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Article

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Suggested Citation: al Khouri, Riad (2007) : National Security Aspects of Western-Middle East Free Trade Agreements, Aussenwirtschaft, ISSN 0004-8216, Universität St.Gallen, Schweizerisches Institut für Aussenwirtschaft und Angewandte Wirtschaftsforschung (SIAW-HSG), St.Gallen, Vol. 62, Iss. 2, pp. 175-192

This Version is available at:

<https://hdl.handle.net/10419/231125>

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National Security Aspects of Western-Middle East Free Trade Agreements

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This paper looks upon the developments of Free Trade Agreements in relation to security aspects in the Middle East, with a special concern of the Jordanian situation. The author analyses the trade relations between Jordan and the EU as well as the US and compares these relations to the ones of other countries in the region with the two major western trading blocs. After a description of the historical development of these relations, the author provides a picture of the current situation and brings forward an outlook of the possible developments including problems that might occur.

Key Words: Globalisation, free trade agreements, EU and US foreign policy, securitisation

Jel-Codes: F13, F14, F15, F42, H56.

1 Introduction

Since the 1980s, both the European Union and the US have increasingly sought to consolidate and strengthen their strategic positions in the Middle East through a variety of Free Trade Agreements (FTAs) and related commercial diplomacy.¹ By the beginning of the 90s, the EU had signed a series of Association Agreements (AAs) with a number of Middle East countries, an important step towards free trade, while the US had concluded its first FTA ever with Israel. However, after the signature of the Israeli-Palestinian peace accord in 1993 and the conclusion of the Israel-Jordan peace treaty in the following year, non-economic conditionalities and linkages to free trade gained further importance as attempts towards achieving Arab-Israeli peace intensified; with the launching of the European-Mediterranean

* I am grateful to SIMON EVENETT and MICHAEL MEIER of the University of St. Gallen for providing me in a timely manner with copies of some of their recent research papers, as well as with other relevant material. However, neither they nor anybody else should be held accountable for this paper's errors or omissions, which are entirely my responsibility.

1 For purposes of this analysis of Western FTAs with the Middle East, I define them as FTAs between the US or the European Union on the one hand, and Turkey, Israel, or any Arab country on the other. Arrangements that are perceived or intended to be preparatory and/or ancillary to US FTAs are also considered, including Qualifying Industrial Zone (QIZ) agreements and Trade and Investment Framework Agreements (TIFAs).

(Euro-Med) Barcelona Process in the middle of the last decade,² and the beginning of US-Jordanian steps towards freer trade, including the introduction of the very first Qualifying Industrial Zone (QIZ) trilateral (US-Jordan-Israel) accord in the late 90s, yet more attempts at freeing trade took place.

This has been especially true of the US in the past five years. While security considerations had influenced US trade policymaking in the 1990s and before, the relationship between international trade and national security was on the mind of the GEORGE W. BUSH administration from its very beginning. However, this emphasis intensified as the events of 11 September 2001 highlighted the impact of Middle Eastern political, social, and economic problems on US national security. Shortly after 9/11, the connection between trade policy initiatives and security was strengthened as the US administration argued that global trade liberalisation was a central plank of US national security and the counteroffensive against terrorism.

However, in addition to US support for launching the 2001 WTO round, this trade-security linkage has had other implications for US trade policy, including the spreading of FTAs in the Middle East. While such accords are typically thought of as economic, the first FTA with an Arab country, Jordan (then only the second such US pact outside North America) was only clinched a few weeks after 9/11 and had an explicit security background, attempting to support a key Middle East ally of the US in the fight against terrorism. (A similar though pre-9/11 strategic motivation was also true of the QIZ accord signed a few years earlier, described by US officials in the late 90s as "sort of incubator for the FTA."³) This has been followed over the past few years by other FTAs with Arab Gulf states, as well as the signing of a QIZ agreement with Egypt, and suggestions for a variety of yet more free trade accords with various Middle East countries (including for example a QIZ with Turkey and a FTA with Egypt). Less dramatically, the EU's drive for free trade with Middle East countries through successive AAs, Euro-Med Partnerships, and now Neighbourhood agreements, is also being increasingly linked with security issues, including illegal migration.

2 The Barcelona process envisaged a series of EU "Partnership" agreements with Arab and other countries in the eastern and southern Mediterranean, hence the name "Euro-Med". Those originally included Morocco, Algeria, Tunisia, Malta, Egypt, Cyprus, Turkey, Israel, Lebanon, Syria, Palestine, and Jordan. With the admission of Malta and Cyprus into the EU, the remaining Mediterranean countries are now the focus of a recent European Neighbourhood initiative, which extends and does not contradict the Barcelona process, particularly in its trade dimension.

3 According to the then US Ambassador to Jordan, EDWARD GNEHM, speaking on 30 October 2001 at a conference in Amman on the Jordan-US FTA.

The potential impact of such agreements on Middle East economies is huge, as are possible more general benefits for the US and the EU; perhaps idealistically, the FTAs and other accords envisage promoting a prosperous and stable Middle East, while protecting the EU and US from terrorism. Yet, such sustainable growth and development that the region has been able to achieve on the whole still has little to do with bilateral economic links with the US or the EU. At the same time, the enormous emphasis on the Middle East in Western security policy has not been reflected in increased stability in the region itself, whatever the impact may have been on American or European security at home. In any case, the roots, development, and future of FTAs and similar agreements are interesting research topics that shows signs of increasing importance to both the West and the Middle East countries, with implications for EU or US trade relations with other regions as well.

2 European Union Association Agreements

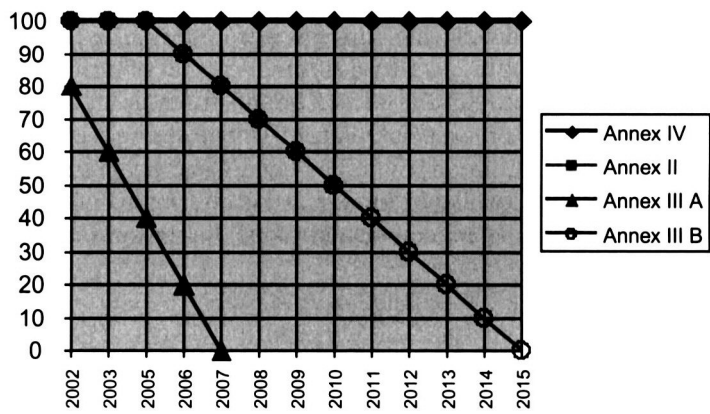
The bilateral European-Middle East AAs of the 1970s and 80s mainly covered aid and the liberalisation of trade. However, the Barcelona process, launched in 1995, was explicitly composed of three dimensions, supposedly equal: security, the economy, and civil society. Because the stability of the Mediterranean region is vital to Europe, security remains a key motivation from the EU side. From the southern Mediterranean point of view, however, the process was more a question of economic development and expanding trade with Europe. So there was a contradiction in Euro-Med from the start, particularly as Arab regimes were willing to have better economic relations with Europe, but did not welcome the civil society dimension. At the same time, the security element has not really succeeded. In 2000, Euro-Med was scheduled to produce a regional charter of peace and stability, but the effort was stifled due to the Israeli-Palestinian and Western Sahara conflicts. However, especially after 911 and the subsequent terror attacks in Madrid and London, there has been some progress in security co-operation at the bilateral level, though this is intermixed with migration issues and therefore has an economic and social dimension as well.

Turning to the economy, the balance of trade with the EU has worsened from the Arab perspective. The example of Jordan is typical in this respect. Jordan's 1999 partnership agreement with the EU paved the way for a full free-trade agreement, whose original aim, now somewhat delayed, was to create a free trade area with all 12 Mediterranean partner countries by 2010.

Under the arrangement that replaced the 1977 AA, Jordan accepted the principle of a progressive reduction in all customs charges on EU-originating products, including those containing an agricultural component. The tariff reduction is asymmetric: all EU tariffs are eliminated for Jordanian industrial products, while Jordan undergoes gradual and differentiated reduction of its duties over a period of 12 years starting in 2006. For Jordanian-originating agricultural products, a customs-free “agricultural calendar” quota is applied, while for some products, like oranges and dried vegetables, imports are free without time restrictions. No concessions are granted to EU agricultural products imported into Jordan.

Three annexes outlining the preferences and priorities for different categories of products define the time schedule of tariff reductions. For instance, consumer commodities, medical equipment, leather products, processed foods, pharmaceuticals, spare parts for industrial machinery, the largest part of Jordan’s imports from EU, listed in Annex IIIA, benefited from an immediate and rapid reduction of annually 20% of tariffs in five years. Other products, like musical instruments and optical goods, benefited from tariff reduction after a transitional period of three years and a slower reduction of rates from 2006–2014. A third category, composed of chemical products, cacao paste, non-alcoholic beverages, listed in Annex II, benefits from a gradual reduction of 50% from 2006 to 2010. Finally, the negative list (Annex IV) without reduction of tariffs agreed for the first four years includes cigarettes, used cars, tomato paste, furniture, shoes, clothing and carpets (see figure 1, derived from the text of the Jordan-EU Euro-Med Agreement).

Figure 1: Time Schedule of Tariff Reductions under EU-Jordan Agreement



Specific and detailed rules of origin are defined for each individual industrial product and for textile and apparel: in principle at least 20–50% of the ex-works price of the imported products must be originating in Jordan. The Annexes list the required working or processing to be carried out on non-originating materials to obtain an originating status. The agreement allows for diagonal cumulation rule, a principle provided to other Mediterranean Partners, according to which the Euro-Med parties have identical rules harmonised with European ones and have negotiated among themselves to set up a free trade area. To maximise the benefits of this, Jordan signed a collateral sub regional accord with Egypt, Tunisia, and Morocco in May 2001, known as the Agadir Agreement.

The Partnership Agreement also establishes that products must comply with standards, regulations, and certification procedures, and that the validity of the agreements is linked to other correlated measures such as the protection of intellectual property rights, workers rights, and the environment. That, it seems, has complicated things for Jordanian businesses, which do not seem to have taken proper advantage of the opportunity to export to Europe, as can be seen from Table 1 below.

Table 1: Jordan-EU* trade 2002–2005 (JOD** m)

	2002	2003	2004	2005
Imports from EU	1031	1023	1296	1707
Exports to EU	45	57	62	78

* The “EU” in this table only includes the 15 states that were members of the European Union in 2001. However, adding the 10 most recent adherent countries does not greatly change the trend in EU-Jordan trade or the massive deficit in favour of Europe.

** One Jordan dinar is worth approximately USD 1.41

Source: JORDAN DEPARTMENT OF STATISTICS (2005), *Statistical Yearbook*, p. 206.

This seeming lack of entrepreneurship on the Jordanian side is matched by complex rules in the EU that discourage Jordan’s exporters. However, it would have been naïve or disingenuous of the EU officials negotiating the agreement with Jordan to expect its businesses to suddenly take European markets by storm. What we have today instead is a massive and growing trade deficit that is not helped by a flood of EU goods entering a liberalised market (Table 2).

Table 2: Jordan merchandise trade balance 2002–2005 (JOD m)

2002	2003	2004	2005	2006 (1st half)
386	842	–2	–1603	–1087

Source: JORDAN MINISTRY OF FINANCE (2006), *General Government Finance Bulletin*, 8 (8), p. 20.

The significance of these soaring deficits should be seen against important structural imbalances that are emerging as Jordan's economy is transformed and integrated into the global economy. The deficit in the balance of payments current account reached a record (equivalent to 15% of GDP) during 2005 and is set to go even higher in 2006, threatening Jordan's fragile external equilibrium, which has been based on foreign aid and debt for decades.

Though exports to Europe remain derisory, that is not the case of Jordan's trade with the US. During the first seven months of 2006, merchandise exports registered an outstanding expansion of 13% compared the same period of 2005, largely driven by a rise in sales to the US market of over 19%. In fact, America continued to occupy the top rank among Jordan's markets, with a share of almost 31% of total exports. This outstanding performance of sales to the US primarily came as a result of QIZ exports.⁴ Jordanian businesses seem to be much more attracted "to the lights of Washington, DC" than to the "labyrinths of the Brussels bureaucracy" (BAHOUT 2005) as reflected in figures for US-Jordan trade (Table 3).

Table 3: Jordan-US trade 2001–2005 (JOD m)

	2002	2003	2004	2005
Imports from US	279	276	394	417
Exports to US	304	469	722	790

Source: JORDAN DEPARTMENT OF STATISTICS (2005), *Statistical Yearbook*, p. 207.

Over a decade after the launch of Euro-Med, the framework originally envisaged has not only shown its limitations, but it is also seriously challenged by more aggressive models such as QIZ (which will be discussed in detail in the following section). Seen from the southern side of the Mediterranean, the European project was ambitious, but poorly backed by effective political will and executive tools. The Euro-Med project underlined "hard power"

4 JORDAN MINISTRY OF FINANCE (2006), *General Government Finance Bulletin*, 8 (8), p. 7.

security⁵ that was supposed to establish a peaceful and stabilised zone, along with an economic mechanism meant to lead to a free-trade area of market economies. Assessed over a decade later, Barcelona was far from mutually beneficial, and recurrent setbacks in the Arab-Israel conflict and in the peace process leading to its solution have seriously impeded it.

In order to achieve greater co-operation on security issues, the economic dimension of the Euro-Med Partnership must be taken more seriously. The EU should open up its agriculture markets to give Mediterranean partners the possibility to sell their agricultural products in Europe. The partner countries in the southern Mediterranean could be better developed if they are allowed to export a larger quantity of agricultural products to the EU. Europe has to open up its agricultural market according to a clear timetable (HANELT 2005).

That in turn would allow Jordan and the rest of the Arab world to take the EU more seriously, including on security issues. For over a decade, the Barcelona process has been trying to organise the Euro-Med relationship around a new collective philosophy of security. However, failure of the security basket of Euro-Med was obvious and immediate, and a more pragmatic approach was invoked after 9/11, leading to some progress in specific areas but confirming that Europe has abandoned its overall regional stabilisation design for the time being.

Launched after the fall of the Berlin wall, when Europe started worrying about an emerging "Mediterranean threat", the security concept bolstering the European initiative was based on an assessment of danger both in "soft" and "hard" terms. The Mediterranean region was considered unstable because it combined economic backwardness with political unrest and military proliferation. Migration trends also suggested that the social integration of migrants would soon become a top domestic priority for European states, thus feeding the fear of an internal threat.⁶

Different dimensions of security had therefore to be comprehensively addressed to propose long-term solutions and work in partnership with south-

5 As mentioned for example in Article 3 of the Jordan-EU partnership agreement, which calls for co-operation that will "enhance regional security and stability".

6 On migration from the Arab states of North Africa to Europe in the context of Euro-Med and EU security, see the chapter "Migration Dynamics and Dialogue in the Western Mediterranean" in INTERNATIONAL ORGANISATION FOR MIGRATION (IOM), *World Migration 2005*, pp. 75–81. I am indebted to REDOUANE SAADI of the IOM, author of that chapter, for further clarification of the complex issue of migration in the western Mediterranean.

ern Mediterranean countries. However, over ten years later, these expectations appear utopian. Difficulties of building a collective security system were clearly exemplified by shortcomings of the first basket of the Euro-Med (Political and Security Partnership) in its objective of establishing a common area of peace and stability. However, persistence of conflicts between some of the partners, combined with the political weaknesses of institutions in charge of organising the dialogue, hindered the progression of the debate on security issues. The repeated attempts to adopt a Euro-Med Charter for Peace and Stability never succeeded, partly due to rapid degradation of Israel-Arab relations from the late 90s (resumption of Israeli colonisation in the West Bank in 1997 effectively coincided with a slowing in the Barcelona process). These setbacks have been acknowledged by partners on both sides. As a result, the stabilisation task of the Euro-Med was increasingly supported by its economic basket, but with mitigated success.

It was not until 2001 that the interest for possible security arrangements was revived, after 9/11 made terrorism a security concern for EU states. European worries encounter growing pre-occupation of southern Mediterranean regimes that face the possibility of internal destabilisation.

There is now a partial reorientation of Euro-Med on security matters in a more pragmatic style; partners tend to seek short-term solutions to counter obvious threats and new areas to test enhanced co-operation at a sub-regional or bilateral level. A rapprochement has been under way for about four years in some domains, including mainly the fight against terrorism and illegal migration. For their part, the southern partners agree to "the partnership game to re-balance the strategic landscape that has been significantly altered by America," (SCHMID 2005) and to reap the benefits of aid and technical co-operation from Europe.

EU member states are convinced that the security of Europe is indivisible from that of the Mediterranean. Yet stronger political input from Europe is needed on crucial issues in order to cope with long-term regional security threats. Encouraging a settlement between Israel and its Arab neighbours remains the number one task in this respect. Meanwhile, freeing trade to allow Mediterranean agricultural exports to enter the EU would prop up the economic side of the European effort, thus making it more credible as a whole.

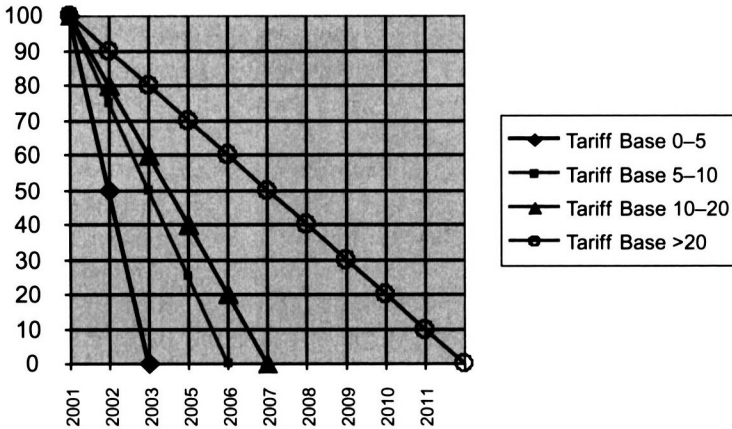
3 United States FTAs with Middle East Countries

By contrast, US regional diplomacy has shown different results. Despite valid economic interests of the US in the region, the combined GDP of all Arab countries is smaller than that of Spain, thus ruling out the region as an important market for America. However, since 9/11 the US government has oriented its efforts to deepening trade and diplomatic relationships with allied countries in the region. To this end, the BUSH Administration first put forward a modest Middle East Peace Initiative in 2002. In May 2003 the US announced the goal of creating a greater Middle East free trade region through a plan of graduated steps for Middle Eastern countries to increase trade and investment with the US through Trade and Investment Framework Agreements (TIFAs) and comprehensive FTAs.

Brief and general, the TIFA is a preliminary step in liberalising trade relations seeking to promote the establishment of legal protections for investors, improvements in intellectual property protection, more transparent and efficient customs procedures, and greater transparency in government and commercial regulations. To those ends, a joint council is created to bring together US officials with representatives of each foreign signatory. In the Middle East, the US has signed TIFAs with Algeria, Egypt, Kuwait, Qatar, Saudi Arabia, Tunisia, Yemen, and the UAE. As for FTAs, these have been concluded by the US respectively with Israel, Jordan, Morocco, Bahrain, and Oman, while FTA negotiations were launched with the UAE in March 2005.

Typical of the latter arrangements was the US-FTA Agreement concluded with Jordan in 2001, the fourth of its kind to have then been signed by the US, following similar treaties with Canada, Israel and Mexico. The accord eliminates all tariffs on industrial and agricultural products, opens Jordan's services markets to US companies and liberalises the regulatory framework for foreign direct investments. The rules of origin provide that at least 35% of the custom value of the imported products must be material originating in the US and/or US direct costs of processing. In addition, there are special provisions for textiles and apparel according to which the origin is set as the country in which specific processing or assembly operations take place.

Figure 2: Time Schedule of Tariff reductions under US-Jordan FTA



The US–Jordan FTA provides for a system of 14 thousand tariff lines in 13 categories. The average tariff rate for Jordan is 6%. The agreement, which is defined according to the tariff phase-out rules for five categories of products, is symmetrical and provides for the elimination of all duties in ten years, while for the remaining eight categories special provisions will be applied unilaterally. In principle, Jordanian tariff base rates below 5% (category A) will be eliminated in two years; those below 20% in four to five years (category B and C, respectively), and those above 20% (category D) will be eliminated in ten years; goods in category E follow the WTO tariff reduction commitments (see figure 2, derived from the text of the agreement). In addition, the FTA provides for the elimination of QIZ benefits for certain textile and garment products in 2010.

On the face of it, little in this agreement is remarkable, nor were US-Jordan trade relations particularly significant or promising in the run-up to approval of the accord. US-Jordan trade towards the end of the FTA negotiations amounted to only about JOD 280m in 2000, roughly a quarter of the value of merchandise trade with the EU at that time. In other words, it was far from a commercial prize for the US, nor were Jordanians especially sanguine about possibilities for their exports in the American market. By mid-2001, there was no significant pressure to get it passed.

Another reason for the FTA remaining at that time stuck and unapproved in the US Congress was that Democrats, along with labour and environmental groups, were pushing hard for worker and environmental protec-

tion provisions to be included in the agreement, hoping to set a precedent for future trade accords, including major trade legislation. However, the labour and environmental language met strong resistance from some congressional Republicans who said it would give foreign countries unacceptable oversight over US laws. The comment of Republican Senator PHIL GRAMM at that time was typical of opponents of the FTA, who like him claimed that "it creates a situation where we are literally transferring a degree of American sovereignty in labour and environmental areas to decision-making entities that will be beyond the control of the US". However, that was before 911: Less than two weeks after the attacks, the Senate gave its approval to the treaty, with Senator GRAMM saying he had decided not to oppose what he called a "dangerous" bill "because we have a crisis in the world, we need to reaffirm our relationship with Jordan, a critical country in a very important part of the world when we are at this very moment beginning to look toward a war with terrorism". Nor were other senators less enthusiastic about Jordan, but again from a purely non-commercial point of view. Because Jordan has backed the US anti-terrorist fight, with the Jordanian king visiting Washington shortly after 911, "accordingly we should do whatever we can to reinforce Jordan's support," said Senate Finance Committee Chairman MAX BAUCUS, adding that "by implementing the Free Trade Agreement, we'll do just that". Senate Majority Leader TOM DASCHLE put the matter in an even broader context when he declared that this very first trade agreement with an Arab country "serves as a statement that our enemy is terrorism, not the Muslim world" (ABRAMS 2001).

This sudden enthusiasm for the US-Jordan FTA should not have surprised those familiar with the background to the QIZ agreement, signed in 1996. In an equally politicised manner, QIZ was launched as an amendment to the US-Israel Free Trade Area Implementation Act, introduced to the US House of Representatives in March 1996. The new measure granted the US President additional proclamation authority to extend the US-Israel Free Trade Area to include products from QIZs, which embodied co-operation between Israel and Jordan. The measure proposed new authority to extend the US-Israel Free Trade Area to cover articles grown, produced, or manufactured in the West Bank, the Gaza Strip, or a QIZ between Israel and Jordan, or Israel and Egypt. The draft measure was referred to the House Committee on Ways and Means, which reported the bill in the same month, stating that "duty-free treatment for goods produced in the added zones could assist in supporting the peace process, increase employment, and stimulate the economy of the region." According to the rationale of the legislation, extending the free trade area to QIZs would also produce tangible

economic benefits for Jordan and Egypt, the two Arab states that had signed peace treaties with Israel, "thereby broadening support for the peace process within these countries". The House passed the measure by voice vote in April 1996, and the Senate passed it without amendment by unanimous consent in September 1996. The bill was signed into law in October 1996. (RUEBNER 2000)

QIZ, which was thus clearly a tool to enhance Jordanian-Israeli co-operation, is a system of diagonal cumulation that offers duty- and quota-free access to the US market for products manufactured by "qualifying" enterprises located in designated zones. Products must meet certain criteria to qualify under the program. These include a 35% minimum content rule, 11.7% of which must be of Jordanian origin and 7–8% from Israel; the remainder to reach the 35% requirement can be from US, Jordanian, Israeli, or Palestinian sources.

By the rather uninspiring standards of Jordan's merchandise export sector, QIZ has been a huge success, with almost all of the burgeoning value of exports to the US since 1997 coming from the new zones. However, a closer look at the results of QIZ reveals a somewhat ambiguous picture. The amount of QIZ employment-creation in Jordan has not been inconsiderable, but the lion's share of these jobs has gone to foreigners. In addition, in terms of the simpler types of jobs created and the older technologies and skills being applied, the situation is far from encouraging. Finally, much of the QIZ sector in Jordan today is owned by non-Jordanians, with profits being repatriated, along with the wages that the foreign workers in the zones are sending home, thus further exacerbating the country's balance of payments problems.

Nevertheless, in terms of export figures, QIZ has had an impact, so much so that other countries in the region began asking for it.⁷ Turkey has expressed an interest in setting up QIZs (AL KHOURI 2002) though so far the US has only hinted at granting approval. However, Egypt (which along with Palestine was allowed by the 1996 US legislation establishing QIZ to apply the new model) in fact obtained American permission to set up these zones in December 2004.

7 Jordan's exports to the US increased manifold as a result of QIZ: Before production from the zones became important in 1999, a negligible JOD 21m was exported to America.

This of course creates a complicated new situation for Jordan. As almost all Jordanian QIZ exports today are garments, in this branch Egypt has important cost and other advantages, the Egyptians are already starting to threaten the output and future of the Jordanian zones. The QIZ “reward” to Jordan for its role as a US ally promoting peace with Israel and otherwise backing America in the Middle East could thus backfire, creating tension with Egypt on the one hand, and frustration and dashed hopes at home on the other as investment in and output from the zones slows.⁸ Signs of this are already emerging, while attempts are being made by Jordan to upgrade its garment production to compete with Egyptian QIZ production. However, Jordan’s record in this respect has not been encouraging, with the country often preferring to profit from exchanges of diplomatic favors, as with QIZ in 1996 and FTA in 2001, rather than to benefit by engaging in serious innovation or improvements in productivity.

The case of Jordan should thus provide an interesting example for its successors in the acquisition of US FTA or QIZ privileges. In addition to the Egyptian QIZ, since 2004, Bahrain, Morocco, and Oman have signed FTAs with the US, manifesting in a less dramatic fashion much of the same security elements inherent in the Jordanian accords.

In June 2004, the US signed a FTA with Morocco having an explicit security component. US officials cast the agreement as an opportunity to support a close ally in the region, and its signing coincided with Morocco’s designation as a non-NATO ally of the US,⁹ making Morocco eligible for priority delivery of defence material, participation in defence research and development programs, and a beneficiary of US government loan guarantee programs for buying military material. Morocco is also a key player in recent efforts by the Pentagon to train countries in Africa to fight and pre-empt militant groups.

Yet even if the FTA achieves its stated economic goals, it remains to be seen whether benefits will extend to a society divided by enormous cleavages. As a result, the US-Moroccan FTA and Morocco’s new stature in US secu-

8 It is interesting to consider this new situation in the context of the concept of American Competitive Liberalisation policy, as discussed for example in the July 2006 paper by SIMON EVENETT and MICHAEL MEIER “An Interim Assessment of the US Trade Policy of “Competitive Liberalisation”.

9 For the US, solidifying the government’s position in the antiterror camp in the region is at the heart of denominating Jordan and Morocco as non-NATO allies. The USTR, announcing the initialling of the FTA in March 2004 proclaimed Morocco a strong ally in the war against terror, as Jordan had also been described in late September 2001 as its FTA was finally approved.

rity policy paradoxically run the risk of deepening societal resentment in Morocco toward the government and, by extension, the US. (WHITE 2005)

While Israeli and Jordanian FTAs both reflected a desire to assist and support valued allies in an unstable region, the FTA between the US and Morocco has an even more explicitly political and strategic component in the new context of the post-911 era and the war on terror. In this vein, American officials cast the agreement in terms of support for a strategic ally in the Middle East and an illustration of US commitment to economic development and prosperity in the region.

The agreement may indeed increase trade between the two countries, and could also achieve the additional goal of diversifying trade away from Morocco's heavy reliance on the EU. The trade Morocco conducts with the US is trivial in comparison to the amount with the EU, which accounts for over 60% of Moroccan total imports and exports. Europe historically was the main supplier and purchaser of Moroccan goods and services, but that began to change during the mid-1990s as Morocco pursued a very gradual transformation of its political and economic system, and participated in strategic and economic openings, including one FTA with Israel. The FTA comes with significant aid enhancement from the US, though the amount is a pittance compared to the USD 2b received annually by Egypt.

The Moroccan Euro-Med accord was signed in 1996 and came fully into force in 2000. It envisions a 12-year process of lowering tariffs and enhancing trade between the EU and Morocco. Despite the initial optimism about the agreement's benefits for Morocco, there has been increasing anxiety and scepticism. Problems include the disappointing demand provided by European tourism, non-tariff protectionism by individual EU countries, the growing agro-alimentary dependence on Europe, and stagnant levels of trade. Although the transition toward the EU-Moroccan Association is still underway and may ultimately prove successful, indications so far are not promising. The government of Morocco has worked vigorously to diversify away from Europe for years, focusing on deepening trade primarily with other Mediterranean partners. In May 2001, Egypt, Jordan, Morocco, and Tunisia initiated the Agadir Declaration, which however does not look like it will yield tangible results in the short-term. (NAYLOR 2006)

The extent to which the FTA with the US will enhance Morocco's bargaining power with the EU remains to be seen. FTA with the US and the EU are not contradictory. Several countries have close ties with both blocs, in-

cluding Jordan. However, in Morocco, one likely outgrowth of the FTA is that despite efforts to improve rural infrastructures and social programs, urban migration will continue, fuelled by an uncertain agricultural sector and the movement to cities in search of jobs in industry, also prompting transformations that fuel migration to Europe.¹⁰

By contrast, US FTAs with small Arab Gulf states appear to have a less complicated context than Morocco's, or even that of Jordan. In the case of Oman, USTR ROB PORTMAN declared "This agreement also helps the advancement of economic and political freedom in the region. For decades, Oman and the US have shared a desire for peace, stability and economic opportunity in the Middle East. Today we take an important new step in our partnership." As US-Omani economic relations are modest while security co-operation is high, American policy in Oman has more to do with regional security than trade. The US is also happy that "Oman does not apply the Arab League boycott of Israel nor does it have any law establishing the primary, secondary or tertiary boycott of Israel."¹¹ By the same token, according to the US administration, the US-Bahrain FTA "enhances our bilateral relationship with a strategic friend and ally in the Middle East region and promotes economic growth and prosperity in both nations."¹² In both of these cases, the flourishing of trade from current modest levels will simply be an adjunct to the close security co-operation taking place between the US and Arab Gulf countries.

4 Conclusion

US FTAs in the Middle East are attempting to carry out the recommendations of the 911 Commission urging the US to "encourage development, more open societies and opportunities for people to improve the lives of their families" by strengthening trade relations with the region. The report also urges that for the Middle East "a comprehensive US strategy to counter terrorism should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future."¹³ It re-

10 *ibid.*

11 Office of the US Trade Representative, Executive Office of the President, Washington, D.C., 19 January 2006: "US and Oman Sign FTA – 5th FTA in Middle East Strengthens Co-operation and Commerce in the Region, Offers Opportunity for Greater Prosperity".

12 The White House, Office of the Press Secretary, 11 January 2006 "President Signs HR 4340, U.S.-Bahrain Free Trade Agreement".

13 The 9/11 Commission Report, July 2004, pp. 378–9.

mains to be seen whether the accords described in the above chapter will ultimately enhance US national security as they promote trade. Meanwhile, bilateral security co-operation continues to be strengthened with the five Middle East countries that have signed FTAs with the US. At the same time, economic relations between the US and individual Middle East states seem to have expanded.

On the other hand, the 1995 Barcelona process's multilateral approach to security has not really succeeded, and trade between the Mediterranean region and the EU remains one-sided. In 2000, Euro-Med was scheduled to produce a charter of peace and stability, but the effort was stifled due to the Israeli-Palestinian and Western Sahara conflicts. Security did not really progress at the level of EU institutions, though at the bilateral level there is some progress. Turning to the economy, the balance of EU trade with the whole Middle East, without oil, has worsened from the southern perspective. This means Arab economies have not grown stronger, with all the negative consequences this has for societies. If the EU could open its markets to Middle East agricultural products and relax immigration rules, economic benefits to the southern Mediterranean will be huge. Though both will happen in the long-run, for the time being the former step remains politically difficult, while the latter is seen as having a negative security component. For the US, agriculture and immigration are not pressing issues in relations with the Middle East, partly due to geographical distance. Thus, the US is keen on full trade treaties with Middle East countries, in contrast to the agreements that the EU seeks with trading partners, often leaving agriculture aside.

However, both the US and EU appear naïve in casting FTAs as a means of winning hearts and minds in the Middle East, and a tool in the war on terror. Though Europeans have pursued a nuanced policy towards the Arab world's problems, anger in the region is fuelled by perceptions that the US is not an honest broker in the Palestine-Israel conflict or because it scorned the international community and international law in pressing for the Iraq war. In any case, both the EU and the US support corrupt governments tied closely to the interests of affluent backers.

The perception that anger and unrest in Arab countries is a function of poverty is problematic. FTAs may not produce the kind of economic development that will improve the everyday lives of Arabs. Unemployment remains exceedingly high in the Arab world, with the growth of population continuing to outstrip non-oil economies' ability to provide jobs. The labour mar-

ket suffers from deep segmentation between high-pay formal sector and low-pay, unregulated informal sector. Non-violent protests against unemployment and restrained opportunities persist. Coupled with the uncertain prospects of pivotal agricultural sectors, and the dislocation that could fuel urbanisation, Arab economic circumstances are worrisome. If the economic future of the region is seen as tied to US support for regimes, then anger and frustration might deepen.

Even if growth occurs as a result of EU and US FTAs, it is simplistic to characterise opposition to the West as motivated solely by poverty. The leaders of the 911 and Madrid attacks were not poor. They, and many of their followers, are motivated not so much by a narrow economic calculus but by rejection of Western support for local regimes. In the end, what is missed by both America and Europe is an appreciation of the limitations of the state-state component of FTAs, which comply foremost with the interests of largely unrepresentative Arab governments.

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