

## **The Agadir Declaration, the Euro-Med. Partnership and the Potential to Foster Arab Economic Integration**

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### **ABSTRACT**

Attempts aimed at enhancing inter-Arab integration have been abound. Unfortunately, to date, these efforts have been unsatisfactory and indeed discouraging. This paper critically evaluates previous attempts by shedding light on the underlying reasons that made closer inter-Arab integration difficult to achieve. Lack of genuine commitments, the absence of private sector involvement, and political considerations have been key factors that have inhibited the expansion of inter-Arab trade relations.

However, developments that have unfolded in the global political system and their implications on the regional dynamics have given impetus to what could be termed as sub-regionalism. Influenced by the concept of sub-regional integration, four Arab countries (Jordan, Egypt, Tunisia and Morocco) signed the Agadir Declaration in May 2001. The primary objective is to enhance trade and cooperation amongst this group of like-minded states. This paper makes that case that the Agadir Declaration, if managed properly, has the potential of taking the issue of regional integration to a higher gear.

### **I. INTRODUCTION**

The idea of free trade derives from the rationale that openness is associated with a more competitive environment, which leads to higher productivity and better utilization of resources. Arguments in favor of free trade have gained more strength after the collapse of the former Soviet Union and the failures of protectionist policies to achieve their desired goals. Hence, many developing countries have adopted free trade as a means of integration with the rest of the world in the era of globalization. Integration is commonly believed to enable countries in overcoming barriers and limitations of small size and lack of adequate human and physical capital.

The main conduits in the Middle East for implementing openness are the World Trade Organization (WTO), other bilateral or regional initiatives, and agreements such as the Euro-Med Partnership (EMP). Their basic idea is to implement a formula to promote trade among different countries and regions in order to maximize gains and welfare that should emanate from trade. Developing countries have

been granted several concessions in their endeavor to integrate with the rest of the world in terms of gradual elimination of tariff barriers and non-tariff measures. Furthermore, international rules permit regional integration or sub-regionalism and provide preferential treatment and concessions for countries involved in free trade regional blocks.

In the following sections, the paper illustrates the rationale behind the concept of regionalism and briefly elaborates on the concept of the Rules of Origin (RO) before reviewing several Arab attempts that have been pursued to enhance intra-Arab trade and reasons as to why they have failed to realize their objectives. Analysis will be conducted in the framework of three simultaneous agreements that are currently effective and how they relate to each other, namely the Euro-Med Partnership (EMP), Greater Arab Free Trade Area (GAFTA) and the Agadir Declaration (AD). The section following will discuss why AD (made up of Jordan, Egypt, Morocco and Tunisia) elicits an opportunity for success.

### **II. Why Regionalism?**

Regionalism is a concept that refers to an economic cooperation zone that includes states and is not necessarily restricted by geography. Thus, any number of

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Arab states that gather in one group, regardless of proximity, is looked at as a sub-regional grouping. Utilizing the concept of regionalism, we can identify numerous attempts among several Arab countries that have aimed at sub-regional groupings. To mention a few: the Arab Common Market of 1964, the Gulf Cooperation Council (CSS) in 1981, and the Arab Cooperation Council (ACC) of 1989. The distinguishing factor of these organizations is that they never exhibited an impressive level of economic cooperation, despite their lofty economic goals.

The judgment on the desirability of regionalism, from a neo-classical perspective, hinges on whether regional agreements are more likely to build general political support for liberalization more generally or to undermine it—that is, whether trade blocks are building blocks or stumbling blocks for global free trade (Frankel, 1997).

Regional integration agreements are often driven by foreign policy and national security considerations. Indeed, these considerations often predominate over economic costs, which are regarded as the price to achieve the non-economic objectives. Some problems, issues or even strategies may be shared by only neighboring countries, and may therefore be better resolved on a regional basis rather than broader arrangements that involve non-homogenous countries (Hoekman and Kostecki, 2001).

In the scholarly literature, there are two types of integration. The first is 'Shallow Integration,' which refers to the reduction or elimination of border barriers to trade. The second is 'Deep Integration,' which refers to inter-governmental cooperation in designing and applying domestic policies such as taxes, health and safety regulations. Deep integration may involve harmonization of policies or mutual recognition of regional partners, and generally occurs in the context of regional integration agreements (Franco, 2001).

Experience in the Arab World shows that implementing steps towards deep integration measures is easier when a set of preconditions prevail, as shall be demonstrated later in this paper. The GCC and AD countries will serve as examples.

Unlike European partners to the Euro-Mediterranean Partnership (EMP), in which states' relations are cooperative and as a result have become more integrated, countries to the south have suffered from fragmentation. What makes matters even worse is the clear tendency among the partners in the south to interact individually

with the north. The fact that the Arab World is the least economically integrated region in the world is not a secret. Although the Arabs' aspiration for economic cooperation and integration are almost the same as the Europeans', their record is clearly unimpressive in this regard. The lack of cooperation has nothing to do with a shortage of agreements. On the contrary, there have been many bilateral and multilateral agreements among Arab countries, but these attempts never come into fruition.

It is clear in our analysis that we assume that a more liberal trade regime will result in a welfare gain as postulated by the neo classical paradigm. There are social aspects of freeing trade abruptly. Small and medium scale industries in the four countries might suffer. However, we argue that small and medium firms will be adversely affected since AD aims at consolidating efforts to target a third market and to enhance export potential. Trade flow among the members of AD will exploit the competitive edge for each member as a natural consequence of the declaration itself. Indeed, small and medium firms might benefit from the agreement if it succeeds in opening up new markets wherein large firms will rely on small firms for their operations. One also needs to pay attention to the few sensitive sectors such as textile and agriculture. This was analyzed extensively by Handoussa et al. (2001).

### III. Rules of Origin (RO)

The south-south component of the EMP is still quite far from the web of Free Trade Areas (FTAs), which are intended to eventually cover the Euro-Mediterranean areas. South-south integration, as a necessity, must be supported by common rules of accumulation or origin, the utilizations of which, in the EMP association agreements began in 1996.

The nature of rules of origin accumulation was systematically included in the agreements signed between the EU and partner countries. Diagonal accumulation was authorized in the partnership agreements signed during the 1970s with the Maghreb countries (Algeria, Morocco, and Tunisia) but not in the agreement simultaneously signed with the Mashreq countries (Egypt, Jordan, and Syria).

With regard to the rules of the origin it was suggested that Mediterranean Partner Countries (MPC) should set up three procedures (Handoussa and Reiffers, 2001). First, they must deploy greater efforts to create free trade areas amongst themselves and to apply a similar RO system in order to strengthen intra-regional trade. Second,

they should agree to adopt similar mechanisms of administrative co-operation to monitor the enforcement of the rules of origin as well as the respect of all committed partners within the framework of current agreements with the EU. Third, they should reduce their multinational duties to avoid the occurrence of the 'hub and spoke' effect generated by RO. As is clearly understood, these measures fall under the umbrella of deep integration and require a serious engagement between the involved countries.

The signing of the Agadir Declaration (AD) which includes Egypt, Jordan, Morocco, and Tunisia has given impetus to the notion of south-south sub-regional integration. AD came as a new hope to the region and, if appropriately implemented, has the potential of serving as a genuine first step on the road to intra-Arab regional economic integration. Essential to realizing the objectives laid out in the Barcelona process is the improvement of the way that the southern partners relate to each other. From this, one can assume that a successful implementation of the Agadir Declaration and its expansion will only have a positive spillover effect on the whole EMP and GAFTA countries. Needless to say, the realization of benefits from regional trade agreements does not contradict or undermine gains from other regional and broader agreements as long as the ultimate goal is to open and utilize common rules of origin. In that direction, Gaulier and Kezenci (2000) reached the same conclusion as far as the Mediterranean countries are concerned.

#### **IV. Review of Arab Economic Cooperation**

Arabs attempts to reach a sort of regional cooperation or integration are a fundamental characteristic of the history of inter-Arab cooperation. As early as 1950, member states of the Arab League produced the 'Treaty for Joint Defense and Economic Cooperation'. This treaty includes political and security components, yet, there was an awareness among the treaty's initiators of the need to activate inter-Arab economic relations. The economic objective of this treaty was to support cooperation in order to construct strong Arab economies through joint investment and through an exchange of industrial and agricultural products (Abul Rahim, 2002). In this treaty, there was an emphasis on the need to arrive at tariff reductions and on measures to make the movement of people and capital much easier. This agreement was followed in 1953 by another, the 'Convention for

Facilitating Trade and Regulating Transit,' which represents an agreement to abolish tariffs on minerals and agricultural products among member states of the Arab League.

The Suez War in 1956 created sentiments of solidarity among the Arabs and culminated in the creation of the Arab Economic Unity Project of 1957. The project was also given momentum by the successful creation of the European Economic Community at that time. However, the lack of political will to proceed with this project to its final stages brought about its failure. In addition, the Arab World has been divided between revolutionary countries and reactionary ones, which instigated conflicting political and economic systems that contributed to the failure of this project. Lastly, the fundamental variance in income among these countries and among people hindered the process.

The most important attempt, however, was in 1964 with the creation of the Arab Common Market, which aimed at creating a free trade area among the Arab countries. Egypt, Jordan, Morocco, Syria, and Kuwait signed the treaty, which introduced a new element: all duties and quantitative restrictions among the signatories should be abolished by 1974, albeit on a gradual basis. It turned out to be a rather thorny issue as during each round of talks every country presented a list of goods to be exempted from tariff reduction; indeed, little progress was achieved on quantitative reduction. Additionally, Kuwait also withdrew and therefore the idea was abandoned in 1971.

In another attempt at integration, the heads of state of Jordan, Iraq, Egypt, and Yemen signed the Arab Cooperation Council (ACC) in February 16, 1989. The following day, the Arab Maghreb Union (UMA) was established and included Morocco, Algeria, and Tunisia. Both initiatives were preceded by the establishment of the Gulf Cooperation Council (GCC) in 1981, which came as a reaction to two events: the Soviet invasion of Afghanistan and the Islamic Revolution in Iran in 1979. The GCC is made up of Saudi Arabia, Kuwait, Bahrain, United Arab Emirates, Qatar, and Oman. Despite the longevity of the GCC, it has not registered remarkable results.

The ACC was established to achieve 'the highest degree of cooperation, coordination, integration and solidarity among the member states.' (Ryan, 1998). Unlike many previous Arab attempts, the charter of the ACC emphasized the economic dimension of inter-Arab

cooperation. The presence in one group of the formidable Egypt and Iraq with that of the historically stable Jordan led to some strategic concerns in countries such as Syria and Saudi Arabia. The ACC managed to assuage these fears and Saudi Arabia soon signed a non-aggression pact with Iraq. However, the ACC did not survive the Gulf crisis in 1990-91 when Egypt defected and joined the American-led coalition to liberate Kuwait thus the initiative was shelved.

The interesting question here is why, despite the many attempts for economic cooperation or integration, has the Arab World failed to see remarkable results? Obviously, there are straining factors that have prevented better economic cooperation and integration among the Arab countries. Without a conscious effort to avert the negative impact of these factors, sustainable economic cooperation cannot be expected to last. These factors range from domestic to regional to global and from economic to political.

Generally, the policies of Arab governments discourage trade within the region. With the exception of the GSS countries, which maintain relatively open trade regimes, most other Arab countries impose major trade barriers. The average import tariff for the region as a whole is higher than that of any other region except Africa. Non-tariff barriers include restrictive licensing, outright import bans and state trade monopolies, restrictive foreign exchange allocation and multiple exchange rates have characterized many Arab countries' trade policies until recently. Moreover, differences in economic strategy in general discourage intra-Arab trade.

The structure of the economies in terms of the sectoral share, in the gross domestic product in the Arab World tend to discourage intra-regional trade. This is to say that resource endowments in the Arab countries are broadly similar, as are the goods they produce, thus lessening the potential benefits from trade. Likewise, the lack of a diverse industrial base limits opportunities for trade based on product differentiations.

Unfortunately, throughout the history of inter-Arab relations, there has never been a single state which has had a vibrant economy and at the same time a commitment to the principles of liberal economics and free trade. Both conditions are thought to be essential to encourage other states to open up their economies (Soltan, 2002). What mars the situation, however, is the fact that Arab economies tend to produce similar commodities and therefore there is little to exchange. The

volume of inter-Arab trade, according to the most optimal estimate, has never exceeded ten percent of their external trade (see table 1). Therefore, the general lack of complementarity has not offered strong incentives for more economic integration and indeed has contributed to the low level of inter-Arab trade (Hudson, 1999).

A major obstacle for inter-Arab integration can be attributed to what Michael Hudson (1999) term 'indigenous obstacle.' For example, there has been a slow down of political reform within the Arab countries that responds effectively to new calls for transnational cooperation (Soltan, 2002). The Arab World has been witnessing the traditional forces as the dominant ones in the society as a whole. Their ability to wield power over the years has prevented the evolution of new more liberal elite who can respond to the new developments and challenges of the international system. Mark Heller (1999) argues that the lack of regional economic openness has to do with the struggle between 'internationalist' and 'backlash' forces within each state. For regional cooperation to be appreciated and pursued, the 'internationalist' forces in each state should be dominant. These 'internationalist' forces are free from traditional, protectionist, and narrow-minded values that continuously gave precedence to their nationalist agenda and hampered the process of regional integration during the past five decades.

Second, the Arab state system inherited during the process of de-colonization, the subsequent prevalence of the balance of power principle, and the inter-Arab rivalries have influenced many leading Arab states to think of economic integration as a means to gain political influence. This understandably discouraged 'threatened' countries from considering the idea of in-depth economic cooperation. This also created a situation in which all states, with no exception, think of their survival and security as a top priority. Therefore, economic development that is contingent on a regional approach remained high in each state's national agenda. It is clear that Arab governments, especially during the first three decades of independence, showed a great tendency to deal with short-term political problems that affected the regime and ignored longer-term economic considerations. This explains why economic development has never reached the desired level. The resultant mistrust among Arab regimes has grave effects on the idea of regional economic development that is based on cooperation. Whether they are aware of this or not, the Arab regimes

subscribe to the realist school of thought of international relations. Realism gives priority to 'high politics' based on military and ignores 'low politics' based on economy thus deeming economic cooperation difficult under the state of the anarchic international system. The anarchic structure of the Arab state system generates obstacles for integrative political and economic activities. In such a self-help system, states tend to design their policies in the interest of survival and security. Many of the Arab unity projects were driven by ideological motives and thus posed a threat to the nation-state. That explains the reluctance of the 'threatened' countries to join forces. Arab regimes on the whole have always been unwilling to subordinate what they see as national interests to regional ones. This has undermined regional integration efforts. In addition, factors such as illiteracy, population explosion, the vast inequality between poor and rich countries, and the variation in the living standards of the Arabs all contribute to the lack of integration.

Another important reason for the lack of economic integration is the fact that political will has not been strong enough to overcome all barriers. Coupled with this is the fact that Arab countries pursued different paths to achieve development. For example, the idea of the Arab Common Market came into being during the high tide of Import Substituting Industrialization (ISI). This means that priority was given to domestic attempts to achieve industry with the aim to stop further imports. This clashes with the idea of 'opening up', a necessary prerequisite for economic integration. In addition, different countries attribute diverse importance to the private sector. Few countries pursued socialist policies with little role assumed by the private sector. On the other hand, there are countries that ascribe a greater role to the private sector. This imbalance has led to the fact that in a few countries there was an emerging private sector while in other countries trade was managed by the state.

Still, more factors negatively impacted the prospect for inter-Arab cooperation and the southern partners to the rest of the EMP. Chief among them is the unresolved Arab-Israeli conflict and the total breakdown of the Middle East peace process. This regional political security situation has arguably discouraged the process of economic openness amongst partners. The persistence of the conflict only helps the traditional forces to set that national agenda, with its affinity for conservatism, based on the notion of protectionism (Soltan, 2002). Also, because of the conflict, the Arab states have channeled a

large share of their Gross Domestic Production (GDP) to the army in order to protect themselves from the perceived Israeli threat. Therefore, the oft-run argument is that solving the Arab-Israeli conflict fairly in every aspect will help the Arab countries to re-channel their military expenditures to development and will also allow for Israel to be integrated into the region. A majority of Arabs believe that solving the conflict is a prerequisite for an in-depth regional economic integration. Thus, the conflict has obviously contributed to the lack of development and investment in the Arab countries which further aggravates the economic situation<sup>1</sup>. However, others do not accept this sequence. Mark Heller (1999) challenges it by denying any intrinsic reason that this sequence must prevail: "It is nevertheless clear that decision makers in leading Arab states either believe that this sequence is simply unacceptable to their publics or else have decided, as a matter of policy, to view the issue of regional cooperation in instrumental geo-political terms, i.e., 'as a reward for Israel.' This being the case, there is little to be gained by focusing on the abstract logic of the proper sequence between cooperation and dispute settlement." The fact remains, however, that the unresolved conflict only aggravates the prospect of south-south integration. It should be emphasized that rate and foreign direct investment is adversely affected by continuing hostility between the Arab countries and Israel. Clearly, the real challenge in liberalizing trade depends more on the implementation and the actual measures taken on the ground more than on the good intentions.

## **V. Agreements Governing Trade Relations**

### **V.I The Euro-Mediterranean Partnership**

The Euro-Mediterranean Partnership was established at a Conference of Ministers of Foreign Affairs in Barcelona on November 27-28, 1995. Its final Declaration is ambitious and far-reaching reflecting the joint initiative by 27 partners. The aim of the Euro-Mediterranean Partnership is to create peace, stability and development in a region, which is of vital strategic importance for Europe.

The EMP focuses on three main objectives-often referred to as the three "Chapters" or "Baskets":

1. The creation of an area of peace and stability based

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1. Interview with the Jordanian Minister for Economy, Samer Tawil, Amman, 12 November 2002.

- on the principle of human rights and democracy (Political and Security Partnership – or “Basket I”).
2. The creation of an area of shared prosperity through the progressive establishment of free trade between the EU and its Mediterranean partners and amongst the partners themselves (Economic and Financial Partnership – or “Basket II”).
  3. The improvement of mutual understanding among the people of the region and the development of a free and flourishing civil society (Cultural, Social and Human Partnership or “Basket III”).

The Euro-Mediterranean Partnership has two dimensions: a bilateral one and a regional one. The bilateral dimension is mainly driven through the conclusion of "Association Agreements" between the Mediterranean partners and the EU and the political, economic cultural dialogue building on them. The ultimate aim of this bilateral dimension is to establish a Euro-Mediterranean Free Area by 2010. At the time of the Barcelona Conference, all partners had realized that creating more favorable conditions for Foreign Direct Investment was crucial for the economic development of the Mediterranean. The regional dimension of the Euro-Mediterranean Partnership, by contrast, has as its backbone a set of forums, networks, programmes and projects in areas falling within the objectives of the three baskets.

In 1998, the European Commission proposed new measures aimed at strengthening regional cooperation. These measures include technical assistance, training, advice and cooperation and would be financed by MEDA, the European programme for Mediterranean partner countries. These issues cover several subjects such as customs and taxation and in particular the implementation of rules governing accumulation of origin; approximation of customs and tax administration; and mutual assistance. In addition, measures related to movement of goods, government procurement, financial services and competition rules have been included. These are the major issues believed to be delaying the process of regional integration and hence they have been subtly addressed.

## V.II. The Greater Arab Free-Trade Area (FAFTA)

In 1996, the programme for the creation of the GAFTA was adopted by the Arab summit in Cairo. To set up this free trade area, eighteen Arab states approved a working programme that went into force on January 1,

1998. This agenda, based on an agreement signed in 1981 for the facilitation and promotion of intra-Arab trade agreement, foresaw a 10% customs reduction every year for ten years so as to reach a total dismantling of customs at the end of the year 2007.

For a product to gain from the absence of customs, the local value added must be 40% as opposed to different sets of rules stipulated in the Euro-Med agreements. Rules of origin included in the GAFTA do not contradict the sort of preferential treatment of the rules of origin stipulated in the EMP agreements.

The main problems facing GAFTA concern Non-tariff Measures (NTMs) and rules of origin and other duties and extras. NTMs are significant obstacles to intra-Arab trade. Differences between national trade regimes increase the transaction costs of external trade and by doing so negatively impact the competitiveness of some national industries and the volume of trade. Some Arab countries have heavy regulations and import restrictions such as quality control measures and the numerous certificates required for imported products to enter Arab markets.

The lack of accumulation for rules of origin in GAFTA has led many members to request exemptions for some products so as to avoid the competition of products from other regions.

It is quite clear that the same obstacles that GAFTA faces are those pinpointed by the European commission in 1998. Resolving these issues means facilitating trade and opening up, hence harmonizing many administrative measures. This will result in greater regional integration.

## V.III. The Agadir Declaration

There is an increased theoretical awareness among the Arab countries that in the era of globalization, they cannot survive and prosper without having some sort of regional integration. It has almost become an axiom that people, even nationalists, consider regional groupings the only answer, or to some, the weapon to alleviate the negative impact of the world's increased globalization. The Arab states who recognize their relative weakness, organize themselves in groups to increase their collective bargaining power *vis-à-vis* other more advanced regions.

Due to the advent of the age of globalization and the presence of an external player willing to help the south develop, and the increasing awareness in the south that it would be advantageous to coordinate their economic policies, the four countries Egypt, Jordan, Morocco, and

Tunisia signed the Agadir Declaration.

Interestingly, cultural factors such as religion and language are not the only precondition for driving states into sub-regionalism (Whitman, 2002). Shared threat perceptions should indeed provide some impetus for a more intense level of economic cooperation. After almost seven years of the EMP, the Arab partners began to understand the asymmetry of power and influence between themselves and the EU. Therefore, many among them started to view sub-regionalism as the only avenue for Arab states to acquire more weight in their dealings with the EU. In this connection, the EU's role is decisive in stimulating a more in-depth regional economic integration among the southern partners. Most Arab partners to the EMP have signed the association agreements with the EU and this in turn is expected to trigger intra-Mediterranean and intra-Arab free trade (Rhein, 2001). The Agadir Declaration should be seen in light of the above argument.

The EU itself has set a very good model for the Arab World. The majority are convinced that embarking on a more serious attempt to achieve regional integration would enhance the economic situation of the Arab countries. The mantra that all Arabs produce the same commodity and therefore trade is not expected to go up should not be seen as an impediment to regional cooperation. Some argue that their largely competitive (and not complementary) economic structure is no longer an obstacle and could trigger a more useful division of labour (Rhein, 2001). The EU countries are trading in similar goods and services but with different standards and specifications in order to satisfy all consumers' tastes and desires. This could be possible in the Arab World if Arab countries could achieve a high level of production diversification and sophistication. Moreover, instead of competing with each other, countries in the south could cooperate to penetrate another market such as the EU.

In their last meeting in Oman, the leader of the GCC decided that a gradual expansion of the GCC will be allowed to include Yemen. This is a very important step because it came from what is widely known as the 'club of the rich'. This means that even these relatively well-off countries have begun to internalize the feasibility of expanding the current organization to include new members. An important factor-indeed-the very catalyst of this process, is the fact that the EMP has been functioning for seven years. The existence of the EU as an active player must convince the hesitant leaders of the necessity

to engage in regional integration. There must be no fear of domination as was the case before the end of the Cold War. The importance of this external factor is recognized by many as a way to neutralize the state of mistrust that has characterized Arab politics for decades. The reason for this capability is the fact that the EU has been trying to engage in the process of development and stability with its southern partners. The EU can positively facilitate the process of sub-regionalism by also providing necessary funds and technical or material backing.

Equally important, most Arab states have adopted a kind of economic liberalization by adopting a structural adjustment programme. Some of these measures are imposed by the IMF and the World Bank: these are external factors. However, internal dynamics in these four countries and the level of external debt coincide with the failure of the Import Substitution Strategy (ISS) to reach its desired outcome which has also contributed in accelerating the move towards a more liberal and export oriented strategy.

Notwithstanding what appears to be an anti-liberal mood, a majority of the Arab states has undergone an ideological transformation that could facilitate the prospects of integration. The victory of liberal principles is evident. Consequently, we have been witnessing over the last decade a slow but sure process of liberalization. Barriers to external trade of the Arab countries are being diminished. If reforms continue at this pace, these countries will achieve a firm position among the liberalized countries.

Agadir is different from other Arab attempts at economic cooperation. All members have concluded association agreements with the EU within the EMP, all of them are members of the WTO, Egypt and Jordan have peace treaties with Israel and Morocco and Tunisia are distanced from the conflict. Also, the four countries have proved their commitment to political and economic liberalization and the EU is available to help these countries iron out their differences, if necessary.

Against this background, aware of the potential economic benefits of sub regionalism, the AD was signed on May 8, 2001. The AD calls for the establishment of a free trade area that allows the four states to be open to other countries. The declaration can be attributed to the special relations of the four countries that are linked by four agreements: bilateral agreements among themselves, their association agreements with the EU, their membership of the all-Arab free trade, and their

membership in the World Trade Organization (WTO). The free trade area, launched by the Arab League is to be completed by 2007 and this agreement is open to all Arab states with special emphasis on the GCC.

It is worth noting that such an agreement has a potential success for not only economic reasons but also political reasons. As a result of the Arab history of a lack of cooperation, it is clear that a sort of political understanding is necessary if economic cooperation is going to succeed. One could safely argue that the four countries are like-minded states who are governed by moderate regimes and enjoy good relations. Morocco has good relations with Israel, and Tunisia is governed by the moderate regime of Ben Ali. The four countries have proved their commitments to political and economic liberalization.

The Agadir Declaration has five objectives. First, coordination among the four states regarding trade with the EU. Second, realizing industrial and economic integration among the four states in a way that guarantees the production of industrial goods with competitive capability to enter the EU markets. Third, to benefit from laws of accumulation of multilateral origin included in the associations, agreements with the EU in order to increase their exports to the EU market. Fourth, encouraging investment in industrial areas between the four countries. Fifth, supporting and increasing economic and trade exchange among the four countries (The Ministry of Trade and Industry). The agreement, according to Jordanian economist Reem Badran, will constitute an incentive to the Jordanian investors in particular, and the Arabs in general, to take advantage of the process of export and the accumulation of the rules of origin. The agreement will also enhance the possibility of setting up Arab industry complementarity which will increase its competitiveness and its ability to export to the EU.

Enhancing the intra-Arab integration has been the objective of all the Arab treaties concluded over approximately the last 50 years. AD in this context complements this unfulfilled objective by encouraging four Arab countries to benefit from the principle of the cumulative rules of origin that would facilitate the qualification of these countries' exports to penetrate the EU market. Export penetration would be possible because Jordanian producers can use Egyptian intermediate inputs in the process of assembling a final product that could be exported to the EU market. This is already applied in

Tunisia and Morocco. It is evident that AD would enhance both intra-Arab trade between the EU and those four countries. Additionally, Algeria and Lebanon are potential candidates for joining AD as the EU encourages such expansion.

The drive for sub-regionalism grows, particularly because of the support for such orientations among the Arab countries. Five research centers in Jordan, Syria, Lebanon, Palestine and Egypt conducted a series of field surveys in 2000-2001 in order to obtain the view of different social categories on local economy and bilateral relations of cooperation among the Arab Mashreq states. The studies found that the majority of respondents supported the idea of regional integration in all countries surveyed (For an executive summary of the result, see [www.css-jordan.org](http://www.css-jordan.org)).

The aforementioned study involves two stages. The first one focuses on the macroeconomic issues, whereas the second one focuses on the microeconomic issues. The survey covers a broad society that includes 2000 productive projects, an average of 100 of each of the four sectors in each country. The total number of respondents in the national sample was 6000 in five countries with an average of 1200 respondents in each country.

The survey attempts to arrive at a profound analysis for each economic sector, its productive activities and its prospective role in realizing inter-Arab economic integration. Presenting the results of this study goes beyond the scope of this paper although it is important to mention the general conclusions. First, considering the exceptional cases of the Palestinians under occupation, the majority of respondents in the five countries tend to emphasize the problems they face at the domestic level. These problems are the negative economic situation, unemployment, and the administrative and financial corruption. A high percentage expressed fear from external borrowing and the programmes of the World Bank and the IMF. A majority tend to choose, for example, supporting small projects on the domestic level; encouraging the private sector to invest; attracting other investment aid, and grants from the Arabs; and establishing a common Arab market and an Arab free trade area. Also, a high percentage tends to prefer joining the Euro-Mediterranean partnership and the WTO.

The motivation behind creating AD is the creation of a sort of industrial complement among the Arab states that signed the association agreements with the EU in order to benefit from the accumulation of origin in order

and exemption.<sup>2</sup> This in turn will enhance the potential of each state to export to Europe. If the GCC-EU agreement allows, the GCC will be permitted to join. Consequently, it is premature to talk about the expansion of the AD to include most of the Arab countries. All in all, if these four countries make a marked progress in realizing the objectives of the declaration and if their leverage is enhanced *vis a vis* the EU, other countries would be induced to join the Agadir group or alternatively form other sub-regional groupings.

Having said that, however, one needs to consider the many problems and obstacles that need to be resolved. Despite the good intentions of the four countries, they are still in the negotiation process. There are differences between their agreements with the EU regarding the place of origin, the exemption granted for each, stages for freeing commodities, advantages and exemptions assigned for agricultural goods and manufactured goods, and the date of entry force for each one.

Although Lebanon and Algeria are expected to join, there remain problems facing an Arab economic integration, such as the similarity of the natural resources. Also, local industry came into being and flourished under protectionism and has been directed for local markets and neighboring ones. As a consequence, industries in the Arab countries adopted different economic policies and need some time to adopt the same policy, for example, economic liberalization.

## **VI. The Potential for AD Success**

Viewing the above three agreements reveals that a free trade among these countries is the grand objective. What makes AD even more appealing is the desire of the four countries to take a far-reaching step and abolish any Non-Tariff Barriers (NTBs) that could hinder trade, simply because the four countries are aware of the potential benefits that could be exploited from such cooperation.

The four countries underwent major structural adjustment programs under the auspices of the World Bank and the IMF since the early 1990s. Similar policies have been adopted with the private sector assuming an emerging role in these countries. The AD countries had already abolished many trade restrictions and NTBs in the process of integration with the rest of the world. Each

of the four countries follow fixed exchange rates, which means that there is no problem concerning foreign payments.

Furthermore, their level of per capita income resembles each other. This means that their consumer preferences are similar and hence there is a good potential to increase their level of intra-trade which represents a low percentage of share of their foreign trade as table (2) exhibits below.

In absolute terms as table (3) below exhibits, the existing volume of trade is very limited. There is a trade deficit between some of the countries and it seems that that there is room for increasing that volume and to balance the trade between these countries.

The private sectors in these countries are relatively progressive within the four countries and are keen to attract foreign investment. Concerned authorities are aware that trade barriers reduce incentives for international firms to locate in the region. The most lucrative option for foreign investors is to locate their investment in the region governed by a free trade area because this would secure these firms access to the entire region.<sup>3</sup>

Additionally, the average tariffs in the four countries are moderate and reducing them would only have limited negative implication concerning government's revenues. It is also important to note that the average tariffs are not highly dispersed among the four countries which indicate that the level of protection provided by these countries is quite similar. Hence, other policies governing the rest of the economy are expected to be more attuned than when there is a higher degree of dispersion in the level of protection.

Also, the manufacturing sector in the four countries would be marginally affected due to the limited amount of trade taking place currently among the four countries as table (1) shows. Furthermore, it is expected that trade would take place in goods and commodities that could be employed as intermediate input to produce other final products that could have the potential to penetrate the EU market. This means that AD would result in 'trade creation' between the involved countries more than 'trade diversion' as a result of adopting common rules of origin. Table (4) below exhibits some of the common features among Agadir Declaration countries.

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<sup>2</sup> Interview with the Jordanian Minister of Economy, Samer Tawil, Amman, 12 November 2002.

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<sup>3</sup> Economic Trends in the MENA Region 2002, Economic Research Forum for the Middle East, Iran and Turkey (ERF), Cairo, Egypt.

Should this initiative succeed, it will create another important pillar in the development of a free trade area in the Mediterranean. This will definitely come into being if the EU lends it a considerable technical, financial and political support thus enhancing deep integration measures in the Mediterranean region as a whole. Other countries are expected to join.

The real challenges to the materialization of the AD are the adherence to delivering what has been pledged in terms of facilitating trade and NTMs and to providing adequate logistics and infrastructure that may reduce transport cost and enhance competitiveness of the countries involved.

## VII. Conclusion

Sub-regionalism in a form similar to the AD can yield good results and is compatible with the GAFTA and EMP agreements. The AD could be the nucleus of an Arab common market capable of attracting and increasing exports to the European states by benefiting from the accumulation of the rules of origin. Free trade among AD countries means extending the same treatment to other Arab countries and therefore enhancing intra-Arab trade. Effectively, this is the ultimate goal for GAFTA and stipulated explicitly in the EMP.

This will also develop the industrial ability of the four countries to the EU. A Jordanian product, for instance, can be exported to the EU market with inputs from Egypt, Tunisia, and Morocco. This pattern of production is encouraged by the EU in its endeavor to enhance south-south integration.

The EU can help financially and technically in this process. This can be done through or in cooperation with MEDA by identifying and then rectifying the technical differences that may hamper the implementation of the

AD. For example, one of the positive achievements of the AD is the harmonization of the rules of origin stipulated in the four association agreements signed by the EU and the members of the Agadir group.

By adopting different rules of origin in previous association agreements, the EU, probably unwittingly, has not encouraged south-south integration. Applying unified rules of origin will enhance AD countries' competitiveness and their potential to penetrate exports markets. Other concerning issues are standards of specifications and other sets of rules that govern trade. These countries have to work diligently to streamline their trade procedures to make it easier for this group to integrate with both other Arab countries within GAFTA and with the EU.

Clearly, steps taken to enhance trade among AD countries can be seen as a complement to both EMP and GAFTA. As long as the idea for free trade is to remove trade and NTBs, sub-regionalism will not hinder the wider process of integration. It is more likely that AD would result in boosting trade creation, not trade diversion.

Even by accepting this conclusion and drawing lessons from previous attempts in the Arab World, a final verdict on the prospects of the enhancement of sub-regionalism in the southern part of the Mediterranean is still premature. The Agadir sub-regional grouping, if properly managed, will set a good example for others to follow in terms of deep integration which has been lacking in previous attempts of integration among Arab countries. AD will gain even more credibility if measures taken on the ground and in other countries join forces to maximize the welfare of their citizens. This is the ultimate goal of the process of integration.

**Table (1)**  
**Direction of Arab Trade (1980-2001).** **percent**

Destination	Exports				Imports			
	1998	1999	2000	2001	1998	1999	2000	2001
Arab Countries	9.3	8.2	7.0	7.6	8.4	9.4	10.0	9.6
USA	9.2	9.9	10.0	9.9	12.3	14.2	14.2	14.0
Japan	16.7	17.8	18.3	18.2	7.9	8.9	9.1	9.0
EU	23.8	26.4	28.0	27.9	39.6	41.0	42.0	42.2
South East Asia	10.1	11.6	12.8	12.5	5.5	6.0	6.4	6.4
Others	30.9	26.1	23.9	23.9	26.3	20.5	18.5	18.8
<b>Total</b>	100	100	100	100	100	100	100	100

**Table (2)**  
**Direction of Exports between AD Countries 2001.**

In percent of the Total

	<b>Jordan</b>	<b>Egypt</b>	<b>Morocco</b>	<b>Tunis</b>
<b>Jordan</b>				
Export (to)		2.2	0.3	0.6
Imports (from)		4.4	0.3	0.5
<b>Egypt</b>				
Export (to)	4.3		4.4	3.7
Imports (from)	1.9		1.9	1.4
<b>Morocco</b>				
Export (to)	3.9	10.5		9.8
Imports (from)	0.8	3.1		6.8
<b>Tunisia</b>				
Export (to)	0.8	5.9	7.5	
Imports (from)	1.0	8.2	9.8	

**Table (3)**  
**Volume of Trade between AD countries (2001).**

Million Dollars

	<b>Jordan</b>	<b>Egypt</b>	<b>Morocco</b>	<b>Tunis</b>
<b>Jordan</b>				
Export (to)		20.1	3.2	6.1
Imports (from)		51.6	3.4	5.3
<b>Egypt</b>				
Export (to)	25.1		25.7	21.7
Imports (from)	21.3		20.8	15.5
<b>Morocco</b>				
Export (to)	26.2	28.1		26.2
Imports (from)	63.5	28.9		63.5
<b>Tunisia</b>				
Export (to)	4.3	32.5	40.8	
Imports (from)	6.3	53.9	64.6	

Source: The Unified Arab Economic Report 2002 p. 315.

**Table (4)**  
**Common Features among AD countries.**

	<b>GNP per Capita</b>		<b>Trade in goods as a percentage of GDP</b>		<b>Tariff Barriers</b>	
	\$2000	\$Ppp*	1990	2000	Simple mean tariff	Weighted mean tariff
Egypt	1490	3670	27.4	18.9	20.5	13.7
Jordan	1710	3950	91.1	77.2	22.8	18.9
Tunisia	1180	3450	73.8	74	30	28.8
Morocco	2100	6070	42.9	56.7	33.6	25.8

*Purchasing Power Parity (PPP) measures the real purchasing power of the income taken into considerations the level of domestic and international prices and the rate of inflation.*

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