



**Szent István University**  
**Management and Business Administration**  
**Ph.D. School**

**THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON THE  
INTERNATIONAL RELATIONS**

**Ph.D. Dissertation**  
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## Introduction

The present crisis is one from among the past crises which influenced the international economic relationships in a direct form, for the impact of the global crisis on international economic relationships is well-known. What is more a lot is said about the nature of the financial-economic crisis that burst in the end of 2007 and about its different causes and effects in different parts of the world. The crisis with its huge financial component that hit the banking systems and sectors in Europe and the United States of America, reminds of the famous and similar crisis of 1929. Actually this crisis broke out and appeared in Germany and it expanded and finally reached the United States of America and later on to other countries of Europe. This led to a growing and extremely high number of unemployment. It also helped the emergence and rise of fascistic systems in Europe. One may say that it encouraged Japan's fast industrialization in the face of the pervasive western colonialist challenge, on the ground of the Asian continent and to occupy great parts of it, especially Chinese territories. All this happened before the Second World War<sup>1</sup>. Circumstances of the two crises are absolutely different from several aspects. The principal feature of the present crisis is that its effects are restricted on the European and American economies. Treasuries and central banks in these countries spent billions of dollars in order to save their banking systems from the total collapse and from a suffocating liquidity problem that could totally paralyze economic capacities.

It is worth mentioning here that this economic crisis that reaches back to the past century greatly influenced the economies in the Arabic Countries, which were under the influence and dominance of one of the great European powers, more exactly France, Great-Britain and Italy. These countries, at that time, were on their way of building the infrastructure and modernization of their economies, albeit in a restricted form, in the face of the colonialist power and according to their economic interests. This progress stopped or it has slowed down up to the outbreak of the Second World War. That was the moment when the British army needed the mobilization and activity of local economies, on agricultural, industrial and service industry fields, in order to resist and oppose German attempts to invade and occupy the

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<sup>1</sup> Romer, David, and Christina Romer, 2002, "The Evolution of Economic Understanding and Postwar Stabilization Policy," in *Rethinking Stabilization Policy*, Federal Reserve Bank of Kansas City.

Arabic Eastern Region and to reach Egypt. They also needed more raw materials produced on local level and especially energy resources.

To understand the roots of the real crisis about the global crisis and the ambush of shortcomings of the global crisis and the real causes lying behind the recession of stock exchanges in the world and the range of the world credit crisis on international relationships and the way how the savage capitalism exploits the crises so as to impose its own importance, and the importance of international management to solve the global crisis, all these factors bring forth the importance of this research. Due to the fact that it keeps track of the global crisis and the range of its effects on the international relationships and it examines the how and helps to understand the international management and the ways of opposing the global crisis.

The main reason of non understanding for a lot of those who follow the developments of this crisis lies in the ambiguity of the basic principles of economic science. And from this point emerges the real nature of the contemporary crisis as it is primarily a financial crisis. And lack of knowledge concerning the roots of its rise and birth. For the present financial crisis is the result of a non-disciplined expansion in the financial sector in the United States of America and consequently in other developed countries of the world<sup>2</sup>. The crisis began when the concerns and worries of traders grew in the financial markets because of the circumstances in the world credit markets. Analysts say that most of the problems can be traced back to those issues to which the American real estate lending market was exposed, known as “subprime”. This grants money to all who wants buy a house, without imposing on the borrower the duty of presenting a strong financial record and report. Among the principle reasons of this crisis we can mention the growing expansion of financial institutions and their growing role in disbursing high-risk credits to companies and trader institutions working in the field of real estate mortgage. And these institutions do not possess the sufficient monetary guarantees to repay their obligations. One more reason: the incapacity of real estate financing companies to carry out acquisition transactions that were recently announced by the American Government. The international relations with the concerned countries led to the establishing of the origins of the financial crisis in the industrialized countries and this threatened the global economy in most of its fields. All these factors influence a great number of developing countries (Arabic

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<sup>2</sup> Feldstein, Martin, 2007, “How to Avert a Recession,” *The Wall Street Journal*



countries too) and obstruct the economic development process. The reverberations of these effects are present in all fields of life in the developing countries.

Beginning from the sixties of the 19<sup>th</sup> century the world witnessed several financial “collapses”, in Great-Britain for it was at the period the basic financial center in the world, but modern history does not remember this anymore. Then there came new severe and shocking financial crises in Europe at the beginning of the 20<sup>th</sup> century, these had as a consequence the outbreak of the First World War. Then the crisis moved to the other side of the Atlantic Ocean, where occurred another financial crisis which was followed the recession, called the Great Depression of 1929-1933. Its effects remained sensible during the next ten years.

In the sixties of the past century several crisis took place, from among them we can mention the Polish debt-crisis, followed by several different crises like in Mexico and Argentina and Canada. Then the collapse of the London Stock Exchange in October 1987, then the Asian crisis which swept over and stormed the East-Asian countries in the second half of the nineties. It resulted in several collapses in Thailand and Japan and Korea and Malaysia and Indonesia. The latest of these huge collapses is that which took place after the 11<sup>th</sup> September events in America.

In all these collapses, causes and reasons were different as far as the apparent features are concerned, but these had a principle phenomenon in common, which finally led to the collapse. Namely, this is the emergence of a huge debt that surpasses the capacity of the economy or that of the market. These also show some resemblances as far as the results are concerned, i.e. economic stagnation and recession having as a result reduction in the production followed by giant unemployment. Unemployment can be considered to be the most dangerous of these features.

This is why the most important theoretical implications of these economic collapses, is the attempt to prevent the final result, i.e. the unemployment, this can be realized by a kind of governmental intervention – by the government and not the market. This intervention must of a wide-range intervention in order to create a greater demand that can result in complete employment - created by the great theoretical effort to reform the present state of capitalism. As a new world system appeared after the Second World War, this necessitated the

establishment of the International Monetary Fund (IMF)<sup>3</sup>. Its objective is to prevent between countries the small financial imbalances as a consequence of the fluctuation of exchange rates or currency exchange, which can affect other countries in a negative way. And the International Bank can intervene in a direct way, as a representative of “the government of the New World” by granting financial sources for creating progress and carrying out different projects, the effects of which can be seen in the labor market, and all this can speed up and accelerate the employment process<sup>4</sup>.

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<sup>3</sup> Anne C. M. Salda, *The International Monetary Fund*, International Organizations Series, Selective, critical, annotated bibliographies, Volume 4, Clio Press Ltd., 1992

<sup>4</sup> See: Seidman, Laurance, 2003, *Automatic Fiscal Policies to Combat Recessions*, M.E. Sharpe, New York.

# **1. THE IMPORTANCE OF THE RESEARCH**

The importance of this research comes to light, especially after the second crisis since 1929. The major trait of the present crisis can be characterized by the fact that its effects are restricted basically on the economies of the European countries and on the economy of the USA. Then observing the present situation in the Arabic Region and in the Middle East in general, this can be done by comparing the results caused by the crisis of the past century and by the present crisis.

## **1.1 Complexity and difficulties of the Research**

In this section, we shall examine the reflections and manifestations of the global financial crisis and the effects on several great powers and other countries, among them the developing countries. In such a way we can show the ability of international systems to confront the challenges that can lead to the creation of mechanisms by the help of which managing of the crisis can be solved in the future.

.- By examining the global crisis in the line of crises which influenced the international relationships in a direct way, we can get an answer to the principal question formulated in this research:

.- What is the effect of the global crisis on the international relations?

The basic question raises several sub-questions:

How is the American rescue Plan?

What are the latest developments of the global crisis in the context of international relationships?

To which extent did the globalization influence the international relations?

- Effects of globalization on the developing countries.
- International trade movement in the context of globalization and its manifestations on developing countries.
- The American-European-Asian relationships.

- The international situation - a future vision.

### **Objectives of the Research:**

- Study of the manifestations of the global crisis on developed and developing countries and on the least developed ones – in order to demonstrate the present and possible effects.
- Investigation on the real roots of the global crisis and the ambush of shortcomings
- Analysis of the extent of the effects caused by the global credit crisis on the international relationships.
- Evaluation of the mechanism that are at present available to diminish the negative effects of the crisis and suggestions for the treatment of the problem.
- Study and analysis of the need for an international managing
- Analysis of the international managing and its efficiency in facing the global crisis.
- Analysis of the role of globalization in managing and administering of the global economy.
- Analysis of the role of the International Monetary Fund.
- Analysis of the role of OPEC.

### **1.2 Postulations and assumptions of the research (Hypotheses of the research):**

The postulations of the research come from its studying the global crisis and the range of its effects on the international relationships.

*Hypothesis:*

- 1- At all the oil price increase was not enough for creating the global economic crisis.*
- 2- The energy crisis adding to the general global economic crisis*
- 3- The oil revenues did not create the unified economic structure of OPEC member countries including Arab countries.*

Working on the elucidation of the international managing and the how's of facing the global crisis. The aim is at working on understanding the positive sides of the financial crisis and its impacts on globalization.

### **1.3 Applied methods in the Research**

#### **Methods of systems:**

The research deals with the relation between the international system and its effect on sub-regional system. This method studies the relationships in their totality, not their particularities.

#### **The historical method:**

According to scholars and to those who study the international relationships in order to use history as a means for being able to make a choice or to be sure about the repetition of certain events in a regular form. Perhaps Paul Kindy explained this example, in his book *The Great Powers 1500-2000*.

#### **The analytical method:**

The researcher may use this method in order to analyze the events and some of the agreements and international regulations coming from decision-makers; as they appear in the context of this research.

#### **Method of managing the crisis:**

Crises requires from the person in charge, from those who make decisions, quick steps, in case of lack of information and lack of sufficient time; due to the fact that that the most important events described in this research occurred unexpectedly. This is why this method is needed.

#### **The research is divided into six chapters**

The first chapter deals with the theoretical framework and with the concepts of the present financial crisis and real estate financing and the suggested solutions for the crisis. The second chapter deals with the international relationships in the context of the revolution of information and the characteristic features of the new world system. The third chapter deals with the global crisis' effect and influence on the Arab World and with the similarities between the present crisis and that of the thirties in the past century and with the oil-exporting (OPEC) countries and their role in maintaining the oil prices in the world. The fourth chapter deals with the international relationships and how are these affected by the global crisis and

with the concept of international relationships and with the latest developments of the global crisis in the context of international relationships and with the International Monetary Fund. The fifth chapter deals with the future of international relationships in the context of the global crisis and globalization and the influence of globalization on the international relationships, then it reaches the event in Washington and New York of 11 September 2001, and the American managing of this crisis and its manifestations on the world system and the Arabic Peninsula. Finally, the sixth chapter deals with the international situation and with a future vision of it.

### **The present financial crisis**

The new crisis began with the announcement of a giant financial institution, i.e. Lehman Brothers about its preventive bankruptcy. This was a dangerous symbolic beginning. For this ancient institution belongs to the small group of institutions that escaped from massacre of the great recession of 1929. It is one of the oldest financial institutions of the USA, established in the 19<sup>th</sup> century. The predictions of Alan Greenspan, former Chairman of the Federal Reserve Bank of America emphasized the fact that new giant financial institutions would follow the footsteps of Lehman Brothers.

It is a well-known fact that there are two kinds of financial crises. The first form influences, to a great extent, the real economy (production sector) and this can lead to an economic recession. The influence of the second form on real economy will be infinitely limited and consequently this will not lead to an economic recession. We can classify the American financial crisis, witnessed by world economy in our present days, as belonging to the first form. We have clear evidences of that affirmation, for the reports prepared by the International Monetary Fund which monitors the performance of world economy approves this along with the predictions according to which world economy will witness a general economic slowdown in the next period. With a careful look at the reports prepared by the IMF what we shall later on touch in greater detail, one can observe that the Fund used to issue in the past few months a very great number of reports, in very short intervals. In these reports it

has reiterated its predictions on global economy<sup>5</sup>. Every report points out that the economy will slow down to a greater degree than predicted in the previous reports. Proofs and evidences that demonstrate that the present American financial crisis influences in a negative way not only the real economy, but there are strong proofs and evidences which states a kind of destabilization of confidence and a situation of confusion having an effect on both investors and consumers. Moreover there are experts who say that we have not seen the worst scenario yet. It is also well-known in the science of economics; there is a necessary condition in order to create a stable macroeconomic environment and this means the presence of a strong, stable, steady financial sector. So if the financial sector is not firm and steady enough, it is really difficult to create a stable macro-economy. The severity of the present crisis, and which is unparalleled in global economy since the great world recession, even if we are only at the beginning of it, has not raised questions about its impact on real economy. It produced a kind of recession. On the other hand it created a much more serious problem, namely the question related to the capitalist system itself. Is it possible, after that crisis, that this system may maintain its existence? And is it possible that world economy may depend on it? And is it possible that the USA may lead the world economy as it did since the end of the Second World War. Or are there here other powers that will appear on the scene of global economy? These questions do not cease to occupy the minds of great number of people. This is why this research paper tries to answer these problems in a simplified way, by studying the present financial crisis and to present its different dimensions. Naturally, it is our duty to introduce the causes.

## **Real Estate Financing**

Everybody knows that reason of its existence is the financing or real estate mortgage which enables the consumers or individuals to pay the debts, who otherwise would not be able to settle these debts. We find it necessary to give a simplified picture and description of the

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<sup>5</sup> See: Bernanke, Ben, Vincent Reinhart, and Brian Sack, 2004 “Monetary Policy Alternatives at the Zero Bound: An Empirical Assessment,” *Brookings Papers on Economic Activity*. Bank of England, 2009, “*The Role of Macprudential Policy*,” Discussion Paper, November. Baunsgaard, Thomas, and Steven A. Symansky, 2009, “*Automatic Fiscal Stabilizers*,” IMF Staff Position Note SPN/09/23. Benjamin Zucher, OPEC, *The Concise Encyclopedia of Economics*.

development of real estate financing. This picture may help the understanding of how the crisis came into being. Proofs and evidences demonstrating that the present American financial crisis influences in a negative way not only the real economy, but there are convincing proof and evidences that are represented by a kind of convulsion and loss of confidence which hit both investors and consumers. What is more, there are experts who say that we have not seen the worst scenario yet. The developments of real estate financing and real estate financing systems witness great changes in several advanced economies. Real estate mortgage markets are subject to a great extent to a kind of organization. Real estate credit is subject to the domination and rule of specialized lending bodies which have faced a limited extent of the competition in the split and divided markets. Organizational regulations set up limits for interest rates and limits of real estate loans and fixed periods of settlement.

These organizational regulations resulted in rationalization of using the credit in real estate markets. This also caused a kind of difficulty for the consumers (family sector) to obtain real estate loans. With the liberalization of real estate markets, which began in the eighties in most developed countries, there appeared the competitive pressure from the non-traditional money lending institutions. This resulted in that prices became more interactive and the range of available services became much wider. This enabled the consumers and gave them more possibilities to get real estate loans. However liberalization took different forms in different countries.

### **Real estate financing in the United States of America**

In the United States of America the liberalization of real estate financing markets coincided with the gradual cancellation of restrictions on interest rates in the first years of the eighties. In the same time the emergence of a secondary market of the real estate mortgage resulted in an easy accessibility to financing real estate loans by means of capital markets. *This encouraged a great number of banks and other financial institutions to participate in the real estate mortgage market*<sup>6</sup>. In Great Britain, the abolition of credit restrictions was a basic

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<sup>6</sup> Mary Tootikian, *Stunned in America, Who did it & how to fix it, Subprime Mortgage Crisis*, 2009, AuthorHouse, Bloomington  
IMF Staff Position Note, February 12, 2010 SPN/10/03, Rethinking Macroeconomic Policy, Olivier Blanchard, Giovanni Dell’Ariccia, and Paolo Mauro  
Merton, Robert C. 1992. *Continuous Time Finance*, Cambridge, Massachusetts: Blackwell.



doorway leading to liberalization in 1980. This intensified the competitive pressure in the real estate mortgage market. In Canada, Australia and in North-European countries, real estate financing market liberalization went on with relatively rapid steps and it was completed in the middle of eighties. In all of these countries, the cancellation of the maximum limit of loans and that of the interest rates on deposits and the abolishment of restrictions on credit was the reason of opening the way for the increasing competition in new sectors in credit market. In the United States of America, Canada and Australia the total rate of consumer (individuals) loans have been doubled as compared to those of the eighties, in 2007 from non-banking financial institutions. This transformation was connected to the modernization of new tools closely related to real estate loans and adopting lending policies with great conformity with development. All these changes have contributed to the fast growth of real estate credit in these countries. After the liberalization of real estate mortgage markets all developed economies turned to the acceptance of more competitive models and methods in the field of real estate financing that can give way to consumers to get housing related loans with greater freedom, due to growing diversity of financing sources.

### **Some basic features in real estate mortgage markets**

-Rate of loan to the value (that is the rate of real estate loan to the value of the house) and the usual duration, term of the loan: the rise of the loan's rate to the value makes way for the borrowers (debtors) to borrow more, in the meantime periods of settlement are longer, although maintaining the rate of debt service (by debt service we mean: payment of installments added to it the overdue, unsettled interest) to the income within limits.

-It is possible to repeat borrowing with the guarantee of the house's value and a payment of the debt in advance without any further fees: the possibility of borrowing by a guarantee of accumulated value of houses enables consumers to a direct benefit from their housing wealth and to get more loans – if the prices of the houses increase. Payment fees in advance result in limiting consumers' capacity to refinance their real estate loans – in case interest rates are reduced.

-Establishment of secondary real estate loan markets: Whenever the development of secondary real estate loan markets are developing, lenders will with greater ease, obtain financing means in the capital markets and consequently will be able to grant loans to

consumers – this is true if other conditions are balanced. Up to now, we have shown the development of real estate mortgage or real estate financing in a simplified form. This process is the real cause for the financial crisis what the world witnesses nowadays. Now we turn our attention to the rise of crisis<sup>7</sup>.

### **The appearance of the crisis:**

The American financial institutions granted openhandedly housing loans in an unprecedented and unparalleled way. On the other hand, the rate of loans to the value of properties (houses) has increased. The financial institutions granted these loans to great number of consumers with low income or small creditability (low credit worthiness). This means that their wish and capacity to repay and settle the loans is insignificant, consequently they find themselves in a difficult situation at the date of payment for their loans. This process influences to a great extent those financial institutions that granted the loans; leading eventually to a situation when these are not able to comply with their obligations. Actually this may lead to a financial collapse. We have another special feature that is characteristic of financial and banking institutions, i.e. the great degree of overlapping between them, especially after the creation of new financial tools in the financial field in general, and in the field of real estate financing. This has become widespread in the case of bonds or securities to great extent. This was realized by transforming the housing loans to backed, subsidized securities by these loans. This led to the overlap between financial institutions; consequently if one of them is facing collapsing or is on the verge of bankruptcy, this may have a negative effect or may threaten other financial institutions with breakdown. On the other hand there is another particularity characteristic of the financial sector: in the case of bankruptcy of a given financial institution or its collapse due to its bad financial situation, panic will hit the depositors in other financial institutions. This may force them to the withdrawal of their deposits. The withdrawal of deposits in an unexpected way may have as a consequence the collapse and breakdown of these financial institutions – even if it was in good financial conditions. This is the matter that

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<sup>7</sup> Van K. Thorp, D.R. Barton Jr., Steve Sjuggerud, *Safe Strategies for financial freedom*, 2004, McGraw-Hill Companies.

Waleed al-Hayali, *New orientations in the financial analysis*.

Phillips, A.W., 1954, "Stabilization Policy in a Closed Economy," *Economic Journal*, Vol. 64, pp. 290–323.

Pijush, Paul 2006, OPEC's action to manage prices and relations with non-OPEC nations, 2006, June.

is characterized by the Domino Principle, namely if one dice from among the dices of the domino falls the rest of the dices will fall with it. This is why we may say that the intervention in these cases by the central banks is an unavoidable and necessary step.

### **Development of the crisis:**

The crisis followed a developing course and convulsion and disorder of markets deteriorated the crisis in financial markets. All this led to an explosion in August 2007 and became the greatest shock and financial trauma since the great recession, causing a lot of far-reaching damages in markets and principle institutions on international level. Disorder, chaos began due to quick and continuous rise in insolvency cases in connection with payments in the high-risk real estate mortgage market. This was in the context of basic correction activity that witnessed housing market in America, leading to sharp rise in differences of yield on securities insured by these real estate mortgages, including insured debt obligations by high credit funds. On the other hand subsequent breakdowns quickly expanded on the basis of financial system heavily depending on financial increase consequently resulting in the reduction of liquidity in transactions market among different banks, and enfeeblement of capital adequacy and emergency settlement of institutions with huge financial interventions, causing shocking disturbance in credit markets and urging the rerating of dangers in great portions from among different financial tools. In this crisis there is a more severe effect, i.e. the appearance of an unparalleled huge loss in liquidity. Interest rates of transactions of three-month term between banks jumped and highly surpassed one-night interest rates on lending, being a usual tool in monetary policy. This happened in a moment when banks tried to maintain the liquidity of their possessions in the face of a growing pressure on them, in a moment of growing uncertainty about the scope of their financial capacity and distribution of bank losses from holdings of securities attached to high-risk real estate mortgages and other forms of credits. Liquidity problems spread in a far-reaching and extensive form, for banks resorted to reduction of credit and to the increase of securities insurance margins and the deposit applications from other financial brokers.

Responses of central banks. The principle central banks made strong, decisive steps to treat liquidity losses by facilitating – in a wide range – the possibility of getting short-term financing using all existing facilities. But this has brought only a primarily and partial

success<sup>8</sup>. And due to the fact increases of liquidity remained at high levels, the European Central Bank, in December 2007, began a new extension of its activity. And the Council of American Reserve Bank and Bank (Central) of England began a great expansion of the range of accepted additional insurances and the scale of borrowers allowed getting money from the central bank.

The principle central banks announced a coordinated initiative aiming at the assurance of the appropriate liquidity, including the providing of exchange lines on the part of the Council of Federal Reserve by giving permission to European Central Banks to widen the range of the dollar's liquidity. The Council of the Federal Reserve Bank in March 2008 took new measures; this included the opening of a real rebate window for speculators with high credit worthiness. In the meantime, several other central banks changed the attitudes of monetary policies, under the influence of the continuously growing risks of results expectedly not changing too much in this period. Most of these initiatives were the result of the keenness of the Council of Federal Reserve bank in August 2007, to take measures to reduce interest rates on federal wealth. On the other hand, the central Bank of Canada and the Central Bank of England also reduced the usual interest rates as a tool of the monetary policy.

The European Central Bank and the Central Bank of Japan gave up the idea of any new increase in interest rates. In Great Britain the authorities granted complete guarantee for the deposits in order to recuperate the confidence of depositors, this was after the collapse of one of the greatest institutions, working in the field of providing real estate loans. The continuity of liquidity problems reaches back, to a great degree, to growing fears of credit risks. The differences of yield on credit continued to be widening in the recent months. And this is in the midst of increasing attacks that surround the coming horizons. Fears also appeared and reached a high level concerning the scope of safety and security of monetary products and the security range of investment tools. By the continuous downfall in the circumstances of

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<sup>8</sup> See: Holmstrom, Bengt, and Jean Tirole, 2008, "*Inside and Outside Liquidity*" unpublished a.manuscript.

Hotelling, Harold. 1931 The Economics of Exhaustible Resources. *Journal of Political Economy* 39 April:137-75.

Jason Furman, 2008, "If, When, How: A Primer on Fiscal Stimulus," The Brookings Institution.

housing market in the USA and especially in the high-risk real estate mortgage market sector, prices of bonds and securities kept on falling that were connected to real estate mortgage.

In addition to that, the differences in yield have sharply been increasing in other sectors of the market. This includes securities insured by credit cards, car loans, student loans and ensured commercial real estate mortgages. This is the result of fears that the rate of non-payment will be increasing in number and of the excessive leverage and of the behavior of doubted securities. In this context, fears have been doubled for the banks did not realize only partial success in maintaining of the capital in order to confront the rising losses. In the United States of America, one of the investment banks has been sold on emergency basis, supported by the Council of Federal Reserve Bank. In addition to that, a great number of hedge funds and other, financially to great degree supported institutions, faced dangerous difficulties when banks began to increase demand deposits of margin protection on what was available from lines of credit. This dangerously influenced the activity of emergency assets buying. In the same time, questions arise concerning the term of security of exchange market with credit risk, especially in the face of the continuous weakness of insurance companies in financial centers, which covers credit risks. Share rates regressed in an equal manner, especially in the beginning of 2008, when signs of economic weakness appeared. And the funds of the financial sector were subject to stronger damages and fluctuation standards in shares and currency remained on their high level. And on the contrary to this, interest rates on government bonds fell to great extent and in the meantime investments in the basic commodities markets were growing to an unparalleled degree. And investors try to possess alternative assets of smaller risk.

### **Roots of the global crisis:**

The crisis began after the growth of anxieties of those present in financial markets, due to the conditions what the credit markets are witnessing in the world. Analysts say that most of it goes back to those problems to which the American real estate money lending market is exposed, the phenomenon is known as “subprime”. This grants loans to anyone who wishes to have a house without imposing on the borrower the necessity of having a good financial record. This also contributed to the deterioration of share rates in a clear-cut manner in the past period. During the crisis the shares of the banking sector were damaged to the greatest degree. This attracted the attention of financial analysts who explained this by the fact that the

investors in the stock exchange did not know which bank is exposed to real estate credit problems and the extent of their possible losses. Thus, everybody began buying in a hysterical way.

In such a way, approximately 70 American real estate mortgage companies suspended their activity and announced bankruptcy or were exposed to be sold, since the beginning of 2006 up to now. In spite of all these measures taken, this phenomenon could not be stopped and spread all over the world. The signs were regression of financial markets in Thailand, Malaysia, Hong Kong, Indonesia, Korea, Singapore and Taiwan.

The regression of *Chinese markets* was less significant than its Asian counterparts; for the banks in China announced that they did not possess investments related to the problems of the American real estate mortgages. In Europe, financial analysts described the crisis as being a dangerous crisis that threatened the whole European financial system, but it was not disastrous yet. Markets in Sweden, the Netherlands, Norway, Belgium, Austria, Denmark and Finland showed signs of regression. The British index of Financial Times fell and the German DAX and the French CAC, the British FTSE and the Italian Mibtel and Tepix, this latter recorded the lowest points since November 2006. The index of Japanese Nikkei closed at its lowest average since the last 8 months. This was after that the disturbed feelings of investors were mirrored in a manifest manner due to the index of industrial Dow Johns that was heavily shocked so that it fell lower than 13000 points, in the meantime, NASDAQ lost 1.7 of its value.

### **Ambush of shortcomings in the global crisis**

The loans disbursed to individuals of low income witnessed a leap in America during the past years. There was nothing easier than to get housing loan. If the borrower's credit worthiness was low or had a bankruptcy record; this did not matter. If his income was so low that it did not qualify him for getting loan, the only thing he had to do was to make an attempt to obtain a loan by way of filling in a special demand form "in which he declares his income". The bank will be satisfied with this form, even if he should have been checked and passed a verification process concerning his income.

If the applicant for a loan felt any kind of tension or pressure on the part of lender, i.e. "inquiry about the declared income", he only had to visit a company on a particular internet

site, and after paying a fee of 55 dollars, officers of this small company (headquarters in California) would help in obtaining the loan. This was made by employing “you” as an “independent, free-lance contractor”. They also give to the applicant a note of salaries so that this may be a proof of your income. If the applicant pays another fee of 25 USD, then the employees of the call-center will give a glamorous description of the applicant – if asked by the bank.

In all probability, the weakest part of the loan market, as far as individuals of low income are concerned in the past few years, is that the money lending side provided loans with great generosity, by providing loans to poor borrowers – without any further inquiry, if there was any at all<sup>9</sup>.

### **Principle reasons behind the regression of international stock exchanges**

Things witnessed more tension after the failure of the American Federal Reserve and the European Central Bank in reducing the severity of the indexes’ regression; in spite of the fact that 121.6 billion USD were pumped in order to reassure investors and to stop the bleeding regression. Let us take for example the case of DOW JOHNS, the index of which in a single day of transactions lost approximately 400 points when the regression of the Standard and Poor’s index was 150 points.

**The first factor:** The financial institutions expanded the granting of credits of high-risk to companies and to institutions working in the field of real estate mortgage which did not possess the sufficient financial guarantees to repay their obligations to the money lending institutions. The matter reached a suffocating situation, when these institutions lacked the sufficient liquidity for financing their activities.

**The second factor:** Incapacity of real estate financing institutions to accomplish acquisitions, and this was announced recently by the American Government. The reason of this they lack

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<sup>9</sup> See: Musgrave, Richard A., 1959, *The Theory of Public Finance* (New York: McGraw-Hill) Mishkin, Frederic, 2008, “Challenges for Inflation Targeting in Emerging Market Countries,” *Emerging Markets Finance and Trade*, Vol. 44, No. 6, pp. 5–16. Stock, James, and Mark Watson, 2002, “Has the Business Cycle Changed and Why?” in *NBER Macroeconomics Annual*, ed. by M. Gertler and K. Rogoff, Cambridge: National Bureau of Economic Research. Also see: Kaldor, Nicholas. 1939. Speculation and Economic Stability. *Review of Economic Studies* 7: 1-27. 18

the needed availability for financing these activities. This gave a negative sign and indication about the performance of the American economy.

**The third factor:** This had a deep impact on the regression of American stock exchanges, i.e. incapacity of the government to create new job opportunities although this had been announced. This fact reminded the investors that the world's greatest economy was facing a real crisis. And it well-known that financial markets are very sensitive to such indicators. Regression was very sharp in all indexes of American stock exchanges.

It is a well-known fact that the American economy and market is connected to the European and Asian economies in an organic way. This means that the industrial companies in these countries depend for about 70% on promoting their products inside the American market. In case of regression of the American economy these above-mentioned foreign firms will suffer from the decrease in the volume of their sold products and they will record a loss in their profits. When signs prove this regression, the stock exchanges in the world will witness a kind of decline and weakening. Regarding the fact that investment funds and capital institutions begin to get rid of the shares in their possessions, sale activity in all monetary markets is increasing; this leads to the regression of market value of shares and to the decline of their prices on international level. Taking into consideration the fact that international monetary institutions, whether American or European, are eagerly attempting the diversification of their financial holdings by way of investment in all securities stock exchanges, this can include the newly emerging stock exchanges so as to reduce risk rates resulting from the regression of shares and in great international stock exchanges.

The storm did not abate yet. It still continues uprooting other companies and institutions in the forefront of them "the American International Group" that is considered to be one of the greatest insurance companies in the world. It began tottering when its shares lost about 61% of their value. Fears overwhelm other banks too, which began to tighten the grip around the throat of lending activity, this threaten the basic stimulator of the American economy; this is represented in the field of credit when the dollar reached its weakest position against the Japanese yen since the past ten years. Christopher Walin, delegated member of "Institution Risks Analyses" Research Group expected that approximately 110 banks would be closed; their total assets reached ca. 850 billion dollars. And all this may happen in the near future.

The total number of financial institutions which are under the aegis of federal security reaches the number of 1800. These institutions together possess ca. 13 trillion dollars in assets and properties.



The overall and total government debt, foreign and domestic, in the United States of America up to now has reached more 11 trillion dollars. China is the main creditor for the United States of America, for it gave ca. 450 billion dollars. It is followed by Great Britain, then Japan, then the Kingdom of Saudi Arabia.

The American budget deficit has reached 450 billion dollars, whereas the commercial deficit is 65 billion dollars. It is to be mentioned that the market value of 8 international financial institutions fell with about 574 billion dollars during a single year, this is the reverberation of the decline and deterioration witnessed by international markets, and this has its impact and effect on the banking and financial sector<sup>10</sup>.

### **The American Rescue Plane (Bailout) from the Global Crisis**

The American Treasury Department unveiled the details of the Government's plan that aims at saving the banking sector in the United States of America, this happened after the announcement of allocation 700 billion dollars for its implementation.

The statement of the Treasury Department explains that the plan enables the Treasury Secretary, Henry Paulson, and charges him with the coordination with the Chairman of the Federal Reserve (the American Central Bank) by granting authorization of buying the funds of banks, companies and other financial institutions, as long as it seems to be necessary, in order to stabilize financial markets.

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<sup>10</sup> See: Blanchard, Olivier, and John Simon, 2001, "The Long and Large Decline in U.S. Output Volatility" *Brookings Papers on Economic Activity*, No. 1.  
Blanchard, Oliver J. 1983. The Production and Inventory Behavior of the American Automobile Industry. *Journal of Political Economy*: 365-400, June.  
Blanchard, Olivier, and Jordi Galí, 2007, "Real Wage Rigidities and the New Keynesian Model," *Journal of Money, Credit, and Banking*, Vol. 39, No. 1, Supplement, pp. 36-65.  
Blinder, Alan. 1982. Inventories and Sticky Prices. *American Economic Review* 72: 334-48.  
Blinder, Alan. 1986. Can the Production Smoothing Model of Inventory Behaviour Be Saved? *Quarterly Journal of Economics* 101: 431-53.  
Blinder, Alan S., and Louis J. Maccini. 1991. Taking Stock: A Critical Assessment of Recent Research on Inventories. *Journal of Economic Perspectives* 5: 73-96.  
Brennan, Michael J. 1958. The Supply of Storage. *American Economic Review* 47: 50-72.  
Brennan, Michael J., and E. S. Schwartz. 1985. Evaluating Natural Resource Investments. *Journal of Business* 58: 135-57. *Bulletin of International Relations and Progress*, September 2003

The Plan, described by Bush as ‘huge because the problem is enormous,’ has raised the debt ceiling in one year, from 10.6 to 11.3 trillion dollars so as to lessen the pressure, to a great extent, on the whole American economy, which suffers from heavy loss of blood in the field of liquidity, due to the war in Iraq and Afghanistan. In an attempt to the containment of confusions, inquietude in financial markets, the American Treasury Department announced also that it would support with 50 billion dollars those investment funds which were active in the monetary market and whose shares’ value had fallen under one dollar.

But the losses caused to the shares in New York stock markets on the ‘Black Monday’ 15. 9. 2008 were ‘only the tip of the iceberg’ as one could say. The appeared ghost and phantom of bankruptcy around several institutions were which formed an important segment in the American financial system. The losses of Wall Street, on that day, were estimated ca. 600 billion dollars. This was the worst loss, since the losses that appeared in the early morning hours following the attack of 11 September 2001.

The plan wants to provide the best protection of savings and real estate properties, and it is applicable to those who pay taxes. It also aims at the protection of property and the encouragement of the economic growth, and the increase of profits from investments – to the greatest possible degree.

The plan, brought forth in order to confront the worst real estate crisis the United States of America has met since the great recession crisis in 1929, is to support the borrowers who face real difficulties in paying their installments. This was realized by raising the real estate loans limit and these can be subject to judicial proceedings upon a general guarantee.

At the beginning, the American President George Bush opposed this financial bailout plan, for he considered it to be the rescue of those borrowers and creditors who did not respect any kind of responsibility. After a short while, he abandoned the threat to use the right of veto against the plan. This was after the statement of the Secretary of the American Treasury Department, Henry Paulson declaring that the backup of the two firms (Fannie Mae and Freddie Mac) was a necessary step in order to calm down the local and foreign markets.

The Senate accepted the wording of the bailout plan with a majority of votes, 72 yes, against 13 opposing votes, this was after the approval of the House of Representatives.

## **The Principle of the Plan**

The ideology of the plan is to buy the lost debts that may demolish the American financial market and threatens with its collapse. Most of these cases may be attributed to a wrong policy concerning real estate mortgages that was used by the financial speculators in the Wall Street Stock Exchange. The law approved by the American Congress grants a delay to this plan and it expires on 31 December 2009, with a possible extension, on the Government's request, to a maximum period of two years, beginning from the date of ratification. The bailout plan contains a special chapter concerning the two giant mortgage financing firms, Fannie Mae and Freddie Mac, which were on the verge of bankruptcy and collapse in the early days of August. These two damaged firms possess real estate mortgages with an estimated value of 5 trillion dollars; this amount equals ca. 50% of the total American real estate mortgages. According to the plan, the Federal Housing Department guarantees the increase of those credit limits what the two firms are to buy, to 625000 dollars.

## **Clauses and articles of the American financial bailout plan**

1-Permission is given to the American Government to buy the perishable assets with a value of 700 billion dollars. This is closely related to the real estate mortgage.

2-The plan will be implemented in several phases, by granting permission to the American Treasury to buy perishable assets in an estimated value of 250 billion dollars in the first phase. Although, it is possible to raise this amount to 350 billion dollars on the request of the President of the United States of America. Members of the American Congress have the right of veto in connection with the purchase activity and with all that surpasses this amount; actually fixing its limit at 700 billion dollars.

3-The American State participates in the capitals and profits of those firms which are beneficiaries of this plan; this may provide realization of profit if the conditions of the markets.

4-Secretary of the Treasury is commissioned with the cooperation with the authorities and central banks in other countries, in order to create similar plans.

5-Raising the limit of guarantees for the depositors from 100000 dollars to 250000 dollars for a period of one year.

6-Granting tax exemptions the value of which may reach ca. 100 billion dollars for the middle classes and companies.

7-Limiting the compensations to company CEO's, if they are dispensable.

8-Avoiding the payment of compensations that would encourage useless risky, hazardous activities and fixing the financial remuneration of company officials who enjoy tax reductions in 500000 dollars.

9-Recuperation of extra-allowances that were already paid on the expected profits, but not yet realized.

10-The Supervisory Control Board will oversee and administer the implementation of the plan. Members of this Board are: Chairman of the Federal Reserve Bank, Secretary of the Treasury and Chairman of the Stock Exchange Organization.

11-The General Accounting Office, subordinate to the Congress, controls the regular attendance of the meetings in the Treasury; this is to supervise the purchase activity of the assets and the audit of the accounts.

12-Appointment of a general and independent inspector for the supervision of Treasury Secretary's decisions.

13-Decision made by the Treasury Secretary will subject to supervision

14-Taking necessary measures to prevent acquisition of properties.

### **Opinions supporting the bailout plan**

1-Some economists say that the bailout plan is a surgical treatment that gives a comprehensive treatment by saving the financial system and by providing a guarantee that the financing problems shall not move to other companies. These will be restricted to the financial sector, as is the case right now (Caruana, Jaime, 2005, Dixit, Avinash 1990, Eggertsson, Gauti, and Michael Woodford, 2003).

2-The plan guarantees the continuous confidence towards the American banks.

3-The plan ensures a treatment for the problems, by the punishment of those who were responsible, then by finding solutions for bridging the gaps, related to the rise of real estate prices, when banks were responsible for the high prices. It also emphasizes the necessity of limiting the role played by financial markets and speculations with regard to buying postponed bonds.

4-The plan will help companies in the banking sector, due to the fact that the insurance system on deposits in America covers only the deposits of persons, and there is no compensation for companies.

### **Opposing Opinions to the bailout plan**

-Most of the American people think that the problems should be solved only by the Wall Street Stock Exchange and by the American financial sector (John J. Murphy, 2009).

-A great number of Americans, MP's and citizens express their fears concerning the price what the American tax payer population will pay.

-A considerably great number of the American population believes that there are no sufficient guarantees for the success of the plan. They consider it as squandering of public funds.

-The plan will help the banks in the short run to eliminate the burdens of nonexistent debts and non-working investments. But there are concerns and doubts whether the prices of these assets shall ever increase in the near future.

-Some representatives and members of the Congress have reservations about the size of the plan which nearly reaches 700 billion dollars.

-Some Congress members demanded assurances and guarantees concerning the plan and that it would serve the ordinary American house owners, as well as the interests of Wall Street Stock Exchange.

The plan grants to the American Administration free scope in defining the number of financial institutions that will benefit from it, without the exclusion of investment funds which involve in hazardous and risky activity.

Views of world leaders and rulers about the bailout plan

- The American President George Bush: "The plan will help the protection of the American economy, the families and small companies in the United States of America. This is a basic requirement of the financial security in the USA. It also supports those American families that need loans so that they can buy a house or to finance the costs of their children's study in higher education. It helps small businesses so that these can pay the bills. It is impossible to abandon all the companies present at the Wall Street, even if they would deserve the financial crash and collapse."

- Henry Paulson, Secretary of the American Treasury: "The plan can help the protection of the local economy and it restores the confidence of the American people in the possibility

to obtain the needed amount of money in order to create new job opportunities and ensure the continuity of working<sup>11</sup>.”

- President of the European Central bank, Jean Claude Trichet: “It is obligatory to accept and authorize the plan; this is the interest of the United States and the interest of providing sufficient amount of money in the world.”
- Chairman of the Council of Ministers of Finance of the Eurogroup countries, Jean Claude Juncker: “It is Washington’s duty to consent to the plan that will enable the American Treasury to buy from the banks the high risk assets related to the real estate mortgage.”
- The Russian Minister of Finance, Alexei Kudrin: “Washington has to bear its own responsibility towards other countries. The plan of Henry Paulson, Secretary of the American Treasury is necessary and unavoidable.”
- The American Republican presidential candidate, John McCain: “If the Congress does not take the necessary measures for accepting the financial bailout plan, this would force all the American people and the whole American economy into a situation where they would face a very great danger. The American companies will not be able to borrow money for financing their activities nor will they be able to repay their obligations. If we do not make the first steps, many of them will collapse.”
- The Spokesman of the European Commission, Johann Leitenberger: “The European Union is disappointed to great degree by the fact that the American House of Representatives refused the 700 billion financial bailout plan, created for the stumbling and staggering banks and companies. This plan is not only linked to the fate of institutions of the United States of America, but it is relevant and related to the whole world.”
- The British Prime Minister, Gordon Brown: “A worldwide and universal support must be provided to the American financial bailout plan and the United States of America deserves the help of other countries from all parts of the world.”

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<sup>11</sup>[http://www.time.com/time/specials/packages/article/0,28804,1861543\\_1865103\\_1865105,00.html](http://www.time.com/time/specials/packages/article/0,28804,1861543_1865103_1865105,00.html).

## **2. SPECIAL FEATURES OF THE NEW WORLD SYSTEM**

### **2.1 New concepts and methods – which are more rigid**

Without regard to who planned and executed the explosions in Washington and New York, a lot of questions may arise before one can give answers to a lot of signs and milestone features that appeared in the one-pole world system which ruled the world in the last decade of the 20<sup>th</sup> century. The most prominent of them: Did the recently created global system meet the ambitions of those who imposed it? And whether the results produced by the events of the last decade, were they really harmonious and agreeing with the aims and goals they were planned for? Were the latest changes on regional and international levels sufficient to convince Washington that the global system should remain as it was? Answer to these questions would be very long to enumerate. A summary of them can be the following:

#### **First: Some observations on Washington's leading role of the global world system and its most important issues**

In his famous speech of 14 April 1991, the former American President, George Bush the father, defined the general principles that would rule the global world system. These are: reconciliation of regional and international conflicts in peaceful ways and methods, solidarity in case of aggression, treating every nation with justice, reducing the weapon arsenals<sup>12</sup>.

In fact, a careful reading of events and its implications in that period gives a clear picture and notion of how Washington treated these issues and matters. At present we do not want to enumerate them or comment on them, this would be an enormous and overwhelming task, and even producing some negative aspects as well from among those things what these issues

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<sup>12</sup> Scott McClellan, *What Happened, Inside the Bush White House and Washington's culture of Deception*, pp. 99., Perseus Books Group, 2008  
Samir Amin, edited, 1997, *Clash of civilizations or dialogue between cultures*. Dar al-Tadhamun, p. 76.

produced and executed using double standards and methods. But the useful conclusions can be summarized as follows:

-The basic principle to solve the conflicts in a peaceful way is not respected at all in Washington's attempts to treat the global issues of great international impact. Most of the means and relevant points were absolutely missing in Washington's clear will, like the example of the United Nations, except for some exceptional cases and in such places which serve the direct strategic interests of the United States of America. In such a case a given place can be used in a military, security or economic sense.

- In addition to the above-mentioned matter, it can be clearly observed the extent of the Washington administration's participation in creating several regional conflicts and consequently its intervention in administering and managing them. Then finally imposing and forcing such appropriate solutions that merely serve the American point of view.

- Similarly regional and international conflicts and fighting do not shrink nor do they get less, nor do they influence the frameworks of alliances and axes, on the contrary, a great number of them increase in number. And what is more, new phenomena and new horizons are set open for conflicts what are very difficult to control.

-New methods have been adopted, applied in order to impose the logic of force in the international politics. New notions and terms have been invented sometimes the apparent meanings contradict its backgrounds and contents. Actions are justified by weak arguments, these have not a single common link with those issues for which these were created, the intelligent punishments can be mentioned here as examples.

If the situation of conflicts is so dark and gloomy, then the two principles, namely "solidarity in case of aggression" and "treating every nation with justice" are not better solutions than the previous principle. Here we can give the following observations:

-The principle of solidarity in case of aggression is not applied only in some exceptional cases, in spite of the plurality and diversity of these cases and solidarity in case of aggression is not always meant to protect the international security and peace. For the treatment of one of its manifestations (the Iraqi invasion of Kuwait), its declared aims were not identical neither compatible nor convenient with the results which were later reached.



-Several cases of intervention, under different denominations, from among them solidarity in case of aggression, or protection of minorities, resulted in a growing sensitivity to unveil the numerous places of tension in the whole world and to bring to light the dangers and perils of these cases – this is realized instead of calming and giving reassurance about the solutions, such are the cases of recent European wars.

-The notion of treating every nation with justice was not missing in periods of time in the ruling global systems during human history - the change and transformation of which we witness now. We can say that the subjugated minorities and their occupied lands were treated neither with justice nor with the principle of equality. On the contrary, several double standards were used to treat the same issues and their consequences. If some regions witness support for the crystallization of their positions and the accessories of their national circumstances, the matter does not exceed the description of being only a fragment for those entities which could contribute in a way or another in preventing the projects to be imposed.

-The notion treating every nation and every nationality with justice is exploited in a barefaced manner for the intervention in the home and interior affairs of the different nations. The relevant issues, such as human rights, have been transformed in order to be a pretext for an easy intervention to exert pressure on governments and to be means for being able to do what is to be done.

-The appearance of a clear-cut tendency toward the military expenditure, especially in the case of those nation, which feel them targets in the prevailing global system. Every institution and every research center expresses the view that these expenditures are ever growing in a qualitative manner, apart from the amount. This phenomenon reaches back to the growing number of hotbeds of tension, or places of tension and to the fact that these are widening in number and considered to be new forms of complexity and new problems.

-The growing number of those countries which possess different kinds of non-traditional weapons, especially nuclear weaponry. The appearance of regional places of tension is closely connected to nuclear armament. We can mention here Pakistan and India.

-Efforts of some nations, with intense want to possess non-traditional weaponry and the effusion of their efforts to achieve this trend in a typical period, as a result of sense of danger

and as an attempt to establish the balance of terror that is imposed in several moments; and not as a result of possible options that are realizable in reasonable domestic costs.

-Verily all of these phenomena have helped fueling an anti-American hostility and anger and questions have been asked about what the USA did during the period it ruled the whole world. This can produce a conflict between the USA and all other countries on the basis of war on terrorism and eradication of its roots and the war against those who support and finance it.

-Marginalization of all other powers in the world and isolating them in fact from power centers and situations of decision. In the same time, they are connecting them with domestic, economic and financial crisis with a strong political background. This fact led to the total disappearance of world power balance.

As far as the economic side is concerned, and it is the most important, and in fact it is not really mentioned among these principles, will have its own words. The most prominent of them is the announcement, in an official way, of a kind of support to the new capitalism that can rule the globalization, in every conceivable form beginning from the free world trade, abolishment of tariff barriers establishing new domestic financial markets without domestic restrictions adding to these, the intervention into the general politics of different countries, reaching indebtedness specialized policies, the International Monetary Fund and other financial institutions with a capitalist identity. Finally, the matter can reach the subjugation of world countries according to a special perspective of intervention that is really difficult to skip or ignore it.

## **Second: Backgrounds and aims of the American offensive against the world**

There is no doubt that the strike that hit Washington was a strong and severe one, for it hit the American economic, financial, political and military nerve center. And it seemed quite impossible to give a similar answer to it, within appropriate limits. The principle headline of the American attack is war against terrorism and taking revenge on those who planned and executed this plan. Later on, another factor was added, namely the list of those countries which helped and sheltered these criminals. Then, all organizations were included in this group that were considered terrorist, without making a clear difference between relevant terrorist organizations and organizations fighting for liberation and resistance organizations

which fight against occupation. To sum up: The United States of America has gathered everything according to its point of view and placed these notions on one side, then called the whole world to accept these notions and adopt its categorization and classification. If any country rejects it or simply opposes may sooner or later become part of the other side.

If we accept the hypothesis: the attack that hit Washington and New York was an absolutely foreign-planned terrorist attack, then questions arise in the American accusation and its litigation concerning the crisis that remained American as far as the place is concerned but world-wide as far as expansions and litigations are concerned<sup>13</sup>. Could Washington really define and identify the aggressor and affirm it with overwhelming positive proofs so that the US could declare war against them? And what is more, the US asked the whole world to get ready and prepared for the support of the American intensions. If we accept another hypothesis: The organization of al-Qaida and its leader, Bin Laden are responsible for all those things that happened, does this really evoke such a huge volume of organization, mobilization of armies and a long list of demands? Or we can expect in the background something else than Bin Laden and his group? About this no sincere word appeared. Let us suppose that some countries, organizations, groups may help this organization, how does this fact influence the relationship of the world's countries with these issues? Washington did not take into consideration that terrorism was of international origin and of global aims; all this necessitated a global cooperation to resist it. Other difficulties may appear about the nature of terrorism and about who is the authorized power to strike it? Maybe we have infinite questions, but we have to find an answer to all these questions in order to reach the settings and background of the offensive<sup>14</sup>. Some special features of these questions:

-Confirmation and conviction of the USA, in an unquestionable form, of the fact that it is the only country able to rule and lead the whole world and to solve the problems according to the desired classification.

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<sup>13</sup> Mark Fenster, *Conspiracy, Secrecy and Power in American Culture*, University of Minnesota Press, 2008

Ramzi Zaki 2000, Effects of globalization and illusions behind the mirage, *Al-Minhaj*, Number 57, Damascus, 2000, winter, p. 6

<sup>14</sup> Andrew Langley, *Snapshots in History, September 11, Attack on America*, Compass Point Books, 2006

Arabic Strategic Report 2003-2004, Center of Strategic Studies, al-Ahram, Internet.

-Terrorism will never be the product of a single organization in a single place in the world, or under the leadership of a country. Terrorism is present everywhere, even in the United States of America, as it was announced by its officials. Consequently, eradication of its roots is a global duty. Joining these efforts may be willingly or unwillingly, or sooner or later.

-Considering the fact that this attribute is the most important for all the regions of the world, the list of demands distributed by the USA for the use of the countries in the world is designed to transform all governments of the world into a “general representation” of the “absolute” American justice – as it was described.

-Measures taken by Washington up to now, in giving answer, beginning from investigations to military mobilization for the American offensive against terrorism is not a mere preparation for revenging on what hit the USA, but it has adopted diverse and various aspects and diverse backgrounds that were not announced for the offensive. This can affect everything, having the least connection with it, even nations their style and way of living and their thinking and beliefs.

-The hasty appearance of those matters and issues that are likely to be connected with terrorism is very numerous. Not a day or even we can say not an hour may pass without connecting something or someone to the issue of terrorism. This can clearly prove that the offensive has a beginning but its end and the number of those included in the terrorist classification is hard to define. No one knows the limits of its characteristic features. Naturally this reaches back to the answers given by the participating sides. It seems to be easy to involve any opposing country or another that does not accept these terms in a positive way; this can serve as a pretext to put this country in the non-announced list of countries to be attacked.

-The public acknowledgement of the USA of the fact that all the events that occurred were necessarily executed by foreign sides and domestic helpers, but this is not sufficient to throw away the missing truth. And it is the beneficiary side of all that took place.

Focusing on Arabs and Muslims in the public campaigns of accusations is not justifiable without clear proofs and arguments. Considering not a single country could have

accomplished such an act that happened, without having domestic relations in the USA, reaching even up to decision making political circles.

### **Third: Characteristic features of the next phase and the form of the new global system**

The scrutiny of circumstances what we have done up to now, may lead us to the following outstanding features:

-The fact that the USA realized a concrete attack and destroyed Afghanistan did not really satisfy the ambitions and desires of the United States of America in restoring the prestige and respect. There are several reasons for this, from among them: Afghanistan is not the only hiding place of terrorism not is it the starting point of it. Moreover it is not the country, the attack of which could bring desirable changes on world level. In addition to that, there was a consensus to get rid of all those who were there, this helped Washington to great degree to exceed and surpass it. But the desired aim is not reached<sup>15</sup>.

-The geo-political situation of the countries in this region (Central Asia) has become a matter of important dimensions for the American military and political intervention, on the level of East-Asia and its countries and promising them a possibility to play a kind of role in the coming global order. Here we can mention another matter: This territory is the closest region to the Russian borders, to that empire that tries to shake the dust of the last decade of the past century off itself. And in addition to that, the natural resources possessed by these Central-Asian countries play an important role in the American politics. Due to all these reasons and arguments, the American intervention was not accidental, nor was it merely limited and directed against Afghanistan. But it has other dimensions that exceed terrorism and its tools.

-The military strike and attack was not a single one, nor against a group of particular places, but it reached the east of the world and its west. The strike was first directed against the terrorist groups, then it was expanded to include “the apostate and renegade states” and finally it included those countries which did not accept “the House of Obedience” according the American classification. This means that the time span is not limited nor the alliance. But in all probability some countries may enter it for a certain period of time, then a great deal of

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<sup>15</sup> Abdu-l-Malik Awda, Dr. Ahmad al-Rashidi, *The future of international relations*, Series of Egyptian-African Studies, Number 1, Cairo, College of Economy and political Sciences, 2001 August. And Al-Sharq al-Aswat Newspaper

problems may arise if leaving it, and as a consequence of leaving it, the country may be included among those subject to the American offensive.

-The speech about who shelters terrorism and who supports it from among the different countries belongs to different dossiers, such as military related to weapons of mass destruction. This latter tries to charge some countries with accusations and others are exempt from these accusations. This matter is not far away from those justifications which join some Middle-Eastern, Arabic-Muslim countries to the “anti-American” side and to “supporters of terrorism” according to the American understanding. This kind of treatment facilitates the way to attack them.

-The recently created coalition and alliance is based on many temptations for a great number of countries and power-axes, beginning from political issues relevant to some regional places up to financial and economic issues having strong relationships with international political matters, such as foreign debts, and finally reaching technological matters and its military-political uses. So he who is supporter may receive something and he who opposes will be attacked and humiliated and he who tries to neutral, after a short while will be subjected to make a decision.

-The defeat of Iraq by the international coalition, in 1991, and this defeat can be understood as a defeat for all the Arab nations and then the issues leading to the Madrid Conference, all these matters can be put in Israeli-American account – on the basis of finding solutions, according to the understanding and discretion of the triumphant side. By the way, will Washington be the second Madrid?<sup>16</sup>

Will the new global system and order be better that it was earlier? Features of the global system and its requirements elucidate questions. Such as:

-Verily, the global system did not satisfy the ambitions and desires of him who led it; moreover it removed some promising powers from the scene of international decision making process. It did not succeed in the elimination of concerns relevant to the continuity of

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<sup>16</sup>Abdu-l-Malik Awda, A future strategic look at the international relations, Journal of Arabic Affairs, N. 103, 2000 September  
See also: Abd al-Khaliq Abdullah, 1996

influential leadership, even if it succeeded in the field of intervention in the domestic affairs of different countries, beginning from human rights, then internal government (financial and economic) policies of different countries. Finally this resulted in that these policies left their traces on the foreign policies of countries and influenced them in the different regional conflicts. On the other hand it did not manage to subject a lot of countries from among the above-mentioned countries to the American point of view. It finally helped the formation of some partial solutions for some important regional conflicts. But it did not convince the majority to keep on going in the same direction that was considered to be the right one in the field of finding solutions for the conflicts. And this is point where the American point of view must be revised and reviewed in an urgent manner concerning the moribund global system and to establish a new global system that can satisfy the desires of him who defends it.

-The new global system did not witness a lot of dramatic changes, but it became a revised and improved copy of the older one – by taking into consideration some emerging latest details and occurring changes. The one-sidedness of orientation and decision making will prevail for some time, during this period more cruel and harsh steps will be made against countries of the world. Consequently intervention will be present in many unimaginable forms by diverse pretext and different arguments. Communities and countries will be accustomed to a lot of new things becoming parts of their lives and ways of their living. This will be realized by means of those new things that will be pumped into their communities, especially technological matters.

-A great number of principles and values on which different international systems were based during the past periods would witness many changes. Many of them will be new vocabulary and new terms which reflects contemporary aspects. In practical terms, in the shadow of globalization, there is no leadership for countries that could for long influence social behavior. And we cannot affirm for sure that there is a kind of sanctity of personal rights on which the legitimacy of human rights can be based. In case of being suspicious in everything and attempting to understand everything in order to rectify anything that is to be done, under these circumstances, terrorism has not become a local phenomenon that would be subject to a group or a nation. On the contrary, the globalization of terrorism has become the clear trait and characteristic of a tendency to possess and control everything in the world – under the cover of a careful sophisticated security information-based system. This means: The extinct global system controlled the policies of countries, the new one controls the individuals and their

behavior. And it is not strange to state that after a short period of time each and every individual will have his “own special code and signed identity number”. This is to check what is happening where is taking place, who is accomplishing the act. All these deeds are justified by the war against terrorism and to prevent its evil effects.

-Clash of civilizations has become the most prominent trait from among the issues of the new global system, for it is in itself the most sensitive part of the matter, for it reminds humanity of the darkest pictures and moments of the Middle Ages and of all relevant matters, like behavior toward religions, beliefs and other relevant questions<sup>17</sup>.

-Finding solutions for conflicts and regional issues of international dimension will surely witness other cases of extortion on the basis of winner and defeated, in the global system. That is a lot of manifestations of wars between the concerned countries in certain conflicts will disappear, and will be replaced by harvesting the fruits of an alleged victory and to dedicate unjust agreements between non-equivalent sides on the practical field. Take for example the case of Arab-Israeli conflict or the Pakistani-Indian conflict and several other conflicts without having a solution.

-The emergence of regional institutions – as real foundations of the present global system- as actual rivals to the globalization and its effects, their role has become restricted and limited and incapable to create earnest and meaningful changes in order to establish an alternative system. This goes back to several reasons, such as: Their incapacity to actual competition and opposing the dispersion of their projects within one and the same group, Washington was able in a sense to exercise pressure on its active sides and to turn them into the appropriate direction, like the case of the European Union and the Association of East-Asian countries.

-The role of regional and international organizations, in the practical sense, is considered marginalized to the maximum extent, except those cases which serve the interests of the global system’s leader. Facts can prove this. In cases when the activity of these organizations is acceptable, they have the upper hand, in other cases things go on the contrary. In other words, these organizations, and especially the United Nations Organization, have become the

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<sup>17</sup> Samuel P. Huntington, *The Clash of Civilization and the Remaking of World Order*. 2003, Simon & Schuster Paperbacks, Rockefeller Center



legal and adapted tools for Washington in order to govern the global system and its requirements.

-Issues of armament and the spread of weapons of mass destruction and other international issues, like the Missile Shield project or Star War, these will be principle issue, along with the issue of terrorism, in the calendar of the global system's governor. Double standards will be witnessed and a more cruel way will characterize the treatment of these issues; with a special focus on Washington's armament projects, especially the Star War in order to reassure repeatedly that the prevalent data call for an unlimited, specific and qualitative superiority and supremacy in the field of a secure stable world leadership.

-Policies carried out by Washington in different parts of the world, will not contribute to the solution of the conflicts, against which nowadays wars are launched. On the contrary the wave of hostility will appear in a more violent form or perhaps in a more aggressive form.

-On international level, the economic-financial side has an important segment concerning the results of relevant issues. The international economic regressions and the present chain of crises of the capitalist system witness a kind of motivation on the basis of military production and expenditures and consequently these facts can mobilize several other huge sectors. In addition to this, in the coming period a kind of redistribution of wealth may take place and perhaps in illegal way.

Maybe this pessimistic period will be thoroughgoing and towering with several issues, although it is very difficult to avoid this context. Nevertheless this does not mean that it will last forever. Life of nations and peoples are constantly changing, in the same way countries, international organizations. As well as the ancient, new and recent history has witnessed quick and numerous changes in different fields – human intellect can hardly accept them; with the exception of ideologies and beliefs, these latter factors had a substantial share in these dramatic changes.

It is possible that the clash of civilizations and its consequences will be the principal and primary kernel and nucleus for the interior collapse of this system where its first blocks were interwoven. Naturally the disciplinary campaign will not bear the motto “absolute justice”, this notion is found only in heavenly books, but a motto that is applicable till the world is ruled by predatory and ferocious eagles having no relationships with any “noble eagle”.

### 3. THE EFFECT OF THE GLOBAL CRISIS ON THE ARAB WORLD

The American financial crisis is reflected in most economies of the world, for this reason it has been called global financial crisis. The Arab countries form a part of the global international economic system, and consequently they were hit to some extent by this crisis. The extent of influence to which the Arab countries were exposed depended on the volume of financial-economic relationships between the Arab countries and the rest of the world. In this context, we can divide the Arab countries into three major groups as far as the influence of the crisis is concerned:

- **Group One:** These are those Arab countries that have a high-degree financial-economic openness. This group includes the countries of the Gulf Cooperation Council (GCC).
- **Group Two:** This includes Arab countries with middle-degree openness, like Egypt, Jordan and Tunisia.
- **Group Three:** Arab countries with low-degree of openness, like Sudan and Libya<sup>18</sup>.

**The First Group:** Export goods represent a great rate of the GDP. Oil is the main source of the national income. By the repercussions of the crisis one could observe the reduction and fall of oil-prices from ca. 150 USD a barrel in June, to ca. 77 USD a barrel. This means a 50% fall. Undoubtedly, this sharp and severe fall influenced the general budgets and the economic growth rates. For in the second half of 2008 and in 2009 the growth rates fell compared to the rates of 2007 and to those of the first half of 2008. On the other hand, one can observe that the financial activity of the GCC (GCC = Gulf Cooperation Council) states in the world economy is very active. Very significant portions of oil-revenues were invested. The GCC states possess sovereign wealth funds that invest in foreign countries, especially in the United States of America and Europe. There are other funds which invest in other tottering financial institutions. Estimations and assessments show that the losses of sovereign wealth funds in the emerging countries, including the GCC countries can be estimated ca. 4 billion dollars. And the estimated value of Arabic investments in foreign countries is about 2.4 trillion dollars. It is

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<sup>18</sup> Mustafa Ulwi, Professor of International relations at Cairo University, *The International Relations, its notion and objectives*

a well-known fact that these investments are government and individual-owned investments. But most of them originate from GCC countries. These investments were influenced according to the side in which the investment was realized. If this side was characterized by a high-risk degree then the degree of exposure to losses was greater. Undoubtedly, there are losses, but not announced. As far as the stock exchanges are concerned, a kind of fear and panic hit the investors in the whole world, starting in the USA, where the Wall Street Stock Exchange collapsed, reaching Indonesia where stock exchange was closed. But gradually, most stock exchanges in the world were influenced, even the Arabic stock exchanges, especially those in the Gulf States and in Egypt.

The **Second Group** are concerned: The influence of crisis in these countries was smaller and more insignificant than in the countries of the first group, with the exception of the case of stock exchanges. Stock exchanges in these countries were influenced in the same way and with the same degree as in the countries of the First Group.

**The Third Group:** These countries have a limited financial and economic openness consequently the effects of the crisis were limited.

At present, the material development of the capitalist system in its different forms, levels, reached a high-degree complexity and geo-political disparity and social contradictions. By these data, we may say that class conflicts are overlapping according to the mechanisms and different and diverse levels and reached such a level of superimposing in which it is very difficult to define the social classes and the forms and levels of class conflict. The international standard established on contradiction, correlation, interposition and overlap can be increasing due to the degree of social diversity and contradiction and also according to complexity of local, regional and international conflict panel. Knowledge systems, by which social contradictions and the interests of marginalized poor and exploited groups are expressed, are in fact real products of constantly changing and transforming value; if not structural then at least forms of exterior manifestations that demonstrate the internal changes of the objective social situation. Considering the objective reality that is based on the movement of capital wealth founded on the discrepancy and contradiction in the context of competition in the field of production wants to produce surplus value and its multiplication and accumulation in a monopolistic way by developing expanded mass production and its integration in the extended production activity.

The economic deterioration affects, without exception, all sectors of the society and has an effect on all aspects of life, for everything has its own causes. These causes may be<sup>19</sup>:

**.1 Exterior, foreign causes:**

Hostile foreign countries strive for imposing a negative influence on the economy, which in its turn, may affect the whole Arabic economy with all its elements. This may bring as a result instability of these countries. These are the consequences of different political standpoints which do not serve the sublime national aims and objectives in the concerned countries on the contrary these are inconsistent with them.

**.2 Interior causes:**

There are causes, namely lack of a sound economic planning, lack of a delicate balance between production and consumption, insufficiency of research tools, development and adaptation of knowledge and lack of employment of scholars for the success of economic plans that in fact may be based on a 100% home financing. Raw materials should be homeland-produced, so that a given country may avoid economic blockade or any kind of political extortion coming from abroad. Lack of using different means of mass media for mobilizing the nation to participate in the success of the economic plans, in such a way, they will be the tools and means of success of the economic plans and its objectives. Moreover, they will be the people of implementation and the beneficiaries of these results in economic growth. All this will have a positive effect on their personal life and this should be publicly announced by a clear message in mass media.

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<sup>19</sup> Adil Amir: <http://eu.ask.com/?o=16148&l=dis>; The Scientific Encyclopedia.

**There are some forms of its, which are as follows:**

**1. Direct intervention:**

This can be realized by way of economic blockade and fight against the products and imposing laws that can have an effect on the balance of payments, and by economic tampering, as it happened in fact during the global economic crisis.

**2. Indirect intervention:**

This can be realized by way of a non-noble competition and rivalry in the economic field and by a direct aggression against the Arabic countries' infrastructure in order to influence the national production, as it happened in fact, in Ghazza and Lebanon.

**Risks of economic activities:**

The results of the collapse or those of the economic weakness are dangerous as far the Arabic national economic security. This can have as a result abnormal and aberrant social behavior, manifesting in rebellion and opposition to the society. If the individual's income diminishes, this can contribute to the collapse of social and religious values. This can produce the spread of corruption and bribery. All these facts may have their effects on all elements and immunity of the society. This can lead to the weakness of ideological values (**crisis of values**) in the society, with special regard to the spreading corruption as a consequence of poverty. And this leads to a social collapse and finally to a political collapse and breakdown in the Soviet Union and recently in Tunisia, Egypt and Libya in 2011.

Collapse of the Arabic economic security is due to energy and food security, which are basic pillars of economic security, which its turn is one of the constituent elements of the Arabic national security in. So the process is a very complicated and complex process. It can result in political problems and troubles, leading the Arab World into a state of political and economic dependence. All this can lead to interior troubles which threaten the stability of these countries.

The economic crisis has affect on decreasing the growth of unemployment that will surely increase lack of stability of interior affairs in these countries. The growth of foreign debts surely will mortgage the fate of these countries and send them to the possession of creditor states. This can threaten the constant and unchangeable elements of political independence. Statistics show that the debts of the Arabic countries represent 15% of unpaid debts in

underdeveloped countries. In other words, the Arabic national security is greatly influenced by the economic situations. If the economic circumstances in the Arab World improve, this will help the improvement of security and also will bring a reduction in the number of crimes. If the desires of the citizen are sated and appeased, in all parts of the Arab World – in the alimentary field as well as in social administration, all these factors will help to reduce the number of generations which could take dangerous ways in social conduct and consequently their interests would contradict the interests of the society.

This could mean that this section of the society would lead revolt and insurgency against the social values or could turn to destructive elements which threaten peace and security. In the same way, decrease of the income helps the spread of corruption, then this corruption can turn into institutional corruption; no reform can be realized in its neighborhood. Studies prove the fact that crime is increasing in number in those societies in which costs of living are high and wages are low and the individual's real income level is falling.

The ratio of crimes is growing in moments of economic crises and their number is decreasing in moments of economic prosperity and opulence. A good example for this can be the security situation in some countries of Latin-America, due to the known economic situations. In the Arab World the regression of economic situations has brought a huge growth in unemployment. This reason is almost comprehensive in the Arabic countries – be it rich or poor countries.

The ratio of unemployment in some Arab countries has reached 18%; these are official statistics and well-known and widely spread among young people. This fact threatens with a lot of troubles, for it can contribute to the growth of rate of the organized crimes. Although the younger generation should be the originator of an economic miracle, but instead of this, they probably will be tools for the spreading of organized crime. This will contribute to the lack of possibility of restoration of peace and security. Thus they will be a very high-risk segment and a great threat to the Arabic national security.

### **Similarities between the present crisis and that of the thirties in the XX century**

What is more a lot is said about the nature of the financial-economic crisis that burst in the end of 2007 and about its different causes and effects in different parts of the world. The crisis

with its huge financial component that hit the banking systems and sectors in Europe and the United States of America, reminds of the famous and similar crisis of 1929. Actually this crisis broke out and appeared in United States of America and it expanded and finally reached the and later on to all Europe. This led to a growing and extremely high number of unemployment. It also helped the emergence and rise of fascistic systems in Europe. One may say that it encouraged Japan's fast industrialization in the face of the pervasive western colonialist challenge, on the ground of the Asian continent and to occupy great parts of it, especially Chinese territories before the Second World War.

It is worth mentioning here that the economic crisis of 1929-1933, that reaches back to the past century greatly influenced the economies of the Arab World, which were under the influence and dominance of one of the great European powers, more exactly France, Great-Britain and Italy. These countries, at that time, were on their way of building the infrastructure and modernization of their economies, albeit in a restricted form, in the face of the colonialist power and according to their economic interests. This progress stopped or it has slowed down up to the outbreak of the Second World War. That was the moment when the British army needed the mobilization and activity of local economies, on agricultural, industrial and service industry fields, in order to resist and oppose German attempts to invade and occupy the Arabic Eastern Region and to reach Egypt. They also needed more raw materials produced on local level and especially energy resources.

If we compare the effects of the economic crisis in the past century and the present economic crisis of 2008 and its effects on our Arabic Region and the Middle East, it can be declared, which are as follows:

Circumstances of the two crises are absolutely different from several aspects. The principal feature of the present crisis is that its effects are restricted on the European and American economies. Treasuries and central banks in these countries spent billions of dollars in order to save their banking systems from the total collapse and from a suffocating liquidity problem that could totally paralyze economic capacities. As far as the countries of Latin-America are concerned and China, India, countries of East Asia with quickly and efficiently progressing economy, these states were not hit by the crisis only marginally. Moreover, they began to play the role of a locomotive that pulled out the whole world economy from deflationary economic situations that spread in all Western countries.

### **Why are the economies of the South influenced by the crisis?**

When I examine quickly the latent causes behind this phenomenon which made the economies of the South immune from most consequences of the crisis sweeping through the Western World, namely highly developed economies, it can be declared that the banking sectors in these countries are safe and sound due to the fact that they avoided entering into great international speculations, what did the major American banks by releasing new financial tools. This included the introduction of long-term credit sale to buy homes in the United States of America, based on speculatively overestimated values in the field of real estate mortgage. In fact, the infection moved to and reached only the European banks which had a kind of cooperation and transaction with these new tools. In the meantime, banks of other powerful economies in Asia and in Latin-America and in the Middle East avoided cooperation with these financial tools.

The main reason: of how could the above-mentioned emerging economies avoid the financial economic crisis, in this respect we can say: new industrialization dynamism, importance of home markets, their supreme competitive capacities in international markets. All this is after that it benefited to an extreme limit from the fact that the industrialized Europe and the United States of America abandoned great portions of their traditional industrial products in favor of these economies, in the field of new international labor division that emerged from the liberalization of international transactions and exchanges during the past thirty years. As we can study later on, the Arabic Gulf Region was influenced only marginally by the crisis. A special moment of this is what happened in the real estate sector in the Emirate of Dubai. This led to a great rise of oil-prices, this ended in 2008 by supporting the financial circumstances of governments in GCC Countries and the maintaining the growth rates in their economies.

### **Speculation movements in the principle Gulf financial markets due to the global crisis**

It is worth mentioning here that the Arabic Gulf Region has entered into a financial speculation outburst and boom, just a few years before the beginning of the global crisis. For the move of stocks in GCC countries was rising sharply between 2002 and 2005. Market value of shares listed in GCC stocks jumped from 163.3 billion in 2002 to 1131 billion in 2005, this means a sextuple growth of shares market value. All this happened in a three-year interval, short before oil-prices took a sharp rising trend beginning from 2006.



The irony of the situation that in the same year, i.e. in 2006, a sharp decline appeared in the market value falling to 722 billion dollars, this was similar to the inevitable adjustment that happened three years after the unjustified boom. Market value returned to be improving in 2007, approaching the level in 2005 (i.e. 1112 billion dollars). But the Gulf stocks saw a strong setback in 2008, for the market value was shrinking to 600 billion dollars, i.e. to the half of that in 2007 (54%). All this happened in spite of the fact that the year 2008 was a year that witnessed a sharp rise of oil prices, reaching 147 dollars a barrel in July of the same year. This predicted a certain recovery of the GCC stocks. But we see that the market value of these stocks, at the end of June 2010, did not exceed 716 billion dollars, this means a 34% growth only, compared to the market value level at the end of 2004. And this was after those 5 years which witnessed extreme rises in oil-prices.

Here we have to mention that the market value of shares listed in the GCC stocks – which were less than the GDP – began to surpass this value beginning from 2003. In the Kingdom of Saudi Arabia, the ratio of shares market value to the national product was 204.7% in 2005, compared to the value of 2002 that was 39.7% only. But this rate declined sharply in 2006 and fell to 91.7%, then took a temporary rising trend in 2007. Then again it declined to 52.5% in 2008. We may mention here the effect of KSA's stock on other stocks of GCC countries due to the fact that it represented during years 46% to 57% of the total capital assets in the GCC member-states stocks. The Saudi stock index and indicator fluctuated heavily and was volatile between 2002 – when it closed the year at a 2518 level, and in 2005 reached the level of 16712. In the following year that is in 2006 fell to the level of 7933, then in 2007 was growing again and it reached the level of 11038, then declined again sharply in 2008, as low as 4802. Recently it showed a kind of growth, i.e. in September 2010 reaching the level of 6354.

These sharp fluctuations in GCC stocks *demonstrate a structural problem in the Gulf economies*, having an excessive inclination towards financial speculative moves and also in the field of real estate. This distorted in a way the economic development process in these countries. Stocks in Bahrain and Oman did not participate in the speculation fever that hit the Kingdom of Saudi Arabia, the United Arab Emirates, Kuwait and Qatar. It has to be stated that all Arabic stocks entered into a non-logical outburst in those years. One can clearly see the development of the general indicator of Arabic stocks, regularly monitored by the

International Monetary Fund, having the same directions that appeared in the GCC region. This indicator increased from the level of 230.5 in January 2005 to the level of 437 in January 2006. Then turned to the level of 223 in January 2007 and reaching the level of 166.2 in December 2008.

The strong fluctuations in the GCC financial markets caused severe problems in the field of liquidity in the case of some companies and banks, especially after the regression of real estate markets activity, immediately after the crisis from which the Emirate of Dubai suffered. Later on it will be discussed.

There is a special feature of GCC economies, i.e. their continuous dependence on oil and natural gas prices and the growing demand for energy resources. Beginning from the sixties of the past century, the growth rate harmony has remained prisoner of oil-price volatility; in spite of efforts in order to diversify the economic activities. The greatest investments of these economies remained focused, to a great extent, either on extension of infrastructure or on investments in petrochemicals. This industry is very closely attached to the prices of energy resources and to its inconsistency. On the other hand it is deeply rooted in the banking sector which attract a lot of investments and deposits and in the real estate sector.

### **Separation of the Gulf financial markets from developments of the real economy**

The huge growth of oil-prices helped and supported the total economic situation in the GCC countries, subsequently it seems possible that the latest boom in monetary markets has improved the governments' capacity to reduce the effects of interior crises; be it a result of booms in stocks and real estate sector or as a result of the global crisis.

On the other hand, rising oil-prices and the intensification of economic relationships with the Far-Eastern markets have reduced the negative effects of both the local and global crises in the Gulf Region. This great growth in oil-prices has supported and reinforced the global economic situation in the GCC countries, subsequently governments have become able to reduce the effects of interior crises be it a result of booms in stocks and real estate sector or as a result of the global crisis. This is why, when the global financial and economic crisis broke out, the economies of the Gulf Region have not been influenced by that.

*There are several reasons.*

First, the Gulf Region banks in general, with a small number of exceptions, like other Arabic banks, have sufficient local sources of profit. For this reason they did not turn to the application of the new financial tools, mentioned earlier; having no great banking agitation. With reference to the events and troubles in Kuwait, these did not result from global financial crisis, but were closely related and attached to the boom in the activity of the local stock. This reminds us of the events in the eighties in the past century, when the “Suq al-Manakh” collapsed. On the other hand, problems of several banks in the Gulf Region were attached to the negative developments, resulting from the real estate crisis in Dubai.

With the exception of Dubai, growth rates in the GCC member-countries have not been affected deeply and in a tangible way by the crisis that hit the United States of America and Europe. This can be traced back to the intensive exchanges and transactions between the Gulf economies and the great Asian economies, especially China, India. These two countries can be considered as the basic driving force and locomotive of the global economy. These are interested in intensifying the relationships with oil-producing countries, with regard to their rapidly growing needs for energy resources. In addition to this, the GCC member-countries markets play an extremely important role and are basic consumer-markets for these two economies, along with other Eastern-Asian quickly developing countries (South-Korea, Malaysia, Singapore, Taiwan, Thailand and Indonesia). The fact that the decline of oil-prices from the highest level (150 dollars a barrel) to a more moderate level (65-85 dollars a barrel) has no special effect, this can be traced back to the modest size of GCC economies and the relatively restricted number of inhabitants, namely 36 million persons as compared to other economies. In addition to this, the number of expatriates and workers in the infrastructural and real estate sectors can be mentioned in this context and the fact that all these persons are of low-income, not belonging to the fortunate groups which have high-level consumer manners.

## **The Dubai Crisis**

In general the crisis of the Arab World could accompany with the consequently continuously increasing production of crude oil in the world, in spite that the world economic recession stimulated to decrease the economic growth, investment activities and some little crude oil demand. So the crude oil supply – demand balance changed in direction to supply side, when the crude oil demand decreased. Demand of crude oil decreased, which was resulted by almost the OECD countries. Also the OECD decreased their crude oil production, while the world crude production increased little more than the world demand for crude oil also after the world economic recession (see Figure-1A, Figure-1B, Figure-2, Figure-3 also the Table-1).

Almost such amount of crude oil demand was equal with decreasing demand of OECD for crude oil in the world economy (see Figure-5, Figure-6, Figure-7, Figure-8, Figure-9, also the Table-2 in Appendix). Finally the world crude oil production increased by economic ambition activities of Asia included India, China and Middle East (Figure-8 Figure-9 in Appendix), but their demand for crude oil did not increase in fact generally. Asia does not include China and Former Soviet Republics in these data collections. China is independently demonstrated in data and the Former Soviet Republics are according to the Non-OPEC country-group.

Also the crisis appeared in field of the real estate in Dubai, where is coming from result of the boom that took place in the real estate sector, the activity of which has highly surpassed the real needs in the given economic progress. It seems possible that the Emirate did not plan and manage its ambitious real estate projects, totally depending on the success of its model based on absolute openness in the fields of services and trade, along with an openness concerning the inhabitants, culture. All these factors brought a great number of foreign institutions, companies to the Emirate and these established local branches in Dubai, as well as millions of foreign tourists arrived, either from Western countries or Asian countries.

It is an undoubted fact, that the success of the Dubai model is closely related to the growth of rich and wealthy groups in Russia, China, and India and in other countries, which based their activities in Dubai, due to the fact that the Dubai economy is characterized by an absolute economic, financial and cultural freedom. In such a way, Dubai has become the Monte-Carlo

of the East, attracting the attention by its brilliant and spectacular real estate projects – which later reached a speculative phase that greatly damaged the Emirate's economy.

The great, government-owned real estate companies in Dubai had to ask for a delay of payments of due receivables resulting from its indebtedness towards international and Gulf banks, the value of which was estimated to ca. 60 billion dollars. This was in December 2009. This caused a temporary panic, not only in local markets that were characterized by expectations and caution, but on a larger scale in the international financial markets.

Very quickly, the Federal Government came to help the Government of Dubai by granting to it the liquidity capacity; this suspended the state of fears. As far as the real estate market is concerned in Dubai, it remained in shrinkage to a great extent, with regard to the surplus disbursed into the real estate market, compared with the rate of demand which was really reduced.

**Table-1:** Production of crude oil 1999-2010, million tonnes

**Figure-1A:** Production of crude oil 1990- 1999, million tonnes

**Figure-1B:** Production of crude oil 1999-2010, million tonnes (*Continued*)

**Figure-2:** Production of crude oil in the World and OECD, 1971-2010, million tonnes

**Figure-3:** Production of crude oil in the World and OECD, 2000, 2007, 2010, million tonnes



**Figure-3:** Production of crude oil in the World and OECD, 2000, 2007, 2010, million tonnes  
(Continued)

This is a special and unique case as far as the GCC countries are concerned, for other real estate markets, in Abu Dhabi and the Kingdom of Saudi Arabia and Qatar were not influenced by these facts. But the general growth rates began to follow a rising track, due to the infiltration of oil revenues or the natural gas revenues in the case of Qatar, that were increasing sharply as a result of rising energy resource prices in 2008, when the price was 94,18 US dollar, in 2009 the price was 65,2 US dollar and finally in 2010 the price suddenly increased to level of 80,2 US dollar. The price changes were very sharply in decline and increase in filed of nominal price (see the Figure-4A and Figure-4B). The Figure-4A shows how the different events connected with the price changes of petrol between 1970 and 2008. The other Figure-4A shows how the price changes of petrol between 1970 and 2010 (Source: Annual Oil Statistics, Energy Statistics of Non-OECD Countries, 2010. INTERNATIONAL ENERGY AGENCY, 2010, also see: Cootner, Paul 1960, Considine, Timothy J. 1991, Daniel Yergin, 1991, Daniel Yergin, 2003)..

It can be mentioned that the world oil real price has continuously been decreasing between 1980 and 2000, but the nominal price also decreased but sometimes increased some times decreased suddenly. Two times, namely in 1987 and 2000 world nominal price of the oil became nearest to the real price of the oil. Between 2000 and 2008 the nominal price sharply increased very much, and after 2008 it decreased by about 25 US dollar only within one year in cause of the world economic recession, and short time and rate decessin was followed by sharply increasing nominal price in 2010 (See Figure-4B). In general the real price of oil was at so much low level concerning the level of nominal price. The real price was at its topest level, namely 18,25 US dollar in 1980 and 21,17 dollar in 2008, by the end of 2010 this was higher 17,9 dollar, but less even the level of 1980.

In general the real and nominal price levels were changing by the same rate but with large different levels (See Figure-4B). The nominal price changes were determined by the supply-demand market conditions. The real price level means that how the purchasing capacity of oil income owner countries is changing. The highly developed countries owning advanced technology and industrial manufacturing can built the increased price level of oil into the value added products. So the increasing nominal price level of oil resulted in general price

increasing of different highly manufactured products and also other services almost provided by the highly developed economies.<sup>20</sup>

Additionally to crude oil production the *refinery oil production* has considerable role to determine the level of manufactured crude oil production, as value added product. In this case the developing countries including the OPEC country have unfavourable economic conditions in the world economy. In 2008 the OECD countries which produced 22,3% of all crude oil, but OECD implemented refinery oil process by 53,8% of all refinery oil output in the world. The Middle East provided only 8,1% of all refinery oil output and Africa provided 3,1% of all refinery oil output in the world in 2008 (see the *Table-3, and Figure-10, Figure-11, Figure-12 in Appendix*). It means that value added product from point of view of refinery oil output is at very low level in case of developing countries including OPEC countries in Middle East and Africa.

In filed of the world refinery output between 1971 - 2009, in case highly developed countries the OECD could remain their dominate position during the all of this period. By the end of 2008 from side of the developing countries Asia, Chine and Middle East were higher, but they were not so dominant as OECD was in the field of world refinery output (see Figure-11 and Figure-12, also see: Holmstrom, Bengt, and Jean Tirole, 2008, Gibson, Rajna, and E. S. Schwartz. 1990, Gibson, Rajna, and E. S. Schwartz. 1989, Heal, Geoffrey, and Michael Barrow. 1980, History of OPEC, <http://www.upenn.edu>).

Additionally to refinery oil output in 2008 the OECD has *import of crude oil*, as about 69,9% from all of the world's crude oil import. In the same year the import share of Africa was only 1,8% from all of the world crude oil import, and Middle East has 0,9% of all crude oil import. These data show that OECD has dominant role in the crude oil import, namely 1 603 389 tona, in 2008, and volume of refinery oil given by OECD was 2 068 385 tona as much higher than OECD's crude oil import (see *Table-4 and Table-5, also Figure-13, Figure-14, Figure-15, Figure-16, Figure-17, Figure-18 in Appendix*).

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<sup>20</sup> Also see: OPEC <http://www.msnbc.msn.com/>  
OPEC Fact sheet, May 6, 2002 World Oil Price and Market Chronologies 1970-2004  
OPEC Statistical Bulletin, 2004, available at, <http://www.opec.org/home>

In general I can declare that in 2008 the *world crude oil export* was 100%, and the world crude import was 106,4%, which means that the foreign trade export-import balance of crude oil was so moderate, not too considerable deficit. In the same time the foreign trade export-import balance of OECD in field of crude oil was so large deficit, the import was 448,3%, which accounted for 100% export of OECD.

In 2008 from point of view of crude oil export, which was 357 613 tona of OECD, as 16,6% of all of the world crude oil export, while the share of Africa was 18,6% and share of Middle East was 39,6% frm all of the world crude oil export. This means that the share of OECD was not so large from the world crude oil export, but it can be seen as considerable concerning the significant dependence of OECD on the import energy including the crue oil import (see Table-5, also Figure-16, Figure-17, Figure-18).

### **The important role of the budget surplus in countries of the Gulf Cooperation Council<sup>21</sup>**

The Kingdom of Bahrain was influenced to a lesser degree than other member-countries of the GCC, perhaps due to the diversity of its economic sectors and that it did not depend on oil revenues as did other Gulf countries

The surplus in the budgets of GCC countries was relatively high beginning from 2005, for repeatedly a rising trend was observed in oil-prices. The surplus in the general budget of the Kingdom of Saudi Arabia increased from 28.6 billion dollars in 2004 to 154.9 billion dollars

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<sup>21</sup> Former Minister of Finance of Lebanon and Professor at the Jesuit University of Beirut, Markaz al-Jazeera li-l-Dirasat  
Raymond J. Leatcy, 2005, “*Over a Barrel*”, Nelson Current  
Richard C. Duncan, 2000, The peak of world oil production and the road to the Olduvai Gorge, Geological Society of America, Summit 2000, Reno, Nevada OPEC  
<http://en.wikipedia.org/wiki/OPEC>  
Smith, V. Kerry. 1981. The Empirical Relevance of Hotelling's Model of Natural Resources. *Resources and Energy* 3: 105-17. 72. OPEC Statistical Bulletin, 2004, available at, <http://www.opec.org/home>  
OPEC website, <http://www.opec.org/library/faqs/OPEC.htm>  
OPEC, Oil production trend in 42 countries:  
<http://www.sourcewatch.org/index>.  
[http://www.alwaqt.com/blog\\_art.php?baid=8785](http://www.alwaqt.com/blog_art.php?baid=8785)

in 2008. This surplus also was increasing in Kuwait starting from 4.8 billion dollars to 33.3 billion dollars between these two years. All in all, the total budget surplus of Arabic states increased between the above mentioned two years from 36.1 billion dollars to 252 billion dollars, this greatly reassured the global financial situation in the Arabic Region.

This great improvement in the general financial affairs of GCC countries could also help the governments to bear the possible losses which could possibly hit the sovereign wealth funds due to their presence in global stocks. But we have no concrete data on these losses as a consequence of the global crisis.

From among the secondary effects, we can mention that the Gulf investment movement in the Arabic states seems to lose its progress and it tends to regression, as well as the number of expatriate workers in the GCC member-countries also decreased to some extent, especially in Dubai.

We can summarize the lessons of the developing situation during the past five years in the Arabic Gulf Region:

1. The development of the economic situations in this group of Arabic states, in the field of global economy, is still tightly bound to the volatility and instability of oil prices in the world. If these developments took place in the local financial market sector or to some extent in the real estate sector, it seems sure that these are detached from the strong dependence on oil-price changes.
2. Periods of sharp increase of oil-prices always produce economic booms resulting in embarking upon financial and real estate speculations, in the absence of a clear strategy for reducing the dependence on oil sector in order to sustain other sectors.

**Figure- 4A:** Energy - Oil prices, 1970 – 2008, Crude oil spot prices, US dollars per barrel

**Figure- 4B:** Energy - Oil prices, 1970 – 2010, Crude oil spot prices, US dollars per barrel

3. GCC Countries' economies became more and more attached, in several aspects, to the giant rapidly growing economies in Asia. This fact keeps them away from the negative effects of states of shrinkage or the economic weakness in the economies of industrialized European and American countries.

4. The abundance of savings in the private sector became an encouraging environment for repeating the state of the local real estate and financial boom which had been absolutely detached from the developments in global markets or from the rising periods of oil-prices. In this respect, it is inevitable for the fiscal and monetary and banking authorities to take decisive measures in order to prevent the return of what happened between 2003 and 2005 and the excessive and random embarking upon Gulf stocks and real estate sector.

5. The public and private sectors in the GCC Countries have to agree upon a clear strategy so as to realize a greater diversity in the field of economic activities outside the oil-producing and petrochemicals spheres as well as the financial and real estate sectors. They also have to reduce the dependence from the Asian cheap over-employment, by developing the local human resources and creating job opportunities in order to facilitate the employment of efficient, professional Arabic people in these countries.

### **Organization of the Petroleum Exporting Countries (OPEC) and their role to maintain oil world price**

The Organization of the Petroleum Exporting Countries (OPEC) was created at the Baghdad Conference in Iraq in September 1960. The founding members of the organization were Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. These five states were later joined by eight other countries: Qatar (1961), Indonesia (1962), Libya (1962), United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), and Gabon (1975). Ecuador and Gabon withdrew from the organization in 1992 and 1994, respectively.

The purpose of OPEC, as with any cartel, is to limit supplies in the hope of keeping prices high. The oil industry has been plagued by production booms and falling prices ever since Colonel Drakes' discovery of oil at Titusville, Pennsylvania in 1859. Just as the major oil companies colluded from the 1920's to the 1960's to prevent prices (and profits) from falling, members of OPEC meet on a regular basis to set production levels in the hope of maintaining prices. The essential nature of oil (no substitutes) coupled with its limited number of suppliers

make it the ideal product for cartelization.

The rise of OPEC is tied to a shifting balance of power from the multinational oil companies to the oil producing countries. Lacking exploration skills, production technology, refining capacity, and distribution networks, oil producing countries were unable to challenge the dominance of the oil<sup>22</sup>.

In 1959 the U.S. government established a Mandatory Oil Import Quota Program (MOIP) restricting the amount of crude oil (and refined products) that could be imported into the United States. The MOIP gave preferential treatment to oil imports from Mexico and Canada. This partial exclusion of the U.S. market to Persian Gulf producers depressed prices for their oil. As a result oil prices 'posted' (paid to the selling nations) by the major oil companies were reduced in February 1959 and August 1960<sup>23</sup>. At the longstanding posted price of \$2.04 a barrel, a host government received 92 cents and the oil company took \$1.12. These countries were in the dire need of foreign revenues, due to lack of technology they were not self sufficient to explore and produce the oil on their own, so they gladly accepted it.

For the USA they were able to generate a whole lot of margin by refining their crude oil (at that time development cost in Middle East was 20 cents per barrel). In this cold war era Soviet oil production kicked up and around 1960 the Soviet Union displaced Venezuela as the second largest oil producer in the World, behind the United States. With the world economy less thirsty for oil than it today, due to flooding crude from Soviet, set the oil market into turmoil and prices moved to very low level. Price war became so nasty between the Sisters and Russia that at one point the crude price of Russian oil was almost the half of the posted price of UAS.

Then again on August 9, 1960 Monroe Rathbone, Chairman of Standard oil of New Jersey suggested another price cut from the posted price without even consulting the host nation.

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<sup>22</sup> See: History of OPEC, [www.upenn.edu](http://www.upenn.edu)

Abdul-Ghani Imad, University of Lebanon, see: [www.iraqcp.org](http://www.iraqcp.org)

Adelman, M. A. 1990. Mineral Depletion, with Special Reference to Petroleum. *The Review of Economics and Statistics*. 72(1): 1-10.

<sup>23</sup> See: Benjamin Zucher, OPEC, The Concise Encyclopedia of Economics

Adelman, M. A. and G. C. Watkins 1995 Reserve Asset Values and the Hotelling Valuation principle: Further Evidence. *Southern Economic Journal* 61(3) 664-672.

Abid al-Jabiri, <http://www.sudaneseonline.com>.

Adil Amir: *The Scientific Encyclopedia*. <http://eu.ask.com/?o=16148&l=dis>.



This cut was another 14 cents; this really made the Middle Eastern countries furious. Scarcely a month after Rathbone's blustering move, representative of five countries that collectively produced 80 percent of the world's oil-Iraq, Iran Kuwait, Saudi Arabia and Venezuela-gathered in Baghdad, a four day conference gave birth to the Organization of Petroleum Exporting Countries (OPEC) on September 14' 1960.

***OPEC contribution in the past and current oil market:<sup>24</sup>***

OPEC's contribution has very considerable share to crude oil production of the world since 1960. Arab member states of OPEC formed a separate, overlapping group OAPEC (Organization of Arab Petroleum Exporting Countries) for the purpose of centering policy and exerting pressure on the West over its support of Israel. On October of 1973 after the Yom Kippur War, OPEC member states cut production and placed embargo on shipments of oil to the West, USA and Japan. The effects of the embargo were immediate. During 1979 in the wake of the Iranian Revolution, Saudi Arabia and other OPEC nations increased production to offset the decline, and the overall loss in production was about 4%. Demand had peaked in 1979 and it became clear that the only way for OPEC to maintain prices was by reducing OPEC production. OPEC reduced its total production by a third during the first half of the 1980s. As a result OPEC's share in world oil production dropped below 30 percent (see detailed data Figure-4A and Figure-4B).

OPEC members continuously increased their production to increase the profit, which leads the supply of oil larger than demand during 1998 economic recess and oil price went below \$12. The price of standard crude oil was under \$25/barrel in September 2003 and OPEC production was around 40% of the world's daily production. By August 11, 2005, the price had been above \$60/barrel for over a week and a half due to labor strikes, hurricane threats to oil platforms, fires and terrorist threats at refineries. During this period OPEC increased its production to control the high price but few months later a record price of \$75.35 per barrel

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<sup>24</sup> See in detailed: Elmendorf, Doug, 2009, "*Implementation Lags of Fiscal Policy*," presentation at the FAD/RES Conference on Fiscal Policy, June. and Jason Furman, 2008, "If, When, How: A Primer on Fiscal Stimulus," The Brookings Institution. Elmendorf, Dough 2009, *The idea of an automatic fiscal stimulus goes back to the 1950s* Emma, Ukpana: "OPEC as a Cartel: Can US antitrust laws be applied extraterritorially?"

was reached, due in part to Iran's nuclear crisis, the war in Iraq, internal instability in Saudi Arabia and West Africa, strikes and political problems in Venezuela.

Presently, OPEC accounts for about 40% of world oil output and 16% of its natural gas. As at end 2004, OPEC has proven oil reserves of 78.4% of the world total of 1,144,013 Million barrels. This means that OPEC still has some role to play in managing prices of oil and gas in the world. Also, since the non-OPEC countries, Canada, US, Russia and EU countries etc, still produce a significant proportion, which was about 60% in 2006 (see detailed data in Figure-1A, Figure-1B, Figure-2, Figure-3 also the Table-1 until 2010). OPEC has to manage its actions and connections with these countries.

### **OPEC's action to manage prices and connections with non-OPEC nations**

In general, OPEC's control on oil prices is in the area of control of supply of oil and gas depending on whether its member nations think the market is presently oversupplied (low commodity prices) or under-supplied (high commodity prices). Here, we examine the specific actions OPEC has taken to achieve this control. OPEC works on production Quota system which is decided based on each member's production capacity. In spite of being challenged by alternative explanations such as target revenue or property right transfer, OPEC's cartel-like behavior is the most widely accepted explanation for the dramatic price increases of the 1970s and price fluctuations in the 1980s and 1990s.

Ideally, an ideal cartel can act as a monopolist operating a number of plants. The multi-plant monopoly cartel assumes that it is a cartel authority rather than each cartel member who makes price and output decisions such that the cartel as a whole obtains the maximum possible monopoly profits from the market, and cartel members do not compete with each other and share the total profits in a predetermined manner. Under these assumptions, the cartel authority actually acts as a monopolist. The equilibrium will set the cartel's profit-maximizing output level and the corresponding monopoly price. The central determination of price and output by the cartel authority can guarantee maximum profit to the organization as a whole. Under this framework, the producers with high marginal cost might not produce at all if their marginal cost is higher than the cartel's marginal revenue. Therefore, an unanimously

accepted profit-share arrangement should be predetermined and post-enforced (Salih al-Husayn, 2001; Steve Smith, Pindyck, 2005; Robert S. 1994).

Adelman (1990) suggests that the OPEC cartel is somewhere between two polar cases: dominant firm and fully collaborated output combination. In the dominant firm model, the large producer - usually assumed to be Saudi Arabia - would act as the residual firm monopolist and the other producers operate as fringe firms. The dominant producer sets the price, allows the other OPEC nations to sell all they wish, and supplies the remaining demand. The dominant producer is thus the “swing producer”, absorbing the demand and supply fluctuations in order to maintain the monopoly price. Such an arrangement creates no cheating problems. However, it does run the risk of inducing sufficient new production, outside of the dominant producer, to make the strategy nonviable for him. The fringe firms maximize profits individually given their individual marginal cost and the market price set by the dominant firm. The large producer then makes up the difference between demand for OPEC and output from other producers, varying its production to control the price. The dominant model is easy to operate if OPEC, especially the leading producer, has an overwhelming market share of the world market. Therefore, the stability of the cartel does not depend on the strengths and weaknesses of cartel cohesion. Rather, it turns on whether world supply and demand at the dominant price results in sufficient demand for the dominant producer’s production to satisfy its objectives.<sup>25</sup>

Since each member country in OPEC retains sovereign power over its own production rate and no individual one (except, possibly, Saudi Arabia) has the power to fix the price favorable to the cartel, it is very likely that the member countries take the market-sharing strategy as the way to achieve the cartel objective. The members collude to restrain their production for higher prices and gain extra profit. Theoretically, if the cartel members have similar marginal cost curves, the ideal market-sharing strategy can achieve the same goals as the joint profit-maximizing ideal cartel model, outcomes of which are equivalent to those of a monopolist operating a number of plants.

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<sup>25</sup> Isam al-Zaim, New distinctive features of the system of new globalization, <http://www.iraqcp.org>  
Jad al-Karim al-Juba’i, 2003. The contemporary capitalist crisis, see: <http://www.dctcrs.org>  
James Petras, 2004. Imperialism (Empire) between past and present, on the internet: Al-Munadala

The assumption of identical marginal costs may not be too unrealistic since, compared to the market prices, the marginal cost in most OPEC countries are small, especially among the dominant Middle East producers (Eric Hobsbawm, 2003; Fair, Ray C. 1989).

***Imposition of Production Quota on Member Nations – How realistic is the structure and the role of OPEC members?***

OPEC controls the amount of production of oil and gas by imposing production quotas on each member nation. This automatically fixes the amount of oil and gas the group can produce to the world market. This has often helped to control production and hence price of oil and gas. The production quota is usually in proportion to the deliverability capacity of the member nations. However, it can lead to reduction in revenue to its member nations when they have to cut-back production when they think the supply of oil and gas is in excess of the demand.

The quota production system enables OPEC to cut-back production if during its OPEC/non-OPEC forums (discussed below), an increase of OPEC's production is required to control oil and gas prices.

***Rapid adaptability to world events and situations – Veracity of the situation:***

OPEC adapts rapidly to world events and situations that affect the production of oil and gas. This adaptability is reflected in actions that it has taken in response to political changes, war and natural disasters in the world. OPEC is nothing but a consortium of its member nations that are highly dependent upon oil revenues. Countries like Saudi Arabia, Kuwait, Iraq, Venezuela and Nigeria have the biggest chunk of their GDP from oil revenues. Without oil these countries can not survive, as they have experienced this difficulty multiple times in the previous years, whenever oil prices touched rock bottom, countries like Saudi Arabia had an acute debt problem. Hence they have to adapt quickly with world situation, this is a joint effort by all the nations to survive together. OPEC has adapted itself very rapidly to world events and politics.

For instance in the case of war in a member nation, production is redistributed to the member nations that have capacity to accommodate the loss from the warring nation. A good example

is the present Iraq war which has been on for about 3 years now. This led to a reduction in oil production from Iraq. There was also a decline in output from Indonesia. This decline or loss of production in these members was checked by OPEC using corresponding increase in production in Nigeria, Venezuela and Saudi Arabia which have the highest increase in production oil and gas in 2004. An increase is noticed in daily output of Nigeria's quota in 2003 corresponding to the commencement of hostilities in Iraq. However domestic instabilities in Nigeria and Venezuela in 2005 have put more pressure on Saudis to maintain the OPEC daily oil production. At the aftermath of hurricane Katrina/Ivan, which disrupted oil and gas production from Gulf of Mexico, OPEC increased the supply oil and gas to prevent significant changes in commodity prices.

However the fall of oil prices below \$10/bbl in late nineties and current rise of oil price above \$75/bbl show that OPEC is losing its control over the determination of crude oil prices. The question arises as to whether or not OPEC countries have the capability to adapt their production according to growing oil demand. The first problem is maintaining quota discipline within the cartel. The group led by Saudi Arabia, Kuwait and UAE (all friendly countries to the West) are in favor of increasing supplies and moderate pricing, while the members are either reluctant to increase production or incapable in doing so. The big oil fields of Saudi Arabia are showing signs of major declination, so Saudis are already close to their maximum production level or going to reach there very soon. Falling level of spare oil production and rising tensions in the Middle East are drastically decreasing the adaptive power of OPEC (see Figure 4A and Figure-4B).

### ***Interaction with International Organization:***

After the great "oil shock" in 1973, when the Arab nations embargoed oil bound for West, the industrialized nations setup the International Energy Agency (IEA) to encourage the search of oil outside OPEC and explore alternate energy sources. But as soon as serious investment were made in more expensive productions from field like North Sea and Alaska's North Slope, the IEA began to fear that a return to cheap OPEC oil might make these efforts worthless, whereupon it joined rest of the industry to become cheerleader for high prices and promoting the illusion of a fragile supply. So now IEA and OPEC work jointly to control the

oil price. Most of the OPEC supply data come through various spy sources which operates near the crude supply terminals. OPEC itself does not know actual supply; they mainly rely on IEA data.

OPEC interacts with international organizations in its bid to control the supply of oil and gas in the world. For example, in summer of 2004, OPEC liaised with the International Energy Agency (IEA) to reduce the impact of hurricanes Katrina and Ivan which caused loss of oil and natural gas production in the Gulf of Mexico due to damage of energy infrastructure and facilities. Although these commodities were scarce, the liaison of OPEC and IEA helped ease the situation which arrested the increasing trend in the price of oil and gas in the world. Saudi Arabia promised to raise their output to 11 million barrels per day if necessary in order to stabilize the crude oil price following the hurricane Katrina/Ivan aftermath. Here, OPEC fulfilled its commitment to supply oil and gas at or above demands to prevent significant changes in commodity prices and was the case in the US after hurricanes. Though currently OPEC nations have sufficient supply for the present consumption of 84 million barrels a day, but prices still rise due to fear and lack of information. Even everybody involved in the oil industry knows that OPEC members exceed quotas and lie about production levels, accepted wisdom in summer of 2004 held that OPEC's production of 28 million barrels a day represented near maximum capacity. Given that cartel had produced more than 30 million barrels a day in the late 1970s, that assumption was at best dubious.

#### ***Direct OPEC/non-OPEC Cooperation:***

OPEC and non-OPEC nations often agree to reduce oil and gas supply to check prices. This cooperation is rather strange but since both organizations often benefit from high oil prices, then each organization may be obliged to cut or increase production at the request of the other. For example in July 2001, with the recession still sinking the world economy, in Vienna OPEC meeting ordered another price propping, a million barrel cut in the daily production quota, effective September 1st. But the non-OPEC partners reacted not to slash any of their production, responding to the menace of low oil price, the cartel offered a deal that non-OPEC producers would be scared to refuse. Another 2 million barrels daily must be siphoned out of the market, OPEC said, and it was willing to absorb three fourth of the cut.

But it would not act unless the non-OPEC producers held back 500,000 barrels a day of their own output. If they didn't do their part, the market would effectively be flooded, thereby touching off an open price war.

### **OPEC long term plan and relevance in current energy market**

In March 2006, OPEC published its long term plan. The objectives for the strategy relate to the long-term petroleum revenues of Member Countries, the stability of the world oil market with fair prices, and the security of regular supply to consumers, as well as the security of world oil demand. The strategy re-emphasizes OPEC's commitment to support oil market stability and keep the price in moderate market level. OPEC will continue to expand its production capacity, both to meet the increased demand for its oil and to maintain an adequate level of spare capacity. Strategy focuses on proactive cooperation between the members and proposes investment in the downstream industry to stabilize the oil market. The key challenges discussed in the report are the uncertainties surrounding future demand for OPEC oil, stemming from, inter alia, future world economic growth, consuming countries' policies, and technology development, as well as from future non-OPEC production levels.

However OPEC does not appear to be in full control of the current oil market, in terms of who determines the price of oil. The market itself appears to be in charge of pricing and in a long term the main deciding factor will be substantially of OPEC reserves – capacity vs. depletion to be exact. When oil prices are high, the cartel partially breaks down: Countries start to produce more and undersell each other. The question arises as to how efficiently OPEC can implement the long term strategy. We see a clear trend of increasing demand vs. decreasing supply in the oil market. Declination in non-OPEC production is also putting an extra load in the OPEC. OPEC is aware of growing need of renewable energy and climatic effects due to use of fossil fuels. In Kyoto climate talks, OPEC demanded aids for the member countries if world shifted to renewable energies. There is no clear sign of an alternate energy supply in near future and countries seem to have no plan to control oil consumption in growing economies. This continuing trend may lead to a point when total demand will exceed maximum production capabilities of oil producing countries, which may make any cartel meaningless.

OPEC cooperates with non-OPEC producers to decide oil price. Oil prices are decided based on demand and supply graph to maximize the profit of producing countries with maintain the security of world oil demand. OPEC supplies 40% of world's oil supply and hold 78% of proven reserves.

Data shows oil availability is enough for the next few decades and fast production declination in non-OPEC countries may make OPEC as the key player to decide prices. However OPEC as a group has limited success because of internal cheating. It looks like OPEC is losing it's control to decide the oil price and market is deciding the price because of growing oil demand, ageing oil fields and political problems in member countries. World still has plenty of oil left.

Oil producers can not even think of going for an open market price war as oil revenue is their countries lifeline and another price collapse may break their economies. However if current trends continue, members can produce their maximum capacity and sell in market price and that may be the end of the OPEC as a group. OPEC has to behave as a disciplined group to remain as a player for longer time<sup>26</sup>.

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<sup>26</sup>See: Pijush Paul, 2006. OPEC's action to manage prices and relations with non-OPEC nations, 2006, June.

Mustafa Ulwi, The International Relations, its notion and objectives. Institute of International Relations at Cairo University, Ocasional No. 0507, Banco de España.



## **4. CHARACTERS OF THE LAST CRISIS**

Although governments pumped directly huge amounts of money into banks, and in spite of the plans what Bush had prescribed for the financial rescue, it remained continuous. General indicators in the case of stocks show only a slight rise. Moreover some countries declared state bankruptcy. We have a clear path and the financial crisis is still continuously growing, although several solutions were suggested. There are some states, like China, Iran and Russia that were immune from the effects, their economies were intact. On the contrary, for example the Peking index was increasing. This is due to the fact that the economy of these countries is not tightly linked to the American economy. Meanwhile, economists in the Gulf States advise the substitution of the American currency (dollar), by several other currencies, in such a way later possible crises would affect the economy for it does not depend on the dollar.

### **4.1 International relationships and their state influenced by the global crisis**

The topic of international relations means the definition and analysis of international forms and layouts that depends on cooperation and conflict what really connect the international activities of a given state, like international organizations and multinational companies and other forms. In cases, the behaviors and actions of some personalities can be studied, who have real influence and effective role in international relations. But necessarily, one has to focus on the foreign portion, concept.

For this latter defines the field of international and foreign relations. It needs a central authority organizing the power lines and its distribution, in accordance with legal principles that are agreed upon. There are several other attempts in order to reach the consensus of the international community concerning the framework of relations based on the self-interests among those participating, like: International Law, Sea Law and the Charter of the United Nations.

But this latter cannot impose ways and methods that could exercise pressure on the sides to follow equivalent behaviors. The new global system makes an attempt to realize this. But the wish of the stronger side will prevail, not the consensus imposed on other sides.

Differentiation and discrimination in the case of the international community or a state is searching means to reach it. For the principles in the field of the next community are not yet controlled for these are interacting in accordance with their capacities to influence the rules of the game. This is a very complex field, it must be analyzed by approach or by a theoretical framework, thus giving the researchers or suggesting means that enables them to handle the issues related to this field, like war and peace. The function of peace in international relations means the organization of the different data in order to suggest a relation between the two. This should be done in an intelligible, ideal and productive form.<sup>27</sup>

### **The notion of international relationships**

There are several methods and approaches used to study the international relations. These methods can be classified in two major groups: the group of traditional methods and the group of modern and contemporary methods. The most famous traditional methods are: the historical approach, the legal approach, the realistic and objective approach or the method of power politics and the approach of national interests.

As far as the historical approach is concerned it attributes great importance to the development of diplomatic relations. This is based on the fact that international relations in their manifestations and models have former historical roots and extensions. Another advantages and special features can be attributed to this method, from among them: the capacity to investigate the causes lying behind the success or failure of state leaders in pursuing particular foreign policies, in particular international circumstances. Or history can serve as a model, according to the supporters of this approach, as the testing and experiencing

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<sup>27</sup> See: Khalil al-Anani, 2002, *Majalla al-Siyasa al-Dawliya (in English: International Political Issues)*, 2002, Cairo, Number 150, October

Larson, Donald F. 1993. Copper and the Negative Price of Storage, *Policy Research Working Paper* 1282, World Bank.

Samir Amin, edited, 2001, *The Zionist-Arabic conflict in the light of the American Project*. Maktaba Madbuli, Cairo, 1st edition, p. 76.

Samuel P. Huntington, 2003, *The Clash of Civilization and the Remaking of World Order*, Simon & Schuster Paperbacks, Rockefeller Center.

process of the relationship that emerges among the causes and results in international relations. The starting point of this is that every international standpoint has a special nature and it has its distinctive features and it can be said that international-foreign policy standpoints do not recur in the same way.

As far as the legal/ juristic approach is concerned, essentially it focuses on legal factors and considerations that encircle the international relations and the relations among different countries. Examples of this can be: Obligations originating from contracts of states among one another, in accordance with well-defined international treaties or agreements or charters that can guarantee the common interests, or the definition of responsibility for actions taken by states – in the case of infringement of their contractual obligations. Or the differentiation between different acknowledgements and recognitions, precisely the legal recognition or the de facto recognition, or the definition of means and manners to be followed in the reconciliation of international conflicts- in a peaceful way. To this belong methods of mediation, reconciliation, arbitration, examination of facts and benign efforts.

As far as the realistic-objective approach is concerned it is based on the logic that thinks that force or power is the pivotal principle in international relations. If the conflicts of power sometimes are covered by some manifestations of legal formalities or reasons or moral justifications, this external cover should not deceive us and mislead us from this basic reality that controls totally the balance of international relations. The prominent causes that can be mentioned in the process of defending this approach can be: it tries to explain the international behavior in a logical and reasonable way based on the data of a prevailing international situation, on its firm facts; without imagining international relations from a special point of view, what is often done by idealists.

As far as the approach of national interests is concerned, it represents the striving for the realization of national interests of a given state, this is the ultimate goal and this permanently characterizes its foreign policy. In other words: national interests mean the basic fulcrum factor in planning the foreign policy in any state of the world, be it a small or a big one. There appeared several other different methods and approaches and new useful tools of analysis in different fields, like the game theory from among the statistical approaches, or system analysis and others. So the scientific study of international-foreign relations witnessed numerous perspectives, each of them was a ruling factor in a given period of time during the

development of this study. The differences between these successive perspectives crystallized. The 'power politics' reflected the experiences of the first half of the 20<sup>th</sup> century or even its seventh decade. The experiences of the last fourth of this century brought forth structural changes in international politics, resulting in the inadequacy of its study from the perspective of "power politics". Then the need has come for enlarging the analytical look that focuses on states only and on the concepts of power and conflict. This is due to the birth of new factors other than states and the birth of new issues of great importance, creating transformations in the contemporary global system under the influence of complex international forces of interdependence. These developing international situations requires from the world – as being a system of interactions with several factors other than states – to study the new economic-political issues that create new processes leading the whole system towards a kind of cooperation and adaptation and not towards violence and constant conflicts.<sup>28</sup>

Thus, the new trends in the study of international relations gave special features to the contemporary international policies, based on three axes: the international factors, range and priority of issues and international actions and processes.

The global perspective, either in its entirety or in its ramifications that have brought forth the differences between its tributaries as we have seen it, faced numerous criticisms on the part of the supporters of the traditional approach. On the other hand, we have a group of compromise-reconciliatory-restorative analyses between assumptions and results of the two perspectives, the traditional and global. This is based on the fact that there forms of continuity and forms of discontinuity in the contemporary international politics. One cannot insist on an absolute form with data, assumptions and results from the two perspectives separately. For example pragmatism and universality present important starting points for the understanding of the process of international developments. The world has become more overlapping and complex, as it is described by both visions, whereas both of them express and articulate only a fragment about the real nature of the contemporary international system. Consequently this

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<sup>28</sup> Website of Arabic markets:

<http://www.alaswaq.net/views/20025/10/12/2008.html>

Website of Hazim al-Bablawi

<http://www.hazembeblawi.com/Arabic/ArticleDetails.aspx?ArticleID=264>

<http://www.iidalraid.co>

conciliatory vision considers it necessary to connect the contributions of the two visions in order to form a more complete vision.

#### **4.2 Recent developments of the global crisis in the light of international relationships**

The speed of economic and financial developments in the world does not allow time for relation, crises follow one another in a consecutive way, bankruptcies are almost daily phenomena, prices of basic commodities, especially oil-prices in successive rise and decline; all this in a moment when attention turns towards international meetings summits which perhaps may result in a glimmer of hope for leaving behind this dilemma.

From this point on, the concerns of all countries turn towards the Summit of the Group of Twenty (G-20), which was held in Washington DC., in November 2008. All this is in the shade of the latest international-economic developments from among them: prominence of a great number of emerging countries that had important positions in international-economic relations, like China, India and Brasilia and GCC Countries. These try to produce a special agenda expressing their interests, including representation of these countries in international organizations like the IMF and the World Bank.

For the past few years Western countries try to rein this aspiration of these emerging countries, in order to maintain the continuity of former mechanisms resulting in the Briton Woods Conference after the Second World War.

By the trembling of the global economy due to the violent financial crisis which storms the world at present, an accompanying, additional shock was produced that included a lot of concepts prevailing in the past six decades, especially the demand to establish economic-financial organizations which can respond the zeitgeist and reflect the scales of strategic-economic powers that emerged at the beginning of the 21<sup>st</sup> century.

The global financial crisis urged the united Europe to join and accepts these demands, thus giving it two new factors: momentum and dimension. Finally, the Brazilian president, at the end of the G-20 Summit, held in Washington DC., in November 2008, said: "Six months before this moment, I would not have been able to imagine that the contribution of my

country, Brazil, would occupy such an important place in the establishment of a new global system.”

The new American administration, led by Barack Obama has to recognize and accept this new fact and has to have a close cooperation with the European Union and China and India and with other emerging countries in order to create more stable and more transparent financial-economic organizations to reduce the negative effects of the financial crises to which the world economy is exposed from time to time.

Fortunately, the Arab countries did not miss this meeting which attempts to establish a new global financial system. The Kingdom of Saudi Arabia was invited to this meeting. The next coming years will witness the laying of these new foundations. The important thing is that Arab countries have their own visions concerning these potential changes, base on their proper interests, for they are influential economic powers, especially in the field of energy and related industries.

Evidently enough, changes and systems that will be implemented, will determine the nature of economic-financial relations in the 21<sup>st</sup> century. Consequently, it is inevitable that Arab countries have a crystallized Arab vision concerning the G-20, either by way of GCC or by the Arab League.

Only in this special case can the Arab countries have an effective standpoint and contribution in the administration of world economic affairs. Following the end of the Second World War this opportunity was missed due to several considerations, now the possibility and the chance are given and favorable for an active Arabic role that can represent the economic and strategic importance of the Arab World in the international economic relations.

#### **4.3 Credibility of monetary policies around the financial crisis**

The financial-monetary policy, in its general form in any economy, aims at realizing and establishing groups of objectives, the most prominent of them on the level of macro-economy is and strengthening of growth, creation of price-stability and maintaining the stability of financial markets. The developments in the literature of cash economy show that the realization of this requires the cooperation of the private sector. The private sector and the

traders in markets undertake the attestation of the central bank that it strives for the realization of these objectives and aims. The philosophy of attestation is based on changing the traders' expectations in the economy which can correspond to the objectives announced by the central bank.

This philosophy or simple mechanism helps the economy to reach the state of balance and stability. For example, if the central bank announces its wish to reduce the rate of inflation in the next period, this will stimulate the private sector to increase the production or the offered commodities or services in order to gain the greatest possible profit. This can in fact reduce the rate of inflation.

Credibility is known by the degree of confidence what the private sector grants to the central banks based on their capacities to manage and guide the macro-economy and to realize the announced objectives. But in fact central banks face a problem, namely time inconsistency, i.e. the private sector believes that the central bank is not able to realize the announced objectives due to changes in details and priorities of these banks. But in spite of all this, central banks in the developed countries during the last two decades were able to accumulate big credibility and confidence funds between them and the private sector. The following factors helped this confidence restoration:

Fluidity of accurate and adequate pieces in information about the economic situation (transparency), education and explanation of basic principles of economic sciences in schools, universities in order to guarantee a similar response from the private sector to help the economy to move from one state into another one with ease.

It has to be pointed out that the capitalist-economic thought, in general, is based on the performance of the private sector and its capacity to absorb changes in economic indicators in order to guide the flow of economy. We can call the relation between the private sector and monetary-fiscal policy makers as “game theory”; this is group of actions and reactions that are able to push the economy to new fields resulting in the change of macro-economic indicators (inflation rate, unemployment rate, exchange rate).

The present global financial crisis was able to shatter the confidence barrier between the central banks and the private sector. We can also mention that it demolished the confidence-

based relation between the financial system and the private sector. In all parts of the world, losses in share and bonds markets are considerable, along with numerous cases of bankruptcy in the banking sector. Causes of the global financial crisis prove that there is clear defect and deficiency in the global financial system originating from the absence or weakness of central banks' control the markets and financial institutions, which finally led to wrong and inaccurate monetary policy.

It is to be mentioned that some banks and other huge financial organizations, having enormous capacity of liquidity, are subject to a strict control coming from the central bank, this result in the fact that the announced objectives are scattered by the wind. In addition to this, the expansion of conversion of loans into complex securities and the expansion in real estate mortgages of the lowest quality, all these factors affected in a negative way the volume of liquidity in markets. Is it possible to restore confidence and trust between the private sector and the financial system, especially monetary policy? The treatment for leaving the crisis must start from this point that is reinforcement of the relation between the private sector and the monetary policy. If we can quickly restore this relation, leaving the dark and dim tunnel will be quicker.

On the other hand, the most dangerous problem what the global economy is facing is to be found in the developing countries. The private sector depends on the state in solving the economic troubles and it is not trained for understanding the economic indicators. Furthermore, even central banks in these countries are not prepared to interact with great financial crises, e.g. like the size of the present crisis. Here, we have two very important issues which put a great question mark on the role of central banks as major and pioneer organizations with high capacity to orientate the general course of the economy to safety. These are the following: first: a clear-cut economic culture, the private sector should not depend to a great degree on rumors and wrong pieces of information that could lead the economy into destruction and annihilation.

Second: The huge volume of losses realized by central banks in a great number of countries in the Third World. These losses prevent central banks from intervention in order to protect the economy. The main cause of these losses is the banks' involvement in the so-called quasi-fiscal activities, like open-market activities by means of financial tools issued by the central bank itself, local and foreign investments, restructuring the weak banks and disbursing to the



government loans of low interest, re-evaluation of assets and liabilities, in the presence of fluctuation in exchange rate. Reports state that the losses of central banks in a significant number of Latin-American states reach a rate ranging between 2%-6% of the GDP. As far as Zimbabwe is concerned, central bank's loss has reached 75% of the GDP. For this reason Zimbabwe suffers from chimerical numbers concerning the rate of inflation in 2007 reaching as high as 10453% - based on the reports of the IMF.

Credibility of fiscal policy is fundamental condition in order to realize the economic goal and objectives and to propose successful solutions for the crisis this requires the unification of global efforts in the field of economic policies. Difference and dissimilarity in credibility and in the fiscal-monetary performance between the developed and developing countries might be a great disadvantage as far as the exit from this crisis is concerned. The present fiscal-monetary policies in the developing countries are the products of consultations and the implementation economic correction programs which were realized in past two decades under the aegis of the International Monetary Fund. Is it time for the global economy to pay the price of these programs and policies?

#### ***4.3.1 International relationships in the shade of Information Revolution***

Globalization and information revolution have become, in the recent past, the most sensitive and susceptible issues in the ongoing international dialogue to analyze the different impacts of information revolution and the methods of control of events on international level. This is happening in such a period when quite a lot of people have doubts concerning the positive effects of globalization on the different aspects of financial, economic, political, cultural, ideological, informational and communicational issues relevant to the present international relationships. In a moment when in the imagination of International Monetary Fund (IMF), globalization appears as: "Rising, developing level of active and quick integration of money, service and commodity markets". Y. S. Ivanoff the Minister of Russian Ministry of Finance has emphasized in his book "The Russian Foreign Policy in the era of Globalization" some basic political, economic, scientific and technological elements of the globalization. He has also attempted to give an analysis of it from the Russian point of view. He mentioned that it had blown up the cultural life and the civilization and it had also changed the picture of humanity.

In the meantime most of the experts say that the term “globalization” means a new period, a new phase in the development of capitalism. Or, it represents the latest phase of imperialism.<sup>29</sup>

The clearest definition of this term originates from the famous Russian academician, A. Y. Otkin who says: “Globalization imposed itself and came into being right after the Cold War. It created a global system that united the national economies of countries in the world. This system relies on the free movement, flow of capitals; it endorses the international openness of information, the fast renewal of technology, reducing tariff barriers and the acceptance of free movement of goods and capitals. It also supports the increasing approach in communication between the different countries. This latter is the characteristic feature of the scientific revolution that is accompanied by an international social movement, which recently began to use new forms of methods of transportation, and the technology of visual communication and created a kind of international education.”

#### ***4.3.2 The International Monetary Fund (IMF)***

It was tempting for macroeconomists and policymakers alike to take much of the credit for the steady decrease in cyclical fluctuations from the early 1980s on and to conclude that we knew how to conduct macroeconomic policy. We did not resist temptation. The crisis clearly forces us to question our earlier assessment.

This is what this paper tries to do. It proceeds in three steps. The first reviews what we thought we knew. The second identifies where we were wrong. The third, and the most tentative of the three, takes a first pass at the contours of a new macroeconomic policy framework.

A caveat before we start: the paper focuses on general principles. How to translate these principles into specific policy advice tailored to advanced economies, emerging market

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<sup>29</sup> See: Williams, Jeffrey C., and Brian D. Wright. 1991 *Storage and Commodity Markets*. Cambridge, England: Cambridge University Press.

Williams, John, 2009, “Heeding Daedalus: Optimal Inflation and the Zero Lower Bound,” *Brookings Papers on Economic Activity*.

Working, Holbrook. 1934. Theory of Inverse Carrying Charge in Futures Markets. *Journal of Farm Economics* 30: 1-28.

countries, and developing countries is left for later. The paper also mostly stays away from some of the larger issues raised by the crisis, from the organization of the international monetary system to the general structure of financial regulation and supervision, touching on those issues only to the extent that they relate directly to the issue at hand.<sup>30</sup>

To caricature (we shall give a more nuanced picture below): we thought of monetary policy as having one target, inflation, and one instrument, the policy rate. So long as inflation was stable, the output gap was likely to be small and stable and monetary policy did its job. We thought of fiscal policy as playing a secondary role, with political constraints sharply limiting its de facto usefulness. And we thought of financial regulation as mostly outside the macroeconomic policy framework. Admittedly, these views were more closely held in academia: policymakers were often more pragmatic. Nevertheless, the prevailing consensus played an important role in shaping policies and the design of institutions. We amplify and modulate these points in turn.

Stable and low inflation was presented as the primary, if not exclusive, mandate of central banks. This was the result of a coincidence between the reputational need of central bankers to focus on inflation rather than activity (and their desire, at the start of the period, to decrease inflation from the high levels of the 1970s) and the intellectual support for inflation targeting provided by the New Keynesian model. In the benchmark version of that model, constant inflation is indeed the optimal policy, delivering a zero output gap (defined as the distance from the level of output that would prevail in the absence of nominal rigidities), which turns out to be the best possible outcome for activity given the imperfections present in the economy.<sup>31</sup>

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<sup>30</sup> See in detailed: Strausz-Hupe, R. 1994, “*The Balance of tomorrow*”  
Telser, Lester G. 1958. Futures Trading and the Storage of Cotton and Wheat. *Journal of Political Economy* 66:233-55.  
*The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks*, 2007, University of California, Berkeley.  
Yusuf Abdu-l-Fattah, 2001. *Studies in the theory of international relations*, Cairo University

<sup>31</sup> See: Blanchard, Olivier and Jordi Galí (2007).”Real Wage Rigidities and yhe New Keynesian Model,” *Journal of Money, Credit, and Banking*, Vol. 39, No. 1, Supplement, pp. 36–65.  
Bernanke, Ben, Vincent Reinhart, and Brian Sack, 2004 “Monetary Policy Alternatives at the Zero Bound: An Empirical Assessment,” *Brookings Papers on Economic Activity*, No. 2, pp. 1–100

This divine coincidence (as it has been called) implied that, even if policymakers cared very much about activity, the best they could do was to maintain stable inflation. This applied whether the economy was affected by “animal spirits” or other shocks to consumer preferences, technology shocks, or even changes in the price of oil. The coincidence failed in the presence of further imperfections, further deviations from the benchmark, but the message remained: stable inflation is good in itself and good for economic activity.

In practice, the rhetoric exceeded the reality. Few central banks, if any, cared only about inflation. Most of them practiced “flexible inflation targeting,” the return of inflation to a stable target, not right away, but over some horizon. Most of them allowed for shifts in headline inflation, such as those caused by rising oil prices, provided inflation expectations remained well anchored. And many of them paid attention to asset prices (house prices, stock prices, exchange rates) beyond their effects on inflation and showed concern about external sustainability and the risks associated with balance sheet effects. But they did this with some unease, and often with strong public denial.

There were discussions about the inflation rate, which should be stable at low level, most national central banks chose a target one around 2%. This led to a discussion of the implications of low inflation for the probability of falling into a liquidity trap, namely: corresponding to lower average inflation is a lower average nominal rate, and given the zero bound on the nominal rate, a smaller feasible decrease in the interest rate—thus less room for expansionary monetary policy in case of an adverse shock. The danger of a low inflation rate was thought, however, to be small. The formal argument was that, to the extent that central banks could commit to higher nominal money growth and thus higher inflation in the future, they could increase future inflation expectations and thus decrease future anticipated real rates and stimulate activity today. And, in a world of small shocks, 2 percent inflation seemed to provide a sufficient cushion to make the zero lower bound unimportant. Thus, the focus was on the importance of commitment and the ability of central banks to affect inflation expectations.

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Eggertsson, Gauti, and Michael Woodford, 2003, “The Zero Bound on Interest Rates and Optimal Monetary Policy,” *Brookings Papers on Economic Activity*, No. 1, pp. 139–233.

The liquidity traps of the Great Depression, combining significant deflation and low nominal rates, were seen as belonging to history, a reflection of policy errors that could now be avoided. The Japanese experience of the 1990s, with deflation, zero interest rates, and a continuing slump, stood more uneasily in the way. But it was largely dismissed as reflecting the inability or unwillingness of the Japanese central bank to commit to future money growth and to future inflation, coupled with slow progress on other fronts. To be fair, the Japanese experience was not ignored by the Fed, which worried about deflation risks in the early 2000s.

Monetary policy increasingly focused on the use of one instrument, the policy interest rate, that is, the short-term interest rate that the central bank can directly control through appropriate open-market operations. Behind this choice were two assumptions.

The first was that the real effects of monetary policy took place through interest rates and asset prices, not through any direct effect of monetary aggregates (an exception to this rule was the stated “two-pillar” policy of the European Central Bank (ECB), which paid direct attention to the quantity of credit in the economy, but was often derided by observers as lacking a good theoretical foundation).

The second assumption was that all interest rates and asset prices were linked through arbitrage. So that long rates were given by proper weighted averages of risk-adjusted future short rates, and asset prices by fundamentals, the risk-adjusted present discounted value of payments on the asset. Under these two assumptions, one needs only to affect current and future expected short rates: all other rates and prices follow. And one can do this by using, implicitly or explicitly, a transparent, predictable rule (thus the focus on transparency and predictability, a main theme of monetary policy in the past two decades), such as the Taylor rule, giving the policy rate as a function of the current economic environment. Intervening in more than one market, say in both the short-term and the long-term bond markets, is either redundant, or inconsistent.

Under these two assumptions also, the details of financial intermediation are largely irrelevant. An exception was made, however, for banks (more specifically, commercial banks), which were seen as special in two respects. First—and in the theoretical literature more than in the actual conduct of monetary policy—bank credit was seen as special, not easily substituted by other types of credit. This led to an emphasis on the “credit channel,”

where monetary policy also affects the economy through the quantity of reserves and, in turn, bank credit. Second, the liquidity transformation involved in having demand deposits as liabilities and loans as assets, and the resulting possibility of runs, justified deposit insurance and the traditional role of central banks as lenders of last resort. The resulting distortions were the main justification for bank regulation and supervision. Little attention was paid, however, to the rest of the financial system from a macro standpoint.

In the aftermath of the Great Depression and following Keynes, fiscal policy had been seen as a central macroeconomic policy tool. In the 1960s and 1970s, fiscal and monetary policy had roughly equal billing, often seen as two instruments to achieve two targets—internal and external balance, for example. In the past two decades, however, fiscal policy took a backseat to monetary policy. The reasons were many, which are follows:

First was wide skepticism about the effects of fiscal policy, itself largely based on Ricardian equivalence arguments.

Second, if monetary policy could maintain a stable output gap, there was little reason to use another instrument. In that context, the abandonment of fiscal policy as a cyclical tool may have been the result of financial market developments that increased the effectiveness of monetary policy.

Third, in advanced economies, the priority was to stabilize and possibly decrease typically high debt levels; in emerging market countries, the lack of depth of the domestic bond market limited the scope for countercyclical policy anyway.

Fourth, lags in the design and the implementation of fiscal policy, together with the short length of recessions, implied that fiscal measures were likely to come too late. Fifth, fiscal policy, much more than monetary policy, was likely to be distorted by political constraints.

The rejection of discretionary fiscal policy as a countercyclical tool was particularly strong in academia. In practice, as for monetary policy, the rhetoric was stronger than the reality. Discretionary fiscal stimulus measures were generally accepted in the face of severe shocks (such as, for example, during the Japanese crisis of the early 1990s). And policymakers would sometimes turn to discretionary fiscal stimulus even during “normal recessions.” A countercyclical fiscal stance was also seen as desirable in principle (though elusive in practice) for emerging markets with limited automatic stabilizers. This often took the form of

louder calls for fiscal prudence during periods of rapid economic growth. And even for emerging markets, the consensus recipe for the medium term was to strengthen the stabilizers and move away from discretionary measures.

As a result, the focus was primarily on debt sustainability and on fiscal rules designed to achieve such sustainability. To the extent that policymakers took a long-term view, the focus in advanced economies was on prepositioning the fiscal accounts for the looming consequences of aging. In emerging market economies, the focus was on reducing the likelihood of default crises, but also on establishing institutional setups to constrain procyclical fiscal policies, so as to avoid boom-bust cycles. Automatic stabilizers could be left to play (at least in economies that did not face financing constraints), as they did not conflict with sustainability. Indeed, with the increase in the share of government in output as economies developed (Wagner's law), automatic stabilizers played a greater role. Somewhat schizophrenically, however, while existing stabilizers were seen as acceptable, little thought was given to the design of potentially better ones.

With the neglect of financial intermediation as a central macroeconomic feature, financial regulation and supervision focused on individual institutions and markets and largely ignored their macroeconomic implications. Financial regulation targeted the soundness of individual institutions and aimed at correcting market failures stemming from asymmetric information, limited liability, and other imperfections such as implicit or explicit government guarantees. In advanced economies, its systemic and macroeconomic implications were largely ignored. This was less true in some emerging markets, where prudential rules such as limits on currency exposures (and sometimes an outright prohibition against lending to residents in foreign currency) were designed with macro stability in mind.

Given regulatory ratios were used, like capital ratios, or loan-to-value ratios and cyclical policy tools in Spain and Colombia. This introduced rules that de facto link provisioning to credit growth, are notable exceptions. On the contrary, given the enthusiasm for financial deregulation, the use of prudential regulation for cyclical purposes was considered improper mingling with the functioning of credit markets and often seen as politically motivated.<sup>32</sup>

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<sup>32</sup> See Caruana, Jaime, 2005, "Monetary Policy, Financial Stability, and Asset Prices," *Documentos Ocasionales* No. 0507, Banco de España.

Increased confidence that a coherent macro framework had been achieved was surely reinforced by the “Great moderation,” the steady decline in the variability of output and of inflation over the period in most advanced economies. There is an ambiguity, which should be seen as declining tendency in the 1970s, or as having started in earnest in the early 1980s, when monetary policy was changed. There is also some ambiguity as to how much of the decline should be seen as the result of luck, that is, smaller shocks, structural changes, or improved policy. Improvements in inventory management and good luck in the form of rapid productivity growth and the trade integration of China and India likely played some role. But the reaction of advanced economies to largely similar oil price increases in the 1970s and the 2000s supports the improved-policy view.

Evidence suggests that more solid anchoring of inflation expectations, plausibly due to clearer signals and behavior by central banks, played an important role in reducing the effects of these shocks on the economy. In addition, the successful responses to the 1987 stock market crash, the Long-Term Capital Management (LTCM) collapse, and the bursting of the tech bubble reinforced the view that monetary policy was also well equipped to deal with the financial consequences of asset price busts. Thus, by the mid-2000s, it was indeed not unreasonable to think that better macroeconomic policy could deliver, and had indeed delivered, higher economic stability.

#### **4.4 What we have learned from the crisis**

Core inflation was stable in most advanced economies until the crisis started. Some have argued in retrospect that core inflation was not the right measure of inflation, and that the increase in oil or housing prices should have been taken into account. This, however, goes against the conclusions from theoretical research (which suggests stabilization of an index corresponding to “sticky prices,” an index quite close to that used to measure core inflation) and is more a reflection of the hope that it may be sufficient to focus on and stabilize a single index, so long as it is the “right” one. This is unlikely to be true: no single index will do the trick.



Inflation, even core inflation, may be stable, and the output gap may nevertheless vary, leading to an obvious trade-off between the two. This is hard to prove empirically, as the output gap is not directly observable. What is clear, however, is that the behavior of inflation is much more complex than is assumed in our simple models and that we understand the relationship between activity and inflation quite poorly, especially at low rates of inflation. Or, in the case of the precrisis 2000s, both inflation and the output gap may be stable, but the behavior of some asset prices and credit aggregates,<sup>33</sup> or the composition of output, may be undesirable (for example, too high a level of housing investment, too high a level of consumption, or too large a current account deficit) and potentially trigger major macroeconomic adjustments later on.

When the crisis started in earnest in 2008, and aggregate demand collapsed, most central banks quickly decreased their policy rate to close to zero. Had they been able to, they would have decreased the rate further: estimates, based on a simple Taylor rule, suggest another 3 to 5 percent for the United States. But the zero nominal interest rate bound prevented them from doing so. One main implication was the need for more reliance on fiscal policy and for larger deficits than would have been the case absent the binding zero interest rate constraint.

It appears today that the world will likely avoid major deflation and thus avoid the deadly interaction of larger and larger deflation, higher and higher real interest rates, and a larger and larger output gap. But it is clear that the zero nominal interest rate bound has proven costly. Higher average inflation, and thus higher nominal interest rates to start with, would have made it possible to cut interest rates more, thereby probably reducing the drop in output and the deterioration of fiscal positions.

Markets are segmented, with specialized investors operating in specific markets. Most of the time, they are well linked through arbitrage. However, when, for some reason, some of the investors withdraw from that market (be it because of losses in some of their other activities, loss of access to some of their funds, or internal agency issues), the effect on prices can be very large. In this sense, wholesale funding is not fundamentally different from demand deposits, and the demand for liquidity extends far beyond banks. When this happens, rates are

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<sup>33</sup> See Blanchard, Olivier, and John Simon, 2001, "The Long and Large Decline in U.S. Output Volatility," *Brookings Papers on Economic Activity*, No. 1, pp. 135–64.

no longer linked through arbitrage, and the policy rate is no longer a sufficient instrument for policy. Interventions, either through the acceptance of assets as collateral, or through their straight purchase by the central bank, can affect the rates on different classes of assets, for a given policy rate. This is indeed what, under the heading of credit easing, the central banks have done in this crisis. Another old issue the crisis has brought back to the fore is that of bubbles and fads, leading assets to deviate from fundamentals, not for liquidity but for speculative reasons. At the least, the evidence from the crisis strengthens the case for the existence of and the dangers associated with such bubbles, in this case in the housing market. And it surely puts into question the “benign neglect” view that it is better to pick up the pieces after a bust than to try to prevent the buildup of sometimes difficult-to-detect bubbles<sup>34</sup>.

The crisis has returned fiscal policy to center stage as a macroeconomic tool for two main reasons: first, to the extent that monetary policy, including credit and quantitative easing, had largely reached its limits, policymakers had little choice but to rely on fiscal policy. Second, from its early stages, the recession was expected to be long lasting, so that it was clear that fiscal stimulus would have ample time to yield a beneficial impact despite implementation lags.

It has also shown the importance of having “fiscal space” (and here there is a parallel with the earlier discussion about inflation and room to decrease nominal interest rates). Some advanced economies that entered the crisis with high levels of debt and large unfunded liabilities have had limited ability to use fiscal policy. Similarly, those emerging market economies (e.g., some in Eastern Europe) that ran highly procyclical fiscal policies driven by consumption booms are now forced to cut spending and increase taxes despite unprecedented recessions. By contrast, many other emerging markets entered the crisis with lower levels of debt. This allowed them to use fiscal policy more aggressively without fiscal sustainability

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<sup>34</sup>See Williams, John, 2009, “Heeding Daedalus: Optimal Inflation and the Zero Lower Bound,” *Brookings Papers on Economic Activity*.

Krane, Spencer D., and S. N. Braun. 1991. Production Smoothing Evidence from Physical-Product Data. *Journal of Political Economy* 99(3): 558-77.

Lovell, Michael C. 1961. Manufacturers' Inventories, Sales Expectations, and the Acceleration Principle. *Econometrica* 24: 293-314.

Malik bin Nabiy: The Muslim in the world of economy

being called into question or ensuing sudden stops. The aggressive fiscal response has been warranted given the exceptional circumstances, but it has further exposed some drawbacks of discretionary fiscal policy for more “normal” fluctuations—in particular lags in formulating, enacting, and implementing appropriate fiscal measures, which are often due to an awkward political process. The U.S. fiscal stimulus bill was enacted in February 2009, more than a year after the start of the recession, and only half of the authorized spending is projected to have been spent by the end of 2009 (see [www.recovery.gov](http://www.recovery.gov)).

Furthermore, the wide variety of approaches in terms of the measures undertaken has made it clear that there is a lot we do not know about the effects of fiscal policy, about the optimal composition of fiscal packages, about the use of spending increases versus tax decreases, and the factors that underlie the sustainability of public debts, topics that had been less active areas of research before the crisis.

Just like financial intermediation itself, financial regulation has played a central role in the crisis. It contributed to the amplification effects that transformed the decrease in U.S. housing prices into a major world economic crisis. The limited perimeter of regulation gave incentives for banks to create off-balance-sheet entities to avoid some prudential rules and increase leverage. Regulatory arbitrage allowed financial institutions such as AIG to play by different rules from other financial intermediaries. Once the crisis started, rules aimed at guaranteeing the soundness of individual institutions worked against the stability of the system. Mark-to-market rules, when coupled with constant regulatory capital ratios, forced financial institutions to take dramatic measures to reduce their balance sheets, exacerbating fire sales and deleveraging.

If the conceptual framework behind macroeconomic policy was so flawed, why did things look so good for so long? One reason is that, during the past two decades, policymakers had to deal with shocks they understood rather well and for which policy was indeed well adapted. For example, the lesson that, with respect to supply shocks, anchoring of expectations was of the essence, was well understood when the price of oil increased again in the 2000s. But, even though they were better prepared to deal with some shocks, they were just not prepared for others. This is despite the fact that they had, in effect, a number of warnings, from the LTCM crisis to the sudden stops of capital in the Asian crisis. But LTCM was dealt with successfully and was seen as a one-off event, not a potential rehearsal of the same problem on a larger,

macro, scale. And the difficulties faced by the financial systems of Asian countries were not thought to be relevant to advanced economies. The poor performance of Japan in dealing with the bursting of the 1980s real estate bubble can be read in this light: the Japanese economy was exposed to a shock whose implications were not understood at the time.

It may even be that success in responding to standard demand and supply shocks, and in moderating fluctuations, was in part responsible for the larger effects of the financial shocks in this crisis. The Great Moderation led too many (including policymakers and regulators) to understate macroeconomic risk, ignore, in particular, tail risks, and take positions and relax rules — from leverage to foreign currency exposure, which turned out to be much riskier after the fact.

Identifying the flaws of existing policy is (relatively) easy. Defining a new macroeconomic policy framework is much harder. The bad news is that the crisis has made clear that macroeconomic policy must have many targets; the good news is that it has also reminded us that we have in fact many instruments, from “exotic” monetary policy to fiscal instruments, to regulatory instruments. It will take some time, and substantial research, to decide which instruments to allocate to which targets, between monetary, fiscal, and financial policies. What follows are explorations.

It is important to start by stating the obvious, namely, that the baby should not be thrown out with the bathwater. Most of the elements of the precrisis consensus, including the major conclusions from macroeconomic theory, still hold. Among them, the ultimate targets remain output and inflation stability. The natural rate hypothesis holds, at least to a good enough approximation, and policymakers should not assume that there is a long-term trade-off between inflation and unemployment. Stable inflation must remain one of the major goals of monetary policy. Fiscal sustainability is of the essence, not only for the long term, but also in affecting expectations in the short term.

The crisis has shown that large adverse shocks can and do happen. In this crisis, they came from the financial sector, but they could come from elsewhere in the future — the effects of a pandemic on tourism and trade or the effects of a major terrorist attack on a large economic center. Should policymakers therefore aim for a higher target inflation rate in normal times, in order to increase the room for monetary policy to react to such shocks? To be concrete, are

the net costs of inflation much higher at, say, 4 percent than at 2 percent, the current target range? Is it more difficult to anchor expectations at 4 percent than at 2 percent?

Achieving low inflation through central bank independence has been a historic accomplishment, especially in several emerging markets. Thus, answering these questions implies carefully revisiting the list of benefits and costs of inflation. The inflation tax is clearly distortionary, but so are the other, alternative, taxes. Many of the distortions from inflation come from a tax system that is not inflation neutral, for example, from nominal tax brackets or from the deductibility of nominal interest payments. These could be corrected, allowing for a higher optimal inflation rate. If higher inflation is associated with higher inflation volatility, indexed bonds can protect investors from inflation risk.

Other distortions, such as the lower holdings of real money balances and a greater dispersion of relative prices, are more difficult to correct (the empirical evidence is, however, that their effects on output are difficult to discern, so long as inflation remains in the single digits). Perhaps more important is the risk that higher inflation rates may induce changes in the structure of the economy (such as the widespread use of wage indexation) that magnify inflation shocks and reduce the effectiveness of policy action. But the question remains whether these costs are outweighed by the potential benefits in terms of avoiding the zero interest rate bound.

A related question is whether, when the inflation rate becomes very low, policymakers should err on the side of a more lax monetary policy, so as to minimize the likelihood of deflation, even if this means incurring the risk of higher inflation in the event of an unexpectedly strong pickup in demand. This issue, which was on the mind of the Fed in the early 2000s, is one we must return to. Part of the debate about monetary policy, even before the crisis, was whether the interest rate rule, implicit or explicit, should be extended to deal with asset prices. The crisis has added a number of candidates to the list, from leverage to current account positions to measures of systemic risk.

This seems like the wrong way of approaching the problem. The policy rate is a poor tool to deal with excess leverage, excessive risk taking, or apparent deviations of asset prices from fundamentals. Even if a higher policy rate reduces some excessively high asset price, it is likely to do so at the cost of a larger output gap. Were there no other instrument, the central

bank would indeed face a difficult task, and this has led a number of researchers to argue against reacting to perceived asset bubbles and other variables. But there are other instruments at the policymaker's disposal—call them cyclical regulatory tools. If leverage appears excessive, regulatory capital ratios can be increased; if liquidity appears too low, regulatory liquidity ratios can be introduced and, if needed, increased; to dampen housing prices, loan-to-value ratios can be decreased; to limit stock price increases, margin requirements can be increased. True, none of these is a magic bullet and all can be, to some extent, circumvented. Nevertheless, they are likely to have a more targeted impact than the policy rate on the variables they are trying to affect. In this light, it seems better to use the policy rate primarily in response to aggregate activity and inflation and to use these specific instruments to deal with specific output composition, financing, or asset price issues (Miller, Merton H. and Charles W. Upton. 1985a, and Miller, Merton H. and Charles W. Upton. 1985b).

A related issue is the potential conundrum created by the effect of low interest rates on risk taking. If it is indeed the case that low interest rates lead to excessive leverage or to excessive risk taking, should the central bank, as some have suggested, keep the policy rate higher than is implied by a standard interest rule? Again, absent other instruments, the central bank would face a difficult choice, having to accept a positive output gap in exchange for lower risk taking. If, however, we take into account the presence of the other instruments, which can directly affect leverage or risk taking, than the problem can be better handled through the use of those instruments, rather than through modification of the policy rule.

If monetary and regulatory tools are to be combined in this way, it follows that the traditional regulatory and prudential frameworks need to acquire a macroeconomic dimension. Measures reflecting systemwide cyclical conditions will have to complement the traditional institution-level rules and supervision. As for monetary policy decisions, these macroprudential measures should be updated on a regular and predictable or even semi-automatic based on maximizing their effectiveness through a credible and understood policy stance. The main challenge, here, is to find the right trade-off between a sophisticated system, fine-tuned to each marginal change in systemic risk, and an approach based on simple-to-communicate triggers and easy-to-implement rules.

If one accepts the notion that, together, monetary policy and regulation provide a large set of cyclical tools, this raises the issue of how coordination is achieved between the monetary and

the regulatory authorities, or whether the central bank should be in charge of both.

The increasing trend toward separation of the two may well have to be reversed. Central banks are an obvious candidate as macroprudential regulators. They are ideally positioned to monitor macroeconomic developments, and in several countries they already regulate the banks. “Communication” debacles during the crisis, for example on the occasion of the bailout of Northern Rock, point to the problems involved in coordinating the actions of two separate agencies. And the potential implications of monetary policy decisions for leverage and risk taking also favor the centralization of macroprudential responsibilities within the central bank. Against this solution, two arguments were given in the past against giving such power to the central bank. The first was that the central bank would take a “softer” stance against inflation, since interest rate hikes may have a detrimental effect on bank balance sheets. The second was that the central bank would have a more complex mandate, and thus this can be less easily accountable. Both arguments have merit and, at a minimum, imply a need for provides a detailed discussion of the tools that could be used to complement the current regulatory ratios to manage aggregate risk over the cycle.<sup>35</sup>

Further transparency if the central bank is given responsibility for regulation. The alternative, that is, separate monetary and regulatory authorities, seems worse. The central banks that adopted inflation targeting typically argued that they cared about the exchange rate only to the extent that it had an impact on their primary objective, inflation. This was certainly the case in large advanced economies. For smaller countries, however, the evidence suggests that, in fact, many of them paid close attention to the exchange rate and also intervened on foreign exchange markets to smooth volatility and, often, even to influence the level of the exchange rate.

Their actions were more sensible than their rhetoric. Large fluctuations in exchange rates, due to sharp shifts in capital flows, as during this crisis, or other factors, can create large disruptions in activity. A large appreciation may squeeze the tradable sector and make it difficult for it to grow back if and when the exchange rate decreases. Also, when a significant

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<sup>35</sup>Bank of England, 2009, “The Role of Macroprudential Policy,” Discussion Paper, November.

portion of domestic contracts is denominated in foreign currency or is somehow linked to its movements, sharp fluctuations in the exchange rate, especially depreciations, can cause severe balance sheet effects with negative consequences for financial stability, and thus, output.

In that context, the discrepancy between rhetoric and practice is confusing and undermines the transparency and credibility of the monetary policy action. Central banks in small open economies should openly recognize that exchange rate stability is part of their objective function. This does not imply that inflation targeting should be abandoned. Indeed, at least in the short term, imperfect capital mobility endows central banks with a second instrument in the form of reserve accumulation and sterilized intervention. This tool can help control the external target while domestic objectives are left to the policy rate.

Of course, there are limits to sterilized intervention, and these can be easily reached if capital account pressures are large and prolonged. These limits will be specific to each country and will depend on countries' openness and financial integration. When these limits are reached and the burden falls solely on the policy rate, strict inflation targeting is not optimal, and the consequences of adverse exchange rate movements have to be taken into account.

Note that this discussion provides yet another example of the important interrelationship between policies and regulation discussed in the previous subsection. For instance, to the extent that prudential rules can prevent or contain the degree of contract dollarization in the economy, they will allow for greater policy freedom with respect to exchange rate movements. In turn, the perception of an "exces<sup>36</sup>sively stable" exchange rate can lead to greater incentives for contract dollarization.

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The crisis has forced central banks to extend the scope and scale of their traditional role as lenders of last resort. They extended their liquidity support to non-deposit-taking institutions and intervened directly (with purchases) or indirectly (through acceptance of the assets as collateral) in a broad range of asset markets. The question is whether these policies should be kept in tranquil times. The argument for extending liquidity provision, even in normal times, seems compelling. If liquidity problems come from the disappearance of deep-pocket private investors from specific markets, or from the coordination problems of small investors as in

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<sup>36</sup> Mishkin, Frederic, 2008, "Challenges for Inflation Targeting in Emerging Market Countries," *Emerging Markets Finance and Trade*, Vol. 44, No. 6, pp. 5–16.



the traditional case of bank runs, the government is in a unique position to intervene. Given its nature and its ability to use taxation, it has both a long horizon and very deep pockets. Thus, it can, and indeed should, step in and be ready to replace private investors, if need be.<sup>37</sup>

Two arguments have traditionally been made against such public liquidity provision. The first is that the departure of private investors may reflect, at least in part, solvency concerns. Thus, the provision of liquidity carries risk for the government balance sheet and creates the probability of bailout with obvious consequences for risk taking. The second is that such liquidity provision will induce more maturity transformation and less-liquid portfolios. While this outcome is sometimes referred to as moral hazard, it is not by itself a bad one: to the extent that public liquidity provision can be provided at no cost, it is indeed optimal to have the private sector do this maturity transformation. The cost may, however, be positive, reflecting the need for higher taxation or foreign borrowing.

Both problems can be partly addressed through the use of insurance fees and haircuts (the first argument suggests, however, relying, in normal times, on indirect support and appropriate haircuts to reduce credit risk, rather than on direct purchases). The problems can also be addressed through regulation, by both drawing up a list of assets eligible as collateral (in this respect, the ECB was ahead of the Fed in having a longer list of eligible collateral) and, for financial institutions, by linking access to liquidity to coming under the regulatory and supervision umbrella.

A key lesson from the crisis is the desirability of fiscal space to run larger fiscal deficits when needed. There is an analogy here between the need for more fiscal space and the need for more nominal interest rate room, argued earlier. Had governments had more room to cut interest rates and to adopt a more expansionary fiscal stance, they would have been better able to fight the crisis. Going forward, the required degree of fiscal adjustment (after the recovery is securely under way) will be formidable, in light of the need to reduce debt against the background of aging-related challenges in pensions and health care. Still, the lesson from the crisis is clearly that target debt levels should be lower than those observed before the crisis. The policy implications for the next decade or two are that, when cyclical conditions permit, major fiscal adjustment is necessary and, should economic growth recover rapidly, it should

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<sup>37</sup> Holmstrom, Bengt, and Jean Tirole, 2008, “*Inside and Outside Liquidity*” unpublished manuscript.

be used to reduce debt-to-GDP ratios substantially, rather than to finance expenditure increases or tax cuts.

The recipe to create additional fiscal space in the years ahead and to ensure that economic booms translate into improved fiscal positions rather than procyclical fiscal stimulus is not new, but it acquires greater relevance as a result of the crisis. Medium-term fiscal frameworks, credible commitments to reducing debt-to-GDP ratios, and fiscal rules (with escape clauses for recessions) can all help in this regard. Similarly, expenditure frameworks based on long-term revenue assessments help limit spending increases during booms. And eliminating explicit revenue earmarking for prespecified budget purposes would avoid automatic expenditure cuts when revenues fall.

A further challenge, as governments come under greater pressure to display improved deficit and debt data and are tempted to provide support to ailing sectors through guarantees or off-budget operations, is to ensure that all public sector operations are transparently reflected in fiscal data and that well-designed budget processes reduce policymakers' incentives to postpone needed adjustment. As discussed above, the exception of this crisis confirms the problems with discretionary fiscal measures: they come too late to fight a standard recession. There is, thus, a strong case for improving automatic stabilizers. One must distinguish here between truly automatic stabilizers—that is, those that by their very nature imply a procyclical decrease in transfers or increase in tax revenues—and rules that allow some transfers or taxes to vary based on prespecified triggers tied to the state of the economic cycle (see Baunsgaard, Thomas, and Steven A. Symansky, 2009,).

The first type of automatic stabilizer comes from the combination of rigid government expenditures with an elasticity of revenues with respect to output of approximately one, from the existence of social insurance programs (defined-benefit pension and unemployment benefit systems fall into this category), and from the progressive nature of income taxes. The main ways to increase their macroeconomic effect would be to increase the size of government or (to a lesser extent) to make taxes more progressive or to make social insurance programs more generous. However, reforms along these lines would be warranted only if they were based on a broader set of equity and efficiency objectives, rather than motivated simply by the desire to stabilize the economy.

The second type of automatic stabilizer appears more promising. This type does not carry the costs mentioned above and can be applied to tax or expenditure items with large multipliers. On the tax side, one can think of temporary tax policies targeted at low-income households, such as a flat, refundable tax rebate, a percentage reduction in a taxpayer's.<sup>38</sup>

The crisis was not triggered primarily by macroeconomic policy. But it has exposed flaws in the precrisis policy framework, forced policymakers to explore new policies during the crisis, and forces us to think about the architecture of postcrisis macroeconomic policy.

In many ways, the general policy framework should remain the same. The ultimate goals should be to achieve a stable output gap and stable inflation. But the crisis has made clear that policymakers have to watch many targets, including the composition of output, the behavior of asset prices, and the leverage of different agents. It has also made clear that they have potentially many more instruments at their disposal than they used before the crisis. The challenge is to learn how to use these instruments in the best way. The combination of traditional monetary policy and regulation tools, and the design of better automatic stabilizers for fiscal policy, are two promising routes. These need to be explored further.

Finally, the crisis has also reinforced lessons that we were always aware of, but with greater experience now internalize more strongly. Low public debt in good times creates room to act forcefully when needed. Good plumbing, in terms of prudential regulation, and transparent data in the monetary, financial, and fiscal areas are critical to our economic system functioning well. Capitalizing on the experience of the crisis, our job will be not only to come up with creative policy innovations, but also to help make the case with the public at large for the difficult but necessary adjustment and reforms that stem from those lessons<sup>39</sup>.

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<sup>38</sup> See Seidman L. (2003), Feldstein, M. (2007), Elmendorf D. and Furman J. (2008), and Elmendorf D. (2009a), Elmendorf D. (2009b).

Musgrave, Richard A., 1959, *The Theory of Public Finance* (New York: McGraw-Hill).  
Phillips, A.W., 1954, "Stabilization Policy in a Closed Economy," *Economic Journal*, Vol. 64, pp. 290–323.

<sup>39</sup> See: IMF Staff Position Note, February 12, 2010 SPN/10/03, Rethinking Macroeconomic Policy, Olivier Blanchard, Giovanni Dell’Ariccia, and Paolo Mauro.

Human Development Report for the year 2005, published by the United Nations Development Program (UNDP).

Market share within OPEC, <http://www.wtrg.com/opecshare.html>

## **5. THE FUTURE OF INTERNATIONAL RELATIONSHIP UNDER THE AUSPICES OF GLOBAL CRISIS AND GLOBALIZATION**

One can easily expect and anticipate a future in which the United States of America will be unequaled in its efforts and endeavor to impose its sovereignty and power on the whole world. This may happen in the next 20 years. This is due to the fact that this country keeps going on the way that increases the gap between the USA and the international community, in the fields of financial, economic, scientific and technological relations as well as weaponry and politics.

There were analysts who spoke about another economic miracle. In fact this miracle took place in the United States of America itself. This is due to the fact that globalization under the circumstances of a one-pole world, exert pressure on other great and independent countries, which by the leadership of the United States of America, surrender to the globalization. One cannot exclude that Washington, as a leader, will execute and apply strategic plans in order to weaken and exhaust those countries. At this point we have to remind of the words written by S. Huntington: “The one-pole world brings the glad tidings of the emergence and appearance of one great power, and the absence of other great powers, and a great number of small states. We can draw the conclusion that giant countries like Russia, China, and India are not welcome in the expectations of the United States of America. This could raise an important question: How long can this one-pole world exist?”

Concentration of financial-economic-trading power centers led to the fact that East and South-East Asia became half of the global, financial and commercial center of the world, along with the number of inhabitants.

## **5.1 The influence of globalization on the international relationships**

If we analyze the expectations of foreign experts, we may say that globalization has reinforced and strengthened the economic and security overlap in connection with different countries and has changed to a great degree the international political agenda. It was accompanied by changing the interests of states in the international context, possibilities and tools for implementing their foreign policies have also been changed and transformed. The notion “power of the state” has been changed from being a kind of dependence on military power to dependence on developing and advancement of informational-economic-financial-intellectual-ideological resources of the state. The major international players will be changed on international level, from political-military alliances and unions to international and regional economic and commercial alliances and unions. Like the example of the European Union, or the Asia-Pacific Economic Cooperation (APEC), or the Eurasian Economic Community (EAEC), or the Cooperation Council for the Arab States of the Gulf (CCASG, also known as Gulf Cooperation Council, GCC) and other forms of economic cooperation, but the leading group remains the G-8. All these facts mean global political and diplomatic transitions changes towards economy.

Globalization was the cause of the rising national consciousness among the inhabitants of the world. It may also lead to a growing number of independent states. Here we may mention that the number of independent states after the end of the Second World War was 50. At present the number of member-countries of United Nations Organization is 192. And it is expected that this number will grow in the near future, due to the fact that there are great number of ethnic minorities in more than 100 countries and the growing number of expatriate communities reaching ca. one million everywhere. This anticipates the collapse of these states and consequently these will be divided into several independent states, as it happened in the case of the former Soviet Union that was divided into 15 independent states, or Yugoslavia created several independent states. Or the case of Czechoslovakia which was divided into two independent states or Ethiopia divided into two independent states.

The influence of globalization on international relations, the diplomatic efforts since the beginning of the 21<sup>st</sup> century, when military-political issues appeared in the first lines, accompanied by military conflicts, by summit meetings, characterized by financial and

international trade issues and by the protection of the environment and the international exchange of information. The words of S. Huntington who wrote in his book “Clash of Civilizations” that there is a conflict between seven civilizations in the world.

The topic of international relations means the definition and analysis of international forms and layouts that depends on cooperation and conflict what really connect the international activities of a given state, like international organizations and multinational companies and other forms. In cases, the behaviors and actions of some personalities can be studied, who have real influence and effective role in international relations. But necessarily, one has to focus on the foreign portion, concept. For this latter defines the field of international and foreign relations. It needs a central authority organizing the power lines and its distribution, in accordance with legal principles that are agreed upon. There are several other attempts in order to reach the consensus of the international community concerning the framework of relations based on the self-interests among those participating, like: International Law, Sea Law and the Charter of the United Nations.

Beginning from 1990 the curtain dropped on the last scene of international relations ruled and governed by a bi-polar world, this was the announcement of the end of the cold war and the birth of a “new” international scene governed and administered by a mono-polar American system.

As it is stated by *Samir Amin* saying that the regional conglomerate that would not be able to threaten at present (Samir Amin, ed. 1997; Samir Amin, ed. 2001). The present predominant liberal globalization is not purely “economic globalization” that would be independent of the complexity and difficulties of dominance or the expansionist-capitalist logic and its tools used by the ruling American systems and organizations. According to the aforementioned, these know that the dominant public speech and discourse says that markets are set on their own and the absolute supremacy, without restrictions, would automatically create democracy and peace. But, as it is rightly emphasized by Samir Amin, it is only an ideological speech lacking the scientific foundation.

Consequently, the conclusion of this acknowledgement is that the United States of America will deploy its exceptional military power in order to subdue, subjugate all and everybody for the sake of the requirements of its project in the process of global supremacy.

All this is only the cause of deepening the global nature of value and widening the global nature of labor-division and distribution of wealth and the production factors and the outcome of the truncated global market; as it is described by Samir Amin, these are objective facts. Nevertheless the inherent contradictions of the capitalist system will not stop, nor the effects on its structure and performance. In the forefront, one can mention the contradiction between the capital and work, especially in the light of scientific discoveries and the revolution of culture and the transformation of knowledge into a basic power of production. And the growing unemployment and poverty and the expansion of the number of those who are marginalized on world level, are new signs of this contradiction and its manifestations<sup>40</sup>.

The report prepared in 2002 by the World Bank also proves this it unveiled the deceleration of global economy's growth rate, especially in developing countries. In its turn this means the obstruction and obstacle of reducing the number of the poor in these countries. The report goes on stating: "In spite of the continuously growing oil-prices, the growth rate in the Middle Eastern Region and North-Africa declined to 2.5% as compared to 3.2% in 2001". Other declines, regression have followed this phenomenon not only on social-economic level, but in political context too, for one can witness an unprecedented growth of dependence of systems in this region and their complete subordination in the American globalization system. This can be proved by the aggravation of incurable political, economical and social crises and the manifestations of dependence, backwardness and underdevelopment in the Third World countries in general, and in oil-producing countries in a special sense; in spite of the rise of prices from about 80 dollars a barrel in the middle of 2006.

The question what we try to answer here goes like this: Is globalization a new system that appeared suddenly an unexpectedly by a break with the capitalist historical context, or it came as a manifestation of development beginning from the end of the last century? And, is globalization – as being the manifestation of interaction, development and continuity- able to become a real phenomenon in the 21<sup>st</sup> century?

**Firstly:** It is a well-known fact that capitalism, beginning from its first appearance in the 16<sup>th</sup> century and later on in its subsequent development, in the process of activity was not a limited

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<sup>40</sup> Jad al-Karim al-Juba'i, 2003. The contemporary capitalist crisis, see: <http://www.dctcrs.org>

movement, in a particular domestic or national framework within geographic dimensions including one special country or representing one particular nationality. Commodities production, surplus value accumulation of capital by the emerging bourgeoisie since the beginning of the 15<sup>th</sup> century, by these facts this bourgeoisie was able to shatter and smash principedoms and ancient feudal kingdoms in Europe, thus unifying it in a modern nationalism, in France, Great-Britain, Germany and in the United States of America. These modern, contemporary nation-states were only the starting points for the industrial production, capital on the basis of competition, rivalry, free markets. All this helped the unlimited global expansion, in total harmony with the motto of Cosmopolitanism or global citizenship that appeared at the end of the 19<sup>th</sup> century.

The capitalist mechanisms of competition, market freedom and the unlimited expansion were clearly demonstrated by *Adam Smith*, the father of liberalism. All this was done by the end of the crisis of 1929. It seemed necessary to give to the state a central role in rearranging the capitalist society, thus providing its participation in the management of the economy in paralleling the central role of free market and the movement of capital. This orientation was crystallized when these states began the application of economic fundamentals, brought into being by the economic thinker *John Maynard Keynes*, on the role of the state, without any significant attention to the serious decline that hit at that time the motto of cosmopolitanism. The most important from these fundamentals are the following:

- 1- Enabling the capitalist country to give appropriate answers to the economic disasters.
- 2- Granting to the state central economic investor role in the national economy or the state capitalism (public sector)
- 3- Right of the state to intervene and interfere for the correction of deficiencies in the market or in monetary movements
- 4- Role of the state in avoiding inflation, debts and the rising tendency of prices.

Countries of the capitalist system and their allies continue applying these Keynesian economic policies, since the thirties in the 20<sup>th</sup> century till the eighties then there appeared the features of collapse of the socialist countries and the rise of an American mono-polar world and the ideology of new liberalism.

The most important results in this huge qualitative development, especially on the field of technology and telecommunication, is the reviewing the role of the capitalist state or the Keynesian economic fundamentals. This began during the era of M. Thatcher in 1979, led by



his economic adviser Friedrich von Hayek, and during the R. Reagan administration in 1980 and his economic advisor Milton Friedman. Both of them emphasized the necessity to return to the laws of markets and freedom of capital, according to the theory of new liberalism that is based on the following:<sup>41</sup>

- 1- Whenever grows the private sector, grows the welfare of the society.
- 2- Liberalization of capital, elimination state control in the economic life, global trade liberalization.

In short this means: call for stopping the direct intervention of the state, liberalization of the capital from all restrictions in complete harmony with the spirit of new liberalism which in its essence is capitalist phenomenon closely related to the freedom of property, “market, sell and buy” and its inevitable logic leads to the sharp disparity in property and wealth.

In the light of these policies, the mechanisms of the International Monetary Fund and the World Bank and those of the World Trade Organization (WTO) have gained momentum enthusiastically, in the field of promotion of this liberalism, furthermore by exercising pressure on all countries in the world and especially on third world countries, in order to accept the new conditions under the motto correction and adaptation programs that represent, as it is demonstrated by Ramzi Zaki: “This is the first international project carried out by the

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<sup>41</sup> During the last two decades, there appeared in the United States of America and in Great-Britain an ideological-economic school, called “new liberalism”. Most probably, one of the most important new elements in this school is its ideological claim that grants to the state a new model, in which power could be exercised by the “governance”, like shareholding companies of traditional Anglo-Saxon style in the capitalist system. In this the shareholder play a certain role in the field of control, guidance, orientation in case of distributing the profits; in order to push directors to work for the realization of the most possible profit for the company. This kind of authority in the field of control, carried out by the concerned sides means the content of governance. This English noun is derived from the verb “govern” which means either “governance” i.e. exercising the power (government) and control and orientation. So the model of “power-governance” announced by the new liberalism aims at reducing the role of the state, giving it a managing role under the control and orientation of those who have equal positions with it, like placing shareholders in manager positions in great companies.

The ideology of new liberalism: new world system/ liberalism/ fusion in the global market/ globalization/ minorities/ human rights/ privatization/ end of state/ state economy/ end of policy/ end of history/ clash of civilizations/ civil society/ sustainable development/ humanity/ reducing poverty/ governance/ culture/ terrorism. Abid al-Jabiri , <http://www.sudaneseonline.com>.

global capitalism in order to re-integrate third world countries into the capitalist economy. All this can weaken state apparatus and its deprivation from economic profit. These are two principal buttresses used by the new liberalism.” (Ramzi Zaki 2000).

**Second:** Naturally, rise of the notion economic globalization was not isolated from the ideological collapse that hit the world after the disintegration of the Soviet Union. On the contrary it is closely related and attached to intellectual notions created by philosophers and intellectuals of the western world; starting from “phase of the end of ideology” to “clash of civilizations” and “end of history in the western civilization”. These form a group of thoughts, as it lacks the overall coherence and communication with the human dimension in the modern western thinking. The imperialism is domination, possession, ownership, exploitation which exercised by the rulers of a state – a nation against another nation, against resources, markets and inhabitants.<sup>42</sup>

At present, in an unprecedented way, banks and multi-national companies and financial organizations in Europe and the United States of America rule and control the vast majority of economic organizations. This basic function of the state’s domination is represented by how it allows the flourishing and boom of multi-national companies. The imperialist state grants support to a small group of capitalist ideologists (thinkers, intellectuals) in the center-state, along with numerous new liberal ideologists and intellectuals in third world countries whose personal interests have become substitute of their national loyalty and allegiance.

In the past, religious personalities and colonialist authorities participated in the ideological shipping of thoughts to subjugated conquered nations. New colonization is globalization and financial speculation is the age of information technology in the shadow of the compulsory globalization, through the American and European centers. Here, globalization is the spread of commodities and products, culture and information. As far as its central content is concerned, to the furthest extent, it is by the domination of American and European capital on the movement and track of physical commodities, goods, culture and information. This is why the thought that globalization creates a connected correlated world is actually wrong, for it has created a ruled and governed world, of which 80% are dominated by the American and European capital.

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<sup>42</sup> James Petras, Imperialism (Empire) between past and present. On the internet: al-Munadala 2004.

In this context, Strausz-Hupe, R. (1994), one of the defenders and supporters of the ugly racial nature of the globalization, writes in his book “The Balance of tomorrow” published in 1994, “America’s basic duty is to unify the globe under its leadership and to continue the domination of the Western culture. This duty must be realized in a short period of time in order to oppose the Asian Tigers or any other power that does not belong to the Western Culture-sphere.” he continues: “The duty of the American nation is to eliminate and abolish the nation-states. In such a way, the future within the next 50 years will be for the sake of the Americans. America has to lay down the foundation of the American empire so that it may be the synonym of human empire.” As far as Alvin Toffler, the American sociologist is concerned he goes on in his book “The Third Wave” by a different definition of this global contemporary transformation. He writes in it “A global revolution made knowledge, for the first time in human history a basic force from among force of production, added to earth, capital and work. Participation in this wave or in this transformation depends on information production. And participation in it globally means to create and develop the global intelligence.” We are then in front of “global consciousness” or the intellectual globalization that faces the national consciousness or patriotic consciousness in the Arab World and in the Third World, based on the principle “survival of the fittest” or the strongest in a global homeland without borders.<sup>43</sup>

**Third:** The objective, as it was presented above, of the nature of globalization, especially when all these physical and intellectual data are available to it, in the context of knowledge and technology revolution and the revolution of information and telecommunication which reinforce and cover the political, economic and social sides of the globalization and this pushes towards the transition of this concept to physical, active and effective facts on this planet, within the framework and tools of Western civilization and capitalist, industrial countries which fall under its flag, through the mono-polarity of domination of the United States of America.

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<sup>43</sup> Op. cit. p. 193

## 5.2 Effects of the globalization on developing countries

Concerning the beginning conceptions of the dissertation I would like to summarize the *thesis for the emerging hypothesis*, some questions and some considerable issues according to the OPEC and Arab countries, which are as follows:

*1- At all the oil price increase was not enough for creating the global economic crisis.*

Thesis: The oil price changes were mainly depend on the lack of the energy and inbalance of supply-demands of oil energy resource.

The economic crises have more and deeper causes concerning the aggregated supply-demand decreasing or falling balance, unemployment rate, less GDP growth, more rate inflation. The main causes of the economic crisis coming from the USA from 2008.

*2- The energy crisis adding to the general global economic crisis*

Thesis: Lack of energy, the alternative energy resources were not enough developed – sun, wind, water and nuclear energy, dominance of the fossil energy, not efficient use of fossil energy resources, for example crude oil and refinery oil output.

*3- The oil revenues did not create the unified economic structure of OPEC member countries including Arab countries.*

Thesis: The economic structure of OPEC countries is not diversified, mono structure economy is mostly depends on the world prices of crude oil. So the economies of OPEC countries depend on the oil world price changes. Their economies are very vulnerable.

The absorption capacity of the Gulf and Oil export countries in field of capital and advanced technology or their possible implementation is at very low level for the manufacturing industry. This is proofed by the large amount of crude oil export instead of refinery oil output from OPEC countries.

In the light of the preceding facts, an objective and careful look at our present world, following the first decade of the 21<sup>st</sup> century, confirms that most nations and countries of this planet in Africa, Asia and Latin-America still live under the influence exercised by the shock of the collapse of the bi-polar world, that finally led to the total collapse of all kinds of previously prevailing international balances.

The prohibition of use of armed forces was one of the most important achievements in the field of international law in the 20<sup>th</sup> century, according to the explicit text and wording of the Charter of the United Nations – Paragraph four, article 2, that confirmed “the prohibition of the use of power or the threat by it to the regional peace or political independence in the case of any country, or the use of it in any other forms that could contradict the purposes of the United Nations.”

The fact that the Charter of the UNO has been deprived from its content, agreed upon and accepted by the world’s nations after the Second World War, following the Nazi defeat, led to the situation in which – today- the UNO is unable to exercise its former role that regressed and declined sharply due to the collusion with the American interests and its future vision. This can be proved by the standpoint of Kofi Anan, former Secretary General of the UNO, concerning most of the issues presented in international forums, especially those related to the third world issues and to the issues of Palestinians, Iraq and Lebanon. In our evaluation, this is only one interpretation. On the one hand we can ask about the time span of the American control over the international organization and its secretary general and the extent of subordination of ruling organizations – through class interests – to the American policies in the present global scenery, that embodied the optimal expression about the transformation and track of international relations far away from the principles of international law and the Charter of the UNO; thus leading to a situation in which the principle of use of military force is considered for the application of the American conditions and policies.

It has become clear that using “force” contributed directly to undermining the international system in our contemporary world, taking into consideration the case of acceptance and negative adaptation or in cases participation in it by European countries, Japan and the Russian Federation, thus encouraging the application of this principle.

In the light of these schemes, in the past three decades, the real nature of globalization in our days has been revealed, its inhuman practices and behavior towards the poor nations of the world and against the great outstanding human values in the field of social justice and equality as well as culture, intellectual thoughts and civilization<sup>44</sup>. The international organizations dedicated to the service of the capitalist system in its present state, which are as follows:

1- The International Monetary Fund that controls the management of the global monetary-fiscal system by establishing policies and basic regulations. This is carried out in complete harmony with the World Bank; equally in the following fields: installing privatization programs and structural adaptations or disbursing loans and benefits and the supervision of establishing markets in developing countries for the free movement of goods, commodities and capitals coming from the industrial centers.

2- World Trade Organization (WTO) at present it controls and supervise the global trade and commercial system addressing the liberalization of global-international trade and elimination of tariff barriers, and protecting the free market and the flow of goods in a time span not more than the end of 2006.

3- Multi-national companies that possess capital assets with a value more than 36 trillion dollars. This amount approximates the GDP of all countries in the world. In this respect we can refer to the fact that the economic authority of these global-international companies is concentrated, to a great degree, in American and European companies. Facts, taken from Financial Times of January 1999 prove that from among the 500 greatest companies, 244 are from North-America, 173 are European and 46 are Japanese. That is, in other words, 83% of the most important organizations that control the global production and trade are from North-America and Europe. Power and authority concentration has become spectacular, if we consider the 25 greatest companies in the world (their capital fund surpasses 86 thousand billion dollars); more than 70% of these are from North-America and 26% from Europe and 4% from Japan. This means, if the multi-national companies control the global economy then the United States of America is the dominant force and power for the moment being. This can prove that the argument or thought according to which globalization creates a correlating world is absolutely wrong.

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<sup>44</sup> Samir Amin, 1997. Clash of civilizations or dialogue between cultures. (groups of scholars), Dar al-Tadhamun, p. 76.

### **5.3 International trading movements under the globalization and their effects on developing countries**

In the light of these policies and specific conditions, imposed by the IMF and the World Bank and WTO and the multi-national companies, the trade and commercial policy of independent states has become, for the first time in the course of economic history, an international or globalized issue, and not an act of pure national sovereignty. On the contrary to what was written by the thinkers and intellectuals of globalization and by the defenders and supporters of privatizations and liberalism and liberalization of world trade and their positive effects on the developing countries, for the results coming from the integration of the developing countries in these measures, indicates several facts:

- 1- In spite of the growth of the volume of world trade up to 9.2 trillion dollars in 2003<sup>45</sup> (in the middle of 2006, this was estimated to be ca. 10 trillion dollars per year). The share and ration of developing countries in world trade remained firm and stable during the past three decades around 18%, including the ratio of oil-exporting countries, while taking into considerations that the population of this group represents 75% of the world population.
- 2- In spite of the fact that advocates of globalization and the financial and economic liberalization thought that countries in the developing world would profit from the stream and flow of direct foreign investments, although this did not happen. It has become evident in past two decades that more than 90% of the direct foreign investments go actually into the developed countries (the United States of America, Europe, Japan and China). As far as the rest of the developing countries are concerned, they obtained only 10% of these investment streams. In this respect, the global investment related data prove that in 2000 this amount reached 1393 billion dollars and it declined with 40% in 2001 as a consequence of the 11 September events. 90% of these investments were concentrated in the industrialized countries, thus the amount of foreign investments directed to the developing world did not surpass 162.1 billion dollars in 2002<sup>46</sup>, and it did not exceed this number till 2005.
- 3- The total debt stock in the developing countries grew significantly and in a dramatic way in the past decade from 603.3 billion dollars in 1980 to 2172 billion dollars in 1997. In 2004 this amount reached approximately 2.5 trillion dollars. With the growth of the volume of

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<sup>45</sup> Arabic Strategic Report 2003-2004, Center of Strategic Studies, al-Ahram, Internet.

<sup>46</sup> Op. cit.

these debts, interest rates climbed higher and debt service ratio, which in some of these countries was more than 100%<sup>47</sup>.

4- The globalization of financial markets and all what it involves from among the financial liberalization measures had important and dangerous effects on developing countries. It led to the lift of the ban on transactions that includes capital account and financial accounts of payment balance. Thus these steps exposed the banking machinery to crises due to the flow of dirty wealth (money laundering) and the country was exposed to speculations and to the weakening of national sovereignty in the field of financial-monetary policy. This led and encouraged the flow and stream of domestic capital to foreign locations.

5- The contribution of developing countries (146 countries) to the world GDP declined (at the end of 2004 it reached 36 trillion dollars)<sup>48</sup> falling to 29% as compared to 71% of the developed countries (the United States of America, the European Union and Japan). As far as the Middle Eastern countries are concerned they participated with 2% and contributed to the world GDP.

It is evident from the above-mentioned facts that “the developing countries suffer from an unequal situation in the global economy. This situation deteriorates from time to time according to the speed of the globalization’s train and the rapidly growing liberality of economies in these countries and the integration in the global economy. This integration and incorporation and the sudden, unexpected changes and early commitment to the economic liberalization principles had negative effects, sometimes devastating on the economy in developing countries. There were a lot of obstacles, which were put in front of their development.

They also lacked the capacity to protect domestic industry. This led to the growth of knowledge and technology costs, which exposed them to unequal competition with foreign imports. It also had the possibility that foreign giant multi-national companies would take over and rule domestic projects and the political fields and issues. This can lead, and this is the most dangerous, to reducing the ability of developing countries to form and model their

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<sup>47</sup> Ramzi Zaki, Effects of globalization and illusions behind the mirage, Al-Minhaj, Number 57, Damascus, 2000, winter, p. 6

<sup>48</sup> Report of Human Development, UNO Programs UNDP, 2005



development and commercial policies (and other relevant policies), following that most of decision-making process moved from its local level to international trade companies.”<sup>49</sup>

#### **5.4 The American-European-Asian relations**

The European effort to activate the political unity realized by the European Parliament and the economic unity by the unified currency (euro) and the stimulation of the common European market, which includes at present more than 25 countries and its extension is expected, is only an expression and embodiment of its aspiration through this great regional economic organization in order to confirm its role and function and to protect its interests from any possible risks originating from the mono-polarity of the American domination, and to dedicate its role as principal pole parallel to United States of America on the basis of bilateral control of the world.

These European aspirations necessarily conflict and clash with the present American strategy towards that is known as “Eurasia”. This is a strategy that defined for itself a primary and central aim; it is – as it is described by Samir Amin – “prevention of European-Eurasian unity.” This means to stop the Western European-Russian-Chinese-Eurasian rapprochement, which represents a nightmare for America. For the only possible way to protect the American “Island” is to let and maintain Eurasia disintegrated and divided into rival systems.

The Asian role, which is emerging vehemently on international level in every economic, political and technological field or in the context of knowledge and information revolution, especially in China and Japan – as two giants, both of them striving for establishing a central role in the present and future international relations.

*China* is the top-ranked country in terms of population (22% of world population) and all sources indicate that it is approaching in a very quick manner and sooner or later it will reach the top of the list of greatest industrialized countries in the world. The Chinese economy – relying on the testimony of a number of experts – is the fastest growing economy in the world; this is true for the past fifteen years. Some say that after Hong Kong’s return to the homeland, China’s economy will be the third in world ranking, following the United States of

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<sup>49</sup> Ramzi Zaki, op. cit. p. 18

America and Japan. Furthermore, in 2007 the Chinese gross national product grew and reached 2 trillion dollars, due to the Chinese plan that aims the reduplication of the gross national product during this period. If the present growth rate continues in such a way (10% per year) the Chinese economy will reach the level of the American economy by 2020. About 60% of the Chinese economy in the form of shareholding companies which unite capitalists and factory workers (Report of the 15th Conference of the Chinese Communist Party).

Some may expect that China by 2020 would possess the greatest economy in the world at the same time indicating that this does not mean its military-political weight and influence. But the living standards in China itself may surpass those of the United States and Europe. Furthermore China would not allow Washington to rule the world on its own. India with a population of 1.2 billion people will become the fourth state in the world economy ranking. According to the expectations of the World Bank there will remain three Western states, i.e. the United States of America, Germany and Brazil, among the ten economically most developed countries in the world by 2020. The seven other countries are from Asia. In spite of the fact that the direct effect on the international relations during the next ten years will remain – as they are now – concentrated in three power centers, they are: the United States of America, the European Union and Japan. It is expected and possible that China and India will join these countries. Russia and its allies will play the role of center of gravity in the process of the developments of global events.

As far as *Japan* is concerned it occupies in our present days the second position in the world in terms of gross national product size, reaching 4300 billion dollars in 2004, according to the world Human Development Report (HDR) for the year 2005, previously referred to, and Japan's population in 2004 was 128 million people gives it the eighth position in term of the amount of the per capita income per year reaching 33731 dollars, while this amount in the United States of America is 37650 dollars and it brings it to the fifth position<sup>50</sup>.

In spite of the fact that Japan has the eighth position in terms of yearly per capita income, it has the first rank as far as financial liquidity is concerned and the size of foreign investments. It also has the first position in the field of fixed national assets that reach 43.7 trillion dollars as compared to the 36.2 trillion dollars in the United States of America. Japan has the first

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<sup>50</sup> Human Development Report, 2005, UN Development Program (UNDP)

position in the field iron and steel production (although it needs raw materials), and also the first in industrial machine technology as well as in several other fields<sup>51</sup>.

Japan today, represents an economic model for the states of East and South-East Asia. These states possess strong economies although exposed to crises from time to time. These countries proved that they were not simple financial bubbles that could explode in any moment or their experience could go to pieces easily. Consequently they see Japan as an ideal state, a haven in one moment, this is why it is natural if they all meet in one conglomerate called ASEAN, previously referred to it; and to confirm the economic power and facilitating the Asian central political role in the international relations, China would be one of the most important poles of it on the other hand.

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<sup>51</sup> Abd al-Khaliq Abdullah – International policy, April 1996, Cairo.

## **6. THE SAUDI-EUROPEAN RELATIONS AND ITS HORIZONS**

The world we live in and its global notions suffered and still suffer from the repercussions and aftermath of these events. And the Kingdom of Saudi Arabia is one of the countries hit and influenced to a considerable degree by these events and its consequences on local level as well as on the level of its relations with other countries, from among them the relation of the Kingdom with the countries of the European Union. All this necessitates the establishment of strategy for a policy that fits the changes and latest developments of this period, witnessed by our region. Relying on our understanding of the present situation of relations between the Kingdom of Saudi Arabia and the European Union we can describe the horizons of the relations and summarize them in the following way:

- It is the Kingdom's interest that cooperation with Europe should not be restricted to excellent economic relations or to the rapprochement of political views between European governments, but it is worth to continue the cooperation with mass media organizations, academic institutions and with intellectual and cultural organizations in order to build bridges of understanding, of mutual understanding between the two societies and to explain the disputed matters that exist among them.
  
- Urging the European Union to increase the investments in the Kingdom and to reduce the deficit in the Saudi-European commercial balance which demonstrates an advantage to the European countries. It is also important to activate and set in motion the signed agreements and conventions between the GCC countries. As it has already been done, when the Kingdom received an international and European support and its efforts in order to join the World Trade Organization; all this was perceivable in the speech of the Saudi Minister of Foreign Affairs, at the Center of European Policies, EU, February 2004, when he said: "On such a small planet in which we live, we cannot avoid and neglect one another. And we do not need much imagination to describe those great achievements what we are able, together, to bring into being by exploiting our common resources for the benefit of our nations."
  
- The agreement and coincidence in the vision and perspective of the EU and Kingdom of Saudi Arabia concerning democracy in the Middle East may help an objective and realistic

proposal by the United States of America; and the reform must come from within and it should not be forced and compelled from abroad and to maintain and preserve the particularities of different societies. The Saudi Minister of Foreign Affairs, when he met the American Secretary of State on 19 March 2004, pointed out speaking about the Saudi reform: “At present we witness a period of reforms in order to satisfy the needs of the nation and meet the needs and requirements of the citizens and not for the sake of a certificate of good conduct.” He continued by saying: “This must come from within the society and its success depends on what can be realized from it, in such a way reform may become a unifying force and not a factor of disintegration for the country.”

The rapprochement in the vision and perspective between the European Union and the countries of the Region in general and especially the Kingdom forced the United States of America to review methods and ways of proposal, this could be observed in the statement of the American Secretary of State, when he met the Saudi Minister of Foreign Affairs “reform must come from within the body not from outside of it.” Emphasizing his country was ready and prepared to give support and advice to any state for the sake of reform. And he also said: “We have the means, tools and methods of reforms but all nations must seek for its own reforms within their own countries.”

I conclude this section by the words of the Saudi Minister of Foreign Affairs presented at the Institute of European Studies in Brussels, when he said: “It is not reasonable to accuse a civilization with a history of more than 1400 years and to stigmatize it by the label source and origin of discharging terrorism. Your enemy is not the Religion of Islam, nor the Muslims; your real enemy is the different forms of injustice and the prevalent deprivation in the Arab-Islamic World that creates a fertile ground for the rise of terrorism. This is the real enemy.”

## **6.1 The International situation – a future, prospective vision**

The report of the Federal Reserve Bank confirmed in 2001 the continuity of the weakness of development in the industrial and trade sectors with a tendency to more reduction in interest

rates<sup>52</sup>. As far as the effect of this crisis is concerned on the American economy, most estimation proves that losses may increase in the case of more than 80 million American investors the size of their losses may be about 8.6 trillion dollars.

By reading these figures, number and important economic reports, one say that the United States of America's consumption is greater than its production the country's import is larger than its export. During the past few years the United States of America registered – as we have already referred to this – the highest numbers of bankruptcies in its modern history (more than 700000 bankruptcies). In addition to this, the USA began to suffer from the greatest financial deficit in the world, exceeding 400 billion dollars. The USA's total debt exceeds all records, as it began at a level of 3000 billion dollars, i.e. 1.5 times more than the total debts of all other countries in the world, in addition to this more than 10 million people are unemployed (8% of workforce).

In a similar way the United States of America fell to the rank of 13 as far as healthcare expenditure is concerned and country ranked number 17 as far as educational expenditure is concerned and country ranked number 29 in terms of the numbers of scholars and technicians as compared to the total number of population. In the USA there are only 55 scholars and technicians per 1000 persons, this number is 317 in Japan. As far as drug and alcohol consumption are concerned, the United States of America is ranked first in the world in this respect, for drug consumption in the USA reaches 80% of total world consumption, furthermore 50% of the American population are exposed to different aspects of crimes and 21% of female population are exposed to sexual harassment and rape.

It has become clear and evident that the American economy, in the past years, suffered from several difficulties, form among them recession. The American budget deficit in the last decade of the past century was about 350 billion dollars and the size of foreign debts reached 3.5 trillion dollars. The debts of individuals increased with about 12% in that moment when the average income grew with about 7%. In the same way rate of unemployment was rising to about 8% during the nineties and selling rates fell sharply in automobile and real estate markets. Productivity speed and growth was three times less than that in Japan and two times

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<sup>52</sup> Khalil al-Anani – *Majala al-Siyasa al-Dawliya*, (in English: *International Political Issues*), Cairo, Number 150, October, 2002

less than in Western Europe. In addition to this, we can mention the deterioration what the healthcare services and education faced.

The rate of professionals and technicians fell according to the report of Human Development in the world, and according *Emmanuel Todd*, who in his book also predicted the disintegration of Soviet Union ten years before its collapse<sup>53</sup>. America needs 1.5 billion dollars per day to cover the deficit of its commercial budget this approaches in 2000 the amount of 450 billion dollars. This means that the United States of America on the eve of the 21<sup>st</sup> century has become unable on its own production alone, if it wants to maintain the same level of living and standards of living. The author predicts, in his book that raised great din and noise, that by the growing force of Eurasia the material and financial flows and streams that feed America today, will stop. This will transform America that will be a like country from among the several other countries.

The USA suffers from a great budget deficit it is estimated to reach more than 650 billion dollars in 2005 or perhaps 700 billion dollars<sup>54</sup>. And according to the opinion of the American economist Warren Buffet (he is the second richest man in the world) the expected American budget deficit or the total American debts in 2015 will reach 11 trillion dollars. And this means that the Treasury of the United States of America will suffer losses of yearly interests rates on these loans and this will probably be around 590 billion dollars. The director of the Congress' Office warned in statements published on 6 March 2004 that the accumulated American commercial deficit may touch 2 600 billion dollars from this time on till the year of 2015<sup>55</sup>.

In this context Samuel Huntington, the author of theory "clash of civilizations"<sup>56</sup> reveals the demographic obsession that scares America and he cites statistical data according to which in 2050 the American population will consists of 23% of Hispanic-Latin-American origin, 16% black population, 10% of Asian origin (Samuel P. Huntington, 2003). He comments this

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<sup>53</sup> Emmanuel Todd, 1982. *After the Empire: The Breakdown of the American Order* adopts the collapse of the United States of America;

<sup>54</sup> Jawad al-Anani, former Jordanian Deputy Prime Minister, Meeting with al-Jazeera Channel, Program without borders.

<sup>55</sup> Samuel P. Huntington, 2003, *The Clash of Civilization and the Remaking of World Order*, Simon & Schuster Paperbacks, Rockefeller Center.

<sup>56</sup> Khalil al-Anani- *Majalla al-Siyasa al-Dawliya*, Cairo, Number 150, October, 2002.

statistical fact by the following words: the fact that the United States of America could manage in the past the absorption of immigrants this was due to the fact that most of them were European. In the future will it be able to do so considering the fact that 50% of the population will be of Hispanic origin or at least not from the white race.

The above-presented facts do not want to underestimate the capacity of the USA and its forces, it only clearly demonstrates the imperial-empire-project, on the long term, stands on soft economic and social ground, and it continues from one day to the other son in the end it will be more fragile<sup>57</sup>.

Approximately 40 years after the rise of the system of globalization, nowadays the immanent and innate contradictions of the capitalist system have been discovered and revealed, now the contradictions burst and explode in the present scenery of the market's globalization coming to light through deferent forms of manifestations:

.1. Tyranny of the incontinent opens free market mechanisms in all countries of the world, which were relevant to decline and destruction of local industry, the production of commodities in third world countries.<sup>58</sup> For the nations of these countries realize the size of the scourge produce by the creation and implementation of the free market mechanisms, that lately confirmed that it has reopened the way for producing deformities the economic activity, by the growing number of fixed unemployment (structural) and the temporary unemployment, inflation, rising prices and sticky wages. This is accompanied by the growth and quick spread of poverty among the working classes. Finally, these deteriorating conditions and circumstances have become the basic attribute of the present globalization in its implemented forms in the countries of the third world. Furthermore, quick spread of theft, crime, drugs and mental collapse, all these go side by side with the economy of comprador and speculation, gambling and the parasites in all their possible forms.

2-Strong and aggravating deterioration in connection with social equality by creating the huge gap in the distribution of wealth and income on the one hand, and the very significant growth

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<sup>57</sup> Abdu-l-Ghani Imad, University of Lebanon, see: [www.iraqcp.org](http://www.iraqcp.org).

<sup>58</sup> Isam al-Zaim, New distinctive features of the system of new globalization, <http://www.iraqcp.org>.



and increase in the portion and rate of the poor that is present in our countries and in the third world countries, this growth exceed 70%.

3-Professional decline and regression on international level in the field of social services, although technology follows a developing track and it spreads in an unprecedented way, in order to create supreme productivity and mythical profits. Paradox of the situation is – as it is stated by Dr. Isam al-Zaim - “in the globalization, while the productivity is growing and doubled and multiplied, the social services granted to poor and unemployed persons and low income layer of the population shrank significantly.”

In any case, although we are aware of the importance of the American domestic factors, as it is stated by Huntington, the process of foreign polarization will remain a basic, primary factor. Dr. Samir Amin says: “The capitalist expansion, on international level has produced an unprecedented polarization, not seen since thousands of years. At the beginning of the 19<sup>th</sup> century the greatest degree of disparity in the field of distribution of wealth did not surpass 80% of the world population. This ratio is one to two. After two centuries of capitalist expansion this equation has become one to sixty. Although the meantime the ratio of the population of centers significantly diminished by 20% of total world population.”

The regulation of accumulation and the subsequent acceleration of progress resulted in significant improvement of forms of distribution of income both on regional and international levels, followed by reducing the manifestations of poverty. This phase can be described by high rates of employment, wage levels also increased, parallel to productivity growth rates in the centers. Thus unemployment diminished and effective social security systems were established in the centers. As far as the south is concerned, there the marketability was based on realization of reforms on national levels. One of the most important of them is the agricultural reform, then nationalizations and issuing laws positively influencing the labor conditions. Thanks to these beneficiary effects countries in the south could enter the phase of industrialization and modernization<sup>59</sup>.

Social balances on which the active accumulation was based entered a phase of gradual erosion. This, in its turn, led to the fall of the previously mentioned three models. This leads

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<sup>59</sup> Op.cit.

the system into a violent structural crisis, since the beginning of the seventies. This crisis had different manifestations, such as decline of growth rate and that of accumulation and return of high levels of unemployment in the western world, backward movements, in several regions of the formerly socialist east and south.

This crisis manifested in the fact that the derived profits could not find sufficient access to profitable investments that would be able to the re-expansion of production capacities. Significant changes took place concerning the ranking of nations in the global-international system; such as division of the former third world into two great groups of peripheral capitalist formations. One of them realized in fact, by way of industrialization, the capacity to confront the competition in world markets in the field of exporting industrial products.

The second group has not realized any of these capacities yet. Thus the first group is able to contribute to the formation of a global system, in an active way; although its specific strategy is in contradiction and interaction with the ruling trinity. Thus, it deserves to be called the “third world”. As far as the second group is concerned it is in a vulnerable position, and it is unable to develop its special strategy. So the world leading powers may impose on the countries of this group a unilateral “adaptation” and subordination to the benefit of the requirements and needs of colonialist expansion. It is in this sense an absolutely and completely marginalized region; consequently we can call it “the fourth world”.

In the present phase (phase of accumulation crisis) new phenomena appear in the field of social disparity and poverty; we can call them new forms of “modernization of poverty”. The peripheral societies are still suffering from a great size of “reserve army” of working force and it seems impossible to absorb them in the framework of the leadership of capitalist accumulation logic, especially in the context of local accumulation’s openness to the liberal globalization and the freedom of markets; especially without significant regulation. Competition in these open markets imposes the concentration of investments in projects that absorb huge amount of wealth regarding the needs of modern technologies. Consequently one can witness a diminishing attention and interest in raising the productivity levels in those sectors in which the majority of workforce is present. If the “modernization of poverty” was and is really emerging in the past period in the case of socialist systems and national systems (i.e. phase of erosion and disintegration), it actually deteriorated sharply during the past two decades, with the entering of accumulation mechanisms their present crisis.

*This matter presupposes the following things, which are as follows:*

1-On regional level, this means the establishment of democratic control systems with a real social content.

2-On international level, establishing and creating an alternative globalization, with a multi-polar system that allows a margin for the move of national classes in different societies which constitute the global system, by these facts this alternative globalization may replace the modality of prevailing liberal globalization<sup>60</sup>.

Finally, Dr. Samir Amin speaks about the challenges of the future that is represented in a new polarization which taking form right now, and this is the globalization project and plan under the domination of the United States of America. In the beginning it is necessary to register that the development which occurred lately in the global system led to a gradual crystallization of new ways and methods to secure the domination on world level to the benefit of the ruling central trinity. This process can be called “The five new monopolies.”

- a) Monopoly of the modern technology this can lead to the transformation of the peripheral industries, to kind of inner production, where the monopolies of the center control the fate and track of these industries and they confiscate the greatest portion of their realized profits.
- b) Monopoly of the financial institutions with global activity, this kind of monopoly completes the activity of the formerly mentioned monopoly by consolidating the domination of the center over the industry of peripheries.
- c) Monopoly of decision in producing and using the natural resources on international level and control over their development plans by way of price manipulation. Furthermore this matter can end in direct military occupation
- d) Monopoly of modern mass media tools on international level, as an effective means for creating and influencing “the public opinion” that can support and back the domination and its international-global and regional plans.

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<sup>60</sup> Op. cit.

e) Monopoly of weapons of mass destruction and other modern developed military tools that allow the intervention “from afar” or “from above” without the need to launch ground attack by human military personnel<sup>61</sup>.

These are *five joint and integrated monopolies working together* in order to present the law of value with a new content. This law – in any case – is not an expression of economic rationalization that can be separated from the social, political contexts in which this law is applied. But the law of value is a concentrated, condensed expression of political and social assignments, for these above-mentioned assignments work for the annihilation of the significance of peripheral industrialization by way of reducing the added value assigned to these industries. And in contrast, the portion of the value added in the activities related to the five mentioned monopolies is certainly growing. Thus, these are adaptations producing new unequal arrangements representing the essence of the new future form of polarization on international level. This is the logic of contemporary capitalist mechanism.

In the light of this, real questions arise, can the national, social and democratic struggle-movement of world nation – and in the Arab World – lead to the crystallization of collective political projects answering the present challenge. And what can lead to diminish or eliminate this mono-polarity and to create the elements and factors of a bi-polarity in the framework of balance and struggle?

The answer to this may be found in the response of the forefront of the political forces in all parts of the Arab World, requiring an objective necessity that reinforces the maturity and appropriateness of the climate and prepared conditions and situations for the process of changes. In spite of all these political international-global declines and collapses in general, and the global progressive movement in a special sense that confused a large number of nations.

The challenge imposed by the globalization today on the nations of the world, is in reality reflection of an objective circumstance expressing the historical contradiction what has reached nowadays its peak through struggle or the contradiction between the capitalist

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<sup>61</sup> Walid Abdul-Hayy, *Law of international economic relations*. Institute of International Relations, Yarmuk University, Jordan.

accumulation in the centers and the necessities of breaking and crushing the subordination and backwardness in peripheral countries and striving to move towards rise and progress on the other hand. This rivalry-like struggle between centers and peripheries is also an expression of a stark contradiction between social or collective nature of the capitalist production, defined as a key factor for international, regional, local, social relations on the one hand and between what can be called as the special nature or the private property as tools of production as a major determinant for the capitalist production that has also in mind the continuous possibility to gain surplus value, or the growth of profit rate and huge capitalist accumulation that pushes towards development of the present globalized economic forces, or multi-national companies on the other hand.

Especially after that the regional or national markets has become unable to absorb this unprecedented expansion in production and the accumulation of capital and its quick move. This is why, the ever growing presence of expansion and accumulation and the progressive role of multi-national companies are in fact different forms globalized capitalist development in its present state. Right here, new meaning and contents come to light about the unilateral, mono-polar globalization, not just as an expression of political dimension of the American domination, but as an expression of capitalist accumulation and its economic force that has found in globalization a haven and a refuge and its final stability.

This economic power that is embodied in multi-national companies is the basic and fundamental incentive of politics and contemporary international relations; through its direct or indirect domination on decision-making process in the greatest industrialized countries. It undertakes the duty of orienting and forming of these relations among different nations, according to special strategic standards, all of them are centered around the idea to maximize the standard profit and to ensure this purpose and objective, for in our days companies have hidden and invisible central role in creating and orienting international policies, no other political force or power could match them in the same magnitude, perhaps only the United States of America whose policies match with the requirements of multi-national companies; as they are two faces of the same coin.

In the light of this, it is not strange what is going on nowadays, like the growing and aggravating contradiction between the phenomenon of globalization, capitalism and between the concept and notion of complete independence and independent progress and development,

social justice and democracy in the countries of the third world. These are, up to now, latent contradictions and limited to the level of masses who are in need for organized transformative force and power, that would be able to shape these contradiction so that these can be the required form of public, democratic, national opposition. With special regard to the fact that third world countries nowadays – by virtue of their dependence and interests – are exposed to state of looseness, subjugation and decline, due to well-known, clear and evident causes.

By the growing number of manifestations of information revolution, internet, programmed satellite channels controlled by the centers, all these are phenomena of their agreement of progress – in an integral and direct way – with the rising and developing movement of financial capital within the framework of globalization, through a global network used by humanity in general and poor national masses in a special sense, in a moment of concern and chaos and frustration and tendency towards surrender and despair. This is a situation that expresses a huge imbalance, disproportion between the states of the capitalist center and poor nations. This is the result of expanding contradictions and growing numbers and forms and manifestations of exploitation and persecution, in addition to the huge gap in the revolution of technology, sciences and modernity.

We see in this disparity and contradiction a not yet crystallized form of bipolarity or multipolarity being in its first phase, and which will gradually progress in its movement by developing the subjective factor, in order to smash the mono-polarity. We believe that this mono-polarity will be able to continue and will be able to possess factors for its stability, in spite of all manifestations of force, it surely cannot continue in this mono-polar, unilateral way, except by a growing number of forms of dominations, and severe subdivisions and split between the super-rich side and the side of extreme poverty, or between north and south. These divisions may prolong the duration and existence of this mono-polarity but it cannot negate the inevitable necessity of the rise and birth of a multi-plural system in international relations.

International relations, this phase to which capitalism has imported its globalized stage, do not mean that they have overcome all contradictions, nor the underlying, latent factor; we mean by this the movement of intellectuals of the world and this movement is not dead yet. In spite that capitalism succeeded in delaying the explosion, by expanding the sphere of contradictions in the name of globalization. But this delay will necessarily lead to growing

suffering and impoverishment of nations in the world and to the rise of national resistance movements with their revolutionary class dimensions, and on the other hand the spread of the reactionary right-wing tide in our present days.

This is why it seems natural and necessary, in a decisive way, that this majority affected and damaged by the system strive to undermine its pillars in order to build a system not controlled and ruled by these contradictions; with clear programs relying on the concept of ideology and its applications as well as on contemporary elements of science modernity and technology that has become a basic force from among the forces of production in this period, all this will facilitate the creation and formation of an alternative progressive human project and the activation of its movement and actions especially in the countries of the third world. In order to subjugate the requirements of globalization to the benefit of the needs of these nations and to their social development, it has come the appropriate moment for the earnest and well-organized work to establish a globalization of the opposite, of another kind, by the help of nations and contemporary human civilization and culture.

## **7. NEW SCIENTIFIC RESULTS**

.1. Since 2008 new global economic crisis has started based on the financial – bank crisis of the USA. This process was described by statistical data provided by the International Monetary Found. The difficulties of energy sector were before the economic crisis of 2008, which were proved by the increasing energy and crude oil demands from which the energy price increased.

.2. In the world economy in consequence of economic crisis the production decreased, which also decreased the demand for crude oil but at the minimum level, also in spite the recession, the oil exporting countries increased the oil production, which considerably decreased the crude oil world price level. When the crude oil production decreased, this resulted in increasing the crude oil world price level. This means that the crude oil demands were depend very strongly with general oil consumption including the population and household demands and not only the industry. The price fluctuation of the crude oil was directly depending on actual minute market demand-supply of oil at first, and not directly on the world economic crisis.

.3. Crude oil price income of OPEC and including the Arab member states basicly did not change the economic structure of their economies, towards their economies did not become diversified. Their economic growth considerably depends on their crude oil production, the world price of oil, so their price income coming from selling oil.



## 8. CONCLUSIONS FOR THE RESEARCH

The XXI century is a turning period for the world economy of the mankind, because an ignition point to deal with the XXI century's challenges in all economic aspects. It should be taken in consideration that, part of these challenges have been caused by changing consumption structure of the mankind, and its energy demands.

The fact is that, today world, is globalize in all aspects, and global crises mainly predominate and deeply affects international, national, regional relations and interests. The global crises of 2008 are the real XXI century's conglomerate challenges, that are facing the mankind, in some fields, which are as follows:

- generated and mainly as results of the human economic activities;
- economic crises: decreasing economic growth;
- energy crisis concerning the crude oil production;
- global warming, ozone affect, climate and environmental changes, nuclear pollution, pandemic (epidemic),
- poverty and hunger, immigration stimulated by increasing unemployment rate.

Although this general economic crises has different characters, but the fact is that, all this crises of 2008 has global and mutual considerable effects on each other. There is no reality to implement an absolute model or solution or new mechanism to face the international economic crises.

To deal with economical crises and its effects on the international relations, it should be taken in consideration that these issues are more complex and global. Opportunities for acceptable common solutions required an available, long-term global and permanent treatments.

The new complex globale mechanism should manage to *global economic crisis of 2008*, which could have been accessed and applied in terms of short, medium and long-term treatments and solutions, which depend on international, national and regional conditions and

their economic structure since the beginning the economic and social characterized formulations, for example international associations or unions of common interests, namely EU. Asian, Gulf-regional organizations, OPEC, OECD, UN, ...etc. Human resources and social factors should be taken in consideration very strongly and decisively, with regards to any implementation or solutions and treatments for the economic crises.

The global economic and the international relations have direct or indirect effects on human resource management and their employment issue, which generate and regenerate new or unexpected social affects, indifferent with regard to societies of developed or less developed economies.

Reality, it can be accepted that the fact that national interest comes first, and therefore as an essential option in order to deal with the global economical crises and its effects on the international relations, to approach an available model and treatments as a compromise with regard to national and the international interests.

## 9. SUMMARY

The major trait of the present crisis can be characterized by the fact effecting on European countries and on the USA. Analyse the present situation of the Arabic World and Middle East in general; this can be done by comparing the results caused by the crisis of the past century and by the present crisis.

**Objectives of the Research, which are as follows:** Study of the manifestations of the global crisis on developed and developing countries and on the least developed ones – in order to demonstrate the present and possible effects. Investigation the real roots of the global crisis and the ambush of shortcomings. Analyse of the extending effects caused by the global credit crisis on the international relationships. Evaluate mechanism, which is at present available to diminish the negative effects of the crisis and suggestions for the treatment of the problem. Study and analyse the need for an international managing. Analyse the international managing and its efficiency in facing the global crisis. Analyse the role of globalization in managing and administering of the global economy. Analyse the role of the International Monetary Fund. Analyse the role of OPEC.

**The historical and analytical methods:** According to scholars and to those who study the international relationships in order to use history as a means for being able to make a choice or to be sure about the repetition of certain events in a regular form. Analyze the events and some of the agreements and international regulations coming from decision-makers; as they appear in the context of this research.

Summarize *thesis* according the OPEC and Arab countries, which are as follows:

*1- At all the oil price increase was not enough for creating the global economic crisis.*

Thesis: The oil price changes were mainly depend on the lack of the energy and inbalance of supply-demands of oil energy resource. The economic crises have more and deeper causes concerning the aggregated supply-demand decreasing or falling balance, unemployment rate, less GDP growth, more rate inflation. The main causes of the economic crisis coming from the USA from 2008.

*2- The energy crisis adding to the general global economic crisis.* Thesis: Lack of energy, the alternative energy resources were not enough developed – sun, wind, water and nuclear energy, dominance of the fossil energy, not efficient use of fossil energy resources, for example crude oil and refinery oil output.

*3- The oil revenues did not create the unified economic structure of OPEC member countries including Arab countries.*

Thesis: The economic structure of OPEC countries is not diversified, mono structure economy is mostly depends on the world prices of crude oil. So the economies of OPEC countries depend on the oil world price changes. Their economies are very vulnerable.

The absorption capacity of the Gulf and Oil export countries in field of capital and advanced technology or their possible implementation is at very low level for the manufacturing industry. This is proved by the large amount of crude oil export instead of refinery oil output from OPEC countries.

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## **APPENDIX**

**Figure-5:** OECD Oil demand between 1971 – 2009

**Table-2:** World oil demand, 1000 metric tonna

**Figure-6:** World oil demand based on the Table-2, in selected countries between 1971-2009, 1000 metric tonna

**Figure-7:** World oil demand based on the Table-2 in highly developed countries between 1971-2009, 1000 metric tonna

**Figure-8:** World oil demand based on the Table-2 in developing countries between 1971-2009, 1000 metric tonna

**Figure-9:** World oil demand based on the Table-2 in selected countries in 1990 and 2006, 1000 metric tonna



**Table-3:** World refinery output in the world, 000 metric tons

**Figure-10:** World refinery output 1971 - 2009, in selected countries, 000 metric tons

**Figure-11:** World refinery output 1971 - 2009, in highly developed countries, 000 metric tons

**Figure-12:** World refinery output 1971 - 2009, in developing countries, 000 metric tons

**Table-4:** World imports of crude oil and NGL<sup>1</sup> in the world, 000 metric tons

**Figure-13:** World imports of crude oil and NGL<sup>1</sup> in the world, 000 metric tons

**Figure-14:** World imports of crude oil and NGL<sup>1</sup> in the highly developed countries,  
000 metric tons

**Figure-15:** World imports of crude oil and NGL<sup>1</sup> in the developing countries, 000 metric tons

**Table-5:** World exports of crude oil and NGL<sup>1</sup> in the world, 000 metric tons

**Figure-16:** World exports of crude oil and NGL<sup>1</sup> in the world, 000 metric tons

**Figure-17:** World exports of crude oil and NGL<sup>1</sup> in the highly developed countries,  
000 metric tons

**Figure-18:** World exports of crude oil and NGL<sup>1</sup> in the developing countries, 000 metric tons

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