MERIA

THE BARCELONA PROCESS AND EURO-ARAB ECONOMIC RELATIONS, 1995-2005:

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Since its establishment in the late 1950s, the European Economic Community has always viewed the development of trade and economic ties as a vital instrument in its efforts to improve bilateral relations with the Arab world. The Euro-Mediterranean Partnership (also known as the Barcelona Process), initiated at the November 1995 Barcelona Conference, is the most recent example. This article examines how in its first decade, the Euro-Mediterranean Partnership has contributed both to the economic development of the Arab world and bilateral European Union-Arab relations. It concludes by placing the very real achievements in the context of significant obstacles that still remain.

Nearly a decade has passed since the November 1995 launch of the Euro-Mediterranean Partnership, also known as the Barcelona Process, the most recent of several attempts by the European Union (hereafter, EU or Community), to consolidate and strengthen its economic relationship with eight Arab Middle Eastern and North African states.[1] Prior to the introduction of the Barcelona Process, all coordinated EU attempts to contribute positively to the development of such ties had failed. While in the decades following the 1957 Treaty of Rome, the European Economic Community (hereafter, EEC or EC) succeeded in building constructive economic relations with North America and East Asia. However, neither geographic proximity nor historical ties facilitated the development of mutually beneficial economic cooperation between the Arab region and Europe.

Most notably, the Community's Global Mediterranean Policy, introduced in 1972, which concluded a series of trade agreements between the EEC and Syria, Iraq, Jordan, and Lebanon had little impact on economic development in the Arab world. Preferential treatment and access for Arab manufactured goods into the EEC markets offered by the agreements played no role in either developing the industrial and agricultural sectors or in increasing the volume of Euro-Arab trade. In fact, the limited scope of the financial and technical assistance protocols attached to these trade agreements actually hindered Arab economic development.

The Euro-Arab Dialogue (hereafter, the EAD) was established by the Community in the aftermath of the 1973 oil embargo and the Arab-Israeli War, in the hope of improving relations with the Arab world through the promotion of economic and cultural ties.[2] However, from the start it was overshadowed by such issues as the Arab-Israeli conflict and the failure of the EEC and the Arab states to agree on the participation of the Palestine

Liberation Organization in the framework's deliberations. This resulted in the postponement of the first EAD meeting until June 1975, and the framework's complete suspension following the 1979 Egyptian-Israeli Camp David Peace Agreement and the expulsion of Egypt from the Arab League.[3]

In these terms the Barcelona Process was, from the outset, as much an attempt to address substantive political and security issues, as economic and financial ones. Indeed some of the most complex and sensitive matters have been addressed under the Political and Security umbrella--political dialogue and peaceful resolution of disputes; a Middle East free, and verifiably free, from weapons of mass destruction; a commitment to a pluralistic society, democracy and human rights; and ultimately the establishment of a Euro-Mediterranean Stability Pact which would embody both a crisis prevention and crisis diffusion mechanism.[4]

The origins of this latest attempt to introduce a dynamic approach to existing relations with the Arab states can be traced back to the EU's general attempt to adopt a Common Security and Foreign Policy (hereafter CSFP) in response to the evolving post-Cold War security challenges in the Middle East.[5] This was a preoccupation of the June 1994 EU Council meeting in Corfu and the summit of EU leaders in Essen, Germany, the following December. Indeed, the official establishment of the Euro-Mediterranean Program following the November 1995 Barcelona Conference provided, in the words of a senior Italian official at the time, "another chance" to build ties with the region; while the European Parliament passed a resolution welcoming the fact that "Europe at last [has] kept a political appointment with the Mediterranean."[6]

The Process also had a very important economic aspect. As noted by Eberhard Rhein, Director for the Mediterranean and Middle East at the Directorate General for External Relations of the EU at the time of the Barcelona conference:

> Europe has strong economic, commercial, political, and historical links with North Africa and the Middle East. From an economic point of view, they are intertwined geographically and politically; they are our back door. It seems self-evident that we should do our utmost within the constitution of the EU to integrate them, to help them achieve economic prosperity.[7]

Indeed, from an economic perspective the Barcelona Process has been of particular importance for three interrelated reasons:

--It represents the most comprehensive economic and social agreement that the EU has entered into with the Arab states since its establishment in 1957.

--It embodies a commitment by all the participants to "sustainable and balanced economic and social development with a view to achieving their objective of creating an area of shared prosperity."[8]

--It opens the way for a comprehensive and coherent attempt to implement large-scale political and economic reform in the

Arab region, through economic cooperation, financial assistance, and the establishment of a free-trade area by 2010.

THE BARCELONA PROCESS: A NEW OPPORTUNITY FOR THE ARAB WORLD

As Moufeed Shehab, then president of Cairo University explained on the first anniversary of the Barcelona Declaration, the Euro-Med Partnership established at Barcelona was, "A real force capable of affecting the strategy and the prospects of a large number of Arab countries, a force that could well have a significant impact on the decisions and the future of the Arab world itself." Muhammad Selim al-Sayed, Tunisia's foreign minister at the time, anticipated that the Euro-Med Partnership "Provided the Mediterranean with a historic opportunity that could enable the area to formulate a comprehensive strategy for development."[9]

Over the last decade the Barcelona process has attempted to achieve its ambitious objectives in four interrelated ways. It has provided the Arab participants with the necessary framework for trade liberalization through support for the gradual elimination of tariff and non-tariff barriers to trade in accordance with the timetables agreed upon in a number of bilateral trade agreements between the EU and various Arab states. In particular, the joint commitment to the move toward the establishment of a free-trade area by 2010 offers Arab states an opportunity to develop their trade in accordance with the rules of the General Agreement on Tariffs and Trade (GATT) and the principles and procedures of the World Trade Organization (WTO).

The process has also placed increased emphasis on South-South economic cooperation. Indeed, such regional economic cooperation has become a necessary precondition for the accumulation of rules of origin to be effective. Thus, the Barcelona process renewed interest in the Arab world through the idea of inter-Arab economic cooperation. This resulted in the establishment of the Greater Arab Free Trade Area in 1998. It also motivated Egypt, Morocco, Tunisia, and Jordan to establish the Mediterranean Arab Free Trade Association (MAFTA), with the goal of achieving regional free trade prior to the 2010 deadline for the establishment of a free trade area with the EU.[10]

Such measures, if successfully implemented and sustained, have the potential to transform the whole region into a single market free from the traditional barriers to trade. But this in turn depends on the ability of the Arab states to reform their internal markets in a way that is comparable in structure and scope to developments in East Asian and Latin American markets, as well as the EU.

Having committed themselves, at least in principle, to economic liberalization, Arab governments are gradually, but by no means universally, attempting to develop a regulatory framework that is conducive to high performance, efficiency, and competitiveness. In the current push for domestic change throughout the region, this process could have a positive effect by encouraging the launch of legislative and political reforms that support, and in some cases even make possible, the large-scale economic and trade-related policy reforms required by the Euro-Mediterranean Partnership. This would directly enhance the transparency of the bureaucratic and administrative system, assist in the restructuring of the banking and financial sector, and lead to the creation of an efficient tax and customs system.

The Barcelona process has also provided significant levels of EU technical and financial assistance for modernization and industrialization programs. This commitment by the EU is necessary to enable Arab economies to deal with the negative socioeconomic consequences, especially unemployment, that are, at least in the short term, a consequence of the implementation of the required economic reforms. But it also underlines the seriousness of the EU's commitment to the political and economic development of Arab states and gives Arab governments the courage and incentive to adopt the necessary reforms.

EURO-ARAB ECONOMIC DEVELOPMENTS UNDER BARCELONA

Euro-Mediterranean Free Trade Area

The establishment of a Euro-Mediterranean Free Trade Area by 2010 is undoubtedly the most ambitious economic objective undertaken through the Barcelona Process. It is also central to the attempt to increase the pace of sustainable economic and social development in the Arab region.[11] It was agreed in a series of bilateral Association Agreements between the EU and Arab states that replaced the cooperation agreements of the 1970s. These agreements operate under the condition of free trade and in observance with the rules and regulations of the WTO. As such, it can be argued that the Barcelona Process has played a key role in introducing the Arab economies to the profound structural changes in the global economy that have occurred since the end of the Cold War.

As Anoush Ehteshami has argued the post-Cold War international order (at least until the al-Qa'ida September 11, 2001 attacks on the United States) was defined by "geo-economic" politics, which not only accelerated globalization but also enhanced simultaneously the process of regionalization, a process that has increasingly become a major feature of the global economic system.[12]

Although regionalism has spread across the world, only three major economic blocs can be identified: North America (NAFTA), the European Union (EU) and East Asia. Each economic bloc has the capacity to influence the movement and the volume of international trade and foreign direct investment on a global scale. The increased competitiveness among these economic blocs has forced all three to strengthen their economic structures by either enhancing the capacity of internal markets or by expanding their spheres of influence through trade agreements and economic partnerships.

For example, the United States-Canada free trade area of 1988 was expanded to Mexico in 1994 to create NAFTA. In 1992, the members of ASEAN transformed their political organization into a free trade area. In Africa, several initiatives have been launched such as the creation of the Common Market of Eastern and Southern Africa (COMESA), which expanded as far north as Egypt with a membership of 21 nations. Aside from embarking on the Barcelona Process, the EU negotiated free trade agreements with Central and Eastern Europe in the 1990s. This process can also be seen in the Arab world with the 1998 decision of some Arab League member states to establish a Greater Arab Free Trade Agreement, a framework to be implemented over a period of ten years.

Though the degree of integration may vary from one region to another, the common goal in all cases is the elimination of trade barriers among participating states and the dismantling of discriminatory policies directed at external trade partners.

Functional changes in the global economic system have also impacted upon the development of Euro-Arab economic relations, particularly after the Uruguay Round of GATT talks in 1994. One major development has been the institutionalization of the world trading system through the creation of the WTO in January 1995. The aim of the WTO is to promote liberalization, competitiveness, and nondiscrimination in international trade, on the assumption that such policies "are conducive to the national welfare of its member states."[13]

Bernard Hoekman and Michael Kostecki have argued that the creation of the WTO reflected the need to find a better way to administer the growing volume of international trade, which has doubled over the past twenty years, and the cross-border flow of foreign direct investment, which has risen ten times faster than world production.[14] They have also argued that this increase in international trade and investment has coincided with more liberal trade policies and the acceleration of deregulation and market-oriented reforms.

The impact of these global developments was strongly felt across the Arab world. Arab governments have not only faced the challenge of initiating and implementing large-scale liberalization and privatization programs, but also need to put in place effective measures to minimize the political and socioeconomic consequences of such policies. These are all vital requirements for attaining a sustainable economic relationship with the outside world.

This is no small task. Economic reforms need to be compatible with such global rules and principles as reciprocity, market access, and transparency of trade and investment policies. Arab states also need to adapt their economic systems to relatively new concepts and principles such as rules of origin and intellectual property rights.

As such, the Barcelona Process, with its ultimate objective of a free trade area by 2010, and its program of technical, financial, and moral support for the gradual elimination of tariffs and other barriers to trade, has provided a framework which has encouraged and rewarded the Arab move toward alignment with the global rules of international trade.[15] In addition, the Euro-Mediterranean partnership has been at the forefront of encouraging the efforts of Arab governments to liberalize inter-Arab trade. This in turn has resulted in some notable successes such as the Agadir Declaration of May 8, 2001, in which the governments of Egypt, Jordan, Tunisia, and Morocco made a commitment to regional trade liberalization.

Structural and Institutional Cooperation

Under the umbrella of the Barcelona Process, the EU has entered into bilateral trade agreements with Tunisia (1995), Morocco (1996), the Palestinian Authority (1997), Jordan (1997) and Egypt (2001), Lebanon (2002), Algeria (2002) and Syria (2004). As of early 2005, the agreements with Tunisia, Morocco, the PA, Egypt, and Jordan had come into force while the process of ratification of the agreements is ongoing for Lebanon, Syria, and Algeria. These post-Barcelona Association agreements offer Arab states the opportunity to deal simultaneously with domestic (legislative and regulatory rules), regional (inter-Arab cooperation), and global economic (trade and foreign direct investment) issues. Indeed, from an economic perspective the most important aspect of these agreements is their focus on a wide range of key economic sectors and issues--from industry, agriculture, foreign trade, and technical or financial assistance, to the environment, transport and communication, scientific cooperation, financial crime, and money laundering.

Just as important is the fact that the Barcelona framework has encouraged a greater (though by no means universal) sense of cooperation and partnership between the EU and Arab states. This can be seen in the successful negotiation and coordination of major political, economic, and environmental policies, which are of prime concern to both regions. It is also apparent in the successful institutionalization of Euro-Arab relations through regular Euro-Mediterranean meetings, as well as the ongoing high-level cooperation on economic matters between Arab and EU officials irrespective of specific political disagreements between the EU and Arab states at any given time.

Indeed, though there have been some notable exceptions--such as the decision by Arab representatives to walk out of Euro-Mediterranean discussions in April 2002, in protest at Israel's policy in the occupied territories[16]--the Barcelona Process has succeeded, where the EAD failed, in preventing politics from derailing economic cooperation. One could even argue that this framework of partnership has created a new and defined pattern for cooperation between the EU and Arab states that may in the future extend beyond the economic sphere and provide the basis for political cooperation as well.

Financial Assistance & Cooperation

The Barcelona Process has provided generous financial assistance for modernization and industrialization programs in the Arab states. The EU allocated grants of ECU 5.3 billion for the period 1996-2000 and ECU 5.5 billion for the period 2001-05 to southern Mediterranean states to support industrial development and ease the balance of payment pressures during their economic transition. These EU funds are made available on a project-by-project basis. Among the 12 non-EU Mediterranean states involved in the Barcelona Process, the eight Arab member states receive the highest level of EU financial assistance. For example, between 1997 and 1999, the EU devoted the largest sum of its ECU 5.3 billion to the Arab member states. Compared to the sums received by Egypt, Morocco, the Palestinian Authority and Tunisia the sums received by non-Arab states such as Turkey and Cyprus were minimal. This has not only had a positive impact on the level of Euro-Arab economic cooperation, but has also motivated Arab governments to speed up the process of infra-structural modernization, particularly in rural areas where funds have been readily available.

Moreover, from 1995, the year of the establishment of the Barcelona Process, the EU also provided indirect support of ECU 630 million a year to Israel's four Arab neighbors, making the EU's total economic assistance to the Arab parties engaged in the peace process approximately ECU 810 million a year in EU grants and loans.[17] While over the last decade the EU has also become the major financial donor to the Palestinian Authority, providing ECU 1.68 billion to the Palestinian economy in the four-year period up to 1997.[18]

Industrial Cooperation

Programs aimed at rebuilding the infrastructural capacity of Arab economies, including the introduction of modern technologies and increasing the productive capacity of the Arab manufacturing sector, have also been a focus of Euro-Arab cooperation under the Barcelona Process. European financial aid to the Mediterranean (MEDA) is the second biggest external relations program of the EU budget and almost one-third of the EU funds specified for MEDA programs are devoted to industrialization. Egypt, which has the largest industrial sector of any Arab state, receives 30 percent of MEDA funding. The Egyptian Industrialization Program received ECU 250 million from MEDA I, which totaled ECU 675 million between 1997 and 1999.[19]

MEDA II, which started in 2001, again provided Egypt with the same sum. Similar, though smaller, programs were introduced in Tunisia and Morocco to modernize their industrial sectors. The Jordanian industrial modernization program (the EJADA program), which started in July 2001, received ECU 40 million to focus on small and medium-sized enterprises and business start-ups. A similar program was also introduced in Lebanon in 2001, with a budget of ECU 11 million to assist small and medium-sized industries.[20]

Moreover, a long-term strategy for Euro-Arab industrial cooperation has also been drawn up under the umbrella of the Barcelona Process to cover activities in three main areas: market instruments and mechanisms; innovation, technology and quality; and the establishment of a network of investment promotion agencies.[21] This strategy aims to improve the regulatory framework for small and medium-sized enterprises and to encourage the existing private sector and its representative organizations to play an active role in running national economies. To achieve this end, business centers have been created and funded by the EU in Egypt, Jordan (EJBST), Lebanon, Syria (the Syrian-European Business Centers), Morocco (Euro-Morocco Enterprise), and Tunisia (the Euro-Tunisian Enterprise Business Center). These centers provide services to the local business community, including advice, information, and training, with the aim of narrowing the informational and technological gap between the EU and Arab states. The Policy Reform Units of the EU-funded Industrial Modernization Centers have attempted to develop the role of the private sector in the industrial sphere, and have placed much emphasis on the implementation of environmental policies that are conducive to improvement in productivity and competitiveness.

Cooperation in Foreign Trade

The EU is the Arab world's largest external trading partner. As of 2001, the total percentage of Arab states external trade (combined imports and exports) with the EU was as follows: Tunisia, 74.4 percent; Algeria, 62.4 percent; Morocco, 62.2 percent; Syria, 49.5 percent; Lebanon, 39.6 percent; Egypt, 30 percent; Jordan, 23.7 percent; and the Palestinian Authority, 9.6 percent.[22] Despite the fact that not all Arab states have yet ratified the Euro-Med Association agreements, the Association process remains, as the report of the December 2003 Euro-Mediterranean Conference of Ministers of Foreign Affairs noted, "at the core of the Partnership."[23]

These new agreements represent the most pragmatic policy option currently available to Arab states that truly desire to integrate into the global economy. In stressing the centrality of export-oriented economic policies and the role of the market in resource allocation and the private sector as the main engine for economic development, these agreements are consistent with the economic philosophy of the three major economic blocs in the global economic system: North America, the EU, and East Asia.[24]

It is true that with the exception of Tunisia, which can claim a remarkable rise in exports over the last decade, export-oriented economic policies have yet to be successfully implemented across the Arab world. Nevertheless, such policies are very popular with Arab government officials and the subject is continually discussed in the media. One could even argue that the most significant achievement of the Association agreements has been their success in gaining the implicit acknowledgement of Arab governments that the import-substitution policies of the past, which depended on highly protectionist regulations, need to be replaced by export-oriented economic policies.[25]

ONGOING CHALLENGES TO EURO-ARAB ECONOMIC RELATIONS

Weaknesses in the Association Agreements

The Association agreements between Europe and the Arab states have engendered a new attitude within the Arab world to the Arab region's participation in the global economy. They have also, with the help of financial and technical assistance, led to a rise in structural, institutional, industrial, and foreign trade cooperation between the two regions. However they have not, as yet, provided any significant short-term economic benefit for the Arab states. With their emphasis on free trade, and their introduction of concepts such as nondiscrimination and reciprocity, the Association agreements no longer guarantee the Arab states the same most-favored-nation treatment or the preferential access to EU markets that they enjoyed under the 1970s' trade agreements.

This is due in part to the bilateral nature of a process that enables a united EU to negotiate with each Arab state individually. This not only creates an artificial obstacle preventing the Arab states from acting as a regional economic bloc, but also allows the EU to take full advantage of its combined economic strength and coordinated approach in negotiations. This has certainly aroused Arab resentment, particularly when the EU attempted to force its Arab partners to adopt and implement complex and alien economic regulations dealing with rules of origin and intellectual property rights.

Moreover, the Association agreements have also offered little opportunity for the Arab states to improve their trade balance with the EU. Though the agreements offered Arab states duty-free access for their manufactured goods into EU markets, this concession was already enjoyed under earlier agreements. Apart from removing an important source of revenue, the requirement that the Arab economies eliminate tariffs and barriers to trade that traditionally prevented EU industrial goods from flooding their markets, threatens the numerous small and medium-sized businesses unable to compete with reasonably priced and technologically superior European goods and services.[26]

It could also be argued that even though the EU slightly increased the quotas for Arab agricultural exports, by delimiting certain seasonal restrictions on that produce, the newest Association agreements effectively limit the Arab opportunity to use the Barcelona Process to maximize the potential of its key agricultural sector. However, the practical weaknesses of the Association agreements are not the main obstacle to long-term Arab development. More significant is the EU's capability and willingness to use its growing economic power to increase its foreign direct investment into the Arab world and the capability and willingness of the Arab world to adopt, implement, and sustain the numerous reforms that the Barcelona Process both implicitly and explicitly demands.

The 2004 Enlargement of the Eu

The various efforts to improve the EU internal market and to consolidate its position in the global economy culminated in 2002 with the ratification of the Euro as a single currency across 12 EU member states and with the entry of ten new members into the Community in May 2004. These major transformations in the economic and demographic make-up of the EU will have a major impact on the future success of Euro-Arab economic relations.

The recent EU enlargement, which saw the entry of eight eastern European countries, as well as Cyprus and Malta, has increased the EU population by 20 percent to a total of 450 million people and shifted the EU's center of gravity toward the east.[27]

Moreover, the EU's current economic priority is to reduce the socio-economic gap and to improve the standard of living in the accession states. As such, despite reassurances from the EU prior to the enlargement that "Arab development" was a "profound interest to Europe," there is no doubt that the accession of these ten new states will be a considerable challenge to future Euro-Arab economic cooperation.[28]

In 1987, for example, in the wake of Spain and Portugal's entry into the Community the previous year, the EEC exerted considerable pressure on some Arab states, such as Egypt, to amend their existing Cooperation agreements in order to offset the economic consequences of Iberian entry. In particular, the level of quotas and the volume of Arab exports into the EEC were reduced so that similar Spanish and Portuguese goods and commodities would have greater access to the EEC's internal market.

A recent Cairo University study has concluded that the increase in eastern European exports to EU markets prior to the May 2004 enlargement only had a nominal negative impact on Egyptian agricultural exports to the EU. However, this is likely to change now that these countries are full members of the Community.[29] Indeed, the recent EU enlargement eastward raises three primary challenges for Euro-Arab economic cooperation:

--The quality of goods and commodities from the new member states will be improved, as they now have to comply with the specifications and quality standards demanded by the stringent EU health and safety regulations.

--Agricultural commodities from new member states will enjoy preferential treatment under the rules of the Common Agricultural Policy

--The EU has become increasingly self-sufficient in agricultural products and, consequently, imports fewer commodities from non-EU states.[30]

Thus, Arab exports to the EU (particularly agricultural exports) will come under great pressure, as important Arab agricultural commodities such as molasses, strawberries, green peas, potatoes, oranges, and onions are produced in large quantities by the ten new EU member states. Moreover, Arab states will also find it difficult to continue exporting their products to these new EU members who now have to abide by strict EU rules on the importation of agricultural products.

While there is little evidence to suggest that the 1987 amendments to Euro-Arab Cooperation agreements proportionally reduced the Community's financial assistance to Arab states, it is very possible that the EU’s eastern preoccupation could result in a future reduction. Such was the case during the period following German reunification in 1989, which saw a reallocation of funds to the former Warsaw pact countries at the expense of the Mediterranean. Indeed, it was in part the EU’s desire to reassure the Mediterranean members, as well as to balance its increasing commitment to the East, that led to the establishment of the Euro-Mediterranean partnership in the first place.

The Fragmentation of the Arab Economic System

The Arab economic system is fragmented due to structural and functional factors that existed prior to the establishment of the Barcelona Process. Even recent attempts at Arab economic cooperation and coordination, such as the establishment by the Arab League of the Greater Arab Free Trade Area (hereafter, GAFTA), have been impeded by several legal and practical obstacles that threaten the development of a regional free trade area in the medium term.

For example, the GAFTA treaty lacks precise definitions and fails to specify exactly what products are excluded from the evolving trade liberalization program. This was highlighted as early as the GAFTA's first year when 16 member states submitted a list of almost 600 commodities and goods to be exempted from free trade regulations. There is also a lack of effective enforcement mechanisms, which provides the opportunity for some member states to delay, or postpone, their trade liberalization programs beyond agreed deadlines.

Moreover, the Arab League's project for creating a free trade area continues to suffer from the contrasting visions, adopted by the League's Economic Council and its Social and Economic Council, on how to revive the Arab economic system. While the latter has promoted and initiated economic cooperation through trade liberalization and the gradual establishment of a new Arab free trade area, the former has continued to insist on the need to revive and ratify the Arab Common Market, which was introduced by President Gamal Nasser of Egypt in 1964 as a vehicle for pan-Arab cooperation through trade. It eventually proved unworkable in the face of numerous political difficulties including the 1967 Arab-Israeli War, the Lebanese Civil War of the 1970s, and the polarization inside the Arab League following the Egyptian-Israeli peace agreement of the same decade.[31]

This failure by the Arab League highlights the lack of a single authoritative body capable of formulating a coordinated long-term economic strategy for the Arab states. Indeed, the most notable attempts at coordinated inter-Arab trade have taken place at the sub-regional level with the establishment of the several Arab economic sub-groupings over the past decades--most notably the Gulf Cooperation Council (GCC), the Arab Maghreb Union (AMU), and the Arab Cooperation Union. However, apart from the GCC, these organizations have either stagnated economically or have been hampered in their effectiveness by political considerations. As such, there exists real doubt as to whether such sub-groupings can be considered a workable alternative to a comprehensive and collective Arab economic system.

On a functional level, most Arab states produce similar commodities--in terms of composition, quality standards, and technological and manufacturing techniques. There is also a limited industrial base in most Arab economies, which make the share of manufacturing goods as a percentage of foreign trade very small. A report by the Center for Political and Strategic Studies in Cairo, noted that in 1997 the average percentage of industrial sector share of GDP varied between 6.7 percent and 11.2 percent in the Arab region. Since then only three of the 22 Arab countries included in the study--Tunisia, Morocco, and Egypt--have managed some improvement in their industrial performance, with their industrial sectors now accounting for 18.6 percent, 17.7 percent, and 17 percent of GDP respectively.[32]

These two factors--the production of similar commodities and a limited industrial base--will have to be overcome if the Arab states are to reform successfully their economic systems in accordance with the rules of free trade. Otherwise, not only Arab regional integration, but also Arab efforts to integrate in the global economic system will prove a difficult, if not impossible, task in the medium term.

Over the last decade most Arab governments have used the breakdown of the Israeli-Palestinian peace process, the global war on terror, and the United States military interventions in Afghanistan and Iraq as pretexts for the slow implementation of structural economic and liberalization programs. Currently, these same governments are preoccupied with regime protection and consolidating their domestic position at a time of external and local demands for a move towards greater democracy and political freedom. As the IMF and the World Bank have both continually noted, such programs that have been implemented have made very slow progress. National economic policies still seem to be formulated to deal with short-term challenges, while there is little real attempt to embark on long-term strategic planning or to make progress modernizing legal, regulatory, and administrative systems. This is not purely a matter of available resources. Indeed, despite the fact that since 1973 Arab governments have spent more than $3 trillion on infrastructure and fixed-capital investments, this has failed to bring about growth or a rise in the standard of education or living.[33]

This is all the more problematic, as the volume of trade between the EU and the Arab states is very small in comparison with EU trade with other regions. For example, at the time of the Barcelona Process, EU exports to the Middle East and North Africa (which totaled $77.5 billion) only accounted for 18 percent of all EU exports to developing countries, while imports from the region only amounted to 15 percent of EU imports from developing countries.

Unlike developing countries in Latin America and East Asia, which have recently succeeded in increasing their share of world production and international trade, Arab states appear unable to develop sufficiently their economic systems or increase their share of world production. Unless radical economic reforms and trade liberalization become a priority, international trade will continue to rise only between industrialized states and highly dynamic developing economies.

The Barcelona Process has undoubtedly provided a new opportunity for the EU and Arab states to further economic cooperation. It also represents the most viable policy option currently available to Arab states intent on economic development, regional economic integration, and improved participation in the global economy.

Nevertheless, from the European perspective, the further development of economic relations with the Arab world, especially in the vital area of foreign direct investment, depends on the successful restructuring of internal markets and significant improvements in the business environment, as well as the implementation of trade liberalization policies. For the Arab participants in the Euro-Mediterranean Partnership economic relations with Europe still appear to be based on the traditional core-periphery model, which characterized Euro-Arab ties prior to the Barcelona Process. They do not expect this to change in the foreseeable future. As such, they will continue to judge the success of economic relations with the EU not only in terms of the EU's ongoing commitment of financial and technical assistance, but also on the Community's willingness to adopt a more flexible approach that would open the way for a partnership of equals.

However, if all this can be achieved then the Barcelona Process will not only be remembered (in the words of Manuel Marin, former Vice President of the European Commission) as a "prominent event in the history of Euro-Mediterranean relations," but also a viable framework for the EU and Arab states to work jointly to implement long-term strategies that are conducive to peace, stability, and prosperity for all.

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NOTES

[1] Twenty-seven delegations attended the Barcelona Conference of November 1995. Apart from the foreign ministers of the fifteen EU member states and representatives of the European Parliament and the European commission, the Barcelona Declaration was signed by the Arab governments of Jordan, Lebanon, Morocco, Tunisia, Algeria, Syria, and Egypt, as well as a delegation from the recently established Palestine Authority. The non-Arab states of Malta, Cyprus, Israel, and Turkey also committed themselves to the Barcelona Process.

[2] For a detailed study of the EAD see Derek Hopwood (ed.), *Euro-Arab Dialogue: The Relations Between Two Cultures* (London: Croom Helm, 1985).

[3] See Ahmad Sidqi Al-Dajani, "The PLO and the Euro-Arab Dialogue," *Journal of Palestine Studies*, Vol. 4, No. 3 (1980), pp. 81-108.

[4] The process also covers cultural aspects of the relationship relating to education, heritage, civil society, and the arts.

[5] See Udo Diedrichs, "National Views and European Cleavages: From Single European Act to the Treaty of European Union," in Franco Algieri and Elfriede Regelsberger (eds.), *Synergy at Work: Spain and Portugal in European Foreign Policy*, (Bonn: Europa Union Verlag, 1996), p. 240.

[6] Antonio Badini, "Barcelona one year later: The Challenge," *Rive: Review of Mediterranean Politics and Culture*, Vol. 1, No. 1 (1996), pp. 18-21.

[7] See Eberhard Rhein, "Euro-Med Free Trade Area for 2010: Who Will Benefit?" in George Joffé (ed.), *Perspectives on Development: The Euro-Mediterranean Partnership*, (London: Frank Cass, 1999), p. 11.

[8] See text of *The Barcelona Declaration--The Euro-Mediterranean Conference*, Barcelona, November 27-28, 1995,

http://europe.eu.int/comm/external_relations/euromed/dg.htm.

[9] See Moufeed Shehab, "Towards a common Arab vision of the Euro-Mediterranean Partnership," *Rive: Review of Mediterranean Politics and Culture*, Vol. 1, No. 1 (1996), pp. 14-16; M. Selim al-Sayed, "Arab perceptions of the EU's Euro-Mediterranean Projects," in S. J. Blank (ed.) *Mediterranean Security into the Coming Millenium*, (Washington, D.C.: Strategic Studies Institute, U.S. Army War College, 1999), p. 5.

[10] Rhein, "Euro-Med Free Trade Area for 2010," p. 13.

[11] See Zaafrane Hafedh and M. Azzem, "The Euro-Mediterranean Free Trade Zone: Economic Challenges and Social Impacts on the Countries of the South and East Mediterranean," in Alvaro Vasconcelos and George Joffe (eds.) *The Barcelona Process: Building a Euro-Mediterranean Regional Community* (London: Frank Cass, 2000), pp. 12-14.

[12] Anoush Ehteshami, " Political Economy of EU-Middle East Relations," in Manochehr Dorraj, (ed.) *The Middle East at the Crossroads* (Lanham, VA: University Press of America, 1999), p. 240.

[13] Bernard Hoekman and Michael Kostecki, *The Political Economy of the World Trading System: the WTO and Beyond* (Oxford: Oxford University Press, 2001), p. 1.

[14] Ibid, p. 2.

[15] Indeed, the text of the Barcelona Declaration implied that signatories must pay due observance to the WTO obligations. For further discussion on this aspect of Euro-Mediterranean free trade see, "Conclusions of the Euro-Mediterranean Trade Ministerial Conference, Palermo Italy, July 7, 2003," http://europa.eu.int/comm/trade/issues/bilateral /regions/euromed/tmc_concl_en.htm.

[16] "Arabs walk out of Euromed talks," *BBC NewsOnline*, April 22, 2002, http://bbc.co.uk/hi /english/world/middle_east/newsid_1944000/1944177.stm.

[17] See European Commission, *The EU & The Middle East Peace Process: The Union's position and role*, http://europa.eu.int/comm/enternal_relations/mepp/index.htm.

[18] See "Communication by Manuel Marin, Vice President of the European Commission, on the role of the EU in the Peace Process," January 26, 1998, http://www.congreso.es/estrella/documentos/marin98e.doc. Of this, ECU 444 million was in grants from the Community budget; ECU 100 million was in the form of European Investment Bank loans; ECU 156 million was in the form of UNRWA funding. On top of this individual EU member states also contributed ECU 716 million to the PA and ECU 270 million to UNRWA between 1994 and end of 1997. See also Chris Patten, EU External Relations Commissioner, "A road map paid for in euros," *The Financial Times*, July 16, 2003.

[19] See "Industrial Modernisation Program," Euro-Egyptian Partnership Unit, Egyptian Ministry of Foreign Affairs, Cairo, June 27, 2000, p. 10.

[20] See European Commission, *The Barcelona Process: The Euro- Mediterranean partnership Review*, Luxembourg: Office for Official Publications of the European Communities (Brussels: 2001), p. 17.
[21] Ibid, p. 15.
[22] "EU Trade Relations with the 12 Mediterranean Partner Countries, Meeting of Euro-Mediterranean Trade Ministers in Palermo," *Eurostat News Release* No. 78 (2003), July 4, 2003, http://europa.eu.int/comm/eurostat/Public/datashop.
[23] See, "Presidency Conclusions: Euro-Mediterranean Conference of Ministers of Foreign Affairs, Naples, December 2-3, 2003," *EuroMed Report*, December 5, 2003, p. 5.
[24] Diana Hunt, "Development Economics, the Washington Consensus and the Euro-Mediterranean Partnership initiatives," in George Joffe, (ed.) *Perspectives on Development: the Euro-Mediterranean Partnership* (London: Frank Cass, 1999), p. 21.
[25] See Hoekman and Kostecki, *The Political Economy of the World Trading System*, p. 21.
[26] It is estimated that the tariff revenues account for 7.5 percent of Gross Domestic Product (GDP) in Lebanon; 2.7 percent in Egypt; 3 percent in Tunisia; 4.7 percent in Jordan and Morocco, and 7.15 percent in the West Bank and Gaza. See Karim Nashashibi, *Fiscal Revenues in South Mediterranean Arab Countries: Vulnerabilities and Growth Potential*, IMF Working Paper WP/02/67 (2002), http://www.imf.org/external/pubs/ft/wp/2002.
[27] The eight former Communist countries are Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Latvia, Lithuania, and Estonia.
[28] "Minister Cowen visits Egypt to meet Arab League," Press Release, Irish Department of Foreign Affairs, Dublin, March 29, 2004, http://foreignaffairs.gov.ie.
[29] See R.G.E.H Gomma, *Egyptian Agricultural Exports and the European Union Barriers*, unpublished MA dissertation, Cairo University, 2001 (Arabic).
[30] Ibid, p. 120.
[31] *Arab Strategic Report 1998*, Egyptian Center for Political and Strategic Studies (Cairo: 1999), pp. 170-71 (Arabic).
[32] *Arab Strategic Report 2000*, Egyptian Center for Political and Strategic Studies (Cairo: 2000), p. 159 (Arabic).
[33] Rosemary Righter, "Why Arab reform demands urgent attention of G8," *The Times*, June 8, 2004.