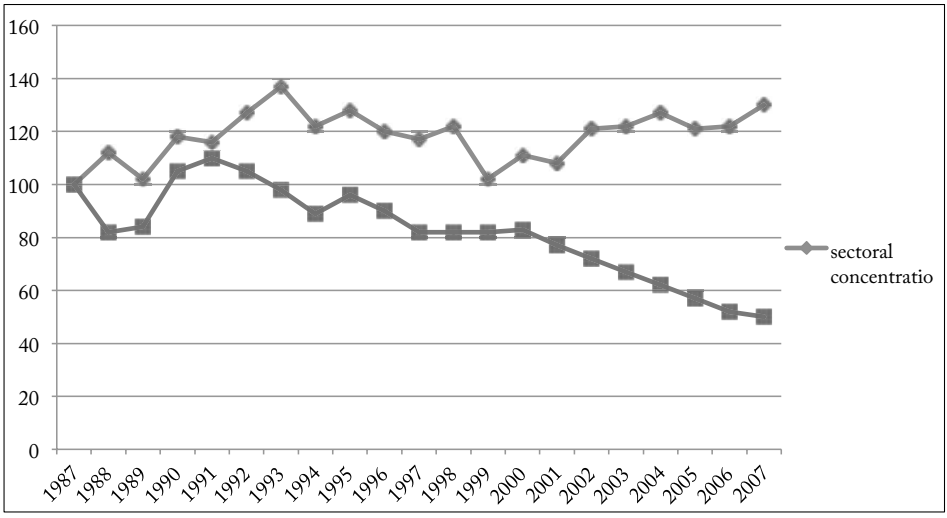


Source: Undersecretariat of Foreign Trade (UFT).

The second challenge relates to the *sectoral composition* of exports. There has also been a steady growth in the technology-intensiveness of the manufactures, with a trend of decrease in low-technology products, and an increase in medium-technology products. However, the share of high-technology goods remained constant. Overall, medium-low technology manufacturing industry products have dominated export performance in Turkey. The success in vehicle production (especially automobile industry). as well as electrical machinery and equipment, consumer electronics, and, iron and steel products was remarkable. However, increasing competitive pressures made Turkey fall into the the middle-income country trap in international trade whereby low-technology manufacturing is facing challenges from low-wage countries as a result of further liberalisation of world trade under the influence of multilateral and regional liberalisation. On the other hand, spreading into value-added and high-tech sectors requires a more sophisticated strategy. The export-composition of the Turkish manufacturing industry reveals that the share of high-tech product exports is comparatively lower than many other developed and principal developing countries (e.g. the G-20 members). The total share of these products (such as office machinery and computers, radio-tv and communication equipment, medical and optical instruments) only represents a tiny figure: 2.5 percent in 2009, while it constituted almost 2 percent in 1996. Hence, the CU and other relevant measures did not boost exports in these segments. Furthermore, Turkeys world market share in high-tech goods is only confined to 0.15 percent despite its corresponding share of 1 percent in total merchandise exports. The positive change in market share also reveals a marginal 0.05 percent, a much lower rate of increase compared to many leading trading nations from the 1990s to the 2000s.

A third challenge concerns trends in the *sectoral concentration* of Turkeys exports. Trade performance and sustainability are based on country and product-based concentration of exports and imports. It is observed that country concentration of exports experienced a positive downward shift after 1980 when Turkey managed to geographically diversify its exports. The trend appeared more promising especially after 2001. Geographical diversification of exports was reassuring as Turkey started to find alternative markets to replace those of the EU.

Figure 4. Turkeys export concentration by country and sector (Herfindhal-Index, 1990-2007)



Source: Türkiye Kalkınma Bankası (2010). p. 10.

Market diversification has another dimension. Several of Turkeys important trading partners that constitute a significant share in its exports are not yet members of the WTO. The Russian Federation (only recently acceded to the WTO). Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Iraq, Syria, Iran, Algeria, Libya are among these where the existing WTO regime does not provide predictability and transparency. Therefore, it is essential that the accession processes of these countries are completed successfully and Turkey provides maximum support for their eventual integration into the multilateral trading system.

Nevertheless, Turkey does not reveal a corresponding performance in sectoral diversification. In other words, Turkey experienced gradually a concentration of its exports in an ever narrowing diversity of products, while it must be admitted that a sustainable increase in exports can only be achieved through multiplicity of its products. Undoubtedly, diversification of export markets is favourable as Turkey becomes less dependent on limited number of country markets, mainly those within the EU. But, the upward shift in product concentration ratios after 2001 needs further elaboration in every sector seperately depending on whether it is a result of industry-specific structural shifts, or developments outside the industry itself (Erlat and Akyüz, 2001). Nevertheless, the related timidity largely reflects the limited resources such as raw materials, physical capital, quali-

fied labour force, technological investments, research and development expenditures, and innovation initiatives as well as industrialisation strategies adopted in response to global developments. A better explanation for a narrower range of export products may well be the lack of sufficient policy initiatives to boost domestic production at higher stages of the value-added chain under Turkeys current domestic political economy considerations. Turkey, in this respect has served as an assembly centre in manufacturing remaining mainly dependent on imports of intermediates from Asian or European countries. A recent study by (Taymaz, Voyvoda and Yılmaz, 2011) argues that although Turkey somehow manages to retain a competitive position under international production linkages in every period, it is nevertheless specialised in sectors with low-cost standardised-technology products whose growth potential is rudimentary and does not serve to contribute to sustained growth of the country. Therefore, Turkey strongly needs to reposition itself at the higher stages of international production chains based on information and communication technologies rather than in areas left over by developed economies (pp.91-92).

The fourth challenge comes from the *exchange rate parity*. It was not possible for Turkey to implement many policies including export incentives in an independent fashion as a result of its CU obligations. Therefore, Turkey started to direct its foreign trade by means of exchange rate realignments in the post-CU period. Devaluations during crisis periods were usually followed by policies that lead to an appreciated Turkish Lira. These policies, as observed after 2002, made intermediate imports needed for industrial production relatively cheaper (Tonus, 2007). However, this process generated a significant increase in imports of processed and primary industrial supplies; primary fuels and lubricants; parts and accessories of capital goods and transport equipments, and rendered manufacturing industry more dependent on imports. Yükseler and Türkan (2008, pp. 53-59) claim that this importisation process accelerated trade imbalances. Appreciated currency also helped Turkish exporters who source intermediates from Asian countries in dollar terms, and process them to be exported to European markets in euro terms. The euro/dollar parity in favour of the former helped exporters to stay competitive and retain their share in the European market (İzmen and Yılmaz, 2009, p.183). Indeed, in Turkey the share of imports in dollar terms increased from 55 percent in 2003 to 61 percent in 2010 in terms of total imports. The volume of exports in euro terms over the same period passed those in dollar terms thus shap-

ing general trade patterns. How sustainable this configuration of trade is remains open to dispute when challenges in European economy after the crisis started to induce a shrinking in the value of Euro, to reduce overall EU demand for importables, and to boost new trade protection measures after the global financial crisis.

Another compelling factor as a challenge to Turkish exports relates to overall *competitiveness* in world markets. Global developments (change in global production networks and new outsourcing facilities, technological developments, diversified communication, transportation and marketing methods etc.) lead all countries naturally to adopt new strategies to conform to changing conditions and the increasingly competitive situation. The adaptation capability of Turkish exports industry has been relatively good when exporters had the capacity to follow trends in the world economy and managed to forward their exports into emerging markets. According to International Trade Centre (ITC) estimates, Turkey has successfully advanced its rank from sixth (in 2000-2005) to second in 2005-2009 period among the upper-middle income group of countries. However, a similar success is not assured in its *competitiveness* (i.e. increase in its market share in export products and in export destinations) while Turkeys ranking descended from second to fifth for the corresponding periods (seventh for 2007-2009). As figures in Table 2 reveal, over the last decade Turkey became less competitive while its adaptation capacity increased in exportation.

Table 2. Comparison of Turkeys Trade Performance Index-TPI (2000-2009) with various middle-high income countries.

	2000-2005				**2005-2009**			
	Competitiveness	Rank	Adaptation	Rank	Competitiveness	Rank	Adaptation	Rank
Argentina	0.0000	16	0.0001	5	-0.0004	20	-0.0003	19
Azerbaijan	0.0000	15	0.0000	15	0.0009	4	-0.0002	18
Belarus	-0.0001	18	-0.0004	21	0.0000	13	0.0000	12
Brazil	0.0032	1	-0.0001	18	-0.0005	21	0.0003	1
Chile	0.0009	4	0.0001	4	0.0000	14	0.0001	3
Kazakhstan	0.0004	7	0.0004	2	0.0011	3	-0.0001	13
Malasia	-0.0007	20	-0.0003	20	-0.0001	16	-0.0005	20
Mexico	-0.0012	22	0.0003	3	0.0037	2	-0.0008	21
Romania	0.0009	5	-0.0001	17	0.0008	6	0.0000	11
Russia	0.0018	3	0.0011	1	0.0044	1	-0.0029	22
S. Africa	0.0009	6	-0.0004	22	-0.0003	19	0.0000	4
Turkey	0.0022	2	0.0001	6	0.0009	5	0.0003	2

Source: TEPAV (2011a) based on UN Comtrade Database, ITC Trade Performance Index.

At a sectoral level, among leading Turkish export products, the reduction in competitiveness is notable in sectors such as fruits and vegetables, and the clothing industry although only modestly perceived in iron and steel industries and in vehicles. However, the only significant sector that managed to increase its competitiveness was electrical machinary. It can be argued that, a reduction in the competititveness, with a continuation in the export of standardised labour-intensive products with lower and middle-technologies, may cause lasting reductions in export markets.

As Table 3 indicates, Turkeys relative competitive position deteriorates especially after 2003 compared to many developing countries including the BRIC (i.e. Brazil, Russia, India, China) countries, S. Korea, Mexico, Indonesia which are prominent rivals of Turkish export products in international markets. Turkeys rising imports from Asian countries can also be attributable to its waning competitiveness against Far East, and South East Asian countries (i.e. ASEAN) especially in several low-technology and labour-intensive sectors (Yükseler and Türkan, 2008).

Table 3. Turkeys relative position vs. selected countries (Competitiveness Index, 2000=100)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Japan	100	89.5	109.7	124.3	132.6	155.5	168.7	203.6
Korea	100	86.3	96.1	107.9	114.4	114.3	107.4	121.6
Sweden	100	86.7	94.3	93.8	97.1	112.8	113.3	121.1
US	100	76.6	88.8	106.1	118.1	131.1	131.0	151.8
Brazil	100	94.7	127.8	143.5	146.2	130.7	115.6	119.0
China	100	78.1	92.8	112.1	123.2	137.6	136.1	147.7
India	100	79.6	92.8	104.5	112.1	120.1	120.2	123.0
Mexico	100	73.1	84.9	110.7	126.4	134.7	134.1	154.2
Indonesia	100	86.0	82.2	86.7	97.3	109.9	94.5	105.6
Turkey	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Adopted from Türkiye Kalkınma Bankası (2010). p. 34.

Hence, the transformation in the structure of exports does not necessarily provide positive prospects for a number of clear reasons. First, Turkish export strategy did not specifically define ways to increase her industries competitiveness under the challenge of dynamic comparative advantages. Expression of intensions of switching into technology-intensive sectors does not go beyond a rhetoric unless coupled with a comprehensive agenda linking several related policy areas. An active industrial policy aimed at long-term restructuring based on skill upgrading, science

and technology planning, technological support and R&D incentives to enterprises and attracting technology-based FDI have become essential determinants for export upgrading. The Turkish *Industry Strategy Document* adopted in 2010 had the intention to provide a clear road map by pinpointing the strong and weak aspects of Turkish industry. However, the document does not put forward under its Action Plans a comprehensive set of instruments necessary to switch into high-tech sectors and to boost competitiveness.

In imports, Turkey has one of the most liberal trade regimes with regard to the MFN Tariff Trade Restrictiveness Index (TTRI). This makes it the fifth least restrictive trade regime with an average of 1.5 percent, much lower than the averages of Europe and Central Asia (4.4 percent) and the upper-middle income countries (6.9 percent). Because the TTRI for non-agricultural products are based on the EUs CCT, this figure stands at only 1.3 percent putting Turkey at a lower protection level than most of its trading partners. For agricultural products, however, the TTRI is 21.8 percent in 2009, placing Turkey in a higher protectionist group of countries. However, Turkeys *import protection measures* have many times challenged its trade position in WTO negotiations. Only 46.3 percent of tariff lines in Turkey were bound after the Uruguay Round, while the applied tariff schedule has a complex structure. Despite lower-average bound MFN tariffs, the mean MFN tariffs are higher in sectors like textiles, footwear, chemicals, transport equipment, base metals etc. in which the volume of imports is considerable. Imports in several categories of products are subject to licensing, the permission of authorities, and strict health and sanitary controls (Togan, 2010, pp.1349-1357; and WTO, 2012). Increasing resort by Turkish industries to anti-dumping and safeguard measures places Turkey among a high-rank user of such trade policy instruments in the last decade (this point will be raised further in the next section).

Another major point with respect to the import side relates to rising dependency in Turkish manufacturing industry to imported intermediates, hence leading to trade deficits and the decline of local suppliers. The import dependence is mainly rooted in some sectors like consumer electronics with inputs imported from East Asian and European suppliers (Taymaz and Voyvoda, 2009, p.165). It compells Turkey to choose a newer input supply strategy called GITES, developed recently by the Ministry of Economy. Its consequences are not yet certain and potentially blurred under given global production networks, limited domestic resources and energy supply insufficiencies in Turkey.

Finally, the EUs regional trade agreements such as Free Trade Agreements (FTAs) have a challenging impact on Turkeys market share in the EU and in its relations with third countries. Accordingly, different motives induce the EU to involve itself bilateral trade agreements (allegedly not as alternatives to the WTO multilateralism) leading to special links with its several trading partners. These initiatives, whatever their impact on the WTO itself, have repercussions on Turkeys current privileged status in EU markets under its secular link with the CU. Accordingly, Turkey has several concerns about the EU FTAs.

First, they cause an erosion of preferences for Turkish exports in EU markets. Such FTAs can be seen as a trade re-orientation rather than a trade diversion as these agreements provide equal conditions of duty and quotas of free access to products coming from previously sidelined third countries. In this respect, Turkeys concerns rise as the EU enters into negotiations and concludes agreements with countries like Mexico, India, South Korea, ASEAN, MERCOSUR, Ukraine etc. which are in competition with Turkey within the EU market. The similarity of composition of exportables shall also cause a deterioration in terms of trade in Turkey vis-a-vis the EU as Turkey has to further reduce its export prices to be able to keep its market share constant. The second concern regards the likely impact of such agreements in Turkish domestic market. Under the CU regime, third country products that enter into free circulation in the EU can be re-exported to the Turkish market (recall that the same is true for imports into Turkey from third countries if they are to be re-exported to the EU market) with no tariffs, quotas or similar mesures to be imposed as if they have the EU origin. Thus, Turkey will in practice liberalise its imports while these countries can continue applying measures against Turkish exports. Third, the EU is free to choose its trading partners for concluding free trade deals and negotiate in its own terms without taking into account the needs and priorities of Turkish domestic actors. Thus, Turkeys position and long-term interests are disregarded. Negotiations are not held in parallel, while Turkey claims it is not very well informed of this process process despite its CU linkage. The EU proposes better market access conditions for European firms in industrial, agricultural and services areas and bring further requirements on its FTA partners to comply with EU norms in standards and domestic regulations in return for its own concessions towards these partners. However, Turkey also assumes indirect liabilities arising from such bilateral deals (via CCT) without reciprocal

achievements unless it can negotiate similar FTAs with these partners. Should these countries refrain from negotiating with Turkey is another concern even though the EU has asked its partners to start negotiations with Turkey for similar FTAs. Therefore, a Turkey clause is instituted by the EU to encourage these countries to approach Turkish initiatives positively, but this clause is not binding with its limited political effect. Only commercial considerations of these countries can motivate them to have a corresponding FTA with Turkey. Finally, FTA deals are proliferating under a domino effect where all countries place themselves within these schemes so as not to loose their market shares against its rivals. This trend, however shifts attention from the multilateral negotiations and causes the Doha Round to fall behind schedule. The WTOs World Trade Report in 2011, as a special issue concerning rising preferential trade agreements, argued that such arrangements, though not necessarily incompatible, cannot simply be seen as substitutes to the WTO system (WTO, 2011b, p.196). Countries like Turkey derive further gains from the WTO regime and therefore any sidelining of Doha Round will bring further complications for its trade regime.

III. Turkeys Position In The Wto And The Doha Round

Turkey has been a Contracting Party to the GATT since 1994, and became a founding member of the WTO on March 26, 1995. Turkey has so far undergone five policy reviews (1994, 1998, 2003, 2007, and 2012) under TPR mechanism. The WTOs *Trade Policy Review: Turkey 2007* (WTO, 2008) formulates Turkeys main interests in the Doha Round as:

(providing for) a fair, competitive, and predictable trading environment where trade (including export) distorting support measures are eliminated. For Turkey, agriculture is the key issue of the DDA; and Turkey attaches utmost importance to non-agriculture market access (NAMA) negotiations and trade facilitation (p.13).

(WTO, 2012) also noted that Turkey attaches great importance to the successful conclusion of Doha Development Agenda, as an opportunity to establish a more competitive and fairer international trading system and expects the negotiations to lead to a balanced outcome that takes into account the developmental concerns of WTO members. (p.14).

It can be proposed that the main factors shaping Turkeys position in the world trading system are the current relations based on the CU with the EU, the WTO Agreements (WTO, 2008: vii). and the on-going picture of rising preferential trade arrangements accelerated by the EU.

In the Doha Round, Turkey is apparently squeezed into a position between *developed* and *developing countries,* largely as a result of its special relationship with the EU, and its developmental concerns commensurate to its economic and social conditions (Pulat, 2003: 5). As regards the main pillars of the negotiations, Turkeys position swings between two sides reflecting its ambitious market access requests with balanced outcome for developing states, but sometimes differs even within the same area of negotiations. Being in the CU Turkey stands to gain from reductions in industrial tariffs by other developing countries with comparable levels of income as their average bound tariffs are usually higher and eventually create unfair competition. In agriculture, Turkey prioritises the elimination of trade-distorting subsidies, including export subsidies while it simultaneously insists on keeping special products and special safeguard mechanisms for developing countries, this in consideration of the fact that its agrarian population in the country is high (almost 30 percent). Its engagement in negotiations concerned with trade in services has been active and constructive as proposed by Ambassador Aran (2011). but this focus has been considered by Turkey as mostly favouring developed countries interests.

Besides these main features, Turkey overall has been involved in different bargaining coalitions with several participating countries during the negotiations. Understandably, this is a typical behavioural pattern to support a countrys position. Turkey worked in coordination with the EU and other industrialised nations (as in NAMA); or with developing countries (the G-33, India, China, S. Korea and Indonesia to make special products and SSM a part of the final text in agriculture). and joined a mixed group in Friends of the Antidumping. Its role was constructive in the Friends of the System group together with Norway, S. Korea, Canada, New Zealand, Singapore, Chile and Colombia, to support the continuation of negotiations (Aran, 2012).

This section aims to provide a short analysis of Turkeys general outlook and its position in major areas of negotiations in Doha Round and the WTO.

III. 1 Non-Agricultural Market Access (NAMA)

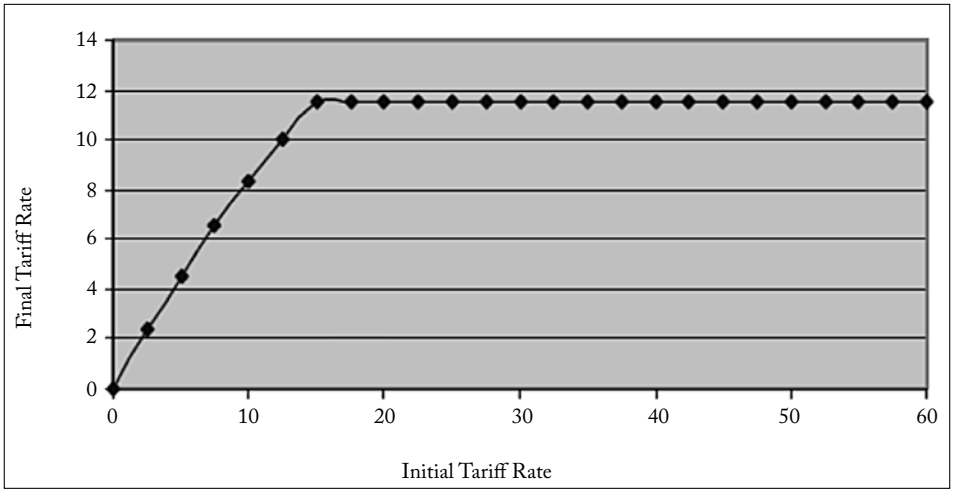
Turkey paid great attention to non-agricultural market access negoatiations in Doha Round, mainly because most of its exports consist of products covered under NAMA. More importantly, Turkey has applied the EUs common cutoms tariff (CCT) since the establishment of the CU. The weighted-average applied tariff rates under the CCT after Uruguay Round was set at 3.7 percent, a relatively low level which provided easier market access conditions for third countries, including many large developing countries which are rivals for Turkish products. In return, these countries had higher tariff rates to Turkish products. Therefore Turkey had to take a position in line with the EU and other industrialised nations to force developing countries to make further reductions. Therefore, the CU, to a large extent has been a determinant of its general approach in NAMA negotitions. By supporting the Doha mandate set in 2001, Turkey showed its tendency to become actively involved in the negotiations. Turkey, in its national communication briefly outlined its views in 2003. In terms of tariff bindings, Turkey proposed that all members should commit themselves to bind all non-agricultural tariffs, and in this regard Turkeys lower level of binding coverage (36.3 percent) could also likewise be raised to 100 percent as well. Modalities for tariff reductions were the cardinal element in negotiations. Turkey suggested that a non-linear formula would be the best for steeper cuts in higher tariffs (especially when it is considered that simple average bound tariffs were much higher in several developing countries such as India, S. Korea, Brazil, Argentina, South Africa, and many ASEAN members than they were in Turkey). Turkeys proposal was for adopting a formula with a constant coefficient where 15 percent was to be set as a ceiling base rate, instead of using differrent variables or coefficients for different country groups and with limited flexibilities to be conferred to the developing countries. (Figure 5).

Hence, Turkey from its point of view had an optimal approach to prevent developing countries to continue applying higher rates to the detriment of Turkeys exports. Accordingly, the formula offered by Turkey initially proposed that any tariff rate above 15 percent, after negotiations should amount to around 11.5 percent at most. Additionally, the formula offered a more progressive elimination of tariffs under 15 percent to allow Turkey to keep its tariff margins within the context of the CU. The formula offered was:

$$For\ t0 < 15\%,\ t1 = \frac{50 \times t0}{50 + t0}\ and,\quad For\ t0 \geq 15\%,\ t1 = \frac{50 \times 15}{50 + 15} \cong 11.5\%$$

Concerning non-tariff barriers, Turkeys choice was to consider the issue as an integral part of the negotiations and to undertake them together with the reduction of tariffs. Furthermore, Turkey took the position that no sectoral exception to general negotiations should be allowed. This approach can be explained by the reason that Turkish exports are composed of a wide range of products encompassing various sectors, and these products are mainly based on low and middle-technology. These sectors overlap those where most trade protection globally takes place and that they are actually or potentially subject to severe import restrictions in almost all countries.

Figure 5. Turkish initial proposal in NAMA negotiations (TN/MA/W/41). in 2003.



Following the failure to achieve final modalities in Cancun in 2003, a general framework was instituted in Annex B of the General Councils Decision in July 2004. However, many developing countries claimed that it repeated the views of developed countries, and resembled largely the *Derbez Text* that had been rejected in Cancun because it had reflected an earlier Canada-US-EU proposal. Therefore, they were opposed to the Framework in general. The main idea of the developing countries was that the Framework provided an extreme form of harmonisation with far-reaching tariff reductions that provided an opening for exporters from

industrialised nations in developing country markets, and it proposed no sufficient emphasis on the less-than-full-reciprocity principle for the developing countries. The negotiations started to generate a modality based on a non-linear Swiss formula, with a possibility that more than one coefficient would be applicable, and special and differential treatment and a less-than-full-reciprocity principle could be used for the developing countries. After tough negotiations the text which brought different coefficients with flexibilities for developing countries, took shape in July 2008 with subsequent revisions of the draft text.

For Turkey, the fierce opposition by several developing countries, and NAMA-11 in particular has prevented what it proposed initially (a single coefficient). Despite its developing country status Turkey cannot practically benefit special and differential treatment set out for developed countries, but has to follow the EU in accordance with its CU obligations. Nonetheless, even a limited final text based on a non-linear formula is better than no text for an offensive Turkish policy. Additionally, some side steps were important for Turkey such as the acceptance of a mark-up approach that could provide higher cuts for some developing countries.

In practice, Turkey adopted an approach which pressures developing country partners so that they sharply cut their tariffs, tariff peaks and tariff escalations. This approach intends to keep reductions in CCT at a minimum; to provide Turkish exporters with the possibility to express their preferences in the EU market; and to achieve lower tariffs vital for Turkish exporting sectors such as automobiles, textiles, clothing, machinery, consumer electronics, and iron and steel, at the end of negotiations. Nevertheless, Turkeys *sui generis* position is well observed in NAMA. It can neither benefit from its developing country status in practice (such as flexibilities and different coefficients secured for the latter- or protect its sensitive products- nor can it have an overall trade-off that many developed countries enjoy- between NAMA and other negotiation topics (agriculture, services etc.) owing to its special concerns in the latter. Overall, it can be argued that an incomplete Doha Round does not serve Turkeys interests in trade in manufactures while uncertainties in the multilateral system motivates a wider set of regional trade arrangements with further complex repercussions on Turkeys trade relations.

III. 2 Agriculture

Agriculture is a thorny subject in the WTO and in Doha Round negotiations, in particular. No country has managed to insulate itself from the pressures of agriculture -even though it represents a tiny part of the total world trade- because of its significant role in terms of employment, vulnerability of incomes of farmers, food security, environmental concerns and so on. Turkey with its vast territories and geographical proximity to Europe, Middle East and North Africa, and Central Asian Republics renders her a potential beneficiary of agricultural trade liberalisation. However, Turkish position in agriculture in Doha has been largely defensive in nature (Pulat, 2003, p.6). Its cautious policy has been mostly in line with the developing countries highlighting their typical sensitivities. It can be claimed that similar sensitivities also exist among certain members of the EU, the US and several other developed countries such as Japan, S. Korea, Norway, Switzerland, and Iceland whose positions have also generally been defensive. However, the main divergence lies in their generous subsidies to their domestic farming that the developing countries cannot mostly provide for financial reasons. Therefore, developing countries prefer to protect their domestic producers by means of high tariffs and by gaining greater flexibilities in terms of their special and differential statutes under WTO rules. This is also manifest in the Turkish case where *domestic support* is comparably much lower than the EU. Indeed, in *Trade Policy Review: Turkey 2003* (WTO, 2004). prepared just after the Cancun Ministerial revealed, the Turkish governments official view reflected its developmental and social concerns:

As a developing country, Turkey gives priority to the ongoing negotiations on agricultural products. In developing countries, the majority of the population depends on agriculture for their livelihood. Therefore, the results of the agreement will not only have economic but also social effects. Since developing countries cannot provide necessary and sufficient support to their domestic agriculture, *tariffs are the only instrument to protect agricultural sectors against highly subsidized imports mainly from the developed countries*. Developing countries also need to support their agricultural sectors to sustain agricultural production. However, government support remains at negligible levels in these countries, including Turkey, because of budgetary constraints. Therefore, without any substantial reductions in the other pillars of the Agreement, tariff reductions could not generate fair and improved market conditions (p.14). *Italics added.*

In Turkey, agricultural support reduced substantially as a result of agricultural reform policies under the guidance of the World Bank guidance and IMF-led monetary policies, initiated in late 1990s. This urged Turkey to implement a direct income-support programme which converted the nature of domestic support from amber into blue box measures in the WTO. Therefore, it is not surprising that Turkey supported the views of the Cairns Group and the G-20 of initiating cuts in domestic support and eliminating trade distorting subsidies during the negotiations rather than acting in coordination with the EU as in NAMA. In the context of negotiations, Turkeys approach also overlapped with the G-33 in de minimis issue. Turkey like many other developing countries was subject to de minimis rule which provided the opportunity to give domestic support not exceeding 10 percent of the production value. Therefore, Turkey opposed any proposal to reduce 10 percent figure which it deemed as minimal.

Nevertheless, the value of support for agricultural increased in Turkey following the phase-out of market-oriented Agricultural Reform Implementation Project (ARIP) in 2008. The direct income-support has been replaced by deficiency payments-system and area-based payments extensively since 2009, leading to higher market prices support (WTO 2012, p. ix).

On the other hand, tariffs are important instruments to protect domestic farming in Turkey. The average applied MFN tariff is extremely high in agriculture (e.g. 28.3% in 2007). and according to the WTO definition, average tariff protection was 47.6% on agricultural products in 2007 (the simple average as high as 114.3 rercent in the case of live animals and products thereof, and 109.4 percent in dairy products). compared with 5% on non-agricultural products. Furthermore, tariff escalation is positive especially in food, beverages, and tobacco product sectors (WTO, 2004, p.31). In *market access* Turkey apparently has remained true to the EUs general approach to resist substantial cuts in tariffs, nevertheless the defensive nature differed widely as Turkey demanded to be placed in a different band than the EU on grounds of its developing country status. Turkey thus supported a simple linear formula imposing on developing countries a maximum of only two-thirds of those tariff cuts made by developed countries. Turkey also supported the G-33 position to achieve the possibility to benefit from reduced and/or zero cut options for special products (SP) and special safeguard mechanisms (SGM). the two essential flexibilities with regard to live animals, dairy products, grains, oil seeds, sugar, tea and tobacco (İmir, 2008, p.149).

In *export subsidies* Turkey welcomed the EU position regarding an intention to eliminate them by 2013, the only main issue over which its interests overlap with the EU position.

Interest coalitions of Turkey with non-EU and developing countries may be regarded as paradoxical if one considers that Turkey is at the same time involved in an accession process that requires harmonisation of its policies with the EUs Common Agricultural Policy. However, Turkeys intention is to benefit all flexibilities reserved for developing countries in the implementation of the final agreement because its full EU membership seems to take a long time (İmir, p. 139).

III. 3 Services

Sampson argues (2008, p.86)) that the General Agreement on Trade in Services (GATS) under the WTO have a potential to immensely expand trade in services, and change the patterns of global production and investments. The services sector represents an overwhelming share in employment and GDP in Turkey as in many countries, and serves as an essential element of economic development. Turkeys overall trade balance in trade in services in 2009 was 17 billion dollars, with a real growth of 7.8 percent (while it was 4.4 percent in goods). However, the services share of total exports dropped from 37.2 percent in the late 1990s to 20 percent in 2009 as Turkey started to focus more on manufacturing. The two main aspects of services negotiations have been *market liberalisation* and *rule-making*. The liberalisation made under different modes is usually based on bilateral request and offer formulae between the members.

Turkeys initial conditional offer was submitted in September 2003, and this was followed by a revision in September 2005. Turkeys requests were generally concentrated on construction and engineering services, while its trading partners made comprehensive plurilateral requests in the fields of telecommunication, maritime, logistics, energy, environment, distribution, postal, financial, education, legal, architecture and engineering, and audio-visual services as well as MFN exceptions. The requests from Turkey were made by a wide range of countries ranging from the US and the EU to S. Korea, Mexico, India, Pakistan, Singapore and Taiwan. In the realm of services, Turkey adopted a cautious approach displaying its concerns over domestic regulatory problems in many services areas. Therefore, the official position has been to avoid any new requests from its trading

partners for further market access. Two topics were important for Turkey regaring services. The first priority issue as in many developing countries was the movement of natural persons who are service-providers (mode IV) because this represented a sizable receipt of remittances. Turkey has made extensive investments abroad in construction and engineering business in which qualified personel is essential, but visa and immigration related obstacles needed elimination for the interests of many Turkish undertakings providing services abroad. The second issue involved Article II exemptions simply because most of Turkeys partners in trade in services are non-WTO neighbouring countries such as Russian Federation (acceded in late 2011 and the ratification process is expected to finish in 2012). Azerbaijan, Central Asian Republics, Bosnia, Libya, Algeria so on.

There are several factors influencing Turkeys guarded stand on services. First, the commitments of other countries including those of the EU. Although the CU does not extend into services Turkey followed the EU by not adopting a position that went beyond the latters commitments under GATS and services negotiations. Second, its domestic concerns over investment regime and extensive privatisation programs in areas like infrastructure, electricity, natural gas, and telecommunications reflected tensions concerning social aspects of the issue and security considerations. Additional pressures by local suppliers not to relinquish their priviledged access also served as a factor that affected Turkeys liberalisation scheme in not offering wider market access to foreigners (Yılmaz, 2007, p.252). The third point to be raised in respect to Turkeys involvement in trade in services regards the so-called domestic coordination problem. The Treasury in Turkey has been the main responsible body responsible in the coordination of Turkeys position in services trade negotiations until 2011, differently than in other areas in which the Ministry of Economy (then the UFT) was responsible. Structurally the services area requires the involvement of several institutions, public and regulatory bodies, and private parties which made the formation of a unique approach difficult to achieve by the Treasury. Fourth, a comprehensive quantitative and qualitative assessment of the outcomes of liberalisation in services has never yet been tabled in Turkey while most attention was diverted to manufacturing which is more easily estimated. Finally, it can be argued that the developments in trade in services are largely influenced by the deadlock in industrial and agricultural negotiations. Therefore a lack of progress in these areas shall have a retarding effect on services under the single undertaking.

III. 4 Other prominent areas of negotiations

TRIPS is another important area of the Doha Round package although it has never constituted one of the major tracks in negotiations. However, the protection of intellectual property rights always obtained sufficient support from developed countries and TRIPS was symbolised as a mechanism to enforce these rights. Many developing countries claimed that Uruguay Round was imbalanced partly because the TRIPS Agreement served to interests of developed countries especially in areas such as pharmaceuticals and chemicals.

Despite being considered a developing country, Turkey has made marked progress in establishing intellectual property rights under its CU regime with the EU. Besides the establishment of the Turkish Patent Institute to administer issues pertinent to patents, trademarks, and industrial designs, several legislative steps have been taken to make Turkey a party to several international conventions and to enforce the protection of rights thereof (Özdemir, 2010, p. 34). Despite its past success in administrative and legal progress, Turkey is not equally forthcoming in her enforcement of laws in practice and it is currently considered to be one of the most problematic countries with respect to counterfeit goods, and protection of patents and copyrights. This brings Turkey into direct confrontation with the EU. In Doha Round two prominent issues were on the agenda: *geographical indications (GI).* and *biological diversity (BD).* In GI, Turkey has not contested the EU approach for a legally binding WTO registration system for wines and spirits and its extension to other products. Turkey was only concerned with the issue of Turkish Raki in terms of registration of spirits but supported the Friends of the GI Group (led by the EU) for an approach of an extensive coverage to include other products in the system (Pulat, 2008, pp. 224-225; Aran, 2012s). The BD deals with patentability or non-patentability of plant and animal inventions, and the protection of plant varieties. In negotiations Turkey generally supported the W52 group of developing countries which claimed that a disclosure requirement must be obligatory for patent applicants to disclose the origin of genetic resources and traditional knowledge used in the inventions.

Trade facilitation (TF) has been an important aspect of the Doha Round to discipline non-tariff barriers and to provide smooth processing of exports and imports. In TF, Turkey actively participated in the negotiations apparently for two reasons. First, Turkey after the CU has largely

aligned its import and customs legislation with the EU, one of the most advanced of such systems. On the export side, however Turkish exporters face serious problems in customs dealings with developing countries authorities mainly because of the lack of technical capacity in these countries. Such problems include but are not limited to the need for accelerated customs procedures, harmonisation in commercial documents, improving transparency and predictability, and computarisation of administrative procedures so on. Secondly, its land transportation fleet is strong but is heavily subject to such problems. In this context, Turkey initiated its first communication TN/TF/W/45 in 2005 proposing that a final agreement must include elements such as improvement in consistency and predictability; transparency; and acceleration of customs clearance procedures. Turkey further tabled communications on matterss such as the publication and availability of trade-related legislation on internet issues; advance ruling; and quota-free transit regime.

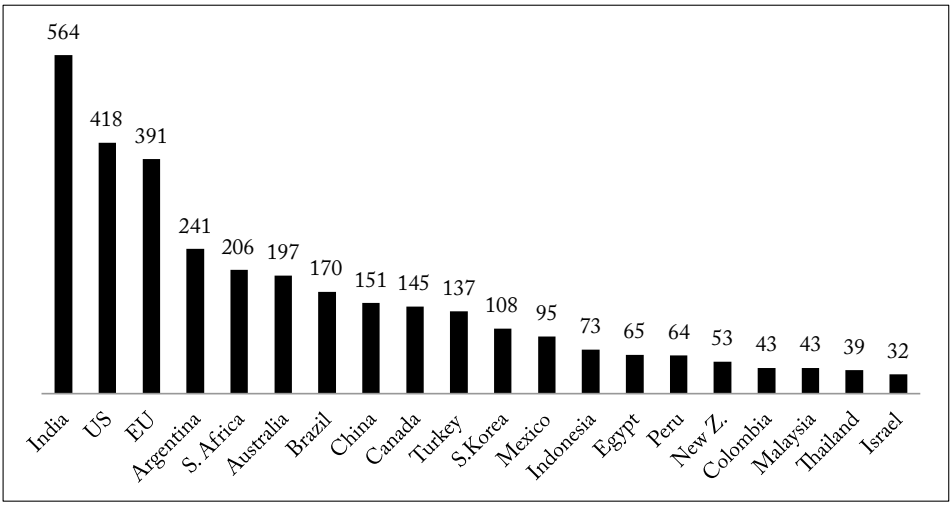
III. 5 Trade-remedy measures

Turkey is a frequent user of trade-remedy measures (i.e. antidumping duties, safeguard measures) in the last couple of years. The WTO statistics reveal that it became the tenth largest user of antidumping protection in terms of initiation and definitive measures among the WTO members. Also, the UFT figures reveal that by March 2009, 274 investigations have been opened and 182 of them were terminated with definitive duties, with a successful imposition of about 66 percent. This means that 2 out of every 3 investigations is followed by a final duty. Turkeys application of antidumping measures has been rising since the CU in 1996, hence rendering Turkey one of the leading users, as Figure 6 indicates. As of August 2011, Turkey had 118 anti-dumping duty measures in force, compared with 93 at the end of 2007, and 27 at the end of 2002 (WTO 2012, p.46).

The *Antidumping* issue was held under the *Rules* negotiations in Doha Round. Turkey had a position mostly in line with, if not totally overlapping the so-called Friends of the Antidumping Group of countries which proposed in principle to change WTO rules to prevent any possible abuse of anti-dumping measures, and burdensome or unnecessary investigations. However, the group members started to have divergencies in their views once the negotiations started to focus on specific issues and Turkish support to the group waned with time (Tan, 2008, p.247). Turkeys posi-

tion is interesting in the sense that it favoured formulation of new rules and regulations to provide transparency and due process in implementation as it is one of the main targets of such mesures itself. However, like many others Turkey had practiced such measures increasingly to protect domestic industries once its tariffs had been further cut down after the Uruguay Round and the CU. Therefore, Turkey soon discovered that antidumping measures serve as a life-jacket mostly in its declining industries like textiles and clothing, base metal products, plastics and rubber articles, and other manufactures such as lighters and pencils, imported from low-priced Asian countries (i.e. China, India, Thailand).

Figure 6. Leading antidumping initiators (1995-2008)



Source: http://www.antidumpingpublishing.com/info/free-resources/anti-dumping-statistics.aspx

Cheong and Dikmener (2007) noted that in the conduct of antidumping investigations the antidumping authority (UFT Directorate for Imports) has considerable discretion to decide which countires and products to be included as well as the calculation of dumping margins. The majority of these duties are specific, but some are *ad valorem* reaching up to 100 percent. Therefore, they had a serious pre-emptive effect to reduce the level of imports. In this regard, Turkeys position reflects its mercantilist approach on the antidumping issue because in the Round its focus was on disciplining the investigation process, and clarifying rules in order to curtail discretionary power of investigating authorities.

Safegurad measures are not as widely used as antidumping in Turkey, but an increasing trend in line with the concerns of domestic industries can be observed over the recent years (Table 4).

Table 4. Safeguard mesaures in Turkey since 2004

Turkey	Thermometers	07.17.2004
Turkey	Activated Earth and Clays	07.17.2004
Turkey	Certain Glasswares	07.17.2004
Turkey	Unframed Glass Mirrors	07.17.2004
Turkey	Certain Voltmeters and Ammeters	07.17.2004
Turkey	Footwear	01.05.2006
Turkey	Salt	01.05.2006
Turkey	Vacuum Cleaners	01.05.2006
Turkey	Steam Smoothing Irons	01.05.2006
Turkey	Motorcycles	08.15.2006
Turkey	Frames and Mountings for Spectacles	02.11.2007
Turkey	Travel Goods/Handbags and Similar Containers	06.05.2007
Turkey	Certain Electrical Appliances	12.19.2007
Turkey	Cotton Yarn	05.23.2008
Turkey	Matches	05.02.2009
Turkey	Vacuum cleaners	13.02.2010
Turkey	Steam smoothing irons	13.02.2010
Turkey	Motorcycles	13.02.2010
Turkey	Footwear	13.02.2010

Source: The World Bank, Global Safeguards Database at: http://econ.worldbank.org/ttbd/gsgd/ and WTO (2012).

Countervailing duties are occassionally used measures in Turkey like in many other WTO members for the reasons that most countries are willing to subsidise their domestic industries anyway, so no one can accuse others of behaving unfairly. But more importantly, the Agreement on Subsidies and Countervailing Duties of the WTO have extensively disciplined subsidies. Furthermore, it can be claimed that Turkeys position considers seriously its obligations under the CU with the EU.

Conclusıve Remarks

Turkeys changed trade patterns led it to follow a proactive approach in international trade relations under the WTO regime, after having adopted outward-oriented policies and the CU. At the same time WTO

rules and agreements were important determinants for Turkeys domestic reforms (e.g. regarding governmental support, subsidies, tariff liberalisation, and investment rules). An extensive trade liberalisation scheme in post-1980s helped Turkish industry to integrate into global markets long before the WTOs multilateral track. However, sustained structural problems in the Turkish economy and their challenges for Turkish trade policy urged a more cautious approach that sought reciprocity from trading partners. Therefore, the broader objective for Turkey in the world trading system has been to maximise its benefits from multilateral liberalisation while defending its national interests (!) for social and economic development considerations. As noted in the WTOs Trade Policy Review in 2012, Turkey seeks for a balanced outcome from the Doha Round negotiations that consider its developmental concerns. In this respect, domestic sensitivities helped to keep higher tariffs (mainly in agriculture and labour-intensive industries). and induced proliferation of trade remedy measures.

Turkey has played the role of a middle-power actor during decade-long Doha Round negotiations whose overall position has been an amalgamation of the perspectives of both developing and advanced economies. This made Turkey a *sui generic* party with a developing country status on the one hand, while having aspirations of an OECD member on the other. The EU process had a strong affect in shaping the outlines of Turkish position in many areas. However this Janus-face often rendered Turkey as being regarded a developed member supposedly to give more concessions in the eyes of developing countries. Its intermittent membership to coalitions like G-20 in WTO was therefore challenged. This is not surprising when Turkey had to coordinate many of its commercial policies with those of the EU when their mutual interests converged. This makes confrontation with the EU highly unlikely for Turkey, without incurring the risk of damaging its ongoing candidacy status. Within this framework, the short-term perspective for Turkey should be to designate its own position in areas (mainly in agriculture, in various services sectors) without necessarily following the EU position, but without totally disregarding its long-run EU membership perspective. It should also seek a more co-ordinated action with the EU in non-agricultural market access and trade facilitation.

However, short-run priorities are more readily subject to change amidst global developments. The longer-term perspective for Turkey in the Doha Round, and the WTO-based multilateral trading system at large depends on the likely outcome of the Round, and the sustainability of the

WTOs legitimacy when challenged by global factors. More importantly, this perspective is dependent on Turkeys own success in facing challenges. This requires a viable trade strategy.

This strategy must prioritise *vertical integration* in world production and trade patterns, and help Turkey to reposition itself under international production networks (away from standardised goods and production stages and increasing towards high value-added processes). It should have a focus on improving *competitiveness* rather than short-term adaptation possibilites within global transfomation process. Turkey will have to make a trade-off between a pro-active export-oriented market access strategy in medium to high-technology sectors, and a defensive position in low to medium-technology products. Turkeys dilemma in finding herself positioned between developed and developing economies, which in turn affects its position in Doha (and possibly FTA) negotiations, can only be solved if it avoids the middle-income trap by strongly assuming a single identity.

Trade strategy should also go beyond conceptualising exports mainly for manufactured products and give priority to *trade in services* since it plays a substantial role in economic growth. It can be argued that the potential gains from reforming trade in services are large, probably much more than those derived from the liberalisation of trade in goods. Furthermore exploiting gains from trade in goods rests on better quality of services. So services matter for Turkeys trade strategy. Equally, Turkeys trade strategy should not be confined to exports only. Imports are main drivers of growth, and import strategy must set up better *access possibilities to main supply markets* considering Turkish industries higher ratio of dependency on foreign intermediaries and raw materials. Finally, todays trade policy is not only about trade but goes beyond it. It should not neglect that a *deeper integration agenda* (i.e. invetsments, government procurement, competition, environmental issues, social standards, food safety) is pressing. The negotiations in regional trade agreements (and multilateral negotiations to a certain extent) have growing emphasis in these issues which will have repercussions on Turkey (especailly by means of the EUs extended trade strategy).

These points are especially crucial for Turkey if it has to play an influential role in trade negotiations and in the WTO, and more ambitiously to achieve its objective to be among the worlds ten top economies, as well as to reach an export volume worth 500 billion dollars annually.

Footnotes

1 Asst. Prof. Dr., Marmara University European Union Institute, (saitakman@marmara.edu.tr). Visiting Fellow at TEPAV (Turkish Economic Policy Research Foundation, Ankara).

2 WTO International Trade Statistics (WTO 2011a) reveal that in 2010 Turkey was twenty-second leading exporter of manufactures in the world with a share of 1 percent and a value of 114 billion dollars, and fifteenth largest importer with a share of 1.5 percent and a value of 186 billion dollars (counting the EU-27 as one). In services trade, Turkey amounts to a share of 1.2 percent (33 billion dollars). and 0.7 percent (18 billion dollars) in exports and imports in 2010 ranking sixteen and twenty-four, respectively.

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4 For a detailed analysis of the CU Decision see, Kabaalioğlu (1998).

5 This caused an important dispute settlement case in textiles in the WTO, after a complaint by India against Turkey. See, http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds34_e.htm for facts of the dispute. This matter shall be analysed subsequently.

6 Turkey was allowed to maintain higher rates of protection in specified sensitive products until 2001, as an exception to its alignment of the CCT.

7 Izmen and Yilmaz (2009) go further to claim that as well as its effect on Turkey in making her to come more into line with the market forces, the CU also helped Turkey to resist the East Asian and Russian crises of the 1990s, and the global recession in 2008, without which it would have been very difficult for Turkey to overcome (p.176). However, the CU did not eliminate the effects of these crisis and did not prevente Turkish economy from experiencing another crisis in 2011, but did transform Turkish industries to become more resistant to external shocks.

8 *Neighbouring countries* can be defined as the countries that have common borders with Turkey or that may be reached from Turkey directly without having to cross a third country. These are namely, Azerbaijan, Georgia, Iran, Iraq, Syria, the Turkish Republic of Northern Cyprus (KKTC). Greece, Bulgaria, Ukraine, the Russian Federation and Armenia. The *surrounding countries* are those which do not share a common frontier with Turkey but have cultural ties or geographical proximity and are feasible markets in terms of population and/or economic potential. These countries include Turkmenistan, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Israel, Saudi Arabia, Jordan, Lebanon, Egypt, Moldova and Macedonia.

9 For export increase in Turkey see, UFT (2009). *The develeopment of exports in Turkey*, available at: http://www.dtm.gov.tr/dtmadmin/upload/IHR/genel.doc (retrieved on 12 April 2011).

10 Several countries including Turkey urged the WTO under the so-called Istanbul Declaration to extend the deadline for implementation of the final integration stage to December 31, 2007 with regard to the WTO Textiles and Clothing Agreement. The idea behind the initiative was to prevent job losses and business bankruptcies due to massive trade associated with the ending of current textile trade regime in 2005. For the petition Istanbul Declaration Ragarding Fair Trade in Textiles and Clothing presented to the WTO Director General see, www.ncto.org/quota/Idec.pdf (retrieved on 16 April 2011).

11 This ratio is over the worlds average of manufactured products to total exports, according to World Bank figures.

12 Actually when revision is made for the period of 2007-2009 to eliminate the effects of the global economic and financial crisis, Turkey ranks the first in its group.

13 TEPAV (2011a, p.2).

14 TEPAV (2011b, p.5).

15 See, http://www.sanayi.gov.tr/Files/Documents/sanayi_stratejisi_belgesi_2011_2014.pdf for the Document. (retrieved on 18 April 2011).

16 For more on Turkeys competitive position see, Seymen (2009).

17 MFN TTRI denotes the tariff that when uniformly applied accross the entire (MFN only) tariff Schedule would keep total imports at the observed level. The TTRI helps to capture the protectionist aspect of a countrys non-discriminatory trade policy. See, World Trade Indicators 2009/10 database (country-level Trade Briefs and Trade-at-a-Glance Tables) available at: http://info.worldbank.org/etools/wti/docs/Briefstaags.htm (retrieved on 18 April 2011)

18 WTO (2012, p. viii) notes that the import regime for industrial goods is *de facto* more open, as CU and FTAs provides many of Turkeys trading partners a duty-free access.

19 For a more detailed analysis of the debate concerning the implications of the EUs FTA regime on Turkey-EU relations and Turkish trade regime, see Akman (2010).

20 Nevertheless, it must be admitted that most of these countries with few exceptions such as Mexico and Algeria have already initiated negotiations, and Turkey has successfully used its CU link to persuade these countries in this regard.

21 Turkey has not yet signed any of the plurilateral agreements that resulted from the Uruguay Round but it is an observer state in the Committees on Government Procurement and Trade in Civil Aircraft, and party to the Information Technology Agreement (ITA).

22 The WTO Document TN/MA/W/41, 12 August 2003, Communication from Turkey on Market Access for Non-Agricultural Products.

23 Hilary, J. (2005, p. 12). *The Doha Deindustrialisation Agenda: Non-Agricultural Market Access Negotiations at the WTO,* available at: http://www.wto.org/english/forums_e/ngo_e/posp47_nama_e.pdf (retrieved on 10 May 2011). For a recent review of NAMA negotiations see, Low and Santana (2009).

24 The fourth revision draft text is TN/MA/W/103/Rev.3, on 6 December 2008. For current state of NAMA negotiations, see TN/MA/W/103/Rev.3/Add.1, on 21 April 2011.

25 Yaman (2008, p. 177).

26 Yaman (2008, pp. 182-184).

27 WTO definition of agriculture: HS Chapters 01-24 less fish and fishery products, plus some selected products.

28 In the Hong Kong Ministerial the developing countries were allowed to make lower commitments in specific numbers of special products they deemed essential due to food security, livelihood security, and rural development reasons. Turkey sided with the G33 group of developing countries on the grounds that these instruments are of vital importance to realise progress in market access negotiations and to sustain agriculture in developing countries. The G-33 raised their concerns over special products (SP) and special safeguard mechanisms (SSM) that were regarded as controversial issues to deadlock the Doha negotiations in July 2006. In their press statement, the G33 countries- including Turkey stated in para. 4: Ministers insisted that all aspects of SPs and SSM must be incorporated integrally in any modalities to be agreed by July 2006. They further stressed that no modalities in agriculture can be acceptable which do not fully reflect the expectations of the vast bulk of developing countries in the WTO on SPs and SSM. See, http://www.tradeobservatory.org/library.cfm?refID=88374 (retrieved on 14 May 2011).

29 For more on Turkeys position in WTO in agriculture see, Çakmak and Akder (2005).

30 See, WTO Document TN/S/O/TUR/Rev.1 on 29 September 2005 for Turkish Revised Conditional Offer on Services.

31 The Fifth Meeting of the WTO Coordination Committee in Turkey, held on 12 April 2006, available at: http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTarafliAnlasmaDb/KitapcikNisan2006.doc (retrieved on 16 May 2011).

32 Named after WTO Document TN/C/W/52, a proposal for "modalities" in negotiations on geographical indications (the multilateral register for wines and spirits, and "disclosure" in biological diversity.

33 WTO Document TN/TF/W/45 The document is accessible via: http://docsonline.wto.org/gen_search.asp?searchmode=simple

34 For a detailed analysis of Turkeys approach in TF, see (Oğuz, 2008).

35 See, WTO figures available at: http://www.wto.org/english/tratop_e/adp_e/ad_init_rep_member_e.pdf (retrieved on 19 May 2011).

36 This was a heterogenous group of countries composed of Norway, Chile and Hong Kong which opposed the use of such measures *per se;* Japan and S. Korea, Taiwan which have started to use them recently, but usually opposed any intensive use by their trading partners against their interests; Switzerland and Israel which considered to take part for their own negotiation strategies; Brazil and Mexico which showed themselves opposed to the US pracitces; and Turkey, a ferquent user itself, but opposed its abuse by others for its export purposes.

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