The EU, the Middle East, and Regional Integration

Bessma Momani

Introduction

The Middle East, replete with oil and conflict, is a region of geostrategic importance to many actors and states, especially the European Union (EU) and the United States (US). While the international trade community has been accustomed to viewing many parts of the world for their potential contribution to world trade, the Middle East has often been ignored by this literature. In recent years, however, both the EU and the US have pursued regional trade agreements with the Middle East. Both principal powers have viewed trade integration in the Middle East as not just an economic exercise, but also a geostrategic one. In principle, the EU and US have shared the view that enhancing the economic welfare of people in the Middle East will help stem extremism and promote liberal political and economic reforms in the region. This article seeks to assess the EU's choice of instrumentation in bolstering regional trade with the Middle East, and to highlight the lessons learned from the EU's regional trade strategy in the region.

Integrating the Middle East, whether prompted by external players or regional ones, has not been an easy task. Intraregional trade in the Middle East is among the lowest in the world, even lower than in Africa (see Table 1). In 2004, for example, intraregional merchandise exports amounted to 5.6%of the region's total exports, down from 7.6% in 2002.[1] While it has been noted that these intraregional figures are improved if

Bessma Momani is Assistant Professor at the University of Waterloo, and also a Senior Fellow at the Centre for International Governance Innovation, Waterloo, Ontario, Canada.

[1] World Trade Organization, *International Trade Statistics 2002; 2004* (Geneva: WTO, 2002; 2004). These statistics include Israel, Iran and Cyprus but exclude Arab North African states.

Table 1: Comparison of regional integration: % of intraregional trade to total trade

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Eurozone	51.8	51.7	52.1	51.1	44.8	45.9	51.7	50.8	50.2	49.7	51.0	50.7
NAFTA	45.8	48.0	46.2	47.6	49.1	51.7	54.6	55.7	55.5	56.7	56.1	55.2
GCC	6.6	6.9	6.8	6.4	6.5	8.0	6.7	4.9	5.2	5.8	4.9	4.6
Arab League	9.3	9.6	9.5	9.1	8.8	8.9	8.9	7.9	9.1	9.5	9.3	–

Source: UNCTAD statistics, 2005; Arab Monetary Fund statistics, 2005.

regional oil exports to non-regional countries are factored out, they still remain at a disappointingly low 19% average.[2] Studies have estimated, moreover, that if there was a comprehensive Middle East free trade area, trade levels could more than double current intraregional levels.[3] In addition to the growth potential for intraregional trade, some have also added that the welfare benefits of doing so would be positive, particularly if deeper integration were to ensue.[4]

Middle East states have attempted to enhance intraregional trade by themselves. In 1998, Arab countries signed on to create a Greater Arab Free Trade Agreement (GAFTA) that would eliminate tariffs, by 10% annually, on regional manufactured and agricultural goods over a ten-year period. However, intraregional Arab trade remains disappointingly low, with little progress being made. What explains this continued low level of intraregional trading? Some have suggested that there is a lack of complementarity of trade, arising from similar production structures in sub-regions. Others add that the region lacks policy harmonization and liberalized domestic regulatory environments conducive to enhancing trade.[5] Hence

[2] Samiha Fawzy, "The Economics and Politics of Arab Economic Integration," in Ahmed Galal and Bernard Hoekman (eds.), *Arab Economic Integration* (Washington, DC: Brookings Institution Press, 2003), p. 16.
[3] Rania Miniesy, Jeffrey Nugent, and Tarik Yousef, "Intraregional Trade Integration in the Middle East," in Hassan Haikman and Jeffrey Nugent (eds.), *Trade Policy and Economic Integration in the Middle East and North Africa* (London: Routledge, 2004).
[4] Hassan Al-Atrash and Tarik Yousef, "Intra-Arab Trade: Is it too Little?" *IMF Working Paper* WP/00/10 (Washington, DC: IMF, January 2000).
[5] For a preview of this debate, see Samiha Fawzy, "The Economics and Politics of Arab Economic Integration," in Ahmed Galal and Bernard Hoekman (eds.), *Arab Economic Integration* (Washington, DC: Brookings Institution Press, 2003); Hassan Al-Atrash and Tarik Yousef, "Intra-Arab Trade: Is it too Little?" *IMF Working Paper* WP/00/10 (Washington, DC: IMF, January 2000); Bernard Hoekman and Patrick Messerlin, "Initial Conditions and Incentives for Arab Economic Integration," *Policy Research Working Paper* No. 2921 (Washington, DC: World Bank, October 2002); Mehran Kamrava, "Structural Impediments to Economic Globalization in the Middle East," *Middle East Journal* 6, 4 (Winter 2004).

the region needs to move beyond shallow integration and into deeper integration to maximize welfare gains and surpass initial government scepticism to change. In addition to the economic arguments for low levels of economic integration, others point out the political obstacles to modern pan-Arabism that include a lack of mutual trust among Arab leaders, vested domestic political groups' interests in regulated decision-making or rentier-state behaviour, and crony capitalist support for statist, inward policies.

European instrumentation and regional trade agreements

What has explained the EU's choice of instrumentation in dealing with the Middle East? Leon Hadar argues that the Europeans, in comparison to the Americans, have focussed on using diplomacy and soft power in dealing with the Middle East. This comes out of practical necessity, because the EU does not have the same military might to exercise, and needs to be cautious about exerting a heavy hand in the region and igniting anger in its own immigrant communities: Europe's very own 'Arab Streets' in Paris, or the like. Unlike the United States, which can use its military muscle to prompt change in Middle East state policies, the Europeans do not have the latitude to keep direct confrontation within the Middle East far away from their mainland.[6] In Hadar's reading, the Europeans use soft power as their preferred choice of instrumentation because they are more fearful of a foreign policy blowback. Europe's geographic proximity to the Middle East means that it must choose its instrumentation more wisely. In recent years, the EU has been promoting regional trade agreements in the Middle East as its preferred instrumentation policy.

While historically the EU has promoted regional trade agreements around the globe, in recent years both the Europeans and the Americans have used regional trade agreements as an alternative to the slow pace of multilateral trade negotiations. Generally speaking, the content of both the EU and US regional trade agreements have been very similar: promoting deep integration on 'new trade issues' like investment services,

[6] Leon Hadar, "Mending the US–European Rift over the Middle East," *Policy Analysis* (Washington: Cato Institute, August 2003).

competition policies, and intellectual property rights.[7] That said, some differences in how the EU and US approach regional trade agreements have been observed. The EU has preferred to use its bilateral trade agreements to promote intraregional integration, while the United States has used its trade agreements to reward geostrategic allies.[8] John Whalley argues that the EU approach can be viewed as 'hierarchical', while the US approach is 'architectural'. Where the European Union's agreements are layered, graduated processes of liberalization to align other countries with the EU, the United States' bilateral agreements are meant to build a liberalized financial architecture in other countries to pave the way for US investment.[9] What has traditionally motivated the EU and the US in trying to promote intraregional integration? Both have set their eyes on regional integration in the Middle East. Can we see a difference in their motivations toward the region?

Broadly speaking, some have argued that European motivations in promoting intraregional integration stem from Europe's colonial past and linkages with potential trading regions, which foster these "group to group" trading arrangements.[10] While the EU has tended to focus on old colonial ties, some argue that the United States has negotiated with trading partners that more closely serve a geostrategic and diplomatic purpose. As Schott notes, "The [US trade] pacts serve strategic interests by promoting economic growth and the rule of law, helping to strengthen the foundations of democratic governance, and securing support for global efforts against terrorism".[11] Others point out that Europe has made a clear preference to foster intraregional agreements to facilitate policy harmonization, easing the way for EU investment in other regions.[12] This is somewhat related to the EU's policy, since the early 1990s, of trying to move away from foreign aid to trade as a way of supporting developing

[7] Paolo Guerrieri and Denise Dimon, "The Trade Regionalism of the United States and the European Union: Cooperative or Competitive Strategies?" *International Trade Journal* 20, 3 (Summer 2006).
[8] Ayse Kaya, "The USA's and the EU's Bilateral and Regional Trade Agreement: Divergent Paths, Divergent Ends?" Paper presented at the Venice Summer Institute, 19–20 July 2006.
[9] John Whalley, "Recent Regional Agreements: Why so many, so fast, so different and where are they headed?" *Centre for International Governance Innovation Working Paper* No. 9 (Ontario: CIGI, September 2006), pp. 11–12.
[10] Geoffrey Edwards and Elfriede Regelsberger (eds.) *Europe's Global Links: The European Community and InterRegional Cooperation* (London: Pinter, 1990).
[11] Jeffrey Schott, "Free Trade Agreements and US Trade Policy: A Comparative Analysis of US Initiatives in Latin America, the Asia-Pacific Region, and the Middle East and North Africa," *The International Trade Journal* 20, 2 (Summer 2006).
[12] Ayse Kaya, "The USA's and the EU's Bilateral and Regional Trade Agreement: Divergent Paths, Divergent Ends?" Paper presented at the Venice Summer Institute, 19–20 July 2006.

countries. While the United States has also tried to move away from foreign aid to trade, with respect to Egypt in particular,[13] it tends to be argued that the US is more likely to pursue trade as a foreign policy tool to strengthen political alliances.

The current Bush administration, for example, has pursued a regional trade agreement in the Middle East to achieve its broader foreign policy objectives—specifically, linking Israel to Arab economies and enhancing export dependency on US markets.[14] This article adds, however, that the European Union has also pursued regional integration in the Middle East for geostrategic objectives, but its choice of instrumentation is not due to its belief in soft power, diplomacy, or idealist foreign policy values, but to its lack of policy alternatives as a 'civilian power'. For the EU, intraregional trade integration in the Middle East would have a twofold positive geopolitical spillover: 1) stem economic migration into Europe, and 2) improve political stability in the Middle East. Again, as far as the EU is concerned, these are geostrategic policy objectives. Unlike the United States, however, the EU has been better able to measure the success and failure of its economic policy toward the Middle East, and has accordingly tried to adjust its trade agreements with the region.

The EU and promoting regional trade in the Middle East

In the 1990s, the number of economic migrants from North Africa fleeing to the EU increased dramatically due to a number of civil wars and strife in their home countries. Consequently, Spain, France, Portugal, and Italy—receiving destinations of these migrants—prompted the EU to consider renewing and strengthening the EU's relationship with the southern Mediterranean.[15] This led to the Euro–Mediterranean Partnership Conference in Barcelona in 1995.

The Barcelona Process envisioned three areas of mutual objectives, highlighted by three chapters in the final agreement. First, the *Political and Security Chapter* called for the creation of "a common area of peace and

[13] See Bessma Momani, "Promoting Economic Liberalization in Egypt," *Middle East Review of International Affairs* 7, 3 (September 2003).
[14] Bessma Momani, "A Middle East Free Trade Area: Economic Interdependence and Peace Considered," *The World Economy* (forthcoming).
[15] Tomas Baert, "The Euro–Mediterranean Agreements" in Gary Sampson and Stephen Woolcock (eds.), *Regionalism, Multilateralism, and Economic Integration: The recent experience* (Japan: United Nations University 2003), pp. 103–104.

stability". For many Middle East states reeling from the rise of Islamic movements—made most clearly in the first-round election of Algeria's Islamic Salvation Front and the rise of Muslim Brotherhood's criticism of Egypt's Mubarak—the call for peace and stability in the region was interpreted as a call for enhanced domestic security in Middle East states. Second, the *Cultural and Human Chapter* would be based on promoting trans-Mediterranean dialogue on social and cultural issues. For Middle East governments, it was hoped this would imply improving European understanding of Middle East peoples to help economic migrants already in Europe and to help better understanding of the region. Finally, the *Economic and Financial Chapter* would build a "zone of shared prosperity" by signing association agreements with Middle East states that would eventually lead to a free trade area.[16] It was envisioned that the EU would sign free trade agreements with ten countries by 2010—Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey—to be called the Euro–Mediterranean Free Trade Area (EMFTA). The EU would negotiate the fulfillment of the Barcelona Process both bilaterally, through the association agreements, and multilaterally, with future working groups.

The pace of the Barcelona Process on policy reforms within the Middle East, however, remained disappointingly slow, and EU members felt an added urgency of pushing the process forward after September 11th.[17] The EU hoped to reap the benefits of a neoliberal peace, where increasing the living standards of Middle Easterners would decrease the spread of Islamist militancy in the region and help stem potentially radicalized economic migrants into Europe. In its 2003 Security Strategy report, the EU highlighted the connection it made between the spread of neoliberal economic and political values to the achievement of EU security:

> The best protection for our security is a world of well-governed democratic states. Spreading good governance, supporting social and political reform, dealing with corruption and abuse of power, establishing the rule of law and protecting human rights are the best means of strengthening the international order. Trade and development policies can be powerful tools for promoting

[16] See European Union, "Euro–Mediterranean Partnership/Barcelona Process". http://ec.europa.eu/comm/external_relations/euromed/index.htm

[17] Tomas Baert, "The Euro–Mediterranean Agreements" in Gary Sampson and Stephen Woolcock (eds.), *Regionalism, Multilateralism, and Economic Integration: The recent experience* (Japan: United Nations University 2003), p. 106.

> reform. As the world's largest provider of official assistance and its largest trading entity, the European Union and its Member States are well placed to pursue these goals.[18]

The EU would take a more aggressive approach to promoting economic reforms in the Middle East, which would ultimately help deliver geopolitical security to Europe as well.

The problem with the Barcelona Process, however, was that the Middle East partners had little incentive to liberalize domestic policies as long as they had complete access to the EU. The EU was, in effect, creating a hub and spoke arrangement with the Mediterranean partners, whereby Mediterranean firms preferred to set up in the EU in order to have better access to all the spokes in the Mediterranean region.[19] In its own assessment of the Barcelona Process, the EU noted that:

> [T]he process of creating a truly regional market remains hampered, notably by slow integration of the Mediterranean countries among themselves. The enduring fragmentation of Southern Mediterranean markets is holding back significant investment, both domestic and foreign … So, even if the EU is the region's largest partner, the partnership has not yet realized its full potential.[20]

The EMFTA was not designed in purpose to enhance intraregional trade but to increase EU–Mediterranean trade.[21] The EU recognized, however, that for EMFTA to deliver the intended political and economic results, the Middle East states needed regulatory reform, policy harmonization, and, perhaps most importantly, improved south–south integration.

The Barcelona Process failed to ignite domestic regulatory reforms needed to both produce welfare benefits to Middle East peoples and to improve trade levels between the EU and the Middle East. As Gonzalo Escribano notes, the short-term political economy costs of domestic reforms in the Middle East would have been high, as governments would lose customs revenue and were expected to challenge their very own elite support base of domestic industrialists. Middle East governments were in

[18] European Union, *A Secure Europe in a Better World—the European Security Strategy* (Brussels: European Union, 2004). http://www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf
[19] Baert, op. cit.
[20] European Union, *Euromed Report 89*, 14 April 2005. http://ec.europa.eu/comm/external_relations/euromed/publication/2005/report_89_en.pdf
[21] Rania Miniesy, Jeffrey Nugent, and Tarik Yousef, "Intraregional Trade Integration in the Middle East," in Hassan Haikman and Jeffrey Nugent (eds.), *Trade Policy and Economic Integration in the Middle East and North Africa* (London: Routledge, 2004).

no rush to implement the policy reforms expected under the Barcelona Process.[22] To expedite Middle East domestic regulatory reforms, and to relieve the hub and spoke effect, the EU supported the idea of fostering a regional trade agreement in the Middle East by supporting intraregional trade and policy harmonization.

To help build on the 1995 Barcelona Process, the EU supported the Agadir Agreement in 2004 in the hope of fostering intraregional trade and policy harmonization. Senior officials from Jordan, Tunisia, Egypt and Morocco had met for a number of years to detail the terms of a free trade agreement among them that would enhance intraregional trade, propel GAFTA forward, and strengthen their trading position with the EU.[23] This Agadir agreement would create a free trade zone among Middle East states and then link the region to the EU. This would facilitate 'south–south integration', an important part of the EU strategy toward promoting greater intraregional trade in the Middle East. In addition to the four that have already signed the Agadir agreement, Lebanon and Syria showed interest in joining, the Palestinian territories and Algeria were invited to join, and Euro–Med observers Mauritania and Libya would eventually be eligible to join.[24]

The Agadir agreement is meant to push the stalled GAFTA forward, beyond 'shallow integration' or the removal of tariffs and quotas. A number of Arab countries have been slow to implement the necessary measures to reduce protectionist policies, particularly in liberalizing services and customs reforms, and in promoting transparency and reducing graft. Among the problems with GAFTA is the lack of *detailed* rules of origin particularly on joint production (generally, there are preferential rules of origin of 40% required of GAFTA value added); the absence of a dispute settlement mechanism; and, the absence of a mechanism for redistributing tariff revenues among GAFTA members.[25] Arab countries seem

[22] Gonzalo Escribano, "Euro–Mediterranean versus Arab Integration: Are they Compatible?" *Journal of Development and Economic Policies* 3, 1 (December 2000).
[23] See Majed Hamoudeh, "The Aghadir Process," Paper presented at the EuroMed 12th Information & Training Seminar for Diplomats, 3–6 May, 2002. http://www.euromed-seminars.org.mt/seminar12/papers/Aghadir21.pdf
[24] See Steffen Wippel, "The Agadir Agreement and Open Regionalism," *EuroMeSCo Paper* No. 45 (Lisbon: EuroMeSCo, September 2005), p. 45. http://www.euromesco.net/media/euromesco_paper_45.pdf
[25] Hanaa Kheir-El-Din and Ahmed Ghoneim, "Arab Trade Integration in Retrospect: Comparison with the European Union Experience and Lessons Learnt," *Integration and Enlargement of the European Union: Lessons for the Arab Region* (Cairo: Economic Research Forum, November 2005).

ill-prepared to move beyond the shallow integration of GAFTA to allow for more dynamic trade.

The Agadir agreement would encourage intraregional trade further and propel GAFTA forward by having signatories adopt common rules of origin clauses. Again, intraregional Arab integration has been historically very low. Recent studies, however, have qualified this observation. When one examines sub-regional Arab integration—in the eastern Gulf Cooperation Council, the centre Mashreq region, and the western Maghreb region—intraregional trade is not nearly as disappointing.[26] Bolbol and Fatheldin show that the weakest link in intraregional Arab trade is between the very eastern Maghreb region and the centre Mashreq region. They argue that the Agadir agreement, whose signatories are pillar economies from these respective regions, may indeed help intraregional Arab trade by better harmonising their policies. The effect of the Agadir agreement on providing this bridge to Arab regional integration could then be quite profound.[27] The obvious missing link in the Agadir agreement, however, is that the GCC or oil-rich Arab Gulf States are not a party to the proposed Euro–Mediterranean Free Trade Area.[28]

Conclusion

The European Union has a strong geostrategic interest in having political stability in the Mediterranean. As a 'civilian power', the EU has used its economic prowess to negotiate trade agreements that it hopes will lead to political and economic reforms in its neighbourhood. The 1995 Barcelona Process had high hopes of achieving peace and prosperity in the Middle East through enhanced economic and political reforms that would lead to good governance in the region and help stem economic migration into Europe. The hub and spoke arrangement created by the Barcelona Process, however, negated many of the intended political and economic benefits of the agreements. The EU has embarked on a new and more

[26] The Gulf Cooperation Council includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The Mashreq countries include Egypt, Jordan, and Lebanon. The Maghreb, also known as the Arab Maghreb Union, includes Algeria, Libya, Mauritania, Morocco, and Tunisia.
[27] Ali Bolbol and Ayten Fatheldin, "Intra-Arab Exports and Direct Investment: An Empirical Analysis," *AMF Economic Papers* No. 12 (Abu Dhabi: Arab Monetary Fund, 2005).
[28] That said, the EU–GCC free trade negotiations are underway and expected to be completed by the end of 2006.

promising approach that may help to rectify the hub and spoke effect and stimulate intraregional trade in the region, and the 2004 Agadir agreement may be effective in producing the changes envisioned in the Barcelona Process. The EU, however, will need to prompt more Middle East states to join into the agreement to gain from the positive spillover effects.