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Gonzalo Escribano

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Abstract

After several years of being blocked, the signing of the EU-GCC FTA (European Union-Gulf Cooperation Council Free Trade Area) seems imminent. The main objective of this paper is to shed some light on the EU-GCC relationship. It sets a conceptual framework, compares the EU-GCC Cooperation Agreement with other EU regional initiatives and explores the evolution of EU-GCC relations. The study points to the need for economic cooperation, including the long-awaited FTA, and cultural dialogue to transit from its current fragmented and low profile level to an institutionalized EU-GCC Partnership Agreement. Two qualifications are added: (a) EU-GCC relations should adopt a more sophisticated model than the Euro-Mediterranean Partnership; and (b) It should take into account the US strategy on the Middle East.

استعراض دولي سياسي إقتصادي للشراكة الأوروبية الخليجية

غونزالو اسكربانو

ملخص

بعد بضع سنوات من التجميد، فإنه يبدو أن توقيع اتفاقية منطقة التجارة الحرة بين الاتحاد الأوروبي ومجلس التعاون لدول الخليج العربية قد أصبح وشيكاً. إن الهدف الرئيسي لهذه الورقة هو تسليط بعض الضوء على العلاقة الأوروبية الخليجية، حيث تضع إطار عمل مفاهيمي وتقارن اتفاقية التعاون الأوروبي الخليجي مع المبادرات الأوروبية الإقليمية الأخرى وتستكشف نشوء العلاقات الأوروبية الخليجية. تشير الدراسة إلى الحاجة إلى تعاون اقتصادي يتضمن منطقة التجارة الحرة التي طال انتظارها، وإلى حوار ثقافي من أجل المرور من مستواه الراهن المجزأ والمنخفض إلى اتفاقية شراكة أوروبية خليجية ذات طبيعة مؤسسية. وقد أضيفت نقطتان من أجل

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تأهيل هذه العلاقة أولهما: أن العلاقات الأوروبية الخليجية يجب أن تتبنى نموذجاً أكثر تطوراً من الشراكة الأوروبية المتوسطية، والثانية: أن تأخذ هذه العلاقة بالحسبان الاستراتيجية الأمريكية للشرق الأوسط.

Introduction

After several years of being blocked, the signing of the EU-GCC FTA (European Union-Gulf Cooperation Council Free Trade Area) is expected in the second half of 2005. Most obstacles seem to have been overcome, like the GCC Customs Union, the GCC countries' concerns on political conditionality by the EU, and trade on EU sensitive products (like chemicals, petrochemicals and aluminium). However, some obstacles still remain for EU-GCC relationship to attain a partnership status. These obstacles have been listed in previous work on EU-GCC relations, e.g. like Saudi Arabia not being a member of WTO; institutional differences; US-EU differences on Middle East strategies; asymmetries in the volume of trade conducted with the EU such as Kuwait being more export-oriented towards Asia, while most of its imports come from the EU, etc.

At the same time, the US has launched an ambitious proposal for a US-Middle East Free Trade Area in 2013 — the US-Middle East Free Trade Coalition — encompassing from Morocco to Iran. At the time of writing this paper, Bahrain has been the last country to adhere to a list that already includes Morocco and Jordan. The UAE and Oman are the next countries to start free trade negotiations with the US. This initiative may be conceptualized as the economic instrument of the Bush administration's Great Middle East strategy and presents very relevant differences with the EU approach. The US initiative has received a lot of attention. In contrast, little attention is devoted by EU scholars to relations with the Gulf states, especially on bilateral economic relations.

In this context, the main objective of the paper is to shed some light on EU-GCC relations and its differentiated nature from the US approach. It starts by setting a previous conceptual framework based on the international political economy of EU external relations and its 'Europeanization'. It discusses EU-GCC relations within the different EU regional initiatives and focuses on the particularities of the EU-GCC Cooperation Agreement itself. It also highlights some observations on the international dimension of EU-GCC partnership and the need for the EU to upgrade the status of its

relations with the GCC, not in a competitive, but rather a complementary manner to US efforts.

The International Political Economy of Europeanization

Globalization has brought about challenges that transcend the economic sphere. Increased economic interdependency puts pressure on national socio-economic structures and calls for the adjustment of domestic policies to deal with an open economy environment. Economic development, together with international communications, generates social demands for the modernization of economic and political institutions. In the European case, as Helmut Kohl once put it, “Europeanization is the European response to globalization”⁽¹⁾. From the need to articulate such a response, a new set of ‘Europeanized’ foreign policies has emerged in the EU to conduct external relations.

to foreign investment, development aid, labor migration or cultural diffusion Nowadays, there is a growing consensus about the beneficial effects of international trade on economic and political issues. These results may easily be extended abroad. Two pre-conditions are needed if regionalism is to succeed (Mattli, 1999). First is the so-called demand conditions, i.e. there must be a strong potential for economic gain derived from economic integration, so that societies demand it. Secondly, the supply condition, i.e. the political willingness to match the integration demands, which depend on the expected outcome of regionalism. As far as economic welfare increases after integration, governments maximise their possibilities of remaining in office. The international political economy of regionalism shows how international economic relations may have political externalities, and how the domestic political and economic processes influence the political outcome at the international policy level. But regionalism is a bi-directional process, with integration outcomes influencing its member’s institutions and policies.

⁽¹⁾ Cited by Donoghue and Keatinge (1999, p. 11)

In recent years, some political scientists have looked at the concept of 'Europeanization' to analyze the impact of European integration in Member States' foreign policies (Ladrech, 1994). The concept has been mainly applied to changes in Member States' domestic institutions by the political science literature, and within it, by followers of the institutionalist approach (Börzel, 1999). It has also been pointed out that the concept may be extended to other areas of policy interaction, like external relations (Torreblanca, 2001; Vaquer, 2001). The concept of Europeanization has been applied to agricultural policies, microeconomic and macroeconomic policies – mainly EMU and employment, 'Lisbon' policies, pharmaceuticals, and even fisheries (Hennis, 2001; Schmidt, 2001; Barry, 2003; Hodson and Maher, 2001; Prange, 2002; Vaquer, 2003).

Hodson and Maher (2001) distinguish between the classical Monnet method of Europeanization through EU centralized policy formulation, and the 'open method for co-ordination' adopted at the Lisbon European Council in the year 2000. The latter is applied by setting guidelines and establishing benchmarks to foster the adoption of best practices by Member States, without any threat of formal sanction. The clearer example of the classical method is EU trade policy, a centralized policy with a high degree of institutionalization. A more open approach is being followed towards development aid, with the EU not only setting a centralized EU development aid policy, but also trying to influence Member States' development policies along its centralized patterns of fight against extreme poverty, decoupling aid from Member States foreign policies, and democratic conditionality. And hardly any EU-level policy or even guidelines exist with respect to immigration, foreign investment or cultural diffusion policies.

Indeed, Europeanization is mainly about Member States' changes in institutions and policies being path-dependent from a highly institutionalized model of integration – the 'community' model (Parsons, 2002). Some authors in the Europeanization literature have also underscored a distinct fact of path-dependency: that domestic institutions do not always immediately adapt to external changes (Olsen, 2002). Börzel (1999) employs the term 'institution dependency' to explain how Spanish and

German regions reacted with different strategies to face centralizing pressures stemming from EU policy-making taking place at the national government level. Europeanization is received and projected along domestic existing institutions and interests. Path-dependent europeanization may bring about illiberal convergence, e.g. EU protectionist agricultural policies. More interesting to the purpose of this paper is the process of 'europeanization without Europe' experienced by non-EU European countries. Indeed, this may be viewed also as the model of the new EU proposal to its neighbours, as expressed in the new EU Neighbourhood Policy.

EU Models of External Relations

There are several models applied by the EU to manage its external relations. In addition to being a key factor in the multilateral trade system, the EU has always incorporated other areas apart from trade in its bilateral or regional agreements. The first generation of agreements, the Cooperation Agreements, already included several non-trade concerns and instruments. In spite of being the biggest player in international trade, EU external relations have never been a 'just trade' issue. As a 'civilian power', the EU has focused on substantial financial and technical cooperation (it is the first international donor), and pursued a comprehensive approach to political and cultural dialogue among civil societies. However, given its prominence in international trade, the most visible aspect of EU external relations always comes to be trade arrangements.

Conceptually, three models of institutionalised EU external relations may be distinguished: (a) At the lowest part of the preferential pyramid, may be found Cooperation Agreements; (b) Association Agreements; and (c) there is a heterogeneous pyramid's peak, made out of customs unions and single markets. For sure, the most successful EU external relations model is enlargement, but it is barely relevant to the current purpose of this paper. These agreements may be understood as concentric circles encompassing successive countries or groups of countries, according to its geo-political and geo-economical significance for the EU and the willingness of the countries themselves to develop a preferential relation with it (Figure 1).

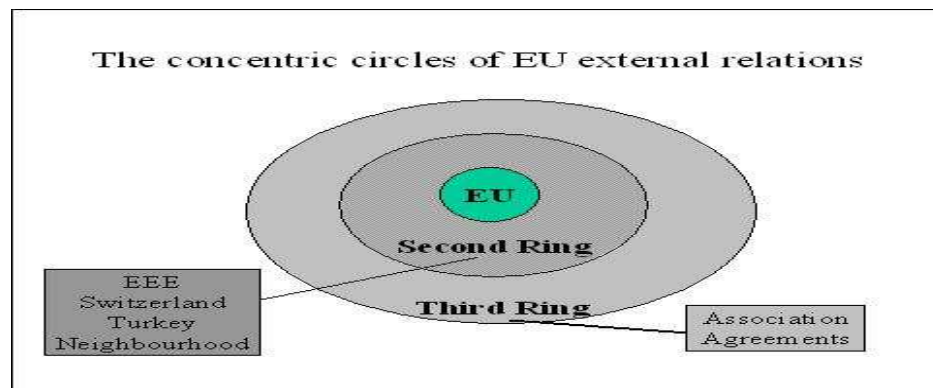


Figure 1.

The core or the first ring is comprised of EU Member States. Single market and/or customs unions are granted to the second ring partners, some of which may be candidate countries expecting to enter the EU core (e.g. Turkey), or unwilling to adopt the EU political institutions and procedures but wishing to benefit from the European Single Market (EEA countries). The third ring partners are offered comprehensive Association Agreements and may qualify to enter the second ring depending upon their ability to cope with EU's competitive pressures and to accomplish EU's institutional criteria. Preferential and Cooperation Agreements constitute the periphery of EU external relations, but may eventually lead to the second ring under specific circumstances.

Preferential Agreements. Preferential treatment by the EU to third countries varies greatly from preferential access to EU markets to institutional coverage including trade preferences, aid and political dialogue. Some preferential agreements may be assimilated to Cooperation Agreements, using the Brussels jargon. Cooperation Agreements used to be the standard model for EU relations with third countries, and were mainly based on non-reciprocal preferential access to EU markets and financial cooperation. For instance, the first Mediterranean Cooperation Agreements signed by the then European Economic Council (EEC) with European and non-European Mediterranean countries consisted of duty-free access to EEC

for industrial products, with some exceptions in sensitive products like textiles and iron. Agricultural exports towards EEC markets were subjected to tariff rate quotas, with the preferential component limited to the in-quota imports. This is a mechanism that is still applied to Mediterranean Partner Countries under the existing Association framework. Economic cooperation includes development aid to Third Mediterranean Countries.

In 1988, a Cooperation Agreement was signed with the GCC and was put into force in 1990.⁽²⁾ It was the first agreement signed by the EU with an Arab regional organization, and its objectives were to facilitate trade relations and, more generally, to strengthen stability in the Gulf region. The Agreement provided a framework for initiating political dialogue with the institutionalization of annual Joint Ministerial Councils, intended to overcome the difficulties encountered by the Euro-Arab Dialogue. Notwithstanding its political relevance, its content is quite deceiving from an economic perspective. Apart from goodwill, 'joint analyses' and 'exchange of information', few concrete economic measures have been approved to date.

The EU-GCC Cooperation Agreement lies at the lowest rank of the EU economic preference pyramid. This may be consistent with EU strategic priorities, with the Gulf ranking third after European and Mediterranean states (Hollis, 1997). This does not mean however, that EU priorities are sufficiently well conceived to face the new challenges of the 21st century. The EU-GCC Cooperation Agreement does not include any tariff preference, with both the EU and the GCC granting each other the Most Favoured Nation (MFN) treatment. However, GCC countries benefit from preferential access to European markets under the EU's Generalized System of Preferences (GSP) offered to all developing countries. However, this is a horizontal development policy, not a Gulf policy. As such, it does not entail any trade policy reciprocity by GCC countries. Thus, current EU-GCC economic relations under the 1988 Cooperation Agreement lack the institutional dimension and the economic content of even early EU-Mediterranean Cooperation Agreements.

⁽²⁾ Official Journal L 054, 25/02/1989 p. 0003 - 0015

Mediterranean Association Agreements. Before the 1995 Barcelona Conference that launched the Euro-Mediterranean Partnership (EMP), the main content of EU-Mediterranean relations had been commercial, with the EU granting preferential, non-reciprocal access to most industrial goods coming from the region. This approach, however, proved to be insufficient, as far as agricultural products remained out of the preferential basket. In this respect, things have not changed too much. Moreover, even in the presence of such privileges, the industrial production from the Mediterranean countries could not face competition from newly industrialized countries, in spite of their proximity or preferential treatment by the EU. The Uruguay Round further diminished the trade policy privileges given to Mediterranean countries due to global substantial tariff cuts. Thus, the solution turned out to be reforming the structure of the Mediterranean industrial sectors in order to achieve increased productivity.

The Mediterranean Association Agreements mean a transition towards free trade and enhanced financial cooperation, but also towards institutional convergence. Due to the fact that southern Mediterranean countries' manufactures already entered freely (with minor exceptions) into the EU markets, the Euro-Mediterranean Free Trade Area (EMFTA) offers few benefits on the demand side to these countries.⁽³⁾ On the contrary, the EMFTA looks to foster structural, supply-side reforms in the southern Mediterranean countries. Given the mediocre results obtained by the demand-side preferential treatment granted to Mediterranean countries, this is to be done through trade liberalization and *mise à niveau*, i.e. upgrading measures, partially financed by the EU.

However, EMFTA should be placed as one pillar of a more comprehensive approach dealing with security and political issues, as well as cultural dialogue. The EMFTA constitutes the economic dimension primarily, while political and cultural dialogue are seen as complementary to the commercial and financial support measures. The Barcelona Process has meant the signing of bilateral Mediterranean Partner Countries-EU Association Agreements (MPC-EU AA) with all MPCs. However, some

⁽³⁾ A similar asymmetry was experienced by Spain when entering EEC.

MPCs ask for a more ambitious approach than mere partnership, without demanding accession, as will soon be made clearer. This process of evolving EU-MPC's relationship is interesting for EU-GCC relations, as far as the EU-GCC AA also includes an FTA and enhanced political and cultural dialogue.

More Than Partnership, Less Than Accession. The most sophisticated model of 'deep integration' achieved by the EU is the European Economic Area Agreement (EEA). The EEA extended the European internal market to Iceland, Liechtenstein and Norway in 1994. It has been described as an "internal market association" that goes beyond a mere FTA, albeit not reaching the Custom Union status. It overcomes the objectives of a simple FTA because it extends to the EFTA (European Free Trade Area) States, with the only exception of Switzerland, the application of almost the whole *acquis communautaire*⁽⁴⁾ relative to the four freedoms of the internal market (free circulation of goods, people, services and capital) and competition policy. As a result, over 80% of the *acquis communautaire* is adopted in the internal legislation of EFTA countries.

The EEA institutional design is quite complex. It incorporates a budgetary instrument, the so-called EEA Financial Instrument, devoted to reduce the economic and social disparities among European regions, allowing the granting of supplementary aid to development projects in Greece, Ireland, Portugal, and some other EU regional policy 'Objective One' regions.

In spite of not achieving the Custom Union status, the EEA represents the most sophisticated and well-developed model of EU international agreements. However, its extension beyond Western Europe is rather limited, because the conditions for a viable implementation of the four freedoms and the competition policy, which characterizes the Single Market, are barely matched in other partner countries. Additionally, the degree of institutionalization of the EEA is so high that this model requires a substantial amount of resources and institutional capabilities from EU partners. The EFTA countries are rich, developed European economies that

⁽⁴⁾ The body of EU legislation issued by EU institutions.

can afford such an institutional investment. EFTA countries can also afford the transfer of income towards less-developed EU regions, something that is clearly inapplicable to most developing countries.

In 1992, Switzerland decided not to participate in the EEA. However, from 1994, there have been several negotiations over a vast range of specific sectors, like the free circulation of people, air and terrestrial transport, scientific and technological cooperation, agriculture, public procurement, environment, cooperation against fraud, and an agreement for the free trade of services. In the case of Turkey, it is a candidate country for whom the European Commission has recently issued the recommendation to start negotiations for its accession, and as such, benefits from an enhanced financial and technical assistance under pre-accession strategies. In 1996, an EU-Turkey Customs Union came into effect, with the only exception of agricultural products, and subsequent negotiations have taken place on the issues of services and public procurement.

The most innovative initiative is the Neighbourhood Policy (COM 104 [2003] and COM 393 [2003]). The proposal, presented in 2003, assumes the necessity for a differentiated regional cooperation scheme based on geographical proximity and common values that could favor political stability and economic development in the EU third ring, a process that could eventually lead to its future integration in the European Single Market. The Neighbourhood Policy considers three border fronts: (a) Russia and the former Soviet Republics; (b) the Western Balkans; and (c) the South of the Mediterranean. In its first phase (2004–2006), it is implemented by means of better coordination of the programs and existing financial instruments to open the way to the definition of individual Neighbourhood Programs. The Neighbourhood Policy consists of offering ‘everything but the institutions’ to its border countries. To some extent, this gets close to what MPCs such as Morocco and Israel, have been demanding from the EU — ‘more than partnership, less than accession’.

The proposal consists of setting up incentives, like enhanced financial assistance and access to EU markets, to MPCs willing to adopt the European *acquis communautaire*. For MPCs, the Neighbourhood Policy

entails a different cooperation framework. The initiative relies on the harmonization of the MPCs' legal framework with the EU *acquis communautaire*, in order to pave the way towards an EUro-Mediterranean Single Market and reduce transaction costs of EU-MPCs' economic relations. Perhaps the most important innovation is the subordination of the proposed enhanced financial and trade instruments to the progresses achieved in political and economic reforms, which will be quantified at a country level by the 'reference criteria' included in each Neighbourhood Program.

From Cooperation to Partnership: The EU-GCC Agreements

The 1990 EC-GCC Cooperation Agreement presented three general objectives: (a) to provide an institutional framework for EC-GCC relations; (b) to improve economic and technical cooperation; and (c) to foster development and diversification in the GCC countries. The instruments to achieve these objectives were: (a) the institutionalization of EU-GCC relations; (b) economic cooperation; and (c) progress towards freer trade. The institutional dimension was inspired by the European experience on the importance of intergovernmental relations, and consists of a Joint Council that "shall periodically define the general guidelines of cooperation" (Article 10). The Joint Council is composed of EU and GCC representatives, meets at least annually, and acts on a mutual agreement basis. The Joint Council is supported by the Joint Cooperation Committee and any other specialized committee the Joint Council might need. The high level of government representatives who have been attending the Joint Council in the last few years (foreign ministers or first-rank officials) shows the importance attached by both parties to EU-GCC relations.

Economic cooperation was instrumented through the creation of sector-specific working groups in the areas of energy, environment, and industry. The outputs have varied from the organization of conferences and symposia to the establishment of the Jubail Marine Sanctuary in Saudi Arabia. Other actions include the opening of a GCC delegation in Brussels (1994) and the recent opening of the EU delegation in Riyadh after it had been delayed systematically. Concerning standards, a Cooperation Program

was established by which the EU provided training and assistance to the Standards and Metrology Organization of the GCC (GSMO). Another cooperation program was instituted in the field of customs, with the EU providing the training of GCC customs officers on the EU experience. In the educational field, some seminars were held, and a program aimed at promoting the exchange of scholars and the development of Gulf Studies and EU Studies Centers in European and Gulf Universities. However, its failure remains a serious handicap to mutual understanding and cultural dialogue. Only the Euro-Arab Management School, located at Granada, may be underscored as a significant academic move, but not a GCC exclusive one. In the investment field, a GCC priority, few initiatives have been implemented.

The Cooperation Agreement also included a provision for both parties (Article 11) to negotiate a trade agreement overcoming MFN and GSP status and eventually leading to a FTA. FTA negotiations started in October 1990 following the negotiation directives drafted in 1989. However, they stagnated in 1993 mainly due to the GCC proposals regarding the energy sector, that would have limited the EU capacity to tax energies with carbon dioxide emissions (WTO, 2002). Another relevant obstacle was the EU 1991 negotiating mandate pre-condition on the previous achievement of GCC Customs Union, in order to prevent intra-regional Gulf trade diversion, as predicted by the 'hub and spoke' mechanism. The GCC exclusion from the Euro-Mediterranean Partnership at the 1995 Barcelona Conference appeared to be another impediment towards the development of a fruitful and inclusive relationship.

However, the EMFTA initiative acted as a catalyst for both EU and GCC countries to recognize the failure of the current Cooperation Agreement in the economic and civil society arenas, and the need to upgrade the instruments devoted to it (Escribano, 2000). In fact, most authors think of 1995 as the turning point in EU-GCC relationship (Saleh, 1999; Baabood, 2003; Fürtig, 2004). In the year 1995, an EU-GCC ministerial meeting was held in Granada and made the following recommendations: (a) strengthening the EU-GCC political dialogue; (b) overcoming the stagnation of FTA negotiations; (c) increasing economic cooperation; and (d)

promoting reciprocal understanding through cultural dialogue. To some extent, both the new impetus and the new dimensions included, reflect the influence of EMP in EU-GCC relations. Insistence on the FTA and cultural and civil society dialogue may be seen as an extension of the EMP logic. However, different development levels and political circumstances were recognized by considering GCC specificities.

Progress remained limited to the political domain, while economic issues and cultural exchanges lagged well behind political declarations. For instance, positions on the Arab-Israeli conflict and on Middle East politics converged. In this respect, the Cooperation Agreement was a political success, insofar as it provided the institutional framework for an open political dialogue between both parties. Additionally, a reinforced political will may be observed in that most representatives in the Joint Council from 1996 onwards, are foreign ministers rather than high officials. But EU-GCC cultural dialogue through academic and civil societies cooperation remained at a low, almost non-existent level. Economic cooperation stayed at a 'low cost', declaratory level. FTA negotiations were kept blocked by divergent interests and the lack of a GCC Customs Union.

The impediment concerning the EU requirement on a GCC Customs Union was lifted in 1999, when the GCC made the commitment to establish a Customs Union by 2005. In 2001, it was decided to do so even earlier, by January 2003, and presented a negotiating mandate of its own. Subsequently, the European Council approved a new mandate in July 2001 broadening the scope of the FTA to new areas covered by current multilateral trade negotiations, like trade in services, government procurement and intellectual property rights. Finally, the EU-GCC Joint Council held in the highly symbolic city of Granada in February 2002, decided to launch negotiations for the establishment of the EU-GCC FTA. After several negotiation rounds, the agreement seems imminent at the time of writing this article, after the news of Saudi Arabia lifting its double pricing on gas in return for the eventual removal of EU duties on aluminium and petrochemical products.

One of the reasons for the EU approving a new mandate stems from the deceiving results obtained by the Cooperation Agreement in fostering

EU-GCC trade. The reasons for the low profile of EU-GCC economic relations in the past have been summarized in the works of WGESTG (2002); Weidenfeld (2004); Saleh (1999); and Chirullo and Guerrieri (2002).

- EU environmental policy is perceived as harmful by Gulf States. Within the Kyoto Protocol framework, the EU wants to stabilize CO₂ emissions and improve energy efficiency.
- Both the GCC and the EU have a weak mandate on the energy sector, which concentrates on important common economic interests.
- There is a low degree of ‘europeanization’ of EU policies towards the GCC, which is still dominated by the policies of Member States having close ties with the region, like UK and France.
- GCC countries come from different backgrounds, with countries such as Kuwait and Qatar being far more liberal than their counterparts. In a similar way, GCC States economic interests also differ, with Saudi Arabia more concerned with the petrochemical dispute while Dubai and Bahrain concentrate on the aluminium issue.
- The GCC does not match the EU as a regional organization, given its lower degree of institutionalization.
- The slow pace of Saudi Arabia WTO accession process makes it difficult to frame the ongoing EU-GCC negotiations, since most EU-Saudi Arabia sensitive issues are WTO-related.
- The EU lacks a well-defined strategy towards the Gulf region. GCC status remains undefined somewhere between mere cooperation and partnership.
- Finally, inconsistencies in EU and US Middle East policies also hamper a better-defined EU approach to the Gulf. Transatlantic dialogue is an essential input of EU-GCC dialogue itself. For instance, lack of transatlantic dialogue may turn the perception of EU and US-GCC FTAs as incompatible, instead of mutually reinforcing, opening a kind of ‘agreement competition’ that could be harmful at a collective level.

In this framework, the main objective of the EU-GCC Agreement is the deepening of existing relations. In spite of having been created with the aim of fostering economic cooperation and FTA negotiations, until recently, the Joint Council has been used mainly as a political forum (Saleh, 1999). This is not to say that political dialogue has been a mere substitute for failing results in the FTA negotiations (Fürting, 2004). However, given the good shape of the political dialogue, the dual challenge of the EU-GCC Agreement is to move from fragmented economic cooperation to comprehensive partnership and free trade, and upgrade the instruments devoted to cultural and civil society dialogue. It appears that renewed efforts are being made to revitalize existing working groups that have been de-activated for long, e.g. the environmental one, or whose results have remained at the declaratory and shared analysis level, e.g. the industrial and energy ones.

The economic contents of the EU-GCC FTA are defined by the negotiating directives. These call for the progressive elimination of tariffs and non-tariff barriers for every product on the basis of reciprocity. It also calls for the broadening of cooperation in trade-related areas, like simplifying trade procedures and requirements to lower EU-GCC trade transaction costs, and achieve reciprocal liberalization of services. The EU negotiating directives also include the opening of public procurement, standardization of custom and administrative procedures, the protection of intellectual, industrial and commercial property rights, and implementation of competition policies in accordance with WTO standards. New chapters were tackled during the January 2004 round, like dispute settlement, rules of origin and institutional framework.

Chirullo and Guerrieri (2002) have summarized EU and GCC interests regarding the FTA issue. On the EU side, the need is for a better market access for manufactured exports and services while for the GCC countries, it is better access to the EU petrochemical, aluminium and fisheries markets. The recent inclusion of public procurement, standards, intellectual property and investment policies in the EU negotiating directives represents a significant step towards deep integration. This is a signal that EU-GCC relations are stepping up the EU preferences pyramid, and entering the third ring of EU external relations.

EU interests in better access to its manufactured exports have already been addressed by the GCC Customs Union. This means the adoption of a 5% unified GCC common external tariff. This is much closer to the 3.8% MFN EU average tariff rate than the pre-existent situation, where GCC average tariffs vary widely, i.e. 3.4% for Kuwait, 4.4% for Qatar, 9.6% for Oman, 11.5% for Saudi Arabia, 14.3% for the UAE, and 16.3% for Bahrain according to Price Waterhouse Coopers (2004). Thus, the liberalization of services is now the main obstacle for the conclusion of a package deal on the GCC side.

The EU is the world's largest exporter and importer of services, and enjoys substantive comparative advantages vis a vis GCC countries. The negotiating directives on the services chapter of the EU-GCC FTA negotiations contemplate more far-reaching obligations than those prevailing under the GATS. But GATS provisions are quite flexible when compared with GATT ones, thereby leaving a higher margin for an EU-GCC agreement to pursue a differential deepening of services trade.

The main trade obstacle on the EU side features GCC complaints about high EU tariffs on petrochemicals. This is an issue of special interest to Saudi Arabia, which has also been raised in its WTO accession negotiations. Dubai and Bahrain are more concerned with the 6% tariff the EU applies to its aluminium exports. However, the EU argues that the level of tariff protection is justified by the subsidies received by Gulf producers by means of low-cost feedstock. Saudi Arabia's removal of its double pricing system on gas in return for the eventual removal of EU duties on aluminium and petrochemical products, seems to have unlocked the impasse on the manufactures domain. With Oman, its main complaint refers to the EU Common Fisheries Policy, that entails high tariffs on fisheries. The small size of Oman fishery figures when compared with EU fleets, makes it easy for the EU to offer a generous proposal.

A more difficult issue is EU tax policy on energy products. In GCC countries, high EU energy taxation is perceived as crude protectionism, even if disguised by environmental-friendly arguments. It is a fact that EU

Member States governments' energy taxation clearly transcends the environmental problem. EU governments are concerned about capturing their share of EU consumer's income transfers towards foreign energy producers, and try to maximize it for budgetary reasons. Lowering EU's energy dependence upon foreign producers by setting up incentives in favor of alternative, non-oil based energies is also a powerful geo-strategic concern. However, GCC states should be aware that EU's environmental policies also respond to European constituencies' demands, mainly in most developed (and sometimes most polluted) Member States. Environmental policies are closely scrutinized by civil society, and concerns about pollution and climate change represent a relevant political issue.

For new issues such as public procurement, dispute settlements, harmonization of standards, intellectual property or investment policies, as happen with the liberalization of services, the EU's approach should consider a higher degree of flexibility. In some areas in which interests may be neutral, like standards or dispute settlements, obligations might be stronger. On the other hand, for sensitive issues, a more progressive approach may be adopted.

The few existing econometric estimates of an EU GCC FTA point to relevant net trade creation, implying that the agreement will be on the whole welfare improving for both parties. Price Waterhouse Coopers (2004) recurs to a partial equilibrium model of world trade whose results may be summarized as follows. Firstly, net trade creation for GCC amounts to \$2.3 billion and concentrates, as expected, on manufactured products trade, and economic welfare improves by 2.7% of GDP. As for the EU, Price Waterhouse Coopers estimates a net trade diversion of \$1 billion, and a reduction of \$1.1 billion in economic welfare which represents a negligible amount of EU GDP loss. For Kuwait and Qatar, Price Waterhouse Coopers' results point to the fact that the GCC-EU FTA eliminates most disadvantages of the GCC Customs Union, with its GDP growing by 0.8% and 1.7%, respectively. Saudi Arabia, Oman and UAE GDP will improve by 2.8%-3%, while Bahrain's will grow by as much as 7%. The highest welfare increase in GCC countries would be attained in the mineral sector and, to some extent, in the manufacturing sector. However, agriculture turns out to be the loser of the FTA, experiencing sector GDP losses in every

GCC country. Even if these losses are reduced when compared with both overall results of the FTA and Gulf States GDP, they are significant at the sector level.

Baier and Bergstrand (2004) apply a gravity model with two alternative specifications, restricted and unrestricted. The unrestricted specification proxies a deep integration scenario in which prices vary due to tariffs and other internal obstacles removal. On the other hand, the restricted one simulates a multilateral-like scenario based upon the mere elimination of tariffs. Under the unrestricted model, the net trade creation effect for EU-GCC trade is \$28.3 billion, which accounts for a 64.5% increase in bilateral trade. These impressive gains are due to the minimal trade diversion with the US and the rest of the world (less than \$1 billion). Thus, EU net trade creation accounts for \$28 billion while GCC trade creation attains \$27 billion. The results using the theory constrained restricted model points to an EU-GCC net trade creation of 25.4%, only 40% of the net trade creation under the unrestricted specification, but a significant magnitude nevertheless at \$11.1 billion. For the GCC, however, the restricted model offers a high 7.1% gross trade diversion effect with the rest of the world (\$15.4 billion), which results in GCC net trade diversion from an EU-GCC agreement of \$4.3 billion. In contrast, the EU would experience a net trade creation of \$2.8 billion.

On the whole, these studies show positive results, with the Price Waterhouse Coopers' SIA report (*op. cit.*) pointing to more modest figures in trade creation and welfare effects, and Baier and Bergstrand (*op. cit.*) obtaining very significant trade creation effects when deep integration domains are taken into account. These results suggest that FTA benefits depend greatly upon non-tariff issues, and that economic cooperation may further lower trade transactions costs than a mere tariff removal.

The concept of transaction costs may also be extended to the political and cultural arenas, consequently providing an economic rationale for increased political and cultural dialogue to achieve a better degree of mutual trust and understanding. These are undoubtedly much-needed

ingredients of any regional integration initiative in both the Gulf and the whole MENA region.

The International Dimension of EU-GCC Partnership

Some scholars have named US emphasis on modernization and economic development the new American Messianism, and doubt that imposing modernization and unqualified Washington Consensus economic policies would be advisable for Middle Eastern countries, especially for Gulf States (Richards, 2003). For instance, Richards warns that GCC countries have limited comparative advantages in non-oil goods and services. This also applies to the EU. An EU-GCC across-the-board services liberalization might well be a disaster under an inflexible, ideologically driven FTA initiative. From the European perspective, EU-GCC relations or EMP may seem on the whole, more balanced than the US initiative, since the former includes political and cultural dialogue and substantial economic cooperation in addition to free trade. Its institutional framework, i.e. the EU-GCC Joint Council, provides an equal ground political dialogue.

However, the US-led GMEI forced the EU to better define its own strategy towards the Middle East. The December 2003 European Council asked for concrete proposals on an 'EU Strategic Partnership with the Mediterranean and the Middle East'. The EU "welcomes the possibility to work together and to coordinate with the US in the framework of the Transatlantic Partnership". It also clearly states that the EU "should define a complementary but distinct approach". How complementary and how distinct the EU approach would be, remains to be seen.

By and large, there are clear signs of the EU's willingness to upgrade its current relations with the MENA region. This may be interpreted as a furthering of some better prepared MPCs' entry into the EU's second ring. This may be accomplished by way of Neighbourhood programs, and GCC countries' accession to the third ring, by way of Association or Partnership Agreements. There are prospects that EU-GCC FTA may be completed even before the EMFTA, given the more liberal trade policy background of GCC states.

Three final remarks may summarize the conclusions of this article. Firstly, EU-GCC relationship deserves closer attention by both parties, which should go beyond cooperation and enter into a new relationship marked by partnership. This partnership may be enhanced in at least two ways: (a) EU-GCC relations should attain a greater degree of europeanization, that is to say that the EU must obtain a stronger mandate on bilateral relations; and (b) convergence of EU policies towards MPCs and GCC states seem desirable in order to ensure greater coherence of EU action and foster intra-Arab integration. Both point calls for the new EU strategic partnership with the Middle East to be built as an EU Arab policy (Khader, 2004).

In its first stage, EU-GCC partnership may be upgraded following the EMP model. However, GCC States' particularities call for a differentiated approach that in the future, may bring the Gulf countries closer to the EU's second ring, and at a faster pace than the one expected for many MPCs. Previous proposals for the convergence of EMP and the EU-GCC relationship have raised mistrust towards EU motives in GCC civil society. Coherence of EMP and EU-GCC Partnership is still a much-needed input for an EU strategic partnership with the Middle East.

Secondly, EU efforts should contemplate the US-led Broader Middle East initiative as a ground towards being complementary, and not as a new area to materialize transatlantic disagreements. The challenge here is how to make compatible cross initiatives like the FTAs agreed by the EU and the US with countries such as Morocco, Jordan and eventually Bahrain and the GCC countries currently negotiating FTAs with the US. Notwithstanding EU official declarations of compatibility problems among, for instance, US and EU-Morocco FTAs, the EU has included provisions to ensure that it will benefit from any concession granted by Morocco to the US in agricultural trade.

Even American analysts criticizing EU policies towards the Middle East for having "limited effects on the region's key strategic challenges", recognize that the EU can "use its considerable economic and institutional ties to make a real contribution to Middle East stability" (Rathmell, Karasik and Gompert, 2003). At the same time, the EU should understand the Gulf

external relations' long trend in maintaining balanced relations with foreign actors (Baabood, 2003; Fürtig, 2004).

Finally, cultural dialogue to promote mutual respect and mutual understanding is clearly a much-needed and critical ingredient in any EU-GCC partnership. The EU is a civilian power, mainly when compared with the US. There are several EU Member States emerging from recent experience of modernization and economic development, like Spain or the new Central European Member States. Moreover, several EU Member States, primarily Spain, have a common cultural and historical heritage with Gulf countries. Many EU Member States have significant Arab populations. All these facts call for a closer cultural dialogue between civil societies, and more precisely, for an intensification of academic exchanges and common programs to provide for mutual understanding.

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Appendix

List of Acronyms

AA	Association Agreement
EC	European Community
EEC	European Economic Community
EEA	European Economic Area
EFTA	European Free Trade Area
EMFTA	Euro-Mediterranean Free Trade Area
EMP	Euro-Mediterranean Partnership
EU	European Union
FTA	Free Trade Area
GATS	General Agreement on the Trade of Services
GATT	General Agreement on Trade and Tariffs
GCC	Gulf Cooperation Council
GMEI	Greater Middle East Initiative
GSMO	Standards and Metrology Organization of the GCC
GSP	Generalized System of Preferences
IAEA	International Atomic energy Association
MEDA	EU financial instrument to channel EU assistance towards the Mediterranean Partner Countries
MENA	Middle East and North Africa
MFN	Most Favoured Nation
MPC	Mediterranean Partner Countries
MS (EU)	Member States
SIA	Sustainability Impact Assessment
WTO	World Trade Organisation