U.S. Middle East Economic Policy: Are Trade-Based Initiatives an Effective Tool in the War on Terrorism?

Strategic Insights, Volume IV, Issue 1 (January 2005)

by Robert Looney

Introduction

"We will defeat [the terrorists] by expanding and encouraging world trade[1]."

—President Bush

"This is a contest for the soul of Islam. Only Muslims will determine the outcome, but we can help."[2]

—Robert Zoellick, U.S. Trade Representative

The events of September 11 made it painfully clear that the political, social and economic problems of other countries have a direct impact on American national security. While the roots of terrorism are complex[3], it is safe to say that the United States was attacked by a terrorist organization that in large part has had great success in recruiting new members in nations which offer young men little political voice and limited economic opportunity.

Even before the smoke had settled from the attacks in New York and Northern Virginia, United States Trade Representative Robert Zoellick launched a series of speeches arguing that global trade liberalization was a central plank of the counter-offensive against terrorism. In a thoughtful essay, "Countering Terror With Trade,"[4] Zoellick's main premise was that:

America's trade leadership can build a coalition of countries… Open markets are vital for developing nations, many of them fragile democracies that rely on the international economy to overcome poverty and create opportunity; we need answers for those who ask for economic hope to counter internal threats to our common values. To address the relationship between trade agreements and other international objectives the President has proposed that we build on openness and growth in developing countries with a tool box of cooperative policies.

As Tonelson notes, "trade policy as anti-terror weapon is an understandably appealing idea. It doesn't put American soldiers in harm's way. It is nonviolent, market-friendly and holds the promise of 'draining the swamp' where terrorists are assumed to thrive. And it doesn't require a line in the federal budget."[5]

This logic was compelling enough to insure a large section of the current National Security Strategy of the United States be devoted to the means of expanding U.S. trade with developing countries. In particular:

A strong world economy enhances our national security by advancing prosperity and freedom in the rest of the world. Economic growth supported by free trade and free markets creates new jobs and higher incomes. It allows people to lift their lives out of poverty, spurs economic and legal reform, and the fight against corruption, and it reinforces the habits of liberty.[6]

The use of trade as a weapon against terrorism is not without its critics. In question is the basic assumption that trade with the United States automatically provides workers in developing countries with rising incomes and standards of living. Some critics of the Administration's trade policies go as far to note that, "Shortly after the September 11 terrorist attacks, the Bush administration speculated that trade policy could help fight terrorism. The theory is good – but in practice, current trade policy is at best irrelevant to the terror campaign, and at worst working against it."[7]

Trade is not the only economic policy to be used by the U.S. in the war on terrorism. Foreign assistance is seen by many as superior to aid in contributing to the war on terrorism through its ability to win new allies through focusing it on humanitarian relief for refugees, and eradicating poverty through facilitating higher rates of economic growth in key regional countries.

As with trade however, aid has also had its share of critics. In particular the testimony of Marc A. Miles before the House Committee on International Relations paints a telling picture:

Experience has demonstrated that development assistance (i.e. government-to-government assistance intended to catalyze development in poor nations) is not a key factor in increasing economic growth in underdeveloped countries. On the contrary, development assistance has often proved to be counterproductive. Whether it is skimmed off by corruption, kept beyond the reach of poorer inhabitants due to regulations, or access is denied due to a lack of property rights or rigid credit markets, traditional aid usually fails to reach those below the top rungs. The lack of lasting impact is a demonstrable fact.[8]

The sections that follow focus on the U.S. economic strategy of using trade as a weapon in the war on terrorism.[9] From a theoretical perspective, expanded trade would appear to be capable of sufficiently improving the lives of potential terrorist recruits as to significantly lessen the attraction of al Qaeda and like minded groups. At issue then is whether specific trade programs can be made sufficiently flexible, adaptable, and controllable so that they are capable of quickly bringing tangible benefits to targeted groups. If not, trade initiatives could actually undermine the war on terrorism. Drawing on this discussion, a final section outlines several suggestions for making trade policy a more potent weapon in the war on terrorism.

Trade and Aid in the U.S. National Security Strategy

U.S. foreign economic policy is formally outlined in the National Security Strategy of the United States.[10] Areas relating to trade and of particular relevance to the Middle East and the war on terrorism include:

- *Seize the global initiative.* The U.S. will attempt to move the current World Trade (WTO) Doha global trade round to completion. Progress towards this goal is problematical in light of the failure of the WTO ministerial meeting (September 10-15, 2003) in Cancun. That meeting was intended to focus on the needs of the developing countries, but collapsed in the face of fundamental differences between rich and poor nations.

- *Press for regional initiatives.* Perhaps because of the difficulties in bringing the current WTO round to a conclusion U.S. has begun to place more emphasis on regional trade initiatives such as the Free Trade Area of the Americas, and an additional free trade area with the Central American countries. The U.S. is also pursuing initiatives in Africa through the African Growth and Opportunity Act, essentially leading to free trade with the sub-Saharan countries. Most importantly for the issues at hand the United States is also attempting to create a Middle East Free Trade Area (MEFTA) enjoying free trade with the U.S.
- *Move ahead with bilateral free trade agreements.* As a step towards the creation of a Middle East Free Trade the U.S. is signing a series of bilateral free trade deals with various Middle Eastern and North African countries. In addition to an existing one with Israel, the first of these is was the free trade agreement signed with Jordan in 2001, followed by Morocco and Bahrain [11] in 2004. Negotiations are currently underway with the UAE, Oman, and Algeria.[12] The U.S. strategy in the Middle East is a graduated one, negotiating bilateral trade agreements country by country before moving toward a regional agreement[13] to be completed in 2013. In other parts of the world the U.S. has completed free trade agreements with Chile, Singapore, and Australia. In short Administration's aim is to achieve free trade agreements with a mix of developed and developing countries in all parts of the world.
- *Promote the connection between trade and development.* Underlying U.S. trade initiatives is the belief that trade policies can assist developing countries strengthen property rights, competition, the rule of law, investment, the spread of knowledge, open societies, the efficient allocation of resources, and regional integration—all leading to growth, opportunity and confidence in their abilities to grow and prosper.

Middle East FTAs: Factors Impeding Success

The creation of individual Free Trade Areas that eventually merge into a grand Middle East Free Trade Area (MEFTA) is an ambitious plan, but one venturing into largely uncharted waters. While the U.S. National Security Strategy has identified the correct elements of a trade-based strategy towards assisting growth and development, designing a specific blueprint for the region is quite another matter. Here several questions arise concerning the impact a group of FTAs (and eventually a MEFTA) might have on the region. More fundamentally, is the region ready to move to free trade with the United States? Or, would such a venture only create more dislocation, and uncertainty—an improved breeding ground for terrorism?

The one thing most observers agree on is the magnitude of the problem—by most of the standard metrics the countries in the region are currently ill prepared to thrive in the world system.[14] In this regard a litany of indicators documents the weakness of the region's linkages to the world economy: Import tariffs average over 20 percent; most of the larger countries in the region are not members of the World Trade Organization (WTO), the international agency largely responsible for reducing trade barriers and reconciling disputes over trade practices. Perhaps even more telling, the region's share of world exports has fallen steadily and the region as a whole attracts roughly as much foreign direct investment as Sweden.[15]

Structural Problems Within The Region

These patterns simply reflect a number of underlying structural factors that have constrained the region's competiveness in international markets over the last several decades.[16]

- *Massive population increases:* The Middle East and North Africa had a population of 112 million in 1950. The population is well over 415 million today. Most likely it will more than double again reaching at least 833 million by 2050.
- *A youth explosion especially in the 20-24 age brackets.* This is the key age group for new job entrants and has grown steadily from 10 million in 1950 to 36 million today. Growth is expected to remain steady reaching at least 56 million by 2050.
- *A failure to achieve global competitiveness, diversify economies and create productive jobs.* Direct and disguised unemployment ranges from 12-20% in many countries. The high percentage of the population entering the labor force only compounds this problem.
- *A steady decline in non-petroleum exports as a percentage of world trade over the last half a century*—and an equal pattern of decline in regional GDP as a share of global GDP.
- *Over-urbanization and a half century decline in agricultural and traditional trades impose high levels of stress on traditional social safety nets and extended families.* The urban population seem to have been under 15 million in 1950. It has since more than doubled from 84 million in 1980 to 173 million today, and some 25% of the population will soon live in cities of one million or more.
- *Broad problems in integrating women effectively and productively into the work force.* While female employment in the MENA region has grown in recent years it still averages 15% lower than in high growth areas such as East Asia.
- *Growing pressures on young men and women in the Middle East and North Africa to immigrate to Europe and the US to find jobs and economic opportunities*—a process that inevitably creates new tensions and adjustment problems.
- *Little regional trade.* Almost all nations in the region have as their major trading partners economies outside the region. Furthermore increased intraregional trade offers little or no comparative advantage.
- *Increasing water scarcity.* Much of the region cannot afford to provide more water for agriculture at market prices—many countries have become permanent importers of food.
- *A failed or inadequate growth in infrastructure and in key areas like housing and education.*

Limited Progress in Governance and Economic Reform

The Middle East region lags considerably behind other parts of the world in various aspects of economic liberalization and governance (See Table 1). In particular a significant gap exists across all measures of governance between Middle East North African (MENA) and non-MENA countries. While the MENA countries have closed this gap a bit in recent years it is still striking in the area of voice and accountability.

On the other hand the MENA countries compare fairly favorably to non-MENA countries in several areas of economic freedom[17]—monetary policy, regulation and the size of the informal (black) market. Still, the region's trade policies, government intervention, foreign investment, and flexibility in wages and prices lag behind other parts of the world. Even worse there is little evidence that for the region as a whole this gap has narrowed in recent years (comparison of late 1990s and early 2000s in Table 1).

Distance from the United States

Another problem confronting the MEFTA is simply that of geographic distance. For some time economists have discounted the distance factor, often citing declines in transport costs, improved communications and the like. Recent research, however, suggests that distance may still be a key factor in affecting trade patterns. First, transport costs are higher for longer distances. Second the costs of accessing information about foreign markets and establishing a trade relationship in those markets are higher for longer distances. In fact despite the "death of distance" associated with the communications revolution, proximity appears to be increasingly important for trade flows.

A major study[18] focused on international trade by individual states found that trade has become relatively more intense with nearby as opposed to distant countries. State trade shares with Mexico, Canada, and Latin America have increased while shares with Europe, Asia, Africa and Oceania have decreased. Reflecting the change in trade shares, the distance of trade for the aggregate of states has declined. NAFTA in particular has had a fairly significant effect on the geographic distribution of state exports. In fact, distance alone may neutralize many of the perceived benefits of FTAs. It is estimated that depending on the type of good a distance of 1,000 miles is equivalent to having to pay import tariffs between 7% and 17%. The example of Chile is instructive. Still even with a FTA with the U.S. it is estimated that at best this will help Chile move in the "Remoteness Scale"[19] from a ranking of 62 to 59th—out of 68 countries. (See Table 1.)

The notion of "economic proximity" is mostly, as Nobel Laureate economist Douglas North has emphasized, about "transactions costs." Countries with less regulation, stronger private sectors, leaner bureaucracies, less red tape, more transparent political systems and greater protection to property rights have lower transaction costs, and thus greater "proximity" to global markets than countries with distorted economies and glutted bureaucracies.[20] Countries that share institutional frameworks—such as similar judiciary systems—or have a common language are closer to each other than countries that do not. Finally, an educated work force, one that can communicate easily in the modern languages of technology, helps.[21]

To take maximum advantage of the MEFTA with the United States the Middle East countries will have to work on implementing the type of policies that will remove remoteness. So far this idea has not been well recognized in the region—as noted above the region as a whole lags considerably behind most other parts of the world in making progress in key reform areas. Even more telling, recent years have seen little or no progress (See Table 1) in improved, market reforms, economic freedom or supporting governance institutions in many of the region's key countries.

Limited Ability of Trade to Initiate Reform

Despite the lack of significant progress at reform in the region, might we expect freer trade to exert the right pressures to initiate a series of follow on reforms? The use of trade incentives is a long standing U.S. policy. Especially during the Cold War trade and access to the U.S. market was used to strengthen allies such as Taiwan, South Korea, Israel, and on a smaller scale, a host of other friendly governments. Implicit in this strategy was the belief that improved trade and incomes would set in motion a virtuous circle of further economic and governance reforms as countries sought to improve efficiency and competitiveness. In turn improved economic efficiency and governance further expanded the economy's gains from trade.

What happened in practice? Virtuous circles or something closely resembling them were attained in countries such as South Korea, Taiwan and Costa Rica, where the preexisting social and political conditions were relatively conducive to development and—at least eventually—democracy. On the other hand, moving into the international economy has not been a panacea for economic progress. As Moore and Schrank observe:[22]

In fact the lessons of history are clear. Trade alone will tend to underpin—rather than to undermine—preexisting social and political arrangements… If trade and aid are offered conditionally (i.e. as a quid pro quo for political or foreign policy reform) they risk igniting a nationalist, anti-American and quite possibly Islamist backlash—particularly if the conditions are perceived to benefit the United States or Israel rather than Arab firms, investors and citizens. If they are offered unconditionally, however they threaten to do little more than enrich already power and self serving elites and to thereby undermine the prospects for peace and prosperity in the Middle East.[23]

No doubt a contributing factor to Moore and Schrank's observations stems from the fact that there seem to be only limited linkages between freer trade and the major dimensions of governance.[24] Using a classification analysis of 162 countries[25], trade linkages were found to occur only in the areas of: (a) overall governance[26] (Figure 1), (b) regulatory quality (Figure 2) and (c) voice and accountability (Figure 3).

Property rights, not freer trade are the controlling economic reform variable in affecting progress towards improved governance (Figure 1)[27]. The progression is steady with higher mean values of property rights in each group associated with a higher attainment of overall governance. Within this progression of governance groups, (a) progress incorporating informal markets in to the formal economy, (b) proper monetary policies (low inflation) and (c) improvements in banking and finance systems helped differentiate countries as to high or low overall governance within a number of the original nine country clusters. Improved trade policies only played a role at a third level affecting one of the nine first level country groupings.

The overall governance index (Figure 1) suggests several groupings of Middle East countries. The first is comprised mainly of the smaller oil-rich Gulf countries— Bahrain, Kuwait, and UAE, Oman and Qatar together with Israel. All have made good progress in over-all governance. Another group consists of Jordan, Turkey, with Egypt, Saudi Arabia, Tunisia (and possibly Morocco and Lebanon) somewhat further behind in governance reform. A final group consists of Algeria, Pakistan, Syria, Sudan, Yemen, Iran, Iraq, Libya and Somalia all well below the norm for governance.

Trade policies are more effective in effecting regulatory quality, but again not the dominant factor in this regard. As with over-all governance, property rights are again the most important aspect of economic reform associated with improved regulatory quality. Trade policies enter once at a secondary level and again at a third level, separating Oman (good grade policies) from Tunisia and Saudi Arabia (bad trade policies).

Finally a similar pattern is associated with voice and accountability with trade policy entering in once at a secondary level (separating Iran from countries with poorer trade policies, Iraq, Libya and Somalia). One interesting aspect of voice and accountability was the particularly low scores attained by the Middle East countries. Whether a country was a Greater Middle East Initiative (GMEI) country was sufficient to isolate Egypt, Oman Qatar, Saudi Arabia and Tunisia in one of the property rights-based clustering of countries, with mean scores of voice and attainment well below the non-GMEI countries.

Middle East FTAs: Some Practical Concerns

The discussion above raises a number of concerns over the effectiveness of Free Trade Areas in the Middle East region. Structural impediments, lack of progress in economic and governance and reform, distance from the U.S. market, and the unlikelihood of trade initiating follow on policies to improve the over-all economic environment cast doubts on the effectiveness of trade based strategies in assisting in the war on terrorism:

Trade Diverted from Terrorist Prone Countries

Unfortunately, one can not even say with complete certainty whether the agreements are in the best economic interest of the individual Middle Eastern countries. The classic argument against free trade areas focuses on their trade creation vs. trade diversion effects. Trade creation occurs when production is shifted from higher cost producers to lower cost producers within the trading bloc. When trade barriers are eliminated among the Free Trade Area countries, differences in comparative costs will lead to shifts in trade, production, and investment patterns that favor the lower cost producers and improve economic efficiency within the FTA.

Conversely, trade diversion occurs when production is shifted to higher cost internal producers from lower cost external producers. If trade diversion outweighs trade diversion, an individual country within the FTA may find itself worse off as a result of the agreement. This is unlikely to happen for the United States in the strict economic sense, since the actual volumes of trade are so small (the Moroccan economy is about the economic size of greater Albany, New York[28]).

Only a detailed statistical study can determine if trade diversion is a significant problem for individual countries in the Middle East. Still, we know enough to speculate about the short-run impact on terrorism stemming from the trade creation/diversion process. If, as a result of the new FTAs, trade is shifted from high terrorist risk countries such as Pakistan or Turkey to relatively low terrorist threat ones such as Morocco or Jordan, then the FTA results in lost ground in the war on terrorism. Given the sequence of FTA's in the Middle East there is a good chance of this happening since only those countries already relatively stable after undertaking significant reforms can qualify for FTA status: "Basically the administration is picking low-handing fruit, where significant reform already has been undertaken and the volume and nature of trade very simple."[29]

Frictions with Allies

Even worse, a whole spectrum of U.S. foreign policy interests (as well as those of major allies in the war on terrorism) can be undermined by the proliferation of FTAs in the Middle East and elsewhere. A good example of this is provided by the EU's Strategic Partnership with the Mediterranean and Middle East (or the "Barcelona Process") initiated in 1995. In some regards this is a program similar to the U.S. FTA initiatives. Specifically the EU wants to achieve the "construction of a zone of shared prosperity through an economic and financial partnership and the gradual establishment of a free trade zone.[30] The problem here is that the United States has announced that countries seeking free trade agreements with the U.S. must cooperate with Washington on foreign policy and security issues.[31] This puts many of the Middle East countries in the middle of U.S. and EU disagreements, distracting all parties from the war on terrorism. For example, at one point the U.S. was not considering moving ahead with a FTA with Egypt because that country refused to support the U.S. WTO challenge to the EU's de facto moratorium on genetically modified food.[32]

Congressional Approval

A final consideration entails the implementation of FTAs. While they may be relatively easy to negotiate, they may encounter difficulty gaining congressional approval. To overcome expected fierce resistance of agricultural, labor and textile interests, the business community would have to organize a very large effort to support passage. With relatively small commercial opportunities at state, big business may not have the requisite incentives to push hard.[33] The embarrassment surrounding a failed attempt at FTA approval may only fuel further anti-Americanism in the affected country.

Phasing out of Textile Quotas

To counter these arguments proponents of FTAs in the Middle East often cite the success of Jordan. That country's exports have increased from $31 million in 1999 to $673 million in 2003.[34] This figure is expected to top $800 million in 2004.[35] However these figures are a bit misleading in that they do not accurately reflect the effects of the free trade agreement with the United States. The lion's share of Jordan 's increased exports came from the recent creation of "qualifying industrial zones," specific areas whose outputs get duty free and quota free access to the U.S. market if they are produced with at least eight percent of Israeli inputs. These zones have attracted investment from Asian apparel manufacturers seeking to circumvent U.S. quota restrictions. Because these manufacturers import most of their fabrics from Asia, job creation in Jordan has been minimal.[36]

In any case, with the end of the Multi-fiber Agreement (MFA) at the end of 2004, the importance of Jordan's QIZs will fade, as worldwide quotas on garments are removed. With the global removal of quotas, many companies will move their operations to low-cost countries such as China and India. Further complicating things for Jordan, on December 14, 2004 Egypt, Israel and the United States signed a partial free-trade agreement creating QIZs in Egypt that will allow Egyptian-Israeli goods access to the U.S. market. As a result, Egypt may capture much of Jordan's apparel business as Egyptian labor costs are lower and raw materials are more readily available.[37] For Jordan to remain competitive in the clothing/apparel markets, the country will have to undertake major investments in its infrastructure at a time the government is severely short of funds.

Assessment

On the surface the U.S. economic policies towards the region appear to be based on sound economic theory and empirical fact—increased trade leads to rates of growth and incomes, together with, lower unemployment rates, reduced poverty and most likely reduced attractiveness of terrorism amongst the youth. However sequence and end result implicitly assumes that a certain critical mass of institutions facilitating economic expansion is in place. In the Middle East this is likely to be the case for only a handful of countries—a number of the Gulf oil economies, together with Israel, Jordan, and Turkey. Morocco, Egypt, and Saudi Arabia may not be at the point where expanded trade is capable of inducing improved governance structures capable of sustaining and expanding growth and trade. The rest of the countries are definitely not at this point and might even experience a vicious circle of expanded trade causing increased inequality, poverty, corruption and anti-Americanism, leading to lower rates of investment and growth.

U.S. economic policy also suffers from a fundamental inconsistency. In its rush to create Free Trade Areas around the world, it has become literally impossible to assess the impact on any one particular region. In fact, current US FTA's with other parts of the world may be shifting trade away from critical Middle Eastern countries. Countries in the Andean region, sub-Saharan Africa and elsewhere—granted preferential, duty free access to the U.S. market have enjoyed a comparative boom, with exports to the United States rising nearly 40 percent in some cases.[38] Again these FTAs have the potential to significantly shift of trade away from the terrorist prone countries to relatively peaceful areas of the world.

Given the limitations of an FTA based strategy, the most constructive U.S trade policy is no doubt one of unilaterally opening up its economy to exports from the region.[39] This is simply good economics. More importantly, with time—as one-by-one the Middle Eastern countries experience the practical benefits of increased trade—domestic pressures are likely to push for further reforms setting them on the path to increased growth and prosperity at their own pace and on their own terms. Over time, the U.S. should reinforce these positive market based trends through the appropriate use of grants targeting institutional development and market-strengthening initiatives to support expanded trade. The main disadvantage to this option is that it might shift some trade away from other countries such as Indonesia or the Philippines where significant terrorist concerns also exist.

Another option is to drop the movement toward individual FTAs or a Middle East Free Trade Area focus on bringing the current WTO round to a successful conclusion. In many ways this would be a far more difficult task for the U.S. but one with greater economic rewards for both the U.S. and the Middle East as a whole.

The financial implications of completing this trade round are staggering. A recent World Bank study[40] projected that a new trade agreement would have a giant impact on the global economy. The Bank's estimate is that an accord promoting free trade would produce annual income growth of between $290 billion and $520 billion. It would lift approximately 144 million people out of poverty by 2015. What better way to bring broad based prosperity to downtrodden parts of the world most susceptible to the terrorist massage?

References

1. President Bush quoted in Carlos Lozada, "Trading in Terror," *Christian Science Monitor*, November 6, 2001, p. 9.

2. Quoted in Jeffrey Sparshott, "Bahrain, U.S. Ink Accord on Trade," *Washington Times*, September 15, 2004.

3. For a good overview of the issues see Paul R. Ehrlich and Jianguo Liu, "Some Roots of Terrorism," *Population and Environment*, 24:2 (November 2002).

4. Robert Zoellick, "Countering Peace With Terror," *The Washington Post*, September 20, 2001.

5. Alan Tonelson, "There's Only So Much That Foreign Trade Can Do," *The Washington Post*, June 2, 2002.

6. *U.S. National Security Strategy: Ignite a New Era of Global Economic Growth through Free Markets and Free Trade* (Washington, DC: United States Department of State, March 22, 2002).

7. Ed Gresser, "Aiding Muslim Economies," *DLC Blueprint Magazine*, April 15, 2003.

8. Testimony of Marc A. Miles, "U.S. Foreign Assistance After September 11: Major Changes, Competing Purposes, and Different Standards—But Is There an Overall Strategy?" *Committee on International Relations U.S. House of Representatives*, February 26, 2004.

9. For an earlier assessment of the Pakistani case see Robert Looney, "Problems in Using International Trade to Counter Terrorism: The Case of Pakistan," *Journal of South Asian and Middle Eastern Studies*, 26:4 Summer 2003, pp. 1-10.

10. *The National Security Strategy of the United States of America* (Washington: The White House, September 17, 2002).

11. Jeffrey Sparshott, "Bahrain, U.S. Ink Accord on Trade," *The Washington Times*, September 15, 2004.

12. Tim Kennedy, “Algeria Set to Join WTO, Sign U.S. Free Trade Agreement,” *Arab News*, December 5, 2004.

13. Mike Allen and Karen DeYoung, “Bush Calls Trade Key to Mideast,” *The Washington Post*, May 10, 2003, A-1.

14. The table only considers those countries in the ESCWA Region.

15. Marcus Noland and Howard Pack, “Islam, Globalization, and Economic Performance in the Middle East,” *Institute for International Economics Policy Brief* PB04-4 (June 2004).

16. Anthony H. Cordesman, *Beyond Anger and Counterterrorism: A New Grand Strategy for U.S. and Arab Relations* (Washington, DC: Center for Strategic and International Studies, September 13, 2004.)

17. In Table 1 large values indicate lower levels of economic freedom.

18. Cletus C. Coughlin, “The Increasing Importance of Proximity for Exports From the United States,” *Federal Reserve Bank of St. Louis Review* 86:6 (November/December 2004), pp. 1-18.

19. Bernardo S. Blum and Edward E. Learner, “Can an FTAA Suspend the Law of Gravity and Give the Americas Higher Growth and Better Income Distribution?” in *Integrating the Americas: FTAA and Beyond*, edited by Antoni Estevadeordal, Dani Rodrik, Alan M. Taylor, Andrés Velasco, (Cambridge: Harvard University Press, October 2004).

20. Sebastian Edwards, “How Chile Can Make the Most of Its U.S. Trade Deal,” *The Wall Street Journal*, January 3, 2003, p. A.11.

21. *Ibid.*

22. Pete W. Moore and Andrew Schrank, “Commerce and Conflict: U.S. Effort to Counter Terrorism With Trade May Backfire,” *Middle East Policy* 10:3 (Fall 2003).

23. *Ibid.*

24. For this purpose a classification tree was developed. See *AnswerTree 3.0 User’s Guide* (Chicago: SPSS, Inc, 2001) for a description of the program and logic underlying classification trees.

25. Cf the data sources in Table 1.

26. An unweighted index of: voice and accountability, regulatory quality, control of corruption, political stability, regulatory quality, and government effectiveness for the years 2000 and 2002.

27. As in Table 1, higher numbers represent lower levels of regulatory quality and the other economic freedom variables.)

28. Alan Tonelson, “Small is Dumb, Not Beautiful, in Trade Policy,” *AmericanEconomicAlert.org*, April 30, 2002.

29. Quoted in “Bahrain, U.S. Ink Accord on Trade,” *The Washington Times*, September 15, 2004.

30. “The EU, the Mediterranean and the Middle East: A Longstanding Partnership,” Brussels, June 2004.

31. “WTO Suffers from New Security Agenda,” *Oxford Analytica, OxResearch* July 15, 2003, p.1.

32. *Ibid.*

33. “United States: Trade Strategy Meets Numerous Setbacks,” *Oxford Analytica, OxResearch*, November 19, 2003, p. 1.

34. “Cash-Strapped Jordan Aims High,” *AME Info*, December 11, 2004.

35. “Jordan: Standing by Uncle Sam,” *Online Briefing, The Oxford Business Group* vol 77, December 9, 2004.

36. Debra Glassman, “Bush Tries to Recycle Cold War-Era Policy,” *The Seattle Post-Intelligencer*, July 1, 2003.

37. “Joint Industrial Zones Seen as Boon for Egypt,” *The Jerusalem Report*, December 27, 2004.

38. Paul Blustein, “U.S. Free-Trade Deals Include few Muslim Countries,” *The Washington Post*, December 4, 2004.

39. Clyde Prestowitz, “Bold Action Can Still Save Doha Round: An American Initiative to Eliminate Subsidies would Break the Trade Logjam,” YaleGlobal, September 19, 2003.

40. *Global Economic Prospects (2004): Realizing the Development Promise of the Doha Agenda* (Washington: World Bank, 2003).