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The Dynamics of Overlapping 'Shallow' and 'Deep' Economic Integration: Greater Arab Free Trade Area and European Neighborhood Policy in the Mediterranean

Wolfgang Zank*

In the Mediterranean Basin two projects of economic integration overlap, namely the project of a Greater Arab Free Trade Area (GAFTA) and a process of economic integration of the European Union (EU), which neighbors into EU's Internal Market; the EU endeavors to strengthen cooperation with the neighbors practically on all fields. For decades, in spite of high-pitch rhetoric about Pan-Arabism, practical Arab integration was very limited. Hardly any other region was so divided politically. Furthermore, almost all Arab countries followed inward-oriented development strategies with high protectionist tariffs. These severely constrained economic transactions among the Arab countries. Thereby the Arab world became one of the most fragmented areas in the world. Spillover effects from economic to political integration, which played an important role in European integration could not take place. From the 1970s onwards a slow and often inconsistent transition to open marked economies began. It improved the conditions for Arab economic cooperation considerably, and in 1997 the GAFTA project was launched. It generated indeed increased trade. However, so far it remained 'shallow' integration, implying tariff reductions at the border, but not 'deep' integration with changes behind the border, such as common competition rules or common products standards. Therefore, numerous non-tariff barriers still exist, and competition remains distorted. Arab voices demand 'deep integration', but this requires political decision-making and dispute settlements which would restrict state sovereignty. Currently not many indicators point at such a transition in the Arab world. On the other hand, 'deep' integration has made considerable progress among the EU and some neighboring countries, notably Tunisia and Morocco. The impacts have been far reaching, also in the political sphere. This process is likely to impact some Arab countries much more than Arab integration. Theoretically it can be explained in terms of neofunctional theory.

Introduction

In the Mediterranean Basin currently two projects of economic integration overlap. On the one hand there is the Greater Arab Free Trade Area (GAFTA) which covers 17 countries consisting of all the Arab states of the southern and eastern shores of the Mediterranean. On the other hand there is the project of a Mediterranean Free Trade Area, promoted by the European Union (EU). Also the European

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Neighborhood Policy (ENP) of the EU covers the Arab countries in the Mediterranean Basin, except Libya. Within this frame, the EU offers particularly dense cooperation, including a "Stake in the Internal Market", i.e., economic integration that goes far beyond the mere abolishment of tariffs.

It is not clear whether the two projects are compatible. However, it is likely that progress of economic integration with the EU will have a much bigger impact on the societies of North Africa and the Levant than GAFTA. So far GAFTA has remained 'shallow integration', which is characterized by only lowering the trade barriers at the border. By contrast, 'deep integration' removes non-tariff barriers and implies changes behind the border, for instance by introducing common product standards and establishing common competition rules. This is what the EU has done for decades internally. With the ENP, the Union tries to extend important parts of its legislation to its neighbors. The cultural and political implications are presumably far-reaching.

In this paper the author tries to give substance to these statements. The paper starts by exploring why there has been so little economic integration in the Arab World before GAFTA. Thereafter GAFTA was analyzed. Next the Mediterranean Policy of the EU and the ENP was discussed. 'Deep' integration with the EU has actually progressed quite far as regards Morocco and Tunisia. A detailed analysis is done with regard to Tunisia to get an idea what deep integration actually covers. This paper ends with some concluding theoretical remarks.

Early Efforts at Arab Economic Integration

Some decades ago Pan-Arabism seemed to be deeply rooted among the populations of various Arab territories. And in 1945 the then seven independent Arab states[1] formed the Arab League, seemingly a first step towards political integration. However, the League was constructed as a strictly intergovernmental organization which could not bind the member states. Simple rational-choice theory seems to deliver a good explanation: Ruling national elites made some symbolic concessions to Pan-Arabism, but took otherwise care that their sovereignty did not become infringed. In principle, this is still the state-of-affairs with the Arab League and its, by now, 22 members (Zank, 2009c). It would be wrong to assume that efforts at Arab unification have had no effect at all. As we shall see, the GAFTA has produced tangible results. Besides, the Arab League has been an institutional forum for dialogues on various levels, and sometimes Arab leaders could reach consensus on important questions, e.g., in 2002 with the Arab Peace Initiative i.e., the collective offer to normalize diplomatic relations to Israel and recognize its borders as of 1967 if Israel retreats from the occupied Palestinian territories. As these examples show, efforts at Arab integration have produced some results. But they have been modest, if compared to the ideas of the heydays of Pan-Arabism during the 1950s. In cultural terms, the League could assist at modernizing Arabic or developing school curricula. This has

[1] Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, Syria and Yemen. There were still some restrictions on sovereignty in place, e.g., as regards Egypt's Suez Canal Zone, so Egypt was not yet completely independent.

been little if compared with the ideas from the heydays of Pan-Arabism during the 1950s, but it has been something.

On the field of economic integration, the Arab world had for many decades mainly seen abortive projects. In 1950 the seven League members signed a Treaty for Joint Defense and Economic Cooperation (TJDEC). The treaty did not gain much practical importance. According to Michael Barnett and Etel Solingen this was not surprising, given the point that Egypt proposed this pact, not in order to foster Arab unity, but to thwart designs of Iraq-Syria unification (Barnett and Etel, 2007, pp. 198-201). At least, the TJDEC led to the creation of a new Arab Forum, the Economic Council, later Economic and Social Council, composed of ministers from the member states.

New attempts were made in 1953 with the Agreement on Trade Facilitation and Regulating Transit Trade (ATFRTT) and in 1957 with the Arab Economic Unity Agreement (AEUA). Initially these agreements included only a subset of Arab countries. But Iraq, Saudi Arabia and Yemen blocked lowering tariffs on manufactured goods because their budget depended to high extent on tariffs. Furthermore, the pressure from special interest groups led to amendments and exceptions. At the end, the agreements had few practical results (FEMISE, 2008, p. 30). In 1964 Egypt, Syria, Iraq and Jordan concluded an Arab Common Market Agreement (ACMA), but also this project could not properly get off the ground.

Yet another agreement was made in 1981, the Agreement on Facilitation and Development of Trade (AFDT). It was signed by 19 countries and officially came in force in 1983. A commodity should get tariff exemptions if the value added by local production was at least 40%. However, again binding commitments and a strict timetable was missing, and special interests could capture the agenda. Also this agreement brought little to liberalize trade flows (FEMISE, 2008, p. 31). Likewise the Arab Maghreb Union of 1989 remained a paper project.

One initiative stands out, namely the Gulf Cooperation Council, founded in 1981. The six participating countries established rather stable institutionalized forms of cooperation and proceeded already in 1983 towards free trade among them. Spillover effects to other types of cooperation are traceable (Legrenzi, 2008). However, being outside the Mediterranean and not overlapping with EU initiatives, the GCC will not be dealt with in this paper.

It was only an incomplete contracting messy politics which prevented progress at economic integration, which was partly due to the fact that treaties were formulated in too general terms; also behind-the-scenes activities of interest groups and the lack of political will when it came to implement provisions. But this was not all—Powerful and systematic structural forces emerged to make this kind of progress practically impossible.

Arab Economic Fragmentation as a Result of Inward-Looking Development Strategies

In a number of Arab countries the army leadership engineered a coup and started a policy of revolution from above. Within a few years this led to the construction of comprehensive systems which subjected most of economic life to tight state control. The pioneer in this respect was Egypt.

Shortly after the coup in 1952, the new military regime introduced a land reform, redistributing land from the old elites to peasant cooperatives. On July 26, 1956, Gamal Abd'al Nasser, having decided the internal power struggles in his favor, announced the nationalization of the Suez Canal, to find new sources of state income, in order to finance an ambitious industrialization program. After the ensuing British-French-Israeli attack in November 1956 Nasser ordered the confiscation of British and French property, to be followed by expropriations of Jewish, Armenian and Syrian-Lebanese interests. In 1961 a new land reform limited private ownership on land to 100 *faddams* (103.8 acres) per owner, and with the 'July Laws' the finance sector and manufacturing industry passed under direct state command (Goldschmidt 1998, p. 86 and Roussillon, 1998, pp. 338-345). Agriculture was under tight indirect control.

The productive apparatus became completely reorganized: Thirty-nine sectoral 'General Organizations', supervised by the ministries in question, steered 438 state-owned enterprises and all those companies where the owners had to deliver 50% of the shares to the state. Economic activities were coordinated by a plan. Also external trade was subjected to state control (Roussillon, 1998, p. 346).

By then the Egypt economy came to resemble the Soviet model strikingly. Or rather the Polish model, where agriculture remained predominantly private. Also political structures showed strong similarities with the Soviet Orbit, with all opposition being banned, the media under state control, and one party (The Arab Socialist Union, ASU) having the political monopoly.

How can such a development be explained? Certainly it was not planned in 1952. And in the ASU National Action Charter of 1962 the regime tried even its best to explain that 'Arab Socialism' had nothing to do with Marxism, reverting instead to nationalist, religious or spiritual elements when formulating its ideology (Roussillon, 1998, p. 346).

According to the author the theorem of the "affinity of the elements of the socialist system", as forwarded by János Kornai, can explain much in this context. According to him, two systems have dominated the 20th century, the capitalist and the socialist system (Kornai, 2000). There have been many differences between capitalist countries, but they all have had a set of a few characteristics in common (political power friendly to private property, dominant position of private property and preponderance of market coordination of economic activities). By contrast, socialist systems—I modify his scheme slightly[2]—were characterized by power monopoly of

[2] As first criterion Kornai speaks about the "Undivided power of the Marxist-Leninist Party". This would rule it out that Egypt had a socialist system because the Nasser regime was not Marxist-Leninist. But as we have seen, the basic characteristics of Egypt's system were very similar to the Soviet model. A specific Marxist-Leninist ideology was not necessary in order to produce such an outcome. Therefore, I prefer to make the political-power criterion symmetrical to the one Kornai established as regards capitalism, namely its attitude to private property.

a ruling party which did not respect private property, preponderance of state or quasi-state ownership and economic activities mainly coordinated by bureaucracies. Once these conditions are in place, they produce a set of economic characteristics such as maximizing production in physical terms, a very reduced role for accounting ('soft budget constraint'), low responsiveness to prices, no open unemployment but 'unemployment on the job', etc. In Kornai's view, the elements of the system are linked; once a certain number of elements are introduced, they produce a systematic tendency to progress to the full system. And Egypt did indeed go a long way in this direction. So did Algeria, Iraq and Syria.

In these countries, as in many others of the Third World, a crucial step was already taken when the Government resorted to large-scale confiscations. In order to prevent capital flights, tight control on cross-border actions became necessary. Private capital accumulation, the motor of capitalist economies, destroyed or at least seriously distorted. As a source for investment it dried out. Instead, the state had to do most investment, and for that purpose it needed ever more resources. This meant that the state resorted to even more confiscations and borrowing abroad. We might also say in the language of Historical Institutionalism, once large-scale confiscations were undertaken, they created "path dependencies"—The above mentioned systematic pressures to 'progress' on the road to socialism—even if this was not intended at the beginning.

However, as the experiences of Algeria and Egypt showed: On an average the state investments had a low or even negative rate of return. Precious economic resources were wasted, while the debt burden rose; in the end, even oil-rich Algeria got bankrupt (Stora, 2001, 186f, 266). Therefore, a retreat from Arab Socialism began everywhere, from 1970s onwards, again with Egypt as the pioneer.

In our context important—As long as the systems of Arab Socialism were in place, or rather, as long as they were not dismantled substantially, economic integration of neighboring Arab states with these states was all but blocked.

However, also most of the countries where the traditional elites remained in power erected heavy barriers to cross-border interactions. Ideas about "Import-Substitution Industrialization" were powerful during the 1950s, 1960s and still during the 1970s. Third World countries should allegedly protect their 'infant industries' against competition from the developed world.

During the 1970s most countries of the world were 'closed' economies. The author follows the classification elaborated by Jeffrey Sachs and Andrew Warner. Their criteria for 'openness' were actually very generous, allowing for instance average tariffs up to 40%.[3] Still, according to them, in 1960 only about 20% of the world

[3] They declared a country as being 'closed', if at least one of the following criteria were fulfilled: (1) Non-tariff barriers covering 40% of trade or more; (2) Average tariffs of 40% of more; (3) A black market exchange rate that was depreciated by at least 20% in comparison to the official rate (indicating restrictions at getting foreign currency); (4) A socialist economic system as defined by Kornai; (5) At state monopoly on major exports (Sachs and Warner,1995, p. 22).

population lived in countries with open economies. All the others practiced socialism or a type of closed state-led industrialization. With the exception of Yemen all Arab countries experienced periods of closeness.

Not only socialism, also state-led "Import-Substitution Industrialization" was a dead-end road. It indeed reserved the home market for local producers, but thereby customers became hostages of rather inefficient and expensive local producers. Perhaps even worse in the long run, local producers were prevented from buying cheap inputs abroad. And because they were sheltered from competition, they had few incentives to increase productivity. The state-owned enterprises proved to be no substitute for a dynamic private sector, and most of them turned into loss-makers, also in countries such as Morocco (Zank, 2009b). Small wonder that socialism and "Import-Substitution Industrialization" fell out of fashion, globally and in the Arab World. Jordan turned open in 1965, followed by Morocco in 1984 and Tunisia in 1989. In spite of significant moves towards more openness, by the end of 1994 Algeria, Egypt, Iraq, Mauretania and Syria were still closed. We can safely add Libya to this list.

As a consequence of closeness, the Arab countries had hardly any trade among each other. They exported oil, gas or, in the case of Morocco, phosphate to the world market, but exporting something to the neighbor was hardly possible. All this made the Arab World one of the least integrated region in the world—in spite of heavy doses of rhetoric Pan-Arabism, particularly during the 1950s and 1960s.

Furthermore, during the 1960s, the revolutionary dictatorships of Egypt and Algeria were in a state of cold war with the conservative countries (Heller, 1981, pp. 130-134). There have also been various direct armed conflicts between Arab states. Algeria and Morocco fought a border war in 1963. In 1970 Syria intervened in Jordan to support the Palestinian Liberation Organization (PLO). The intervention, however, stopped by air force commander Hafiz el-Assad. Also Egypt and Libya fought a short war. By that time hardly any region in the world was as divided as the Arab world.

The Protracted Road to Economic Openness and Cooperation

During the 1970s and 1980s conditions for more Arab cooperation gradually turned better. Most regimes became more pragmatic with Libya and Iraq as the major exceptions. In addition, 'Arab socialism' and 'Import-Substitution Strategies' led to severe crises which in turn induced the regimes to start a policy of economic opening. In most cases this course has been followed very hesitantly and inconsistently, accompanied by many problems and upheavals.[4] We shall have a closer look again at the biggest country, Egypt.

Nasser has aptly been playing off one side in the Cold War against the other and thereby managed to mobilize foreign aid in massive scale. From the socialist bloc the Nile country received 600 million Egyptian pounds during the period 1958

[4] For an overview of the North African countries in this respect, see Zank (2009b), pp. 123-129.

to 1977, not including the arms supplies. In addition, between 1954 to 1966 the US sent wheat shipments worth $643 mn, largely subsidized by the American tax payer and paid for in Egyptian pounds. Nevertheless, already in 1962 Egypt experienced the first in a long row of financial crises and difficult cases of cooperation with the International Monetary Fund (IMF) (Roussillon, 1998, pp. 352-355). After the disastrous war with Israel in 1967 and the blocking of the Suez Canal, the situation became almost desperate. When Anwar al-Sadat took oath in September 1970, he had to face "increasing budget deficits, a chronic currency shortage, and the 'classic' consequences of this sort of situation: factories operating at the third of their capacity owing to shortage of raw materials, assembly lines grinding to a halt because of the lack of spare parts, neglect of equipment, and other problems" (Roussilon, 1998, p. 360).

Not surprisingly, Sadat came to the conclusion that Arab socialism and the alliance with the Soviet Union could not bring Egypt any further. In the first step, in July 1972 he expelled the Soviet advisors. The attack on Israel, jointly with Syria, in October 1973 could, therefore, be presented as a pure Arab war, not the action of a Soviet satellite. The war turned into a military near-disaster, but nevertheless became a political victory, by opening the way to negotiations with Israel. They led to a stepwise Israeli retreat which allowed reopening of the Suez Canal and Egypt's recovery of oil wells. The final step was the Camp David Peace Accord of March 26, 1979. It earned Egypt wrath all over the Arab world, but it also opened up for American aid. From 1979 onwards Egypt received between one and one- and- a half billion dollars annually as civil aid, the same as Israel, and significant military credits to buy US equipment (Roussillon, 1998, p. 364).

In the field of economic policy, the 'October Document', presented actually in March 1974, heralded the opening up of Egypt, in the hope of attracting foreign capital and Western technology. The main instrument of the policy of *infitah* (opening) was Law 43 on foreign investment, adopted in June 1974. It granted foreign investors tax and customs exemptions. Foreign banks could start operations in Egypt, and foreign private investors and Egyptian public-sector companies could start joint ventures. Crucially, such a joint venture was to be considered as private, even if the state-owned company held the majority. Thereby it did not have to respect the labor legislation which was in place in the public sector (minimum wages, hiring of university graduates, workers' representation). Last but not the least, Sadat returned many factories, buildings or pieces of land, expropriated during the 1960s to their original owners (Roussillon, 1998, p. 361).

Foreign banks such as Chase-Manhattan, Bank of America etc., did indeed return but overall *infitah* did not come near the expectations (Goldschmidt, 1988, p. 148). Egypt made here an experience which also countries like Hungary during the 1970s or Poland during the 1980s harvested. Predominantly in socialist economy, partial reforms have very little effect. In order to create dynamic market economies, a whole set of comprehensive reforms is necessary because a market economy is also a system whose elements are interlinked. Partial reforms in a socialist system have therefore, mainly created non-performing hybrids.[5]

However, once a system of a closed economy is installed, there are also many vested interests in perpetuating it: Workers and managers in companies for which protectionism has created a monopoly. Also politicians to whose fiefs these companies belong will resist opening. And given the point that these interests are quite concentrated, they can be quite strong. By contrast, the interests of consumers who would benefit are diffused; most of them hardly know about the potential benefits. And any change of known structures creates feelings of insecurity. Last but not the least, economic opening has cultural implications, usually implying the influx of Western symbols and values. This has mobilized traditionalist or Islamist reactions practically in all Arab countries.

These resistances against change can explain why it has been such a protracted process to move away from Arab Socialism or state-led protectionism. We can again frame this in the language of historical institutionalism. Once a protectionist system is in place, it creates 'path dependency', understood the way that it became extremely difficult to alter the system towards openness; even if dominant beliefs among top politicians and experts have moved away from state-led protectionism long time ago. In most cases in the Arab world it took a severe macroeconomic crisis and external pressure from creditors to build up the necessary pressure to overcome the forces of perpetuation.

The Egyptian reforms towards an open market economy were to a high amount debt-driven. Without the pressure from the IMF and other creditors many measures would presumably have been considerably delayed (rather more delayed). Reforms in Tunisia were also assisted by the IMF, but they were to a much higher extent the result of internal discussions. However, the effect was similar, namely a process of gradual economic opening. The other Arab countries started similar reforms. But, however inconsistent and slow, this development improved the conditions of Arab economic integration dramatically. By opening their economies, the Arab countries also slowly opened their borders towards their neighbors. Trade and investment could flow more freely across borders. Furthermore, the business community—almost extinct under Arab Socialism—experienced a revival, and this meant a new pressure group for practical cooperation. The regimes under pressure of debt burden and

[5] China is sometimes quoted as an example of successful gradual, stepwise transition which other socialist countries should have followed. But this is a misunderstanding. China's conditions were very different. At the onset of reform in 1978, China was still predominantly an agrarian country. State-owned industry employed only some 7% of the labor force. Furthermore, the Chinese land reforms transformed the country side profoundly in only about 4-5 years. After the dissolution of the People's Communes and concomitant measures, about 80% of the population were released from the web of state regulation and protection and had to work in economic units under hard budget constraints. In the words of Stanley Fischer, this was 'truly shock therapy' (Sachs and Woo, 1994, p. 134).

radical Islamist opposition, began to look with an increasingly pragmatic eye on reform proposals.

The Launching of the GAFTA Process

During the 1990s Arab leaders began to have a fresh look on ideas such as creating an Arab Free Trade Area. There was, however, also a new external challenge. The European Union (EU) took the initiative for the Barcelona Conference in November 1995 where the EU countries and all the other countries who bordered the Mediterranean Sea like Libya including Israel, Syria and the Palestinian Authority participated. The participants endorsed a common declaration and a multilateral cooperation program. Among the aims was the creation of a common Mediterranean Free Trade Area 'covering most trade' by 2010. From an Arab point of view this opened the perspective that one group of Arab countries created a free trade area with Europe, but not with other Arab countries (Zorob, 2005, p. 494).

The answer to this challenge was a revival of ideas of Arab economic integration. At the Cairo 1996 Arab Summit, the heads of states declared their will to reactivate the above mentioned dormant Agreement on Facilitation and Development of Trade (AFDT) and to reach free trade with zero tariffs by 2007. In 1997 the Economic and Social Council of the Arab League approved an executive program. The project of a GAFTA[6] was launched, this time in earnest. Initially, only 14 of the 22 Arab states joined (FEMISE, 2008, p. 33): Most Arab Mediterranean countries,[7] the six Gulf States, Iraq and Sudan. Three states (Jordan, Palestinian Authority and Yemen) joined later. Algeria and Mauretania have declared their intention to do so, but did not yet start implementing. Djibouti and the Comoros Islands stayed out, and so did Somalia—a failed state not being able to make agreements.

Compared with its predecessors the GAFTA process has been much more binding. For the first time the participating Arab countries have agreed on fixed dates and clear provisions. Exemptions were allowed, but only for a limited time. The agreement covers both manufactured and agricultural goods. The Economic and Social Council even shortened the schedule; the official date of implementation was moved to the January 1, 2005. And, indeed, tariffs have been lowered substantially by then.

In 2003 the Arab countries signed a parallel agreement on trade in services, applying a 'GATS-plus' approach: In the context of the WTO-negotiations based on the General Agreement on Trade in Services (GATS) the countries have declared offers of reductions on barriers on services. The Arab WTO members have then pledged to do more than their offers in the WTO negotiations. Between November 2004 and

[6] The usual term used in the English literatur is GAFTA, but within the Arab League the more commonly used term seems to be Pan-Arab Free Trade Area (PAFTA) (Zorob, 2005, p. 492).

[7] Except Algeria and the Palestinian Authority.

December 2007 four negotiation rounds were completed, but no binding commitments have been made so far. In particular liberalization in services has a great potential, given the huge importance of this sector. Also the removal of non-tariff barriers was agreed upon, but mainly as a declaration of intention.

However, the GAFTA process has also shown some weaknesses. The Arab countries have not been able (yet?) to decide on precise Rules of Origin (ROO) which could specify with significant clarity when a good is to be regarded as Arab (and not just, for instance, a reexport of Chinese products). According to transitory provisional rules, a commodity is sufficiently Arab if the locally added value is at least 40%, as was agreed upon already in 1981 with the AFTD (Zorob, 2005, p. 496). After GAFTA's official start an agreement could be reached on detailed rules of origin for about 30% to 40% of the traded goods, to be implemented stepwise from January 2008 onwards (FEMISE, 2008, p. 34). Antidumping or smoothing or balancing measures are allowed, but no dispute-settlement mechanism is in place (Zorob, 2005, p. 496).

There is a strong evidence that the GAFTA project has produced beneficial results. Already some macro data make this probable. The share of inter-Arab trade to overall Arab foreign trade, excluding oil, rose, in a slightly fluctuating trend, as follows (FEMISE, 2008, p. 43):

1998 : 13.55%

2005 : 17.98%

This implies that compared to Arab non-oil exports to the world, intra-Arab trade was 'boosted' by some 33%. A similar result will be received if the annual growth rates of intra-GAFTA exports is compared with the growth rates of world exports over the period 1997-2005:[8]

Annual growth rate of intra-GAFTA exports: 15.1%

Annual growth rate of world exports: 7.9%

These figures imply that the aggregate 'boost' effect for intra-Arab trade over the period was 79%. This effect, of course, cannot be ascribed to the tariff reductions in the GAFTA process. Another important factor has presumably been the point that several Arab countries have unilaterally implemented many measures to improve trade. Also casual factors such as weather conditions may have influenced the results (economic conditions in, e.g., Morocco are highly sensitive to rainfall and its impact on agriculture). But it seems safe to conclude that GAFTA has had a positive impact.

There exists by now a row of quantitative studies to assess the impact of GAFTA.[9] The most sophisticated analysis was done by Nicolas Péridy (Nantes) and Ahmed

[8] *Ibid.*

[9] For an overview, see FEMISE (2008), pp. 35-40.

Ghoneim (Cairo) (FEMISE, 2008, pp. 89-113).[10] They ran regressions on two samples of countries over the period 1988 to 2007.The first sample contains 56 countries, including the GAFTA countries. The second sample was composed only of GAFTA members. The regressions were run in variations, in order to test whether the results were robust.

According to the large-sample estimations, the basic tenets of gravity models were confirmed, trade increases with a higher GDP and decreases with distance. But the estimations show that the so-called border effects are significant; borders work as a barrier to trade. Transactions are easier and more frequent when they do not have to cross a border. And regional integration is significant, indeed, particularly in the case of the EU, MERCOSUR and GAFTA (FEMISE, 2008, p. 101). The results as to the EUROMED cooperation[11] are not robust, negative in one set of regressions and positive in others.[12] More specifically as to GAFTA, the process has led to some trade diversion on the import side (not exports), but the positive trade creation was substantially bigger (+0.435 as opposed to –0.126). All in all, according to these calculations, GAFTA increased intra-Arab trade by 27% during the period 1997-2005. This is comparable to the crude calculations above for the overall 'boost effect'.

When Péridy and Ghoneim used the sample with only GAFTA countries, their figures showed again effects of GDP and distance. Encouraging for GAFTA supporters, 1% reduction in tariffs led to an increase in trade of 0.2-0.3% (FEMISE, 2008, p. 104). As opposed to the general picture based on the first sample, in the Arab world the effects of economies of scale and product variation have been small. This is consistent with the general picture of Arab countries having poorly differentiated product structures, similar consumer tastes and trade which is mainly interindustrial (as opposed to the intra-industry trade of more developed economies).

In a final step, Péridy and Ghoneim compared the actual level of intra-Arab trade in each country with an estimated potential for trade. For 9 out of 13 countries

[10] Their starting points were so-called gravity models (trade as a function of the size and distance of economies, as with the strength of gravity among sun and planets) which they enlarged by adding proxys for border effects (tariff and non-tariff barriers). Also a variable for expectations was included; a firm, before entering an export strategy, must have the expectation that its costs, in particular sunk costs, will be recovered. This enlarged gravity model was then combined with supply-demand equations. These included also variables designed to capture effects of economies of scale and product varieties; in case of economies of scale production costs fall with a greater output, and this exactly be a welfare effect of free trade. Another welfare effect can be the greater product variety which is available in a country after economic opening.

[11] The EUROMED cooperation was inaugurated by the Barcelona Conference in 1995 and covers the EU and most Mediterranean countries outside the EU (see below).

[12] Seemingly paradoxically, when significant the results imply a negative effect of being partner in EUROMED. If this is not a statistical artefact, in could be explained by 'preference erosion': The Mediterranean countries have had preferential access to the European market. But after the removal of the Multi-Fibre-Agreement (MFA) also countries such as China gained more access to the European market for textiles and apparel, outcompeting Mediterranean producers. This effect could statistically have created a negative sign as regards the EUROMED effect. An argument that the negative results are artefacts can be based, e.g., on the point that the regression which had the highest overall explanatory power (Adj $R^2 = 0.7151$) showed a positive, albeit not significant effect (FEMISE, 2008, p. 100).

the ratio was lower than 1, implying that in spite of the increases, actual trade was still below a 'normal' level.[13] This was particularly the case with Morocco and Tunisia.

The point that Arab countries still trade below their potential can to a high extent be explained by the pervasive nature of non-tariff barriers. These are difficult to assess, but in 2000 Jamal Zarrouk made a survey, based on a questionnaire which was sent to 230 companies in eight Arab countries (Egypt, Gaza and West Bank, Jordan, Lebanon, Saudi Arabia, Syria, Tunisia and UAE), complemented by interviews with top managers (Zarrouk, 2003a, pp. 48-60). By then customs duties and import charges were still be seen as the major burdens. However, in addition to these the companies incurred trading costs of about 10.6% of the value of trade. The major cost generators were, in that order, customs clearance, public-sector corruption, mandatory product standards and certification of conformity; transhipment regulations and visa restrictions. 'Informal payments' to officials amounted to about 1%, often to be paid in kind. The practice was pervasive, not a single company importing into Lebanon or Syria was exempted, and in those countries for half of the companies, the payments were in the range of 2 to 17%. Also in Egypt there were cases in this range. In Jordan and Saudi-Arabia many companies had to pay up to 9%, whereas Tunisia and the UAE appeared to be comparatively incorrupt, the additional payments remained between 0 and 1% (Zarrouk, 2003a, p. 53). Customs procedures were cumbersome, on an average it took two to five days to get air freight through customs, two to ten days for sea shipment and one to three days for road transport. Between 10 and 20 signatures were needed for customs clearance, every signature, of course, being a potential corruption point. Trading companies in Egypt spent on an average 100 working days on dealing with customs. It was 200 and 209 days for Jordan and Syria, respectively.

In services major barriers were licensing procedures, state monopolies, exclusive agency laws, mandatory employment of nationals and public-sector corruption. Weak legal systems and ensuing problems for contract enforcement formed another major obstacle. About half of the respondents had not seen any benefits from trade agreements. The benefited half mentioned again in this order are GAFTA, WTO, the Gulf Cooperation Council and the Euro-Med agreements.

GAFTA: Spilling Over from Shallow to Deep Integration?

Addressing the non-tariff barriers is part of the GAFTA project. But it lacks proper instruments for doing so because there are neither supranational decision-making bodies or legislation, nor are there supranational courts. This has made it perhaps too easy to circumvent rules. Already the respondents in Zarrouk's survey from 2000 indicated that tariff reductions were offset by increases in domestic taxes. (Zarrouk,

[13] The higher levels for Oman, Saudi Arabia and the UAE (and Algeria, not properly GAFTA-member) can be explained by oil exports.

2003a, p. 52). Another major problem has been the lack of binding competition rules. According to the more recent FEMISE survey, Lebanese firms have complained that competition from Saudi Arabia has been unfair because energy prices are heavily subsidized there. Similar concerns were raised in Morocco because Rabat does not support exporters in the same generous way as the governments in Egypt, Tunisia, UAE and Saudi Arabia. Furthermore, Arab countries often do not apply GAFTA rules and introduce instead non-tariff barriers via new customs procedures, or by making the certification of origin difficult (FEMISE, 2008, p. 82). Also the EU commission noted similar practices in Morocco and Tunisia, thereby violating not only the GAFTA rules, but also the much more specific norms of the Agadir Agreement between Egypt, Jordan, Morocco and Tunisia (Commission, 2009a, pp. 6 and 10).

In the light of these problems and developments, GAFTA still seems to be somewhat an unstable construction. Setbacks to more protectionism, open or hidden, do not seem to be unlikely. For this reason numerous actors and observers have recommended more 'deep' integration. Among the proposals are the adoption of common product standards, the removal of new NTBs, softening visa requirements, more detailed rules of origin and a common competition policy that regulates at least government subsidies to companies. This will be very difficult to achieve under the current political framework. As the FEMISE report rightly states: "From a political point of view, it is also crucial that GAFTA countries can rely on a closer political cooperation as well as on common institutions that can make it possible to control trade liberalization in the region and solve trade disputes" (FEMISE, 2008, p. 112).

Will the Arab governments be ready to do such a step? It will imply that they lose sovereignty on limited, but nevertheless substantial fields. It might affect the political systems profoundly if governments, for instance, cannot resort to protectionist measures any more, in order to satisfy certain interest groups. But on the other hand, by now there are also interest groups which actually demand more integration.

From a theoretical point of view this is highly interesting: The Arab governments have taken important steps towards economic integration. Will they now be pushed to proceed to some substantial political integration, namely building up some supranational decision-making and legislation? Passing from rhetoric Pan-Arabism to practical political Pan-Arabism? In case they do this, it would constitute a classical case of 'spill over' within the frame of neofunctionalist theory.

To put it simply, neofunctionalist theory, as pioneered in 1958 by Ernst Haas 2004), postulates that integration in one field will produce systematic pressures to proceed to integration in other fields (spillover). In later discussions[14] various types

[14] "A Convenient Overview, with Many Original Contributions", can, e.g., by *Eistrup-Sangiovanni*, pp. 89-180.

of spillover were identified ('functional', 'political', 'cultivated'), and it was made explicit that there is no automatic progress to more integration. Intriguing is also the notion, to be found already with early neofunctionalist thinkers that it is not so much the political-ideological proponents of integration who bring it forward in practice. Rather, it is to high extent rational self-interested actors who work for their own, much narrower interests, to do the job. Important groups in this context have been sections of the business community. Neofunctionalist authors have also endeavored to clarify necessary basic conditions which must be in place before an integration process along neofunctionalist lines can take off. One of these is open pluralistic societies.

Neofunctionalist theory was developed mainly in relation to the process of European integration. It seemed to work well at explaining developments during the 1950s and 1960s, but not so during the 1970s when European integration was kind of stalled. Haas twice declared his own theory for being 'obsolete' (Schmitter, 2004, p. 45). However, the relaunch of European integration from the middle of the 1980s onwards showed that the theory was quite in line with events. In the present context it is important that in the beginning of the 1980s the European Governments were confronted with the problem that the 'common' European market was fragmented by myriads of non-tariff barriers. They decided to address this problem by launching the program of 'Internal Market', to be established by 1992. It required a gigantic work of regulatory realignment which in turn meant that a huge amount of common legislation had to be passed. This could only be done by passing from unanimity to qualified majority voting in the council of ministers in matters pertaining to this Internal Market. This meant a substantial reduction of formal state sovereignty because a member state in a minority position had to accept decisions done by others. Such a treaty could be signed only after having overcome stiff British and Danish resistance.[15] Such a development from Internal Market to Qualified Majority Voting can be well explained along neofunctionalist lines. And it produced an integration dynamism that expanded into ever more fields.

The circumstances were different from the situation of the Arab countries at the end of the 2000s. But there is the parallel of a situation where proper economic integration seems to demand progress to some political integration. And further, the European development after 1985 onwards meant that the EU managed to construct the necessary institutional set-up for doing 'deep integration', first and foremost inside the EU. But as we shall see, this has potentially far-reaching consequences at least for some Arab countries.

[15] As the French President François Mitterand explained, the summit in Luxemburg in December 1985 was about to end in fiasco. But Mitterand himself, the German Chancellor Helmut Kohl and others declared if this project could not be realized by all 12 countries then they would do it with fewer. Faced with the threat of exclusion from a big Internal Market, the British Prime Minister Margaret H Thatcher gave in (Védrine, 1996, p. 396).

The Development of a European Mediterranean Policy

Already the Treaty of Rome, the founding document of the EU,[16] established that external commercial policies became competency of the union; this was a 'spillover' from the provision that the community should have a common external tariff. In this context, agreements with some preferential access to the EU market were signed with Morocco and Tunisia in 1969. However, by that time the Arab countries were low on the EU agenda. Matters changed during the beginning of the 1970s when the situation in the Mediterranean was perceived as being potentially dangerous. At the Paris Summit in 1972 the member states requested the Commission to develop a comprehensive policy paper with a view to strengthen cooperation with the Mediterranean non-member countries. According to this paper, the Global Mediterranean Policy (GMP), the EU should sign 'Cooperation Agreements' with all countries in the region, the long-term object being a Mediterranean Free Trade Area (MFTA). Some observers saw this as the first example of a coherent EU foreign policy (Gomez, 2003, pp. 30-34).

In fact, until 1977 under the auspices of the GMP 12 new agreements were signed. In addition, negotiations with a view to membership were under way with Greece, Portugal and Spain. Taken together these agreements covered almost all Mediterranean countries (plus Jordan, but not Albania and Libya). From that point of time they have had free access to the EU market in manufactured goods, except textile and refined petroleum products. As to agricultural products, EU tariffs were lowered between 30 and 100% for most products. However, there were also some new quantitative restrictions. These agreements had a paradoxical result from a Pan-Arab point of view—The Arab Mediterranean countries (again, including Jordan, but not Libya) got rather free access to the EU market. But not so towards their neighbors because all of them (safe Jordan) had erected high protectionist walls. We have to recall that by then all efforts at creating free trade among Arab countries had been failures.

The agreements seemed to have a positive impact; EU imports from these countries rose substantially. But most Mediterranean countries still registered trade deficits with the EU, except for the big oil exporters such as Algeria and Libya. The agreements were clearly insufficient to create much dynamism. Economic growth remained sluggish, social problems remained grave, and the rise of militant Islamism seems to signal threats to the political stability in the region. By the end of the 1980s, France, Italy and Spain worked for placing the Mediterranean high on the EU agenda. This was not easy, by then a major concern was constructing a monetary union, and then dealing with the dramatic events in Central and Eastern Europe. At least, in 1990 all quantitative restrictions on textile imports from the

[16] For the sake of simplicity I write consistently EU, although the Treaty of Rome established the European Economic Community. European Union was the term established with the Treaty of Maastricht, signed in 1992.

Mediterranean countries were lifted. But a consensus was developed that the existing treaty network was insufficient.

In 1993, the EU offered negotiations for a new generation of agreements, the so-called Euro-Mediterranean Association Agreements. In 1994 grouped in one single framework, the so-called Euro-Mediterranean Partnership. The EU proposed cooperation on a much broader range of issues, comprising energy policy, transnational crime or immigration. The EU was ready to upgrade its aid substantially, in fact the amounts provided for in the fourth generation of financial protocols 1992-97 were tripled. The Mediterranean countries should also get better market access in agricultural products (a point provoking the usual intra-EU bickering). However, the Mediterranean countries should also accept the transition to proper free trade in industrial goods between them and the EU, after a transition phase of 12 years. The aim of a Euro-Mediterranean Free Trade Area (EFTA) should come closer to realization. The EU also declared to be supportive for practical steps towards more integration among the Mediterranean countries themselves; EU funds became available for projects to improve regional cooperation.

The agreement with Turkey, signed in 1995 was the most comprehensive one, establishing a customs union between Turkey and the EU. Among the Arab countries Tunisia was the first to respond, a new agreement was signed in 1995, and it came into force in 1998. The agreed-upon schedule of 12 years for free trade was actually shortened; by January 1, 2008 Tunisia abolished its last barriers for industrial goods, a first important step towards the EFTA (Commission, 2009b, p. 8). Also Morocco responded rather fast, signing the agreement in 1996 which came into force in 2001. In other cases the negotiations were more protracted, the agreement with Algeria did not come into force before 2005. However, by 2009 the network of these agreements was almost complete, except for Syria and Libya.[17]

There has been consensus of experts for long that the free trade agreements between Arab countries and the EU would have only a limited potential as long as they are not complemented by free trade between the Arab countries themselves.[18] A promising initiative on a regional basis seemed to be the Arab Maghreb Union

[17] Negotiations about an agreement with Syria were concluded in 2004, but so far the EU has not ratified it. Seen from the EU, Syria has not yet been a sufficiently cooperative player in the region, some keywords being intermingling with Lebanese affairs, non-cooperation as regards the investigation on the killing of former Prime Minister Rafik Hariri and support for Hizbollah. EU relations with Libya are still informal, have, however, improved dramatically in relative terms after 2007. By then Libya released Bulgarian medics who were imprisoned under the absurd pretext that they had deliberately infected children with HIV at the hospital in Benghazi. The release opened the way for a range of agreements with the EU and with individual EU member states.

[18] Free trade between the EU and Arab countries without free trade among Arab countries would create a 'hub-and-spoke' structure which actually could produce negative consequences for the 'spoke' countries; investments might flow from the spokes to the hub. To give an example, an Arab investor who wants to start production for Arab markets might find it most profitable to invest in an EU country; from there all 'spoke' countries could be served without tariff barriers. Also importing inputs can be cheaper when located in the EU (See also Zorob, 2008, pp. 170-172).

(Union du Maghreb Arabe, UMA), concluded in 1989 by Algeria, Libya, Mauretania, Morocco and Tunisia. The project envisaged a free-trade zone by 1992, then a customs union, a full common market by 2000 and finally a monetary union. But on many other Arab projects, the UMA had very little practical impact. In 1994 Algeria even completely closed the border with Morocco because Rabat, after some incidents of Islamic terrorism, demanded visa from Algerian travellers (Zank, 2009b, p. 132). In 2008, the UMA agreement was still dormant, to the explicit disappointment of the EU Commission (Commission, 2009b, p. 6).

Yet, another project of regional free trade was launched in 2001 in Agadir, the declaration being signed by Egypt, Jordan, Morocco and Tunisia. Negotiations were concluded in 2004, and in July 2006 the agreement came into force formally. The countries involved were those Arab states who by then had signed the agreements with the EU on the transition to mutual free trade. With the Agadir Agreement, these countries established the complementary horizontal integration. The market access which will be granted to EU producers shall also be opened to Arab producers. This was perfectly in line with the EU aim of a MFTA and consequently warmly and financially supported by the EU.

Agadir provisions are more specific than GAFTA rules. In particular, the Rules of Origin are different. The Agadir countries adopted the "Pan-Euro-Mediterranean System of Cumulation", as finally adopted by the EU Council in October 2005. These rules are rather complex, but precise, and define for each product one or more conditions which have to be fulfilled to be regarded as substantially transformed locally. And in contrast to the GAFTA, these rules allow for cumulating inputs. That means, for instance, a Tunisian exporter can freely export shirts to Morocco, even if the shirts were actually not 'substantially transformed' in Tunisia, but mostly instead in Egypt or jordan. More than this, these rules allow for a common Pan-Euro-Mediterranean cumulation, comprising the Mediterranean EU-partners, all EU members and the EFTA countries (Zorob, 2008, p. 178). On this basis a Tunisian exporter can also sell a shirt which is designed in Norway and mainly produced in Italy, to Morocco. These rules of origin can give an important stimulus for further economic integration in this Pan-Euro-Mediterranean area. But Arab countries outside this orbit might face a disadvantage.

However, the Agadir Agreement has also faced problems. In 2008, the European Commission concluded that the results of the implementation were still modest, in spite of some minor progress. In all four Agadir countries, the custom authorities resorted to ad-hoc arrangements, even in cases where the rules were clear. The Pan-Euro-Mediterranean rules of origin were not (yet?) applied (Commission, 2009b, p. 9).

Apart from the abovementioned new Association Agreements, the relations between the EU and the Arab Mediterranean countries have been developing in two more venues. One is the Barcelona Process. At the Barcelona Conference in November

1995, the EU countries, four European non-members (including Turkey) and the countries of the southern and eastern shore of the Mediterranean (except Libya) agreed on a multilateral policy process, modelled on similar principles as the Organization for Security and Cooperation in Europe (OSCE). The participation of Israel, the Palestine Authority, Syria and Lebanon gave this forum a unique character. The Governments agreed on working programs on three fields, 'political and security partnership', 'economic and financial partnership' and 'partnership in social, cultural and human affairs'. As mentioned above, one commonly agreed-upon aim was the creation of a MFTA by 2010. The EU provided funding for various activities and projects. Conditions appeared to be favorable for such a venture; the Oslo Agreement had seemingly opened a window towards a solution of the Palestine conflict. Workshops, meetings at all levels and networking, indeed, took place. But in 2005 after 10 years, the assessments were rather sober, the results remained below expectations. One reason was the deterioration of the situation in Palestine, making it near-to-impossible for Arab governments to cooperate in a frame where Israel was present. Other sources of friction were divergent ideas about what, e.g., combating terrorism meant (who, actually, is a terrorist?), or unease on the side of Arab regimes about issues such as human rights. But perhaps huge multilateral settings are in general not prone to generate many tangible results.

French President Nicolas Sarkozy took the initiative for yet another multilateral forum, the Union *pour la Méditerranée*. Originally it was presumably intended to create an alternative for EU membership for Turkey. Instead she could become a member in another club. However, other EU Governments, not the least Germany, pressured France into keeping the initiative inside the frames of EU policy. Consequently, officially inaugurated in July 2008, this Union became incorporated into the Barcelona Process. Thereby Mauretania, originally not a part of the Barcelona Process, was included. One of the subjects on the agenda has been cooperation projects in the field of solar energy. But the results have been modest so far. The Arab countries put the meeting schedule on standby when Israel attacked the Gaza strip in the beginning of 2009.

However, presumably a much stronger impact than Barcelona Process and Union *pour la Méditerraneé* will have the European Neighborhood Policy (ENP), launched in 2004.

The European Neighborhood Policy (ENP): A "Stake in the Internal Market"

Also this initiative is about strengthening cooperation between the EU and its neighbors in the Mediterranean and in Eastern Europe (safe Russia, being placed in another basket). But in contrast to the Barcelona Process, the ENP targets the neighboring countries individually. The catchwords are dialogues practically on all political fields, financial aid (again upgraded) and technical assistance. The declared aim of the ENP is to export stability, prosperity and progress towards democracy and protection of human rights. Cooperation and integration shall be strengthened among the neighbors themselves, and among the neighbors and the EU. If the neighboring country is interested in participating in such a process, the EU writes a country report and together with the authorities in this country drafts an action plan which identifies the priorities for dialogue and assistance. As regards the Arab Mediterranean neighbors, cooperation on such Action Plans has begun with Egypt, Jordan, Lebanon, Morocco, the Occupied Palestinian Territory and Tunisia and likewise with Israel.

Presumably the most far-reaching consequences will have the aim of giving the neighbors a "Stake in the Internal Market". It has not been precisely defined—what does this mean? At least it is certain that it implies better access to the EU market. Tariff is not the problem, the Mediterranean countries have had practically tariff and quota free access for a long time. But still there are many hindrances. One is the thick regulatory density of the EU market. Just to give one example, preferential access for agricultural products remains an empty letter when these products do not comply with the phyto-sanitary or veterinary standards of the EU. But the EU can assist neighboring countries to comply with them. The same can be said about the whole range of regulatory standards which the EU has produced (and continues producing). In practice this implies that the neighboring countries have to adapt to the market regulatory system of the EU, at least to a high extent.

This means those neighboring countries which want to have a stake in the Internal Market are in a process of 'deep integration' with the EU with potential important spillovers into the political field.

This implies the risk of political interference, overt or covert, from the side of the EU. Authoritarian regimes—and all Arab countries have an authoritarian regime—usually do not like this. Why should they accept it? One reason is compelling economic incentives. The EU market is big, and improved access to it could generate much more welfare gains than easier access to other Arab countries could do.

Economists have tried to quantify these effects. According to these calculations the potential welfare gains from integration with the EU are at least twice as high as GAFTA integration. And the gains double or even triple when abolition of tariffs gets accompanied by trade facilitation which also removes the non-tariff barriers; deep integration in short[19] (Dennis, 2006, in particular p. 16).

And virtually all Arab regimes in the Mediterranean have embarked on a course—still inconsistent—of economic modernization on the basis of market economies.

[19] Technically speaking, these calculations try to capture only the static welfare gains. Static welfare gains from economic integration refer to increased efficiency due to the realization of comparative advantages. Dynamic effects stem from gains caused by (e.g., stronger competition by economies of scale) better flows of information and know-how. The dynamic effects are usually much bigger than just the static ones. However, the static effects can be estimated more precisely. One can also assume that gains in static and dynamic effects are roughly proportional.

Economic growth is important for these regimes, in order to gain legitimacy and to contain militant Islamist opposition. In the words of Giles Kepel, the Algerian and Egyptian Governments seem to calculate that Islamism is soluble *dans le marché* (Kepel, 2003, p. 453). Against this background, some EU interference is preferable if the alternative would be economic stagnation.

The above mentioned calculations show that the gains from economic integration with the EU are strong particularly in the case of Morocco and Tunisia. This might explain why these countries have been front-runners as regard to cooperation with the EU, concluding trade agreements already during the 1960s and also being the first to conclude the following generations of treaties. But there is also a strong political rationale behind this. Since independence, the ruling elites in Morocco and Tunisia have had a pro-Western orientation, and both have followed a development strategy aimed at modernization in a Western sense, at least in technical-administrative terms. True, both countries experimented during the 1960s and 1970s with import-substitution industrialization or, in the case of Tunisia, even with socialism. But none of these regimes tried to gain internal legitimacy by styling themselves as 'anti-Imperialists' and indulging in anti-Western rhetoric. In such a rather pragmatic perspective, the EU and some integration with it could be seen as support from the outside on the way to modernization. Post-Nasser Egypt gradually moved in this direction too. Also Jordan and Lebanon can be placed in this group.

The matter is different for Algeria and Libya. Both own huge reserves in hydrocarbons; consequently the pressure for economic reform and opening has been much lower. Also in this case, resource abundance has not been a blessing but rather a 'resource curse'.[20] However, hydrocarbon reserves will run out, and this might explain why Algeria and Libya also have become more cooperative to the EU. In relative terms, Algeria even concluded an Association Agreement, aiming at free trade with the EU.

Syria still stands somewhat out. In spite of some recent reforms, this is still a regime which tries to garner legitimacy by supporting Hizbollah, or by following a rather confrontational style towards the US and Israel. Also Syrian respect for Lebanese sovereignty still seems to be limited. These features impede closer cooperation with the EU. However, Syria accepted to be a partner in the ENP. It is regarded that gradually Syria will also become a 'normal' country. The costs of a confrontational policy are simply too high in the long run.

[20] Resource abundance has often produced perverse effects. One of these has been that large-scale selling of natural resources on the world market exerts an upward pressure on the exchange rate, rendering other potential exporters uncompetitive. And under conditions of resource richness governments tend not to care for other exporters because they are seemingly not necessary. Reforms in general seem to be unnecessary. Furthermore, prices of commodities such as oil are volatile. Very often in boom times governments indulged in spending sprees, but were then incapable of reining in expenditure again when prices fell. Furthermore, resource richness has a tendency to systematically distorting the political process, by leading to policies of patronage and creating huge possibilities for corruption. Only in cases when institutions are strong and effectively rein in political power, as, e.g., in Norway, can resource abundance be beneficial (Collier, 2008, pp. 38-53).

All Arab Mediterranean countries have moved towards more cooperation with EU, and some, Morocco and Tunisia, have already moved quite substantially on the way of deep integration with the EU. In order to get idea what this might imply, we shall have a closer look at Tunisia.

Deep Integration in Practice: The Case of Tunisia

Tunisia ended her socialist experiments in 1969, and was, however, rather slow at reform during the following years. It faced a severe foreign exchange crisis in 1986 which pushed the Government on the way to more consistent reforms (Zank, 2009b, pp. 113f and 127f). Tunisia got the assistance of the IMF, the World Bank and major creditors, and unlike many other cases, cooperation went rather smoothly. Recommendations by the IMF were in line with what had already internally been discussed for long. A special fund was organized to give targeted assistance to people below the poverty line. According to an IMF assessment in 1993, Tunisia provided "a prime example of the successful transformation of an economy from one heavily regulated by government to one based on market orientation and from inward-looking to export-orientated one" (Murphy, 1999, p. 130). Consequently, Tunisia experienced steady economic growth and became the most developed among the Arab Mediterranean countries. Indicators for life expectancy and literacy are the highest in North Africa. Most Tunisians are house owners, and basic amenities of modern life are available for most (Zank, 2009b, p. 139). Growth remained high also in 2008, 5.1%, albeit slowing down at the end of the year due to the global financial crisis (Commission, 2009b, p. 6).

As it is seen, cooperation with the EU has been a part of Tunisia's development strategy for long, and Tunisia was also the first country to conclude a new Association Agreement, signed on July 1, 1995, came into force from March 1, 1998 onwards. When the ENP was launched Tunisia was again fast at signalling interest. An Action Plan was adopted in July 2005. In order to get an idea what this cooperation covers by 2009, we study the latest *Rapport de Suivi*,[21] Progress Report, covering the year 2008 and published by the EU Commission (Commission, 2009b). The corresponding report on Morocco looks very similar.

With Tunisia an intensive institutionalized cooperation is in place, organized within the frame of an association council, an Association Committee and 10 subcommittees or working groups. Tunisian economic and regulatory reforms have made important steps forward. Tunisia has also made progress in social policy, in fields such as health insurance, school attendance or poverty reduction. The results are very satisfactory. When it comes to democracy, the dialogue has been intensified, but the aims have not been reached. The reform of the judiciary remains a challenge in order to install firmly the rule by law, "an essential part of a proper process of bringing Tunisia closer

[21] The vast majority of EU documents are available in English. The latest ENP Progress Report on Morocco and Tunisia are, however, exclusively in French.

to the EU" (*élément essentiel d'un véritable rapprochement vers* l'EU). The author interprets that getting properly a "Stake in the Internal Market" and getting EU assistance in large scale requires substantial progress. This might be understood as a kind of political conditionality. But it can also be seen as a simple functional requirement. Market economy and properly complying with the EU norms requires rule by law being in place because markets cannot function properly if laws are not respected. Seen in this perspective, economic integration with the EU has already started to generate rather dramatic spillovers from the economic to the political sphere.

In commercial matters, Tunisia has established free trade with the EU for industrial products by January 1, 2008, as the first country in the region. It is also the first country having initialized a protocol on establishing a dispute-settling mechanism (something which is not in place in GAFTA). Negotiations have started on liberalizing trade in services, agricultural products, fishery products and the right of establishing a company.

Specifically, as regards to democracy new legislation has made it easier to become a candidate in presidential elections. The government has announced measures with a view that opposition candidates will have improved access to the media.

The judicial system shows problems; in numerous cases the legal procedures were not applied. However, a program of modernizing the judicial system, financed by the EU Commission, has made progress. The level of perceived corruption has remained constant, although several institutions fighting corruption are in place. When it comes to human rights, views have been exchanged in a *climat de confiance*, but concrete results have not been reached. At least, to a (government-controlled) committee for human rights and fundamental liberties, legal status was given and its financial autonomy was strengthened. The death penalty has not been applied since 1991, and the head of state had declared that he would not sign any death warrant any more. With regard to prison conditions, the report states positively that the International Red Cross has been allowed to visit the prisons, and in 2008 this was extended to Human Rights Watch. However, much is still to be done, for instance accusations of torture have not been followed up.

Freedom of expression and association remains still severely restricted. However, when it comes to the situation of the women and protection of their rights, Tunisia is among the best examples in the Arab world. Also the situation of the children is generally good (high level of school education, few cases of child labor).

Financial policy has been prudent; the ratio of public debt to GNP has slightly fallen to 47%. The authorities aim at alleviating the budget further by gradually phasing out subsidies. Direct or indirect subventions for food and petroleum products still cover about 7% of Gross National Income (GNI). Poverty is mainly addressed by creating infrastructure and supporting investment in the most disadvantaged regions. Unemployment among youngsters and university graduates is still high, over 25% in some categories. The Government has announced a major reform of its labor market policy.

There was no progress as regards the social dialogue (trade unions are in difficult conditions). But social policy made substantial progress in July 2008 when a healthcare reform came into force. The national health insurance took over the costs for ambulatory treatment.

A process of modernizing the custom administration makes progress. Also on the field of regulatory adaptation to the EU progress could be noted. Negotiations for an agreement on conformity evaluation and recognition of norm conformity for industrial products are well under way, particularly in the field of electronics and building materials. A new National Agency of Metrology was expected to be operational in 2009. There has been progress as regards the transposition of the EU directive on the general security of nonfood products. We notice *en passant* that Tunisia here implants a piece of EU legislation.

The adoption of European norms makes progress, particularly in the electric sector. As regards calibration and test laboratories, the Tunician Accreditation Council (TUNAC) has signed an agreement of mutual recognition with the European cooperation for Accreditation (EA, a body comprising also European non-EU members). A law on accreditation has been adopted in conformity with the EU practice. Since January 2008, Tunisia is an affiliated member of the norm-creating organizations CEN and CENELEC.[22] In the field of veterinary and phyto-sanitary standards, Tunisia is preparing legislation. Tunisia has also started preparatory activities in order to become connected with the EU network, the Rapid Alert System for Food and Feed (RASFF). In a twinning project, Tunisia works on emergence plans as regards various animal diseases. Twinning projects bring a Tunisian institution in close cooperation with a European one, thus enabling the transfer of administrative and technical know-how.

In international comparisons on business climate Tunisia has been ranked favorably, and progress continues.[23] Negotiations with the EU on the liberalization of services began in 2008. As to insurances the limitation of foreign ownership to at the most 49% was abandoned. Cross-border payments and capital movements are in a process of prudent liberalization. Since April 2008 Tunisian companies being active outside the country can have a bank account abroad for the time of providing the services or sales activities. The fiscal administration is

[22] CEN and CENELEC are organizations which create voluntary technical standards for the European industry. Besides these, the EU has a legislation system in place to create legally binding norms.

[23] According to the World Bank, business climate in Tunisia is on rank 73, among 181. This compares favorably with the average for the Middle East and North Africa, 90. Neighboring Algeria is on 132, Egypt on 114, Jordan on 101, Lebanon on 99, Morocco on 128 and Syria on 137; Libya is not in the list. Tunisia ranks also better than Poland or the Czech Republic. However, one should also notice that the Gulf States are remarkably high on the list (Bahrain 18, Kuwait 52, Oman 57, Qatar 37, Saudi Arabia 16 and UAE 46 (World Bank, 2009).

under reform, competition policy became improved, but the protection of intellectual property rights 'remains a challenge'. As to statistical information on companies, a twinning project started in March 2008. Tunisia is also a partner of the Medstat program, launched in 1996 under the Barcelona Process and financed by the EU. Its aim is to harmonize statistics and make them more comparable (with the EU statistics).

Equipment and infrastructure for border control became upgraded, and Tunisia introduced new passports. With France and Italy technical cooperation has been established. As to legal migration, Tunisia wants to strengthen agreements on circular migration, as are already in place with Italy and France. This is important for Tunisia not the least against the background of high youth and graduates' unemployment. France will issue more visas for circular migration with the emphasis on professional migration, whereas Tunisia will combat illegal migration and accept readmission of illegal residents.

The fight against drugs trafficking does not seem to be a Tunisian priority, but she actively fights money laundering and financing of terrorism. Tunisia has requested technical assistance from the EU in this field. However, there are some bilateral agreements with the EU member states, when it comes to judicial and police matters, the level of cooperation is 'insufficient over the whole range', including fighting terrorism.

Tunisia works actively on improving transport infrastructure, including 'intelligent transport systems' using IT, modal road-rail transfers, collective urban transport or rail transport of containers from the port of Radès to the great urban centres. As to air transport, in December 2008 the EU Council has authorized the commission to negotiate an agreement on a Common Air Space with Tunisia, and the Commission deems it important to offer Tunisia enhanced cooperation in the field of flight regulation, flight security and industrial cooperation. The Tunisian minister of transport participated in an informal meeting of the EU transport ministers (as did his Moroccan colleague). Tunisia follows a determined policy to upgrade its maritime sector and to bring equipment and legislation in line with international standards.

The Tunisian Government also works for improving the efficiency of energy use, promoting renewable sources of energy and increasing connections with the neighbors. Legislation was changed in order to promote the inclusion of the private sector in larger energy projects. The Tunisian-Italian gas pipeline (coming from Algeria) will have an increased capacity. Feasibility studies are underway as regards an additional pipeline to Algeria, a new gas connection with Libya and an LNG terminal. Electrical power stations are under construction, among them the station at El-Haouria which will export part of its electricity through a submarine cable to Italy. The electricity connection with Libya is in a process of adaptation; the interconnection with Libya will be strengthened. These projects are part of a vision of a common Maghreb market for electricity and of a common Euro-Mediterranean market. Tunisia also participates in a regional center for renewable energy and energy efficiency, inaugurated in July 2008 in Cairo and supported by the European Community, Denmark and Germany. Tunisia also received financial assistance for a feasibility study for a solar-energy station.

Various projects have been started to meet environmental aims, but the administrative capacities on regional and local level 'remain a challenge'. The same is said about the implementation of conventions in this field. No progress could be recorded as regards the ratification of the Protocols to the Barcelona Convention on the Protection of the marine environment and the littorals of the Mediterranean.

On the field of Information Society Tunisia has followed a dynamic policy of liberalizing markets, strengthening competition and encouraging investment. In November 2008 the Government started a tender for installing a public network to provide mobile and stationary telecommunication services. The government endeavors to provide high-capacity internet connections to companies (while at the same time trying to restrict the access for citizens).

In research and development the Government gives priority to energy, hydraulic resources, plant biotechnology and social sciences and humanities. Tunisian researchers have actually been quite successful when applying for money within the 7th EU Framework Program (FP 7). 143 applications were sent, and 19 contracts were signed with participation of 26 institutions; 2 mn euro were granted. Since 2000 the universities have been in a reform process, two new laws were passed in 2008 aiming at strengthening the autonomy of the universities, improving teaching quality and generalizing the principles of the Bologna Process. This means that Tunisia subscribes to the project of creating a European Higher Education Area which is, however, not (yet?) member of the Bologna Group. Tunisia also participates in the Tempus and Erasmus Mundus Programs, so far; however, only to a limited extent (six students and three teachers in 2008). In order to promote knowledge about European integration, the Commission deems Tunisia to participate in the Jean Monnet Program.

There have been various dialogue forums for the youth, among others 14 projects were financed through the program Euromed Jeunesse III. Tunisia likewise participated in Euromed Heritage III, together with Algeria, Jordan, Lebanon, Morocco, France and Spain, about creating a multimedia basis with a view to visualize common Mediterranean identities. Tunisia has also ratified the UNESCO convention about protection and promotion of the diversity of cultural expressions. However, the cultural sector is still 'fragile and not very open'.

Within the frame of Med-Pact program cooperation between local communities and civil society on both sides of the Mediterranean is supported, and several Tunisian communities have participated in projects about water treatment, urban development and planning.

All in all EU financing for Tunisia in the frame of the ENP amounts to 300 mn Euro during the period 2007-2010, concentrating on three priorities: Improving economic governance, competitiveness and rapprochement to the EU; supporting secondary and superior education and professional education, and finally sustainable development. The absorption capacity on the Tunisian side is good and the programs proceed in a satisfactory way.

As we can see, 'deep integration' between Tunisia and the EU has made substantial progress. Many of the features listed above are of a rather technical character. But taken together they give a picture of a strong cooperation with many implications for Tunisian society. Tunisian legislation has already been adapted to the EU in some fields, and the network of institutionalized cooperation is dense. The socializing effects of these forms of cooperation are presumably substantial, at least at elite level—the decisive one, according to the pioneers of neo-functionalism.

At least in administrative-technical terms and as regard to the socioeconomic system, Tunisia is by now rather an European society. But there has been very little progress towards democracy. As in most Arab countries, the overall picture is that of a stable autocracy. There has, however, been progress towards rule by law, and this mitigates authoritarian rule. Tunisia is also rather open, and this makes it increasingly hard for the regime to restrict the access to information. This means that 'deep' economic integration with the EU also implies some support for democracy. Furthermore, the Tunisian economy has developed quite successfully, and according to modernization theory this will be supportive for democracy in itself—A modern economy needs, for instance, a well-educated workforce which will develop values such as autonomy, and increasingly demand freedom of information and participation rights. In general the nexus between economic development and transition to democracy seems to be quite well established (Inglehart, 2000), and this also gives hope for the Tunisian democrats, at least in a longer perspective.

Conclusion

The results can be summarized as follows—In spite of heavy doses of rhetorical Pan-Arabism for many decades, the Arab countries made very little progress at economic integration. The main reasons were inward-looking development strategies which erected high protectionist barriers among the Arab countries. In addition harsh political conflicts between revolutionary and conservative regimes were frequent. However, the inward-looking strategies turned out to be dead-end roads, leading to slow growth and bankruptcy. Gradually the Arab states introduced reforms towards open market economic systems. The process has often been slow and inconsistent, but it nevertheless created much better conditions for economic cooperation and integration. In 1997 the Arab countries could inaugurate the GAFTA process. Tariffs fell substantially and intra-Arab trade rose.

However, economic integration within GAFTA has so far remained 'shallow', with reduction of barriers at the border, but not behind the border (common standards, common competition policy, dispute-settlement mechanism). Competition has often been perceived as being unfair because of state subsidies for energy prices, and many new barriers have been increased. Therefore, business people and researchers advocate the transition to 'deep' integration, implying at least some steps of political integration. This would be a classical case of spillover in the light of neofunctionalist theory.

However, in the meantime the EU has launched its project of the Internal Market and created the institutional requirements which were necessary to address the myriads of non-tariff barriers; to these belonged the transition to qualified majority voting in the council, as well as monitoring and dispute-settling institutions such as the EU Court of Justice. In short, the EU built up the machinery for deep integration. This will have impact on its neighbors, for two reasons. First, the EU market is very large; exporting to it is in most cases more profitable than exporting to Arab neighbors. Secondly, the EU has a strong first-mover advantage. Whereas Arab businessmen and researchers have talked about deep integration, the EU has done it and built up norm-generating institutions, surveillance mechanisms and numerous norms which can be extended to its neighbors, if they wish so. And material interests and the political interest in economic growth create strong incentives for wishing so.

But deep integration cannot be confined to the economic sphere. Rule by law is a strong functional requirement for integrating market economies, and the EU policies towards the neighbors push not the least in this direction. And losing the possibility for erecting arbitrary trade barriers changes the power game inside neighboring countries. Institutionalized economic opening also means that it becomes increasingly difficult to restrict the flow of information. The conditions for democracy turn better. The process of integration with the EU has so far been strongest in Morocco and Tunisia. These countries actually approach a condition of 'membership right': Having introduced the norms generated in Brussels, but having no formal possibilities of co-deciding.

With Algeria and Libya the ties to the EU (and the density of reform) are much thinner. Also relations with Syria are not very close. However, we can state that all Arab Mediterranean countries have increased cooperation with the EU.

Unavoidably getting a "Stake in the Internal Market" implies some interference in the internal affairs of the Mediterranean Arab countries. Per se, the regimes cannot be interested in that. However, by more transactions with the EU the neighboring countries receive substantial gains in economic productivity and modernization. And these gains are very important for the political stability of the regimes, not the least when it comes to the confrontation with Islamic fundamentalism. Here we have, of course, to differentiate. For oil-rich countries such as Algeria or Libya, the gains from more transactions with the EU are relatively less important than, say, for Tunisia or Morocco. Furthermore, the EU interference in the internal affairs of Mediterranean neighbors has been gradual, and often mainly on elite level. Interference of this kind usually provokes limited resistance.

So far there has been very limited progress towards democracy. However, economic openness, more transactions with the EU countries and economic modernization will improve conditions for democracy in a systematic way, at least if only modernization theory is valid. The crucial point will presumably be the development of Islamism. The Turkish AKP, partly the Moroccan PJD and other Islamist forces give reason for hope of a gradual evolution of Islamism towards democracy.

All in all, economic, social and political developments seem to converge at creating more integration across the Mediterranean, economic integration but also to quite some extent political integration. Given the point that factors such as European economic gravity, the effects of institution building inside the EU (first-mover advantage) and the incentives for rational self-interested actors on both sides of the Mediterranean have been so important in this respect. We can interpret the developments as a form of geographical spillover of the EU integration in the light of neo-functionalism.

European integration has had already a substantial impact on the Mediterranean Arab societies. It is likely that it will do so even more in the future, the more the process of integration in the European Internal Market progress. Presumably these developments will have a much bigger impact on the Arab countries than further progress at Arab integration. Currently there are not many indications that the Arab League will build the strong supranational institutions which are necessary for 'deep integration'; consequently Arab economic integration will remain mainly 'shallow', and this means having less impact than the 'deep integration' with the EU which some Arab countries are mowing towards.

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