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EU and U.S. Free Trade Agreements in the Middle East and North Africa

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About the Author

Riad al Khouri is an economist who writes widely about development issues. He is a graduate of Oxford University and the American University of Beirut, and taught economics at the latter as well as at Beirut University College (now the Lebanese American University). Co-founder and principal of the strategic consultancy KryosAdvisors, and senior fellow of the William Davidson Institute, University of Michigan, he has completed assignments for the European Commission, UNESCWA, UNDP, UNIDO, USAID, and the World Bank, among other public sector organizations, as well as for numerous private firms. His more recent publications include "Copyright Industries in Jordan" (WIPO 2004); "Arab Mashreq Migration and Labor Market Segmentation" (IOM 2005); "The Future of Democracy in Lebanon" (Complutense University 2006); and "National Security Issues in Euro–Med and US FTA Agreements in the Middle East" (University of St. Gallen 2007).

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Introduction

The political situation in much of the Middle East and North Africa (MENA) region is subject to persistent tension due to the Arab–Israeli conflict, the war in Iraq and its spillovers to other countries, and sporadic upsurges of terrorism. In addition, some countries face serious domestic political tensions, a lack of political openness, and the increasing popularity of Islamist opposition groups. Economically, fast demographic and labor force expansion has led to high unemployment and slow growth in per capita incomes. Unsustainable management of the environment and natural resources further threatens prospects for long-term economic growth. In this context, increased economic cooperation between the MENA countries, on the one hand, and the United States and the European Union (EU), on the other, aims not only at promoting growth and development but also at fostering more stable political environments.

Since the 1980s, both the European Union and the United States have sought stronger positions in the MENA region through free trade agreements (FTAs) and related commercial diplomacy. Starting with the North African states in the late 1960s, through the early 1990s, the European Union had signed a series of broad cooperation agreements (CAs) with most MENA countries on the Mediterranean, as well as with Jordan, and the United States had concluded its first FTA with Israel in 1985. These were important first steps toward free trade, but after the Israeli–Palestinian Oslo peace agreement in 1993 and the Israel–Jordan treaty the following year, free trade initiatives increased; with the European–Mediterranean (Euro–Med) Barcelona Process launched in the middle of the 1990s, and U.S.–Jordanian steps toward freer trade, including the first qualifying industrial zone (QIZ) trilateral diagonal cumulation accord—between the United States, Jordan, and Israel—in the late 1990s.[1] In all cases, these agreements aimed to increase stability in the MENA countries involved and indicated a desire to promote regional stability and peace.

The U.S. drive to sign new FTAs with Arab countries continued in the following years, and it accelerated after the terrorist attacks of September 11, 2001. Although strategic considerations have always influenced American trade policies, they came to play an even larger role as the events of 9/11 highlighted the impact of MENA issues on U.S. security. The United States argued that global trade liberalization was central to America's fight against terrorism. For example, the 9/11 Commission Report states that "a comprehensive U.S. strategy to counter terrorism should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future."[2]

In 2004, Robert Zoellick, then U.S. trade representative, described the signing of a Trade and Investment Framework Agreement (TIFA) with the United Arab Emirates as solidifying "the relationship between our two countries on an economic level which complements our strong partnership in our fight against terrorism." He concluded, "Expansion of trade with the [United Arab Emirates] is part of our efforts to promote democracy and economic vitality in the Middle East and the Gulf Region."[3]

The EU drive for free trade with the MENA countries through the Euro–Med Partnership was also influenced by nontrade issues, including the desire to curb illegal immigration. The policies of the European Union promote South-South as well as North-South trade because EU agreements allow diagonal cumulation among Mediterranean partners that have identical rules harmonized with those of Europe and have negotiated among each other to set up a free trade area. To maximize the benefits of this, in 2001, Egypt, Jordan, Morocco, and Tunisia initiated the Agadir process, with the four states signing a collateral free trade accord (the Agadir Agreement) in 2004 for the harmonization of customs procedures to create a critical mass of South-South trade and benefit from the cumulation of imported inputs to gain access to the EU market.

The potential impact of trade agreements with the European Union and the United States on the MENA economies is important and has been the focus of much study, as have been the possible general benefits for the United States and the EU. Conversely, competition between the United States and the European Union and its impact on the region has been the subject of less study.

In this paper, I examine the effects of American and European trade arrangements on three MENA countries: Jordan, Morocco, and Egypt. Jordan has both an American FTA and a European Association Agreement (AA), and it also has a U.S.–sponsored QIZ arrangement for the joint production of exports with Israel. Morocco also has a U.S. FTA and a European AA and is a party to the Agadir Agreement. Egypt does not have a U.S. FTA, but it has U.S.–sponsored QIZs and a European AA, and it is party to the Agadir Agreement. In the pages that follow, I review the economic results of these trade agreements and examine their overall socioeconomic and political effects.

Strategic Factors in MENA–Western Relations

As the holder of the bulk of the world's oil reserves and the location of several political crises that affect Western security interests, the MENA region is a strategic area for both Europe and America. At the same time, the region has an unfulfilled potential as a stronger trade partner with the West; thus, in recent years, both the United States and the EU have pursued more active trade agendas in the region, promoting stronger bilateral and regional trade ties—but with political ends in mind.

The EU and the United States share the view that fostering economic growth through trade will not only increase economic welfare in the region but also might encourage the promotion of much-needed domestic reform, which in turn would help curb emigration, tame extremist sentiments threatening Western security, and provide more support for friendly regimes.

International trade issues, such as bilateral economic agreements and the formation of regional trading blocs, are high on the national agendas of both Western and MENA countries. Implied in this movement for increased economic cooperation is the notion that consumers, industries, and the public sector all benefit from increased international trade, and that the ensuing growth and affluence will create a tendency away from North-South tension and interstate or nonstate conflict.

Although strategic considerations influenced U.S. trade policy making in the 1990s and before, the relationship between international trade and national security was high on the agenda of the George W. Bush administration from the very beginning, as evidenced by statements made early in 2001.[4] However, this emphasis intensified as the events of 9/11 highlighted the impact of the MENA region's political, social, and economic problems on U.S. national security. Shortly after 9/11, the connection between trade policy initiatives and security strengthened as the U.S. administration argued that global trade liberalization was a central plank of its national security and antiterrorism efforts. A few days after 9/11, U.S. Trade Representative Zoellick wrote that "America's trade leadership [could] build a coalition of countries [in the fight against terrorism]," emphasizing that "open markets [were] vital for developing nations, many of them fragile democracies that rely on the international economy to overcome poverty and create opportunity."[5] However, this trade-security linkage has also had other implications for U.S. commercial policy, including the spreading of FTAs in the MENA region. Less dramatically, the EU drive for free trade with the MENA countries also increasingly links to security issues.

The MENA countries are opening their economies amid conflicting pressures from the international community and domestic protectionist groups. Especially since the late 1990s, there has been increased activity by Arab governments in negotiating preferential trade agreements with the United States, the EU, and others. Apart from the four Arab countries that now have FTAs with the United States—Jordan, Morocco, Bahrain, and Oman—potential American bilateral FTA partners in the medium term include Egypt, Qatar, and the United Arab Emirates. At the same time, AAs are now in force between the EU and Tunisia (since 1998), Israel (2000), Morocco (2000), Jordan (2002), Egypt (2004), Algeria (2005), and Lebanon (2006), and on an interim basis with the Palestinian Authority (1997). Negotiations with Syria were completed in 2004, but the agreement has not been officially concluded or put into force.[6] All these efforts are part of a project aimed at creating a Euro-Mediterranean Free Trade Area (EMFTA) by 2010. The EU is also negotiating an FTA with the Gulf Cooperation Council, which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Because stability of the Mediterranean region is vital to Europe, security remains a key motivation from the EU side. From the southern Mediterranean point of view, however, the process has been more a question of economic development and expanding trade with Europe. Therefore, there has been a contradiction in Euro–Med from the start, with Arab regimes in particular eager to have better economic relations with Europe but not welcoming civil society or political conditionalities. At the same time, the security element has not really succeeded; in 2000, Euro–Med was to produce a regional charter of peace and stability, but the effort was stifled due to the Israeli–Palestinian and Western Sahara conflicts. However, especially after 9/11 and subsequent terror attacks in Madrid and London, there has been some progress in security cooperation at the bilateral level, though this has been intermixed with migration issues and therefore has had an economic and social dimension as well. The 9/11 attacks renewed EU interest in the MENA region and reinvigorated the Barcelona Process; given its geographical proximity to the region, the EU realized that the spread of militancy and growing unrest of its own Arab Muslim minorities was potentially explosive and needed tackling urgently.

United States–MENA Trade: Tools of Trade Diplomacy

The tools of commercial diplomacy used by the United States in the MENA region include TIFAs, QIZs, and FTAs. A typical first step toward free trade with a MENA country has been the conclusion of a TIFA, a consultative mechanism for the United States to discuss issues affecting trade and investment with another country. In recent years, the United States has concluded many TIFAs, including with Saudi Arabia, Algeria, Bahrain, Qatar, the United Arab Emirates, Kuwait, Yemen, Tunisia, Turkey, and Oman. TIFAs are nonbinding but can yield benefits by addressing specific trade problems and helping trading partners develop the experience, institutions, and rules that advance integration into the global economy, thereby creating momentum for liberalization that in some cases can lead to an FTA.[7] The United States uses TIFAs to strengthen bilateral trade and support economic reform through regular high-level discussions on commercial and economic issues, as well as indirectly on security and political matters.

A second tool of trade diplomacy is the creation of QIZs, authorized by the U.S. Congress in 1996, which entitle goods jointly produced by Israel with either Jordan or Egypt to enter the United States duty free. The purpose of QIZs has been to promote peace and development between Israel and its Arab neighbors. QIZs have aimed to broaden support for the Middle Eastern peace process, because Jordan and Egypt are the two Arab countries that signed peace treaties with Israel, and also to benefit Jordan, Egypt, and the West Bank and Gaza by stimulating their economies and increasing employment.

QIZs are typically industrial parks housing manufacturing operations. The zones, however, produce goods solely for export to the United States, and they operate under both the authority of the host countries and the United States, which determines conditions and authorizes tariff exemption for QIZ imports. When the product enters the United States, material and processing costs incurred in the QIZ must total not less than 35 percent of the appraised value. As regards this 35 percent, 20 percent must come from Israel and Jordan or Egypt, and 15 percent may be material from the United States or Israel, the West Bank and Gaza, and/or Jordan or Egypt, depending on the participating QIZ program.

FTAs, a third tool of U.S. commercial diplomacy, came into their own in the MENA region after 9/11. Broad, bilateral FTAs—which go beyond QIZs, which are trilateral and include Israel as a partner with the United States and another regional trade partner—were a sign that American enthusiasm for enhancing trade ties with the MENA region was reinvigorated after 9/11. The Bush administration has thus signed wide-ranging FTAs with those MENA countries that were most able and willing to engage, using economic incentives to reward the nations in the region that were staunch allies in the war against terrorism.[8]

Although such accords are typically economic, the first FTA with an Arab country, Jordan (then only the second such U.S. pact outside North America) came just a few weeks after 9/11 and had an explicit security background, attempting to support a key MENA ally of the United States in the fight against terrorism. A similar, though pre-9/11, strategic motivation was also true of the QIZ accord signed a few years earlier, described by U.S. officials in the late 1990s as an "incubator" for the FTA. FTAs with other Arab states (Bahrain, Morocco, and Oman) followed, as well as the signing of a QIZ agreement with Egypt, and there were suggestions for a variety of yet more free trade accords with various MENA states, including, for example, a QIZ with Turkey and an FTA with Egypt.

The FTA agreements cover all trade between the parties and allow them to go beyond World Trade Organization (WTO) rules and requirements, offering stronger protection for investors and intellectual property rights (IPR), for example, and incorporating obligations to uphold internationally recognized core labor standards and protect the environment. Since the U.S. Congress gave the president trade promotion authority in 2002,[9] Washington has embarked on an unprecedented program of free trade negotiations with selected trading partners. In passing the 2002 Bipartisan Trade Promotion Authority Act, Congress recognized that stable trading relationships promote prosperity and foster security by binding countries together through a series of mutual rights and obligations.[10]

Given U.S. dissatisfaction with multilateral trade agreements that come through collective negotiation with many participants, the bilateral approach has allowed Washington to tailor FTAs to particular circumstances and deploy its hegemonic bargaining power. However, in May 2003, President Bush also proposed a multilateral Middle East Free Trade Area (MEFTA) by 2013 through a plan of graduated steps for MENA states to increase trade with the United States and other nations in the world economy. The first step, according to the scheme, is to work closely with "peaceful" nations that want to become members of the WTO to expedite their accession. As these countries implement domestic reform agendas, institute the rule of law, protect property rights (including IPR), and create a foundation for openness and economic growth, the United States will take a series of graduated steps with these countries tailored to their level of development through TIFAs and FTAs.

To achieve this objective, the United States would move first to negotiate comprehensive bilateral trade agreements with the region's countries, with the aim of ultimately combining these into a single overarching arrangement between the United States and the MENA region as a whole. With MEFTA, Washington has sought to liberalize bilateral trade and investment with the region, facilitate domestic reforms in the MENA states, and build mutual trust by encouraging regional economic cooperation among U.S. allies, and eventually with Israel. Thus, MEFTA's advantage has been to make possible far-reaching agreements—such as the Egyptian QIZ and the FTAs with other MENA countries—that could not easily have been concluded with universal Arab participation.[11]

EU–MENA Trade: Cooperating in the Neighborhood

The EU's tools for commercial diplomacy in the MENA region are outwardly similar to those of the United States. However, systematic European efforts in this respect began earlier, and, as will be seen below, the thrust of EU activity in this domain in the MENA region differs from that of the United States in many significant details. Starting in the 1960s, the European Community began concluding first-generation CAs with Mediterranean partners. By the beginning of the 1990s, the Europeans had signed a series of CAs with all non-Arab states and most Arab ones in the eastern and southern Mediterranean, an important step toward free trade. The bilateral European-MENA CAs of the 1970s and 1980s mainly covered aid and trade liberalization. Though commerce in general rose between Europe and the MENA region, the region's balance of trade with the EU worsened under the CAs.

However, after the signing of the Israeli–Palestinian Oslo peace accord in 1993 and the conclusion of the Israel–Jordan peace treaty in the following year, noneconomic conditionalities and linkages to free trade gained as Western attempts to strengthen the Arab–Israeli peace process intensified. In that context, the old European agreements were clearly no longer enough; and negotiations started on AAs between the EU and its Mediterranean partners to replace CAs.

The provisions of the Euro–Med AAs governing bilateral relations have varied among Mediterranean partners; with time, more areas of cooperation have been included. However, they have certain economic aspects in common, including establishing WTO-compatible free trade over a transitional period of up to twelve years; provisions related to intellectual property rights, services, public procurement, competition rules, state aid, and monopolies; and economic cooperation in numerous sectors. The accords also cover political dialogue, respect for human rights and democracy, cooperation related to social affairs and migration (including the readmission of illegal immigrants), and cultural cooperation. After they are signed, AAs must undergo a lengthy ratification process by EU member national parliaments.[12]

Although the proposal for an American Middle East Free Trade Area was tabled only in 2003 and aimed at a MEFTA by 2013, the Barcelona Process had started in 1995 and aimed at an EMFTA by 2010. This was to come by means of the Euro–Med AAs between the EU and the Mediterranean partners, together with FTAs between the partners themselves. The EMFTA foresees free trade in manufactured goods and the progressive liberalization of trade in agricultural products. Along with bilateral "vertical" trade liberalization with Europe, the Mediterranean partners in the EMFTA are committed to implementing free trade among each other, including under the Agadir Agreement.

To foster intraregional trade and economic policy harmonization, the EU supports the Agadir Agreement as the beginning of a greater regional free trade area that goes beyond the removal of tariffs and quotas. The rationale behind Agadir is that integration would be easier to achieve with a core of countries, and that others could join later when they were ready.

To that end, the EU has developed a system of pan-European rules of origin. This allows diagonal cumulation among MENA members in order to export to Europe as long as they adhere, among themselves, to the same rules of origin introduced in Europe. The initiative launched by the Euro–Med trade ministers to extend the system of pan-European cumulation of origin to all Mediterranean partners (which eventually resulted in the Agadir Agreement) aims at reinvigorating trade and economic cooperation among Barcelona partners and other European countries. A "pan-Euro–Mediterranean" protocol on rules of origin was developed in a working group with all partner countries concerned, and in July 2003 the Euro–Med Trade Ministerial Meeting in Palermo endorsed this. The next step was the replacement of the current protocols on rules of origin by the pan-Euro–Mediterranean protocol, both in the agreements of the EU with each of the partner countries and in the agreements between the partner countries, Agadir being a step in that direction. Unlike the case of QIZ diagonal cumulation, which antedated U.S. FTAs with all Arab states and the U.S. MEFTA, the Agadir model regarding rules of origin was from the beginning of the 1995 Barcelona Process a logical later step along the way toward free trade with the EU.

The Agadir Agreement, an EU-backed initiative, came into force in July 2006, but its actual implementation started in March 2007, when Morocco became the last country to publish the relevant customs circulars. To put the agreement into practice through contacts with individual stakeholders, a regional conference in December 2007, "Agadir Agreement Complementarities and Partnership: Opportunities to Enhance Trade and Investment," focused on the textile and garments sectors and on automotive products.[13] Trade among the Agadir signatories is limited, both in absolute size and compared with exports to other destinations. The exports of the four countries to each other were $1.06 billion in 2006, or 2.1 percent of the region's exports. In contrast, more than 51 percent of all exports from the four Agadir signatory countries went to the EU; by comparison, their sales to the United States were barely 9 percent of their total exports.[14]

With the gradual accession of southern European and Balkan countries to full EU membership, Euro–Med policy acquired a new complementary strategy, the European Neighborhood Policy (ENP) and its bilateral action plans. Since 2005, the ENP has aimed to deepen relations and promote progressive integration between the EU and its neighbors, including those in the Mediterranean region. The ENP offers economic and social benefits for the countries bordering the EU, through cooperation in a range of areas from strengthening democracy, promoting the rule of law, and upholding human rights to trade liberalization, energy, and transport development. The EU and its neighbors mutually agree on action plans that are concrete and practical tools for realizing the ENP's goals.

Under the ENP, assistance is provided through the European Neighborhood and Partnership Instrument (ENPI), which in 2007 replaced the old Euro–Med aid mechanism. The Euro–Med Partnership Regional Strategy Paper 2007–2013 and Regional Indicative Program 2007–2010 provide a framework for programming the Mediterranean allocation of the ENPI and replace the region's previous financial instrument.

The Regional Strategy Paper channels the contents of the five-year work program into three priority objectives at the regional level, including common areas for justice, security, and migration cooperation; sustainable economies, with a focus on trade liberalization, regional trade integration, infrastructure networks, and environmental protection; and cultural and people-to-people exchanges, as well as raising awareness of the partnership through the media.

The ENP has so far served to give some impetus to the Barcelona Process. However, new directions for Europe in the MENA region are also now emerging. The Euro–Med partnership has yielded disappointing results, partly due to the lingering Israeli–Palestinian conflict but also because most Mediterranean partner states have opaque, authoritarian governments poorly equipped to absorb EU funds. Progress toward the original aim of a Euro–Med free trade area by 2010 has been slow, with the EU's southern states insisting on keeping out rival farm produce. Politically, the focus has shifted from providing multilateral support for the Israeli–Palestinian peace process to combating terrorism and illegal migration.

To try to further rejuvenate the Barcelona Process, in February 2007 Nicolas Sarkozy, then a presidential candidate of France, launched his plan for a Mediterranean Union, proposing to link all the countries in the basin in a political deal on security, migration, the environment, energy, development, trade, and the fight against crime and terrorism. This approach was an attempt to break out of the EU's traditional mold, but Sarkozy made his proposal public without consulting his French allies, thus provoking a diplomatic row. After criticism, the original concept has changed radically because it was unacceptable to others in the EU. Early in 2008, Sarkozy scaled down his plans, renaming the bloc the Union for the Mediterranean and stating that all EU members would be welcome to join. A number of member states said they would not allow the creation of institutions that would cost them more than the €16 billion the EU has allocated for Mediterranean projects in 2007–2013. To compensate, France hopes to tap private sector funding, and President Sarkozy is saying that he expects to gather private-sector resources of up to €14 billion for launching new projects such as cleaning up the polluted Mediterranean Sea and joint efforts to combat climate change and fight forest fires.[15]

Although some non-EU Mediterranean states welcome the new idea, it is questionable whether they will cooperate on key issues. There have been few signs that southern Mediterranean states are substantially willing to enhance democracy, human rights, and trade liberalization. In any case, the plan presented to a twenty-seven-nation EU summit in March 2008 is a shadow of the grand design that was initially proposed. The concept, which began as an international forum grouping only states with a Mediterranean coastline and involving nine new agencies and a bank, now consists merely of a regular summit of EU and Mediterranean countries, a small secretariat, and a joint presidency. Even the proposed rotating co-presidency may not work because Arab states would want to avoid it going to Israel. In practice, the Union for the Mediterranean will be little more than an upgrade of the Barcelona Process and a political umbrella for the existing Euro–Med partnership. Though it is still early to judge the new scheme, practical steps on agriculture, aid, and immigration would be necessary for success. Otherwise, the new idea could be largely ineffective in spurring positive change in the MENA region.

Comparative Case Studies From the MENA Region

As we have seen, both the EU and the United States enter into trade agreements in the MENA region with a variety of ambitious economic and political goals, trying to spur economic development in the region and promote political and social reform. However, there are nuances in this process, such that the EU's approaches include more noneconomic components—for example, cultural cooperation and human rights—whereas for the United States, economic topics stand out, for example, IPR and more recently labor. Though the bilateral U.S.

trade agreements tend to be more comprehensive and cover a broad range of economic issues, the EU agreements deal with numerous noneconomic questions, exclude services and investment, and have serious limitations when it comes to agriculture.

The MENA region is of strategic importance to the EU, in both economic (trade, energy, migration) and political (security, stability) terms. Geographic proximity matters, and the EU's two-way trade with the region is nearly three times that of the United States. In investment, lending, and aid, Europe also outstrips regional U.S. activity. For most countries in the region, their economic relationship with Europe will therefore remain more important than that with the United States. Given the EU's proximity, Brussels often works more directly and openly for European interests (for example, in attempts at limiting migration from the Arab world). Conversely, the MENA region's distance for the United States means that it can sometimes afford to be more flexible (for example, the QIZs have very little impact on the U.S. economy) or can serve as an ally (the Jordanian QIZ is also beneficial to Israel).

The following case studies, from Jordan, Morocco, and Egypt—three MENA countries that have important trade agreements with the West—examine the conditions surrounding agreements between these countries and the West and assess their effects. Though there are similarities in the approaches of both the EU and the United States to these three Arab states, there are also major differences in the timing of the entry into trade agreements with each, reasons for entering into the agreements, and economic and sociopolitical effects of the agreements.

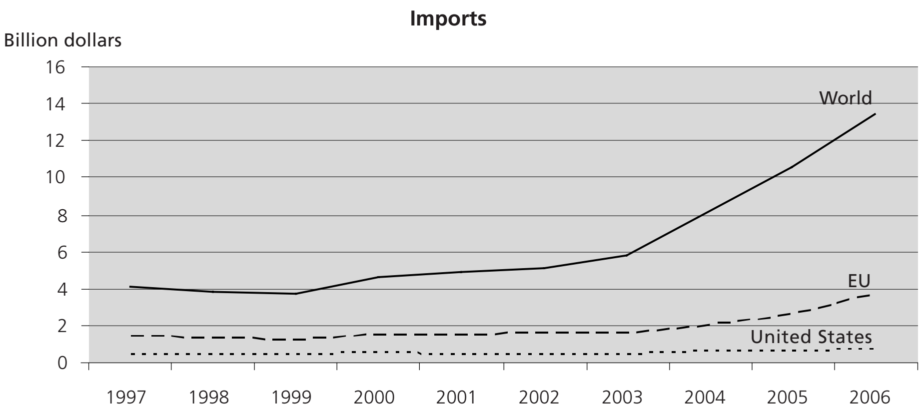
Jordan

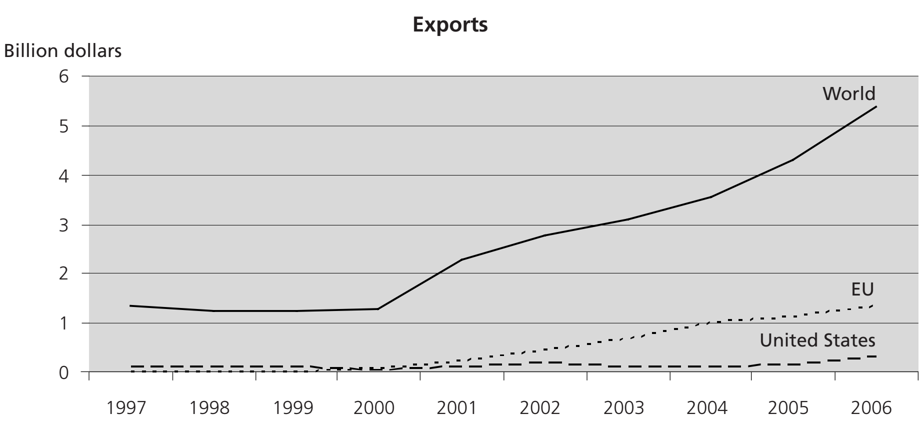
In terms of trade agreements with the West, Jordan is the most heavily involved country in the MENA region, being signatory to a Euro–Med AA, a U.S. FTA, a QIZ accord, and the Agadir Agreement. Jordan's 1997 AA provides a comprehensive framework for the economic, political, and social dimensions of the EU–Jordanian partnership, whose aims are to create a free trade zone between the European Union and Jordan over a transitional period of twelve years and to help increase economic growth. Under this arrangement, which replaces the 1977 CA, Jordan has accepted the principle of a progressive reduction in all customs charges on EU-originating products, including those containing an agricultural component. The tariff reduction is asymmetric; the pact eliminates all EU tariffs for Jordanian industrial products, and Jordan is undergoing a gradual and differentiated reduction of the duties it imposes on European products over a period of twelve years starting in May 2006. For Jordan-originating agricultural products, a quota and customs-free agricultural calendar applies, restricting imports to certain dates during the year. For other products, such as oranges and dried vegetables, imports are free without time restrictions. There are no concessions for EU agricultural products imported into Jordan.

The U.S. FTA with Jordan, which has been in force since December 2001, is gradually eliminating tariffs on virtually all industrial and agricultural products over a ten-year period and is opening Jordan's services market to U.S. companies in key sectors, including energy distribution, printing and publishing, health, audiovisual, tourism, and transport services. In addition, the agreement promotes the liberalization of electronic commerce and a more effective protection of IPR. The rules of origin provide that at least 35 percent of the customs value of Jordanian products imported from the United States must originate in the United States. The FTA has a special set of substantial transformation rules for textile and apparel products and defines special categories covering a select number of items on which significant tariffs remain, including, among others, alcoholic beverages and automobiles. Finally, it is noteworthy that the FTA with Jordan was the first American free trade accord with distinct labor and environmental clauses.

Despite this agreement, and as is apparent from figure 1, Jordan imports much more from the EU than from the United States. With the recent sharp fall in the dollar/euro exchange rate, greater American imports into Jordan may be forthcoming, but a trend in this respect remains unclear.

Figure 1. The Value of Jordanian Merchandise Trade, 1997–2006





SOURCE: International Monetary Fund, *Direction of Trade Statistics* (Washington, D.C.: International Monetary Fund, various years).

For Jordanian exports, conversely, the U.S. market has become more important since 2000. The QIZ accord has been a major factor in this surge of Jordan's exports to the United States. This model was rooted in the difficult diplomatic situation in the region in the mid-1990s. Many Jordanians met the 1994 Jordanian–Israeli peace treaty with unease. To counter this, U.S., Jordanian, and Israeli officials promoted a peace dividend of increased economic opportunity. This was attractive to Jordan, a lower-middle-income country with high unemployment. Immediately after the peace treaty entered into force, the U.S. and Jordanian governments began enthusiastically encouraging Jordanian, Israeli, and Palestinian businesspeople to meet and form relationships. This process peaked a year later in 1995 with the creation of a Regional Business Council (RBC) at the Amman Economic Summit, sponsored by the World Economic Forum. The RBC, which was managed by U.S. officials, aimed to facilitate joint ventures and multilateral deals among Jordanians, Israelis, and Palestinians, sometimes with U.S. partners.

However, in response to these developments, popular Jordanian opposition to normalization with Israel increased, and growing Israeli–Jordanian business ties became a target of popular hostility. As influential Jordanian professional syndicates boycotted those cooperating with Israeli businesses, the RBC dissolved, and Jordanians doing business with Israeli firms kept a low profile. Although the boycott officially ended in the late 1990s, Jordanian public opinion had turned against the QIZ program, and the second Palestinian Intifada from 2000 only hardened popular opposition to the QIZs. Popular unease with the program continues today.

Political opposition to QIZs in Jordan could have been less if the program had had a substantial effect on the economic circumstances of average Jordanians. Although the growth in exports and increasing foreign investment since the inception of the QIZs in 1998 suggest the program's economic success, several factors have limited the QIZs' positive impact on the country. Most important, with Jordan's high rate of unemployment, job creation was a major goal in the QIZ program. Yet, though the QIZs have created thousands of jobs, foreign workers, primarily from East and South Asia, have filled most of them. Though the official number of Jordanians working in the QIZs has grown steadily, from 13,300 in 2001 to 19,000 in 2007, this is less than the number of foreign workers in the QIZs, which went from 5,700 in 2001 to 39,000 in 2007. Given that more than 50,000 Jordanians enter the local workforce annually, the large presence of foreign labor in the QIZs hinders their positive impact on national employment.[16] In addition, most QIZ investors are not Jordanian, and they tend to repatriate their profits.

The arguments made in favor of QIZs include export diversification, worker training, and the increased participation of Jordanian women in the workforce. However, these are all modest gains in the context of a demographically young, middle-income developing country plagued by high unemployment.

The QIZ program in Jordan has been a moderate short-term economic success but a political failure. The QIZs have facilitated some Israeli–Jordanian business and government cooperation, but their original goal of regional economic integration has not been attained, because the continuing Israeli–Palestinian conflict makes it hard for governments to promote the program.

Nevertheless, in recent years, more than a third of Jordan's exports have come from QIZs; its exports to the United States rose from $72 million in 2000 to more than $1.3 billion in 2006, and the trade balance has shifted from a Jordanian deficit to a surplus. However, in 2007, for the first time in ten years, QIZ output contracted. Threatening the success of Jordan's QIZs was a report on labor and human rights violations published in 2006 by the Washington-based National Labor Committee highlighting poor working conditions in the industry.[17] This caused concern among American apparel companies that source their garments in Jordan and created confusion regarding the status of the country's foreign workers.

In fact, Jordan's trade surplus with the United States dropped by 37 percent in 2007, mainly because of declining exports from QIZs, according to an annual review of trade by the American Chamber of Commerce in Jordan. The chamber's Jordanian chair, Raja Khouri, noted that "industries are shifting from the QIZ program. If exports do not go up considerably, Jordan's trade balance with the U.S. may level off in a few years' time and may even turn into a surplus in favor of the U.S." Exports from the zones fell because of increased competition from similar zones in Egypt and the failure of local companies to exploit Jordan's FTA with the United States.[18]

This worrying trend threatens to aggravate Jordan's already considerable trade imbalance. As can be seen from figure 1, the country's merchandise trade gap is expanding, with imports rising about threefold in the past decade, outstripping the increase in the value of its exports. In such a situation, it is questionable whether Jordan benefits from more open markets, which have made its balance of payments problems worse.

Morocco

Though Morocco is not as heavily tied to the West as Jordan by trade agreements, it is a signatory to a Euro–Med AA, a U.S. FTA, and the Agadir Agreement. However, it is interesting to note that Morocco is the only Arab country apart from Jordan with both a Euro–Med AA and a U.S. FTA. Competition between the United States and the EU provides MENA countries with possibilities in the diplomatic sphere, an overt reason for Morocco's conclusion of an FTA with Washington in order to balance the role of Europe in the country. Conversely, American attempts to gain diplomatic and commercial standing in the Maghreb states in general and Morocco in particular continue, sometimes at the expense of the EU, which is still Morocco's main economic partner.

Morocco has always been one of the forerunners as regards entering into agreements with the EU. It was an early Mediterranean signatory to a cooperation agreement in the late 1960s, and the Moroccan Euro–Med accord came in 1996, before that of most others in the MENA region. However, it only came fully into force in 2000, a delay that was partly a reflection of cumbersome ratification procedures. The agreement envisions a twelve-year process of lowering tariffs and enhancing trade between the EU and Morocco, but despite initial hope about benefits for Moroccans, there has been increasing skepticism. Its problems include nontariff protectionism by individual EU countries and a growing dependence on Europe for food. Although the transition to the full EU–Morocco Association is still under way and may ultimately prove successful, indications so far are not promising.

In June 2004, the United States signed an FTA with Morocco with an explicit security component. U.S. officials cast the agreement as an opportunity to support a close ally in the MENA region, and the signing coincided with Morocco's designation as a non-NATO ally of the United States. Washington stated the strategic reasons behind the FTA quite clearly by proclaiming Morocco a strong ally in the war against terrorism while announcing the initialing of the FTA in March 2004. This made Morocco eligible for the priority delivery of defense matériel, for participation in defense research and development programs, and for receiving U.S. government loan guarantees for buying military matériel.

Although it is too early to assess the economic impact of Morocco's U.S. FTA, given that its implementation started only in January 2006, early indications are significant, showing for example that trade between the two countries increased by 52 percent in 2006, reaching $1.5 billion. However, Morocco–U.S. trade remains trivial in comparison with commerce between the EU and Morocco, which accounts for most of Morocco's total imports and exports. Despite the recent increase, the U.S. share was 3.8 percent of total Moroccan trade in 2006, while EU imports from and exports to Morocco were 59 percent of total Moroccan trade in the same year. The FTA also comes with significant aid enhancement from the United States, which was set at $51 million for 2005 (a jump of 378 percent over 2004) and at $44 million for 2007, though the amount is a pittance compared with the assistance received annually by such countries as Israel, Egypt, and even Jordan.

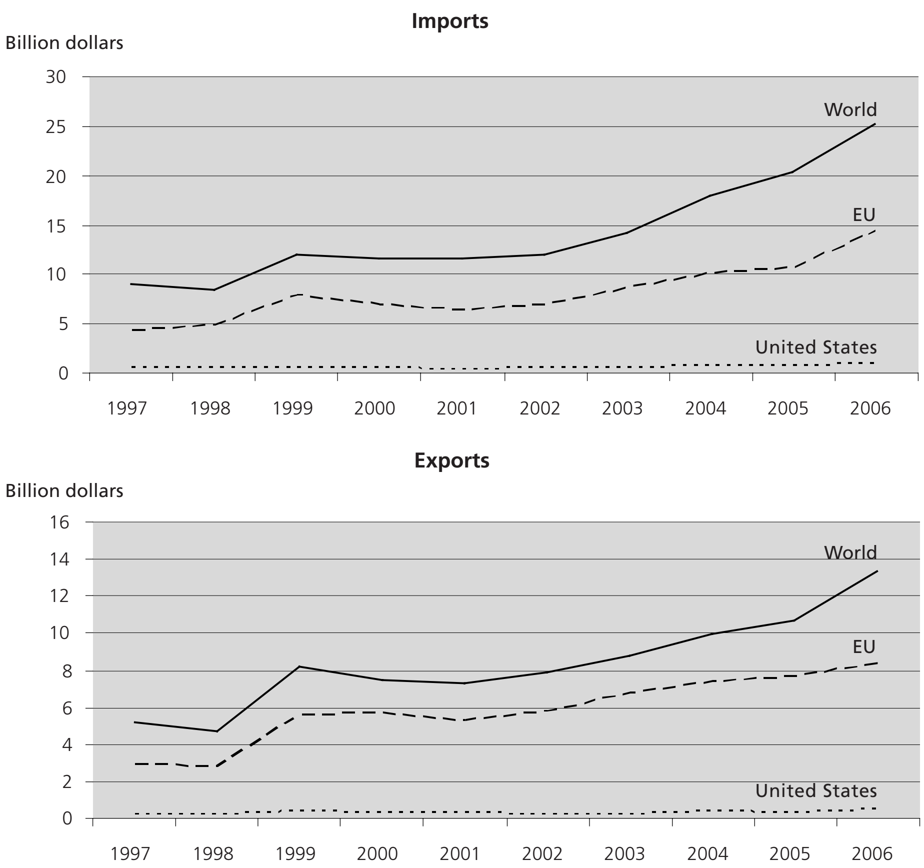
In recent years, Morocco has pursued a very gradual transformation of its political and economic system, and it has worked steadily to diversify business away from Europe. Perhaps most important, it has sought to deepen trade with its other Arab Mediterranean partners, as evidenced in particular in May 2001 by the initiation of the Agadir Declaration among Egypt, Jordan, Morocco, and Tunisia, with the four states then going on to sign the Agadir Agreement on collateral free trade and for the harmonization of customs procedures in 2004. However, it is still too early to tell whether the Agadir model will prove as successful for Morocco and its partners as has the United States' QIZ arrangement with Egypt and Jordan. In any case, though Agadir may not yield tangible results in the short term, the resulting accord is nevertheless a potentially important longer-term measure.

The extent to which its FTA with America will enhance Morocco's bargaining power with the EU remains unclear. FTAs with America and the EU are not contradictory. However, neither accord is likely to have much effect on Morocco's rural poverty and the resulting socioeconomic problems. In Morocco, one outcome of these agreements is that despite efforts to improve rural infrastructures and social programs, urban migration will continue, fueled by an uncertain agricultural sector and the movement to cities in search of jobs in industry, and also prompting transformations that spur migration to Europe.

Furthermore, Morocco's trade deficit is a persistent problem, having gone up 33 percent to reach $14 billion in October 2007, from $10.7 billion in October 2006. There was a 20 percent growth of imports, which reached $36 billion, but exports increased only 7 percent, to $12 billion. France remains Morocco's leading commercial partner, with a 16 percent share of Morocco's trade with foreign countries, while Spain is second (with 14 percent), Italy is third (6 percent), and the United States is fourth (4 percent).[19]

Somewhat like Jordan, Morocco has a large merchandise trade gap that is only partly made up through its services balance. For the Moroccan case (see figure 2), the role of the EU in merchandise trade is even greater than for Jordan. However, a major difference between the two countries is that Morocco has been able to export to Europe, something that Jordan continues to be incapable of doing.

Figure 2. The Value of Moroccan Merchandise Trade, 1997–2006



SOURCE: International Monetary Fund, *Direction of Trade Statistics* (Washington, D.C.: International Monetary Fund, various years).

However, the move to embrace a free trade economy has brought a sharp increase in the price of basic goods throughout Morocco. Prices of basic foods have gone up continuously since 2005, with, for example, sugar and meat rising about 30 percent in 2006–2007. This is causing hardship and threatening social stability. Anger has already erupted. In September 2007, protesters fought police in clashes east of Casablanca, complaining about rising prices; government buildings were set on fire and local facilities were damaged. Since then, prices have risen further.

Morocco's FTAs with both the EU and the United States oblige it to deregulate prices, which means increasing them to the same level as international ones. At the same time, the monthly minimum wage for workers is only the equivalent of about €163, according to official figures, and more than 6 million Moroccans live under the poverty line out of a total population of 32 million.

Meanwhile, imports are rising three times faster than exports. In particular, the value of merchandise imports from the United States went up 66 percent in 2007. U.S. exports to Morocco were worth six times those of Morocco going in the opposite direction. By contrast, Moroccan exports to the European Union covered 65 percent of its imports from the EU.[20]

At the same time as Morocco's economy continues to be dominated by Europe, Morocco is seeking advanced status in its relations with the EU. However, a January 2008 high-level seminar on this issue organized by the Moroccan government did not clarify exactly what such a status would mean. The advanced status idea came out of the meeting of the EU–Morocco Association Council in July 2007, which asked the two sides to reflect on ways to strengthen bilateral relations.

The idea of the Union of the Mediterranean further complicates the issue, insofar as the new scheme would put Morocco on the same level vis-à-vis Europe as other MENA states. However, whatever the outcome of the advanced status notion and the idea of the Union of the Mediterranean, the presentation of such concepts by a diplomatically disunited EU to developing countries such as Morocco is confusing and perhaps in the longer term without serious content. For that and other reasons, U.S. diplomacy in the MENA region looks more focused. At the same time, it remains unclear how far this will help the Americans catch up with Europe's dominant economic position in Morocco.

Egypt

The case of Egypt is different from those of Jordan and Morocco, in that Cairo, though signatory to an AA, does not have a U.S. FTA. However, in December 2004, upon signature of a QIZ accord with the United States, the U.S. trade representative designated the first three QIZs in Egypt, and in 2005 two of these were expanded and a fourth was added. These QIZs allow Egypt to gain nonreciprocal, duty-free access to U.S. markets for products containing at least 11.7 percent Egyptian and 11.7 percent Israeli components. The Egyptian government views the QIZs as a means to prevent job shedding in the textile sector and as a stepping-stone to an FTA with America.

Several factors have contributed to Egypt's desire for QIZ participation. The first was the January 2005 end of quotas on textiles and apparel (which dominate Egypt's as well as Jordan's exports to the United States) under a WTO agreement. This meant that the flood of similar articles from China and India to the United States could crowd out Egyptian exports, potentially resulting in a loss of 150,000 jobs in the industry and some of the foreign direct investment in Egypt's garment sector. Cairo was also in search of sources for increased economic growth and trade to provide jobs for its rapidly growing labor force; its other aims were to contain the fiscal deficit and slow the growth of public debt, address the trade deficit with the United States, and bolster ties with Israel to improve regional relations.[21] The United States, conversely, views Cairo's interest in QIZ participation as an opportunity to press for desired economic reforms in Egypt.

In 2005, Egypt's first full year of QIZ participation, Egypt exported $230 million worth of goods to the United States under the QIZ program, which represents 12 percent of Egypt's total exports to the United States. Like the Israel–Jordan QIZ, apparel exports dominate Egypt's QIZ exports to the United States; 89 percent of these exports were apparel. However, though QIZs in Egypt are flourishing, U.S. mistrust of Cairo's law enforcement regime has delayed the start of negotiations for a United States–Egypt FTA, on which negotiations stopped in 2006 over human rights issues. In the present diplomatic climate, the resumption of serious talks with the United States on an FTA does not appear likely in the near future.

Disagreement over human rights issues has also hampered Egypt's trade relations with the EU. In that respect, it is interesting to note that talks to move forward to a new stage in the Egypt–EU AA were due in December 2007, but the Egyptians postponed these as part of a general suspension of EU negotiations because of criticism of Cairo's human rights record. The beginning of the resolution of the problem took four months, with Hans-Gert Pottering, the president of the European Parliament, making an official visit to Egypt in March 2008, during which he sought to play down a European Parliament resolution that was critical of Cairo's human rights record. At the height of the crisis, Egypt had canceled meetings with senior EU officials and the Egyptian foreign ministry summoned home all its ambassadors to EU nations over a text adopted by European lawmakers that slammed Cairo over the status of religious minorities, alleged torture practices, and a decades-long state of emergency. Pottering told the Egyptian parliament that "the resolution is not an end in itself. On the contrary, it should be viewed as a very ordinary means at the disposal of parliament to state its position in order to move ahead in the framework of the wider and ongoing dialog with specific partner countries."[22] Be that as it may, progress in developing the Egypt–EU AA has been stalled.

Egypt's QIZ program with the United States, however, seems to be yielding results. Egypt had several reasons for signing the QIZ agreement; fear of the January 2005 removal of quotas on textiles and apparel under a WTO agreement meant a possible loss of Egyptian market share in this industry, coupled with widespread downsizing. Faced with a threat to about 15 percent of jobs in the industry and close to $600 million in exports, Egypt's government viewed QIZs as a way to maintain existing jobs in the textiles and apparel sector by gaining an edge through preferential trade status. Another factor for the Egyptians in signing the agreement was the example of Jordan's experience with QIZs. Not only did Jordanian exports to the United States grow strongly following the country's entry into the agreement but Jordan also signed an FTA with the United States only a few years later.

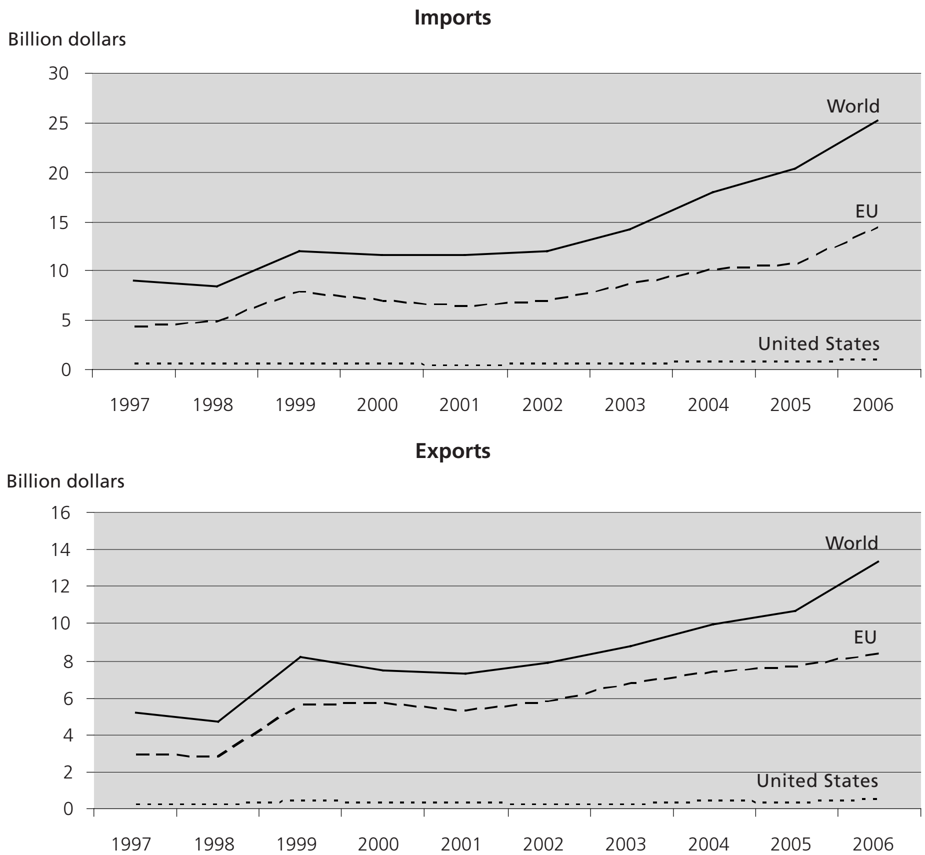
Entry into the QIZ program was controversial among Egyptians but not as contentious as in Jordan. Initially, the QIZs caused heated debate in Egypt's Parliament, and there were some public protests. However, other street demonstrations by unionized workers called for expansion in the number of QIZs in Egypt. Although politicians, students, and intellectuals remain hostile to the agreement and normalization of relations with Israel, Egyptian labor views QIZs as a mechanism to save jobs in an endangered industry.

In economic terms, QIZs in Egypt have been a success so far. Apparel exports to America under the QIZ agreement are soaring; Egyptian QIZ exports in the first nine months of 2006 were $464 million, up 59 percent from the same period in 2005, and indications are that 2007 figures will be even higher. However, unlike Jordan, the magnitude of QIZ exports in the context of overall Egyptian trade is rather limited. As can be seen in figure 3, the total value of Egypt's merchandise exports dwarfs that from QIZs, and the latter is not likely to rise to the proportions enjoyed in Jordan, where exports from the zones bulked very large in the country's merchandise trade. Nevertheless, QIZs are clearly a promising area for Egypt, particularly in the absence of a U.S. FTA with Cairo.

Many Egyptian apparel exporters are expanding QIZ production, and major U.S. retailers reported increasing their sourcing from Egypt in 2007 and 2008. Most workers in Egyptian QIZs are actually local, unlike the Jordanian pattern of employing mainly foreign workers. In addition, Egypt has a natural resource base that allows factories to integrate vertically, not to mention a well-entrenched textile industry.

However, though the Egyptian QIZs have prevented further unemployment, the number of jobs created under the QIZs will not substantially close Egypt's large overall employment gap. Furthermore, as other countries make FTA deals with the United States, Egypt's QIZ advantage will erode. Egyptian QIZs will also have a limited political impact. Most of the business linkages between Egyptians and Israelis remain within the limited scope of the textile and apparel industry.

Figure 3. The Value of Egyptian Merchandise Trade, 1997–2006



SOURCE: International Monetary Fund, *Direction of Trade Statistics* (Washington, D.C.: International Monetary Fund, various years).

Broader economic engagement also does not appear to be taking place in the wake of the QIZ accord with Egypt, in that the Egyptian government has not tried to encourage ties with Israel outside the limited ones established by the QIZs.[23]Additionally, though Cairo has some other key elements for QIZ success not held by Amman, it is unlikely that QIZs in Egypt will achieve economic success of the kind necessary to change Egyptian public opinion toward Israel. The idea of a QIZ Trade for Peace assumes that economic engagement will be enough to integrate Israel into the regional economy, but the Jordanian and Egyptian QIZs are unlikely to achieve this. However, QIZs in Egypt pose an additional threat to the program in Jordan. Egypt is better suited to reap the benefits of foreign garment manufacturers because the Egyptian textile industry provides opportunities for incoming producers to vertically integrate. Egypt also has a much larger potential workforce and lower wages than Jordan, both incentives for firms to leave the country. Finally, companies exporting from Egypt enjoy reduced shipping costs through its access to the Mediterranean.

There is also the risk that Egypt could find itself in the middle of transatlantic trade disputes. For example, Cairo's refusal to support Washington's

WTO challenge to the EU moratorium on genetically modified food was an exacerbating factor in the reluctance by Washington to move forward with a U.S.–Egypt FTA. IPR issues are also a complicating factor in relations with the United States, which put Egypt on a priority watch list in 2007 along with other MENA states such as Lebanon and Israel.[24] However, though the latter two countries may receive more lenient treatment from the United States in this respect for diplomatic reasons, Egypt could find itself in dispute with the United States over yet another trade issue.

This could ultimately affect aid from the United States to Egypt, which at $1.8 billion annually is clearly an important factor in relations between the two countries. However, Egypt is also one of the main beneficiaries of European support in the region. The EU is the second-largest donor to Egypt after the United States. The latest manifestation of European support for Cairo came in March 2008 when the EU and Egypt signed the Memorandum of Understanding regarding the National Indicative Program 2007–2010. The focus of the €558 million assistance package under the European Neighborhood Policy is to support the reform process and the implementation of the EU–Egypt ENP Action Plan, which the EU–Egypt Association Council adopted in March 2007. This demonstrates the EU's commitment to support Egypt and continue a dialogue in a number of key areas, including education, transport, energy, trade, and agriculture.

This of course is desirable, but not as a substitute for keeping EU markets closed to certain Egyptian agricultural products. Aid to Egypt in 1996–2006 was less than the funds allocated for 2007 through 2010. In principle, this is good, but the extent to which such assistance is useful under an inefficient Egyptian system of governance remains unclear.

Conclusion

The United States' free trade efforts in the MENA region clearly differ from those of the EU, though both are increasingly vigorous. How successful have these trade agreements been in both economic and political terms? There is no doubt that all the Western trade efforts aim to promote growth as a way to reduce poverty and hence migration and security concerns. Though international trade alone may not directly affect conditions for war or peace, it does promote economic growth. Increased levels of economic development tend to reduce the propensity for conflict, and there is a positive correlation between increased trade and long-term stability.[25] However, the tension in the Middle East related to the Arab-Israeli conflict, the situation in Iraq, and nonparticipatory governments might mask the long-term stabilizing effect of economic development.

It remains unclear whether the U.S. accords will ultimately enhance American national security as they promote trade. Meanwhile, American bilateral security cooperation continues to grow stronger with the MENA countries that have signed FTAs with the United States. At the same time, economic relations between the United States and individual MENA states have expanded in a relatively balanced manner.

Conversely, the 1995 Barcelona Process's multilateral approach to security has not succeeded from the MENA region's perspective, and trade between the Mediterranean region and the EU remains one-sided. In 2000, Euro–Med was to produce a charter of peace and stability, but the effort was stifled because of the Israeli–Palestinian and Western Sahara conflicts. Security agreements with MENA states did not progress at the level of EU institutions, though at the bilateral level there has been some movement.

The Barcelona Process has been fundamentally weak from its inception, given that it could not offer countries in the MENA region potential EU membership, with the exception of Turkey, as was the case with the postcommunist countries of Eastern Europe. As a result, the EU's approach failed to trigger real, positive economic and political changes, and the overall pace of reform has been slow.

The balance of EU trade with the MENA region, without oil, has worsened from the southern perspective. This has not helped MENA economies to grow stronger, with negative consequences for their societies. If the EU could open up to the MENA region's agricultural products and controlled immigration, the economic benefits for the southern Mediterranean would be very substantial. Though that may well happen in the end, for the time being, the former step remains politically difficult, while the latter has a negative security component. For the United States, agriculture and immigration are not pressing issues in relations with the MENA region, partly due to geographical distance. Thus, the United States is keen on full trade treaties with MENA countries, in contrast to the EU agreements, which leave agriculture aside.

A country's having an FTA with the United States is not contradictory to the same state also signing a Euro–Med pact, though thus far this has been the case only for Jordan and Morocco.[26] However, for both these countries the contrast between Europe and the United States is apparent: trade with the United States has gone up in a more balanced way; trade with the EU has mainly increased because of MENA region imports.

With regard to QIZs, though they boost exports and a chance to salvage market share in a labor-intensive industry, they mainly function to remove the Arab taboo against conducting business openly with Israeli firms. Otherwise, the economic gains from QIZs have been limited. The creation of QIZs has represented a strategic new direction in U.S. efforts to warm up the cold peace between some Arab states and Israel, and to integrate the latter into the regional economy. As the only Arab country with both QIZs and U.S. FTA, Jordan is "the poster child of Washington's free trade strategy" in the region.[27] However, Jordan's QIZ exports are now declining, and Washington's FTA with Amman has so far not been a strong factor in spurring the Jordanian export drive to the United States.

The political and economic effects of the QIZ program in both Jordan and Egypt have contributed little to the long-term sustainability of economic development in both countries, or to peace with Israel. As for the Agadir Agreement, though it has correctly identified diagonal cumulation among economies as one of the main components for capitalizing on intraregional synergies, it has yet to yield tangible results in business terms.

FTAs and economic strategies such as that of the Agadir Agreement do increase trade openness and should bring about faster economic growth and poverty reduction in the long term, thus creating conditions that favor sustained peace. Of course, this is not to say that trade is the only tool that national policy makers and the international community have at hand to prevent or manage conflict. Even if growth occurs as a result of EU and U.S. FTAs, it is simplistic to characterize opposition to the West as motivated solely by poverty. The leaders of the 9/11 and later terrorist attacks were not generally poor. In the end, what both the United States and Europe have missed is that many components of FTAs serve the interests of elites closely associated with unpopular Arab governments.

Finally, trade liberalization should come with policies that both compensate those who might stand to lose from increased openness and alleviate the tensions associated with rapid social change. Free trade can be no panacea. In the short run, the opening of markets tends to go hand in hand with serious economic adjustment costs, such as job losses in certain industries, bankruptcies, and social hardship. These costs are politically high and increase the number of disaffected people. In addition, because FTAs appear to benefit the United States or Europe disproportionately, this will have the effect of strengthening the negative perception of Western-led globalization.

Perhaps idealistically, the FTAs and other accords envisage promoting a prosperous and stable MENA region while protecting the EU and United States from terrorism. Trade agreements provide opportunities, not guaranteed results. The current U.S. and EU initiatives are a step in the right direction, but they alone cannot lead to robust, sustainable growth in the MENA region or create regional stability. The overall growth and precarious stability that the region has been able to achieve still has little to do with bilateral economic links with the United States or the EU. Nevertheless, FTAs and similar agreements show signs of increasing importance for both the West and the MENA region, with implications for EU and U.S. trade relations with other regions as well.

Notes

1 Diagonal cumulation refers to adding value to a product from sources in different countries, for example, in the case of QIZs producing garments from Jordanian, Israeli, and other inputs.

2 9/11 Commission, *The 9/11 Commission Report* (Washington, D.C.: U.S. Government Printing Office, 2004), pp. 378–379.

3 Robert Zoellick, U.S. trade representative, "United States and United Arab Emirates Sign TIFA," press release, March 15, 2004.

4 Simon J. Evenett and Michael Meier, "An Interim Assessment of the US Trade Policy of 'Competitive Liberalization,'" *World Economy* 31, no. 1 (January 2008): pp. 31–66.

5 Robert Zoellick, op-ed, *Washington Post*, September 20, 2001.

6 Syria participates in the Euro–Med initiative, but its AA with the EU has so far not been signed.

7 See www.state.gov/e/eeb/tpp/c10333.htm.

8 On the related U.S. trade policy of competitive liberalization, see Evenett and Meier, "Interim Assessment."

9 This authority expired in June 2007.

10 See www.state.gov/e/eeb/tpp/c10332.htm.

11 However, the Bush administration's plan for a broader Middle East FTA will gradually undermine the QIZ framework and divert investment toward countries that achieve bilateral preferential agreements with America.

12 See http://ec.europa.eu/external_relations/euromed/med_ass_agreemnts.htm.

13 For the Agadir countries, the textiles and garments sector faces competition from Asia, particularly China. This became stronger with the abolition of European quotas in January 2005, but the countries in the Agadir region have been able to continue exporting to Europe. In addition to low wages, investors in the sector profit from a number of financial, technical, and regulatory incentives, as well as preferential access to European markets. With regard to automobile components, among the Agadir countries, Tunisia is exporting cables and spare parts, mainly to Germany and Italy; and Morocco, which has about 2 million cars, is trying to form an alliance with Renault and Nissan to produce 200,000 vehicles annually by 2010, mainly for export, as well as to manufacture other cars locally.

14 International Monetary Fund, *Direction of Trade Statistics 2007* (Washington, D.C.: International Monetary Fund, 2007).

15 Ingrid Melander, "EU Leaders to Endorse Mediterranean Union," Reuters, March 14, 2008.

16 The Jordanian authorities cannot ban or even severely restrict the participation of foreigners in QIZs. According to current regulations in the country, a high percentage of workers in the zones may be non-Jordanian; also, practically, it would be difficult for all jobs in QIZs to be filled by Jordanians, because they might not have all the required skills and/or might not accept the wages and work conditions prevailing in the zones.

17 The National Labor Committee "US-Jordan Free Trade Agreement: Descends into Human Trafficking and Involuntary Servitude" May 2006, www.nlcnet.org.

18 W. Hadfield, "Jordan's US Trade Surplus Down 37 percent," *Jordan Times*, March 6, 2008.

19 Maghreb Arabe Presse, "Trade Deficit Up 33 Percent Up to October," December 3, 2007.

20 R. Harmak, "A qui profitent les ALE?" [Who benefits from free trade agreements?], *L'Economiste* (Rabat), February 13, 2008.

21 M. Bolle et al., "Qualifying Industrial Zones in Jordan and Egypt," Report for Congress (Washington, D.C.: Congressional Research Service, 2006).

22 Agence France-Press, "EU Plays Down Egypt Crisis," February 26, 2008.

23 K. Weber, "The Nexus between Conflict Prevention and Development: A Comparison of the QIZs in Jordan and Egypt," *Conflict in Focus* (Jordan Institute of Diplomacy), issue 20 (August 2007): pp. 6–8

24 See www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_Special_301_Review/asset_upload_file884_11123.pdf.

25 L. O'Neil, "The Nexus between Prosperity and Peace," *Conflict in Focus*, issue 20 (August 2007): pp. 1–2

26 Within MENA, Israel also has both an AA and a U.S. FTA.

27 M. Matthijs, "US and EU Trade Policy towards the Middle East: A Comparative Assessment," *Conflict in Focus*, issue 20 (August 2007): p. 11.

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