

Reshaping European Policy in the Middle East and North Africa

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Executive Summary

At the turn of the century Europe faces a Middle East and North Africa region that is characterized by population growth, a patchy process of economic reform and a crisis of governance. European policy in this context should focus on three strategic fields:

1. The new European Common Strategy for the Mediterranean has to become a vehicle for the reinvigoration of the Barcelona process. Europe should develop an operational working plan and concentrate its resources on the following modules:

- The Charter for Peace and Stability as a nucleus for security cooperation in the Mediterranean, which has to be completed by a working program that will be developed in a gradual and flexible way according to a sectoral approach starting with soft security issues;
- The development of extended Association Partnerships with countries that concluded Association Agreements, which stipulate comprehensive macro-policy reforms that are to be implemented by the partners, while most MEDA funds will be concentrated on long-term projects (education, infrastructure) within these countries;
- The fostering of South-South trade in the Mediterranean to stimulate the emergence of greater markets, e.g. through the adoption of cumulative rules of origin and the encouragement of free trade between association partners.

2. Europe's engagement in the Middle East Peace Process will be covered by the Common Strategy once peace is achieved. After Israelis and Palestinians failed to conclude a final status agreement, the process is facing currently the worst crisis since its inception. The EU should - in coordination with the U.S. - employ all means to break the cycle of violence and to return the parties to the negotiation table. On the Syrian track, the Israeli withdrawal from South Lebanon and the transition of power in Syria after the death of Hafiz al-Assad could offer a new opportunity for peace.

3. The Gulf region is of great strategic importance for Europe in the years to come. European foreign policy towards this region should focus on the following:

- Cooperation between Europe and the Gulf Cooperation Council (GCC) following the 1988 agreement fell short of expectations. The EU should seek to conclude a free trade agreement with the GCC in the near future, while ensuring that the agreement will be accompanied by closer mutual cooperation in various fields.
- Iran is in the middle of a complex process of domestic change whose outcome is far from certain. Since the days of adventurous foreign policy are now over, Iran is bent on being a stabilizing factor in the region. Europe should support the thriving Iranian civil society and engage its authorities internationally through intensified dialogue.
- Iraq's military capability has been reduced by UNSCOM while the current sanctions regime seems to have strengthened Saddam Hussein's regime. Europe should, in cooperation with the U.S., develop a new policy towards Iraq which will preclude any future military aggression and at the same time reintegrate Iraq into a sustainable regional security system.

Contents

I. THE CHALLENGES: MENA AT THE BEGINNING OF THE 21ST CENTURY 4

II. REINVIGORATING THE BARCELONA PROCESS 6

THE NEW COMMON STRATEGY 6

A REASSESSMENT 6

THE CHARTER FOR PEACE AND STABILITY 7

ASSOCIATION PARTNERSHIPS 9

FOSTERING SOUTH-SOUTH TRADE 11

ENGAGING CIVIL SOCIETY 12

III. THE PEACE PROCESS 14

THE ISRAELI-PALESTINIAN TRACK 14

THE ISRAELI-SYRIAN TRACK 15

IV. THE GULF REGION 17

EUROPE AND THE GCC: TOWARDS FREE TRADE 17

IRAN: THE WINDS OF CHANGE 19

IRAQ: LIVING WITH SADDAM 20

EUROPEAN AND U.S. INTERESTS IN THE GULF 21

V. CONCLUSION 23

I. The Challenges: MENA at the Beginning of the 21st Century

At the brink of the 21st century Europe faces a Middle East and North Africa (MENA) region that is affected by both processes of continuity and of change.¹ According to World Bank estimates, the total population of this region, which in 1997 came to 279.3 million, will reach 393.9 million in 2015, and 481 million in 2030. However, the increase is unevenly distributed, with eight countries displaying population growth rates of well over 3% per annum. Syria, for instance, which had a population of 8.7 million in 1980, was recently estimated to have a population of 17 million with an annual growth rate of 3,2%, and is expected to reach 28 million in 2030. Furthermore, populations are getting younger. Contemporary Iran is a case in point. Two thirds of a total of 69 million are already under 25. If these projections are valid ones, then Middle East governments will have to ensure enormous GDP growth rates to raise the GDP per capita ratio, and at the same time will have to create thousands of jobs every year to cater for the growing number of people coming onto the labour market.

MENA is characterized by population growth,...

Middle East economies are in a patchy process of transformation that has followed the bankruptcy of the ambitious import substitution programmes led by the public sector. In a situation where oil prices have been very low for a number of years, the idea of relying on external revenues has become increasingly untenable. Thus economic liberalization is the battle cry of the day, and comprises liberalization of prices and trade, opening up the financial sector, reforming the public sector, and pushing ahead with privatisation. While some countries have embarked on a courageous course of implementing reforms, others have sought to postpone the necessary adjustments. Nonetheless, the region as a whole remains heavily dependent on the export of raw materials. Few goods, other than oil, are competitive in international terms. The impact of the communications revolution and the information economy on the region is still unclear; currently there are very few internet users, though recently their number has been growing at above average rates. In recent months the oil price has soared, largely as a result of improved OPEC coordination. The question is of whether Middle East governments will take advantage of the situation to support the transition process, or whether they will relapse into their previous immobility as rentier economies.

...a patchy process of economic reform ...

States in the Middle East, which, since gaining independence, more often than not resorted to violent suppression to compensate for a lack of legitimacy, have broadened their base of support. The virulent influence of Pan-Arab ideology which was dominant in previous decades has given way to the virtual monopoly of the state as primary arena for ideological conflict and unchallenged actor in international relations. Arguably, the exaggerated optimism which was professed in the early nineties and expected quick structural reform of public institutions and even democratisation seems to have all but evaporated. Even if partially contested elections provide a platform for public debate in some countries, a regular rotation between government and opposition is still a long way off, and authoritarianism remains the norm. Nonetheless, in these states we are witnessing a crisis of governance which is seen in the growing mismatch between society and government institutions. A case in point is the relationship between nationalism

....and a crisis of governance.

¹ MENA comprises the Arab countries, Israel, Turkey and Iran. The following generalizations on the region apply to a lesser extend to Turkey and only marginally to Israel.

and religion, which still needs to be defined. While the ideology of politicised religion remains a major factor, the attraction of its more radical and violent wings seems to have declined in recent years.

For the European Union, MENA is a neighbouring region with great potential as well as inherent dangers. Europe is interested in developing MENA countries economically, improving their human rights record while at the same time keeping the region as a whole stable to prevent any spill over of conflicts. Currently, Europe is operating in three different frameworks in the region: the Euro-Mediterranean Partnership, its engagement in the Middle East Peace Process and its policy towards the Gulf region.

European
frameworks

II. Reinvigorating the Barcelona Process

The New Common Strategy

The Common Strategy for the Mediterranean which was adopted at the European Council of Feira has been designated as the platform for European policy in the region.² As the third Common Strategy (after Russia and Ukraine) defined by the treaty of Amsterdam, it represents an acknowledgement that the Mediterranean is an important region in which common European interests have to be defined. The strategy commits the Community to continuing the Barcelona process by promoting what it perceives to be its core values, namely human rights, democracy, good governance, transparency and the rule of law. As a formal framework, it spells out the EU main interests in the region and the general means by which they might be pursued.

Common European interests in the Mediterranean

The list of proposals for European action in the Mediterranean is long, and a large number of parallel initiatives will no doubt dissipate the EU's energies. For this reason it is of crucial importance to develop an operational working plan by prioritising and streamlining common goals on the basis of comprehensible criteria, securing the commitment of EU member states to these goals and monitoring the swift implementation by the Brussels administration. The working plan should focus on the following key issues to prevent a waste of resources.

operational working plan required

A Reassessment

The adoption of a new European Common Strategy on the Mediterranean and the current designation of its second financial reference amount mean that it is now necessary to re-asses the process. It seems clear that, on account of its ambitious agenda, the Barcelona process cannot be judged an outright success. Yet few would argue that it was a complete failure. Indeed, the mere fact that the process continued to function and that all the partners continued to participate in spite of a temporary lull in the Israeli-Arab peace process should be considered a major achievement. On the other hand, as critics have pointed out, progress has been very slow in a number of the envisaged areas. There are several dilemmas inherent in the process which - even at the risk of considerable oversimplification - could be summarized as follows:

Several dilemmas inherent in the Barcelona process

(a) *Stability vs. change.* The Barcelona process was conceptualised to foster deep political and economic change within countries of the southern Mediterranean. However, at times European policy rather seems to aim at stabilizing the present system of government in order to avoid that social unrest will spread to Europe. The European Union has to be aware of the fact that the promotion of profound changes is bound to create a protest potential. On the other hand, subsidizing an inert regime in a rapidly changing environment may lead to much larger social upheaval in the long run.

stability vs. change

(b) *Bilateralism vs. multilateralism.* The basis of the Barcelona process is a multilateral approach including all the riparian states of the southern Mediterranean. However, no multilateral agreements have been concluded since Barcelona, and no powerful multilateral institutions have been established. In

bilateralism vs. multilateralism

² This discussion is partly based on Stephen C. Calleya, Evaluating Five Years of the Barcelona Process, which was prepared for the Sixth Kronberg Talks.

contrast to the multilateral approach of the EFTA or NAFTA schemes, very detailed association agreements which provide for a gradual transition to free trade have been signed on a bilateral basis between the EU and some southern Mediterranean countries. While this practice makes it possible to avoid certain obstacles, there is an inherent danger that a hub-and-spokes pattern will be created in which the vertical links between Europe and the Mediterranean partners are not complemented horizontally.

(c) *Inclusiveness vs. flexibility.* This dilemma is closely connected to the previous one. The inclusiveness of the scheme permits the participation of all 15 Mediterranean partners plus Jordan (though excluding Libya, which was felt unable to accept the Barcelona *acquis* after the sanctions were lifted). It is the only international forum in which Israel, Syria and Lebanon - which are formally still at war - meet regularly at ministerial level. The participation of nearly all of the players concerned lowers the implementation costs for decisions which are taken, and minimizes the danger of free-riding. However, the growing number of parties involved means that there is a greater possibility of negotiation deadlock on account of the complexity of the issues that have to be coordinated.

inclusiveness vs. flexibility

(d) *Economic integration vs. peace process.* In essence the Barcelona Process is a liberal project designed to integrate a region by promoting intensive economic interaction in a free trade area. Having said this, it must be noted that at times the changing fortunes of the peace process have been allowed to demote the core economic agenda to the sidelines. An example of this was the 1997 Malta meeting of Foreign Ministers, at which, after the election of the Netanyahu government, the Dutch Presidency sought to revive the stalled peace process, and gave little attention to promoting the free trade scheme.

economic integration vs. peace process

(e) *Geography vs. function.* The Barcelona Process conceptualises the geographical Mediterranean as a single geo-strategic area. However, a closer examination reveals that there are two sub-regions, the Maghreb and the Mashreq, both of which possess different patterns of political and economic interaction. Furthermore, by focusing exclusively on the Mediterranean and excluding the Gulf region, important actors like the GCC, Iran and Iraq, that have a significant influence on the geographical Mediterranean, are completely omitted from the picture.

geography vs. function

The Charter for Peace and Stability

Five years into the Barcelona process, progress in the field of security has been rather slow. The first basket of the Barcelona conference has proved to be the most vulnerable to the changing fortunes of regional conflicts, such as the Israeli-Arab conflict. Furthermore, it has become apparent that differing ideas of security cooperation prevail on both sides of the Mediterranean, and this has generated a measure of mistrust among the southern Mediterranean partners. As a result of this the process was modified and greater emphasis accorded to partnership-building and soft security.

Slow progress in security cooperation

The Charter for Peace and Stability, which is currently being advocated by the French EU presidency, and is due to be adopted at the Marseilles summit in November, should become the focal point of future security cooperation between the Mediterranean partners. There is agreement on the fact that the Charter will be a political and not a legally binding document. All decisions, joint actions, measures and contractual commitments under its umbrella will be taken on a

Charter is a framework that has to be elaborated

consensus basis, though flexibility in implementation may be permitted. It comprises a framework that aims at enhancing political dialogue, strengthening partnership-building measures, fostering good-neighbourly relations and sub-regional cooperation, and encouraging a culture of conflict prevention. Nonetheless, it must be borne in mind that the Charter will only be comprehensively applicable after sufficient progress has been achieved in the Middle East Peace Process.

If the Charter is to become a sustainable multilateral initiative, it must be elaborated into a gateway for pragmatic partnership-building measures. It should be perceived as a functional security mechanism, and should foster a Euro-Mediterranean security culture in which the concepts of early warning and conflict prevention become operational. Euro-Mediterranean officials should not dedicate a great deal of time and resources to the Charter unless they can ensure its incremental implementation. Otherwise it will become little more than an academic exercise with no practical impact on the geo-political area in question. For this reason the Charter for Peace and Stability should be accompanied by an annex that consists of a short-term pragmatic work program. It will be regularly reviewed, and its implementation will be monitored. This will allow the Euro-Mediterranean states to develop co-responsibility for the joint actions that have been agreed upon.

Charter should be accompanied by pragmatic work program

Furthermore, a measure of flexibility should be introduced to allow for a step-by-step implementation of certain measures. These could be taken voluntarily by a handful of states interested in cooperating on a specific issue. All other partners would be permitted to join at any time. Special attention should be given to the requirements of sub-regional cooperation, especially in the Western Mediterranean (Maghreb) and the Eastern Mediterranean (Mashreq), so that a system of variable geometry can be created.³ There should be a sectoral approach starting with cooperation on "soft security" matters such as maritime safety and the prevention of environmental disasters, and gradually encompassing more "hard security" issues.

introduction of flexibility, sectoral approach starting with "soft security"

Europe's Agenda for Action:

- The establishment of a Mediterranean information mechanism designed to deal with problems shared by all of the partners, such as the management of natural resources, the protection of the maritime environment, monitoring commercial shipping, etc. This mechanism might form the nucleus for a future Euro-Mediterranean Maritime Agency (EMMA);
- Inviting southern Mediterranean countries to participate in EuroMarFor, starting with an observer status in order to dispel the negative perceptions that have been generated since the establishment of this maritime security force;
- Participation in future EU crisis management and establishing a conflict prevention mechanism in the Mediterranean designed to monitor political, military, and economic matters of interest, to supervise and operate communications among focal points which have already been established as CBMs, and to provide facilities in case a contingency staff is set up for a given crisis or conflict;

³ As many observers have pointed out, the Mediterranean is not a single self-contained security complex. Rather, in security terms it consists of two sub-regions, the western Mediterranean, and the eastern Mediterranean.

- Making a concerted effort, after arriving at such a threshold, to foster military cooperation, starting with joint taskforce planning for peacekeeping purposes, and measures designed to further advance regional disarmament;
- Making provision for intensive cooperation with the U.S. in this arena, and the secure coordination of various security dialogues (NATO, OSCE, WEU, ACRS) in order to avoid duplication and the waste of resources.

Association Partnerships

The cornerstone of the Euro-Mediterranean partnership is the establishment of a large free trade zone around the Mediterranean basin by the year 2010 to ensure the prosperity of the region. In essence this entails dismantling the tariffs that the Mediterranean countries impose on imports from the European Union, since they already enjoy comprehensive duty-free access to the EU for their manufactured goods. Five years after the inauguration of the Barcelona process the region presents a differentiated picture. While some countries have embarked on a credible and sustained path towards seriously restructuring their economies, others have yet to start the implementation of the necessary reform programs.

Differentiated picture at economic reform

The business environment in MENA countries is generally considered to be less attractive than in the Far East, Latin America, or Eastern Europe. This is reflected in the meagre share of Foreign Direct Investment (FDI) attracted by the Mediterranean region, which is about 5% of all FDI in the emerging economies. Barely \$6 billion were invested in the 12 Mediterranean countries in 1998, of which almost one third went to Israel, and another 25-30% to oil and gas exploration and distribution in countries such as Algeria, Egypt, Tunisia, and Syria. In comparison with this, the accession countries in Eastern Europe have obtained four times as much FDI in each of the last two years (\$25 billion).

only meagre share of FDI attracted

Intra-regional trade is still significantly low, and high customs barriers protect small markets. Thus the entire Maghreb market corresponds only to the size of the internal Portuguese market. Internal transaction costs remain very high, for example, the cost of shipping a container from Tunisia to Marseilles is higher than the cost of the same container between Marseilles and Asia.

small markets and high transaction costs

The considerable differences in the reform process in southern Mediterranean countries are reflected in the state of their negotiations with the EU:

Free Trade is...

- a free trade zone has basically been established (in regard to manufactureds) with five Mediterranean countries (Israel, Turkey, Malta, Cyprus, Palestine), which together make up almost 50% of all EU trade with the Mediterranean area. Three of them (all but Israel and Palestine) are involved in the EU accession process;
- a free trade zone has been agreed upon with four countries (Tunisia, Morocco, Jordan, and Egypt⁴); it will be progressively established during a 12-year transition period and should to all intents and purposes be completed by the target date of 2010;

...established with five countries

...agreed upon with four countries

⁴ Negotiations with Egypt have been completed, though as a result of internal Egyptian government procedures, it has not yet been signed.

- negotiations are still under way with three other countries (Lebanon, Algeria and Syria). An optimistic assessment suggests that these will be concluded by the end of 2001, to be followed by two years of ratification. Thus a free trade zone may not be implemented before 2015.

...still negotiated with three countries

What role can the EU play in order to foster a sustainable reform process and to boost the growth rate in the Mediterranean? The EU's leverage to influence economic policy across the Mediterranean is limited. It is a fallacy to believe that any of the Mediterranean countries will change their economic policies for an annual €100 to €150 million in aid (of which only a fraction has yet been spent). It is up to the Mediterranean governments to realize the necessity for reform, and for swift implementation.

basic decision for reform has to be taken by Mediterranean countries

Europe should acknowledge that the reforms and successes in the Mediterranean are progressing at different speeds by introducing a measure of flexibility. Flexibility implies that MEDA funds should be pooled to support those partners who have embarked on an irreversible transition by signing Association Agreements with the EU and are making a serious effort to introduce reforms. In the case of the other countries, negotiations should be brought to an end or suspended within an appropriate time frame, and MEDA funds reduced accordingly. These states may join in the process at a later stage, if and when they feel ready to implement the reforms needed for a free trade regime.

introduction of flexibility and pooling of resources

In analogy to the 'accession partnerships' which define the measures required to make accession countries eligible for membership, there should be 'association partnerships' dedicated to defining and implementing comprehensive 5-year strategies of economic reform. Individual 'association partners' would have to agree on basic policy objectives, implementation measures and a time-frame. The continuation of MEDA funding should be linked to progress in the implementation of the goals agreed upon in the Association Partnerships. The aid should be conceptualised as short-term ("sunset") assistance for a transitional period of restructuring in order to minimize the risk of an enduring climate of aid. The EU should concentrate its MEDA funds on supporting the envisaged reforms with the help of strategic programs; aid to individual projects should be phased out. It could direct the partner countries to sources of information, technical assistance, and other useful kinds of support available in Europe. It should also monitor the process closely in order to become co-responsible for the success of the 'association partnership'.

MEDA funds are to be concentrated on Association partnerships, EU should become a monitor and provide technical assistance

The "Association Partnership Agreements" should emphasize the following reforms that are to be implemented by the partner countries:

- continuing with and accelerating the pace of privatisation;
- reforming the banking sector in order to ensure the availability of loans;
- implementing good governance, especially an accountable executive, the rule of law, an independent judiciary, and independent media;
- reforming the public sector and the bureaucracy, combating corruption.

Europe's Agenda for Action:

- Increasing the MEDA budget substantially to underline the sincere European commitment to support the reform countries, and accelerating the ratification process of association agreements in EU member countries⁵;
- Gradual opening of the Common Market for agricultural products where Southern Mediterranean countries have a competitive advantage;
- Improving the infrastructure in these countries to facilitate the increase in trade with both the EU and other southern Mediterranean partners, especially in regard to new methods of communication;
- Providing education and vocational training to equip the work force to deal with the requirements of the transitional process, and to ensure an appropriate level of human resources development, particularly with regard to training judges and lawyers;
- Providing financial assistance for social programs to alleviate the burden of poverty and dislocation which may accompany the reforms, possibly through a Euro-Mediterranean Social Fund;
- Providing support for the development of an entrepreneurial class, especially for small and medium-sized enterprises (SMEs) and the informal sector, by means of easy access to loans, the transfer of technology and know-how, and the introduction of a more effective system of standardization.

Fostering South-South Trade

While vertical free trade between Europe and some Mediterranean countries is beginning to materialize, it has not been complemented by horizontal agreements among the Southern partners themselves. The absence of South-South trade liberalization does not bode well for the development of greater markets in the Mediterranean that can generate specialization and rationalization through economies of scale, and, in particular, attract powerful investors. The picture is one of the emergence of a hub-and-spokes pattern with outside investors preferring to allocate their money to the centre in order to take advantage of free trade with the countries of the periphery.

Absence of South-South trade leads to hub-and-spokes pattern

Mediterranean trade has been stimulated by several bilateral agreements (including those between Jordan, Egypt, Israel and Turkey), while sub-regional integration has been pursued by the Arab Maghreb Union (AMU).⁶ Founded in 1989, and consisting of Morocco, Algeria, Tunisia, Libya and Mauritania, AMU has been paralysed since 1994 on account of the dispute between Morocco and Algeria over Western Sahara. In the wake of the improvement in the domestic situation in Algeria in recent months, there have been new hopes for a revival of this integration project, especially after the accession to the throne of Muhammad VI of Morocco, and the election of President Bouteflika in Algeria. A series of bilateral meetings indicates that the actors are willing to reconsider the project, while the

the Arab Maghreb Union as sub-regional integration project

⁵ There is no excuse for the fact that the Association Agreement with Jordan, which was signed in November 1997, has still not been ratified by all of the European national parliaments.

⁶ An additional project is the establishment of an Arab Free Trade Area (AFTA) among the members of the Arab League until 2008.

U.S. has shown interest in the renewal of the economic integration scheme in the Maghreb, though without Libyan participation. UN efforts led by former U.S. Secretary of state James Baker to bring about a solution in the Western Sahara are currently at a standstill due to a dispute concerning voter lists for a projected referendum to decide the fate of the disputed area. Europe should consider launching a diplomatic initiative together with the U.S. in order to resolve the conflict, and appoint a special envoy for this purpose. There should be a major effort to foster South -South trade and to spur sub regional integration in the Mediterranean as a whole, and in the Maghreb in particular, where an appropriate institutional framework is already in place.

Europe's Agenda for Action:

- Dedicating a larger proportion of the forthcoming MEDA II budget to regional projects in analogy to the EUMEDIS program, with variable cooperation by a small number of Mediterranean partners, thus creating clusters of sub-regional cooperation;
- Adopting cumulative rules of origin in regard to all Mediterranean countries to stimulate intra-Mediterranean trade;
- Encouraging partner countries that have signed an EU Association Agreement to conclude free trade agreements among themselves within five years;
- Paying special attention to the encouragement of regional cooperation in shared infrastructure and communication projects.

Engaging Civil Society

Five years into the Euro-Mediterranean Process, it has become clear that civil fora must play a more direct role in the implementation phase if the multilateral initiative is to be strengthened and become sustainable. Only the direct participation of non-governmental organizations will bring about a grass-roots type of Euro-Mediterranean community. This has not yet materialized, and social and cultural baskets have been the subject of lengthy debates and discussions. This is largely due to the fact that the Arab and European views differ sharply on issues such as human rights, immigration, terrorism, the right to political asylum, and the role of civil society.

No progress in civil society cooperation due to differing views

In order to demonstrate that it is serious about the third basket of the Barcelona Process, the EU should consider a number of proposals that would generate more interest in this sector. In the last five years the Euro-Mediterranean Process has not succeeded in promoting an open and constructive dialogue between the civilizations of the Mediterranean. A program consisting of regular meetings between different representatives from around the Mediterranean would help establish a more coherent framework within which such a dialogue could take place. Establishing a program of activities of this kind will have an immediate and positive impact on the contributions civil forums are making to regional stability across the Euro-Mediterranean area.

establishing a program of activities for an open dialogue

The involvement of NGOs is helping to raise awareness of the Euro-Mediterranean Partnership in the partner countries, and muster the support of the relevant pressure groups. But grass roots involvement in the Barcelona Process has been restricted to a few areas of cooperation, and NGOs have been frustrated by the

involvement of NGOs is important

slow disbursement of MEDA aid. As a result numerous NGOs believe that the EMP produces more rhetoric than hard facts. The EU should also insist on an appropriate legal basis for the operation of NGOs in the partner countries.

Europe's Agenda for Action:

- Creating a Mediterranean network of young leaders (MEDYOLE) with a bureaucratic, business, media or military background to foster mutual understanding and reduce prejudices;
- Establishing Arab Centers for European Studies (ACES) at key universities in the Arab world to promote understanding of the European Union and its policies, analogical to those already existent in Israel;
- Enhancing the profile of civil forums through information and communication initiatives and the disbursement of MEDA funds to NGOs;
- Facilitating contacts between civil societies by easing visa procedures, especially for students, scholars, and professionals.

III. The Peace Process

The new Common Strategy of the European Union does not seek to interfere in the current process with the help of detailed political prescriptions. It refers to positions defined on previous occasions, especially the declaration of the European Council in Berlin, which stated that the establishment of a democratic Palestinian state was the best guarantee for Israel's security. Most importantly, the EU perceives the strategy to be a framework for the "post-peace era", that is, the development of the region once peace is achieved. This implies that the EU's involvement in the peace process will be formally embedded in its Mediterranean policy with its commitment to comprehensive domestic and regional change. In the light of this Europe should link its envisaged financial support for a peace agreement to visible reforms on the part of the recipients.

Common Strategy is framework for post-peace era, support should be linked to reforms

The Israeli-Palestinian Track

The turn of events in the core conflict of the region has proven the volatility of the whole process, witnessing within a couple of weeks negotiations on a final status agreement for the first time in history as well as the worst backlash coupled with the outbreak of violence. The election of Ehud Barak of the centre-left "One Israel" coalition in 1999 after three years of the Netanyahu government seemed to open a window of opportunity for the conclusion of the final status agreement provided for in the Oslo accords. Negotiations culminated in a remarkable duplication of the negotiating marathon for the first Middle East peace treaty in Camp David, where Israelis and Palestinians struggled for three consecutive weeks to reach a comprehensive agreement. For the first time in the current process, they tackled the thorniest issues at the heart of the conflict such as Jerusalem, the borders, the settlements, and the refugees. While Barak and Palestinian Authority Chairman Yassir Arafat did not manage to strike a final deal, nevertheless there seemed to be still room for agreement, especially after the Palestinian Liberation Organization decided to postpone the declaration of an independent Palestinian state originally envisaged for 13 September.

in Camp David the parties tackled the core problems

Relations between the parties deteriorated surprisingly fast in early October after an inciting visit of Israeli opposition leader Sharon on the contested Temple Mount/Haram al-Sharif area in Jerusalem sparking off a massive outbreak of violence in the occupied territories as well as in Arab populated areas within Israel. In the ensuing clashes, dozens of people were killed and hundreds wounded, dragging the whole the process to the brink of collapse. The domestic weakness of Barak's coalition could prove to be yet another problem and lead to the formation of a national unity government or even new elections in the near future. While a prolonged Palestinian uprising, a "new intifada", is hardly in the political and economic interest of the Palestinian elite, the anger in the Palestinian public proved to be difficult to contain for Arafat's security apparatus. On the other hand, parts of the Israeli security establishment are advocating tough action on all fronts being tired of what is perceived as one-sided concessions of the Barak government.

rapid deterioration of relations leads to the brink of collapse

European financial assistance and expertise has proved to be of crucial importance for the continuation of the peace process. Nevertheless, Europe cannot replace American mediation, especially when it comes to delivering results and providing guarantees. However, it can prepare the framework for negotiating and

Europe has an important

implementing agreements, and function as a kind of "safety net" in order to prevent the process from disintegrating. While at the time of writing the peace process is facing the worst crisis since its inception, the EU should - in coordination with the U.S. - employ all means to break the cycle of violence and to return the parties to the negotiation table.

background function

Europe's Agenda for Action:

- Continuing to support the Palestinian Authority and Palestinian civil society with aid and technical assistance;
- Offering generous help to resettle Palestinian refugees, both inside and outside Palestine, whilst acknowledging the fact that in any Final Status agreement only a limited number will be allowed to return;
- Providing its good offices and creative solutions for outstanding problems, and in particular considering a change in its position on Jerusalem, which is rejected by both sides, along the lines of establishing a shared bi-national umbrella for both ethno-religious communities.

The Israeli-Syrian Track

In the wake of the Shepherdstown summit between Israeli Prime Minister Barak and Syrian Foreign Minister al-Shara'a in January peace negotiations have been deadlocked over a narrow strip of land adjacent to the Lake of Galilee and over the sequence of normalization. However, two recent events have led to a fundamentally different situation. In May the Israeli Army withdrew unconditionally from areas it had held in South Lebanon since the 1982 invasion. Lebanese and UN forces were then deployed in the evacuated areas. Since then the international border has remained remarkably quiet. However, the recent shootings on Palestinian demonstrators near the border and the abduction of three Israeli soldiers by Hizbullah militiamen on contested territory raised fears of massive Israeli retaliation and a spill-over of violence to Lebanon and even to Syria.

Israeli withdrawal from South Lebanon leaves border quiet

Of even greater importance was the fact that Syrian president Hafiz al-Assad, who had ruled the country with an iron rod since 1970, died, and was succeeded as president by his son Bashar. The latter's accession raised hopes for a speedy modernization of the country. These were nurtured by the new president when he stated publicly that he wished to lead Syria into the internet age. However, in terms of substance there have been only minor changes so far, such as allowing foreign banks to open branches in the free trade zone around Damascus, or replacing imprisonment as punishment for evading compulsory military service with a fine. Although 12 of the 21 members of the politburo of the ruling Ba'ath party (the regional command) have been replaced, Bashar is still surrounded by his father's old cronies. It remains to be seen whether the changes in the elite will be accompanied by an opening of the political system, which would undermine the virtually total control of the Ba'ath party. Yet the transfer of power in Syria could give more leeway to Lebanon, as the victory of the Lebanese opposition in recent elections seems to suggest.

direction of domestic change in Syria ambiguous since death of Hafiz al-Assad

Irrespective of the direction of internal changes in Syria, progress in the negotiations with Israel can only be expected after the consolidation of the new regime. The Israeli Syrian track currently suffers from a mutual lack of trust. Thus

Improvement of communication necessary to

it is of crucial importance to improve the way in which the two sides communicate to prepare the ground for mutual concessions. This is especially true of Israeli public opinion, since the return of the Golan Heights, which is inevitable for any peace agreement, will require a referendum.

generate trust
among parties

Europe's Agenda for Action:

- Redoubling its efforts to negotiate association agreements with Syria (and Lebanon) designed to support reforms in the political and economic sphere (so far there is not even a framework agreement with Syria, let alone any disbursement of MEDA funds);
- Maintaining the communications channel between Damascus and Jerusalem established by Special Ambassador Miguel Moratinos in order to prevent a deterioration of relations, in particular during the current transitional process in Syria;
- Encouraging both parties to state publicly their commitment to peace, their recognition of secure borders, and willingness to return occupied territory and normalize relations;
- Promoting creative solutions for outstanding problems, for example, an arrangement that will combine provisional Israeli control of the disputed strip of shore on the Sea of Galilee for a transitional period, and a precise timetable for the normalization of relations.

IV. The Gulf Region

In the light of the 1999 decision at Helsinki that accorded the status of a candidate for accession to Turkey, the EU needs to consider the strategic implications of its relations in the Middle East once Turkey has been absorbed into the Community.⁷ Turkey's borders with the Middle East are straddled by the Kurdish community, criss-crossed by energy supply lines and trade routes, overarched by the Turkish-Israeli security alliance, and punctured by the Tigris-Euphrates river system. Moreover, with the accession of Turkey, Europe will share borders with Iran and Iraq and find itself in the direct neighbourhood of the Gulf region.

Europe's borders could reach out to the Gulf region

The strategic importance of the Gulf region stems to a large extent from its oil resources, which together make up almost two thirds of the world's known reserves. The region encompasses the monarchies of the Gulf Cooperation Council (GCC: Saudi-Arabia, United Arab Emirates, Kuwait, Qatar, Bahrain and Oman), Iraq and Iran, and, on its periphery, Yemen. In strategic terms it forms a fairly self-contained security complex in the Middle East as a whole. It possesses a dynamism of its own, although there are connections with the Arab-Israeli arena in the Eastern Mediterranean. In recent years there has been a process of growing interaction between the Gulf and the adjoining regions. Cultural and ethnic ties with the successor states of the former Soviet Union and the exploration of oil reserves in the Caspian have led to Iranian and Turkish involvement in this area. Turkey's sustained campaign against the separatist PKK movement has led to Turkish military operations on both Iraqi and Iranian territory. In the east, where the radical Sunnite Muslim Taleban movement controls much of Afghanistan and is persecuting the Shiite minority, there is mounting tension between Iran and Pakistan, not to mention the ongoing battle with drug traffickers along Iran's eastern border. Similarly, the nuclear proliferation on the Indian subcontinent, especially Pakistan's "achievement" in becoming a nuclear power amidst unimaginable poverty, also influences other would-be nuclear states in the region.

Geo-strategic characteristics of Gulf region

Europe and the GCC: Towards Free Trade

The Gulf Cooperation Council (GCC) encompasses Saudi Arabia, Kuwait, Bahrain, Qatar, the UAE and Oman.⁸ As a regional grouping the GCC has sought more formalized relations with other regional groupings, and has deemed the EU to constitute an important market to which it wished to secure guaranteed access. A Cooperation Agreement was concluded in 1988 with the aim of establishing free trade between the EU and the GCC. This gave the GCC a common external economic objective, and meant that to some extent the economic agenda became of greater relative importance than the U.S. security agenda.

Cooperation agreement with EU gave GCC common external objective

In 1998 it was proposed that there should be negotiations on a free trade area

⁷ This point is based on Rosemary Hollis, "Turkey and EU Membership: Europe's Borders Stretch Out to the Middle East and the Gulf", which was presented to the "Future Political and Economic Perspectives for European-Gulf Relations" Workshop on 3-5 September 2000 in Frankfurt.

⁸ This section is based on Rodney Wilson, "EU-GCC Relations: Towards a Free Trade Agreement and Beyond", which was presented to the "Future Political and Economic Perspectives for European-Gulf Relations" Workshop on 3-5 September 2000 in Frankfurt.

encompassing the EU and the GCC. Unlike the Euro-Mediterranean arrangements, which are part of the Barcelona process, the implementation of the free trade area agreement is dependent on the collective action of the GCC as a regional grouping, rather than on a country-by-country basis. This should result in consistent and simultaneous implementation, and will obviate the problem of laggards. However, it may also result in slower overall progress, especially when one considers what the fastest state might have achieved in terms of liberalization.

Free Trade Agreement with GCC in the pipeline

Despite the 1988 Cooperation Agreement, bilateral economic relations between the GCC and the EU have not intensified. Indeed they have been static at best for most of the GCC countries, and in some cases trade has actually declined. The main successes were in the area of customs cooperation, and there was also some progress with regard to standards. Energy cooperation has been limited to the discussion of a joint report on energy and the environment. There have been EU complaints that EU exports are on average subject to GCC tariffs which are higher than EU tariffs on GCC exports, 79 per cent of which enter the EU duty free under the most favoured nation arrangements. Conversely, there are GCC complaints about EU tariffs on petrochemicals and aluminium, and the high level of taxation on hydrocarbons, which discourages petrol consumption. Nevertheless the GCC remains the EU's fifth largest export market with bilateral trade worth €34 billion and it accounts for almost one quarter of EU oil imports.

Development of EU-GCC relations sub-optimal

Although interaction between Europe and the GCC could be termed a story of missed opportunities there is a renewed interest among the GCC countries in long term economic cooperation as extension and partial substitution of defense contracts. Europe should seize this opportunity to deepen its relations to the region.

Europe should seize opportunity for intensified cooperation

Europe's Agenda for Action:

- Concluding a Free Trade Agreement with the GCC and ensuring that it will serve as catalyst for a sustainable improvement in the investment climate, i.e. by harmonizing standards and promoting opportunities in the Gulf region in the European investment community;
- Opening an EU delegation in the Saudi capital Riyadh to improve communication with the GCC and granting the GCC observer status in the Barcelona process;
- Sponsoring joint projects between EU and GCC countries in the fields of education and research;
- Encouraging GCC members to deepen economic reform programmes by ensuring the complete freedom of capital transfers, liberalizing financial services, and providing for the transparency of companies and stock exchanges;
- Discussing the simplification of rules governing mutual work permits and the relaxation of visa requirements.

Iran: The Winds of Change

The Islamic Republic of Iran is in the middle of a complex process of internal change which, for outsiders, includes irritating and inconsistent elements whose outcome is currently far from certain.⁹ The reformists believe that the country is losing touch with two thirds of the population that is adolescent and is confronted with an economic impasse that will call for radical structural economic reforms, foreign investment and more open government. The "hard-liners" are often depicted as more ideologically committed to Islam and strict standards, less open to power-sharing or debate, more dedicated to state control of the economy, and more averse to contact with other cultures. They do not appear to have any economic strategy as such, blaming poor performance not on ineptitude and corruption, but on foreign sanctions and the policy of containment.

Conflict between reformists and conservatives highlights complex process of internal change

Much of the protest vote against the clerical regime stems from Iran's disastrous economic performance. It is this which has spurred on the opposition at the polls, and united a diverse group under the banner of reform. One issue is whether economic reforms must come before political ones, or vice versa. This may seem like a sterile debate, but it is also an issue that is at the heart of the current rivalry between the various factions. The reformists lack the ability to control all aspects of the economy, which is needed if the reforms are to be effective. On the other hand, the conservatives insist that reformists must deliver economically without tampering with their power base. In the final analysis the reformers, who to a certain degree have already dismantled the Islamic Republic, will have to tackle the question of how to reconcile Iranian nationalism and religion.

debate over interdependence between economic and political reforms

Iran is remarkably fortunate in its strategic situation, having no historical adversary or irredentist territorial claims, and there is no threat to its existence as a state. Compared to its neighbours, it is a stable state with a sense of identity; it is neither a state in decline, nor is it a new one engaged in creating a justification for independence. Notwithstanding a certain nationalist consensus there are basic differences between the two factions with regard to foreign and security policy. The conservatives see Iran as embattled and selflessly pursuing the interests of Islam. They favour a kind of political symbolism sustained by a type of rhetoric which seeks to mobilize and energize their mass constituency to engage in constant struggle, sacrifice and confrontation. On the other hand, the reformist president Khatami appeals to common interests, dialogue and moderation. This approach has been most successful in the Gulf region. Relations with Saudi Arabia have improved remarkably though differences remain. In contrast to this, Iraq continues to constitute a major dilemma for Iranian foreign policy whose isolation and lack of trustworthiness clearly requires a countervailing deterrent on the Iranian side.

differences in foreign policy approach between reformists and reformers

⁹ This section is based on Shahram Chubin, "Europe and Iran's Role in Regional Politics", which was presented to the "Future Political and Economic Perspectives for European-Gulf Relations" Workshop on 3-5 September 2000 in Frankfurt.

Europe's Agenda for Action:

- Supporting a civil society in Iran based on the freedom of the press, the accountability of government, and the transparency of the legal process;
- Helping Iran in its fight against drug infiltration from Afghanistan by providing both equipment and expertise;
- Engaging Iran internationally by encouraging investments linked to the implementation of reforms, and by entering into a dialogue on its nuclear capability;
- Using Iran's clear willingness to foster regional security in the Caucasus and Tajikistan, for example, by co-optation into the OSCE Minsk group (in order to deal with the Nagorno-Karabakh conflict).

Iraq: Living With Saddam

Compared to other states outlawed by the international community, Iraq remains a major actor on the international stage.¹⁰ No policymaker can afford to disregard Iraq's oil resources which amount to 10% of the world's known reserves, especially at a time when the market has seen significant increases in the price per barrel and high levels of production render Iraqi supplies of pivotal importance. Furthermore, the country occupies a key strategic position in the Gulf region making it a linchpin in the Middle East. Finally, a future Iraq, thanks to its population of some 20 million and its resources, will constitute a very large potential market.

Pivotal importance of Iraq for global political economy and regional stability

After two major attacks on its neighbours in the recent past, the feared Iraqi army has lost much of its military potential. While Iraq's WMD capability had been reduced by the work of UNSCOM there is considerable disagreement among observers on its remaining WMD potential. In any case it is unlikely that the great powers will authorize uncontrolled imports of armaments by Iraq if and when sanctions are finally lifted. As a result the Iraqi regime is weaker in regional terms, although, in relative terms, its hold on power in Iraq may have been strengthened. This is largely due to the sanctions policy. The sanctions placed on a police state such as Iraq tend to bestow on the regime an even greater control of the population on account of rationing and the sheer level of poverty. Moreover, since sanctions create shortages, they provide numerous opportunities for the regime's leaders and their cronies to enrich themselves at the expense of the population, particularly through the system of distributing rations under the "oil for food" programme. They have also accelerated the emigration of the middle classes, thereby weakening the forces capable of resisting the regime. Even Saddam's opponents criticize the U.S. for maintaining sanctions, although it saved his regime in 1991. In the longer term it may turn out that this has created a generation of *revanchists*.

UN sanctions and UNSCOM operations have reduced military capability, but sustained regime's domestic power

A break-up of the country into independent entities seems unlikely given the existence of a powerful Iraqi nationalism and the extent to which the ethnic and

¹⁰ This section is based on Alain Gresh, "Iraq beyond Sanctions", which was presented to the "Future Political and Economic Perspectives for European-Gulf Relations" Workshop on 3-5 September 2000 in Frankfurt.

religious groups intermingle in a country which is heavily urbanized. On the other hand, there is a real risk that the disintegration of the country will be accelerated by sanctions. What is happening in the north, where Kurdistan has become a battle zone for the confrontation between Turkey, Iraq, and Iran, is emblematic of what may well happen in future.

danger of disintegration

Europe's Agenda for Action:

- Support for gradual lifting sanctions and controls on Iraqi imports and exports combined with the installation of effective long-term surveillance of Iraqi disarmament, as originally planned by UNSCOM;
- Developing a long-term plan for rebuilding the Iraqi economy and infrastructure in order to create the basis for a regional reintegration of the country;
- Securing the autonomy of the Kurdish population in Northern Iraq without compromising the territorial integrity of Iraq;
- Resuming exchanges with intellectual elites, particularly in the cultural and scientific domain.

European and U.S. Interests in the Gulf

Europe and the U.S. share a long-term strategic interest in political stability and energy security in the Gulf.¹¹ It was precisely for this reason that European powers joined forces with the U.S. in the Gulf War to liberate Kuwait from Iraqi occupation. Despite this initial unanimity, European and American perceptions gradually diverged in the 1990s, and led to the adoption of differing proposals for a resolution of the conflict.

Gradual divergence of European and American positions

The Gulf War led to a re-formulation of American policy towards the "revisionist players", Iran and Iraq, for which the term "dual containment" was coined. A wide range of instruments was deployed against Iraq and Washington made it clear that the current regime in Iraq was anathema to its interests. U.S. policy was a success in terms of isolating Iraq internationally and keeping its military power in check, but a failure when it came to destabilizing its regime. As far as Iran is concerned, the instruments deployed were more limited. By contrast, in Iran it was the regime's policies and not the Islamic Republic per se that the Administration wanted to change.

U.S. policy of dual containment towards Iraq and Iran

In the eyes of the Europeans, containment is not an end in itself, but a means that may help to ameliorate the situation. Indefinite containment may generate a dangerous sense of frustration and revenge. Iran and Iraq should find their own ways of organizing their internal political life, and consequently consider a reformulation of their international policies. The populations of Iran and Iraq should see that there is light at the end of the tunnel, and should expect to be reintegrated into international society. The growing divergence between U.S. and EU policies has been marked by a number of events such as European opposition to the extra-territorial application of the Iran-Libya Sanctions Act (ILSA) of 1996,

Europeans oppose indefinite containment and seek reintegration of Iran and Iraq

¹¹ This section is based on Henri J. Barkey, "The U.S. Policy and the Persian Gulf: Ten Years after Gulf War", and Martin Ortega, "Euro-American Relations in the Gulf Region", which were presented to the "Future Political and Economic Perspectives for European-Gulf Relations" Workshop on 3-5 September 2000 in Frankfurt.

or to Operation Desert Fox in December 1998. On the other hand European relations with Iran have started to improve, and a number of European companies have expressed an interest in doing business in the country.

The U.S. and Europe should seize the current opportunity to devise a concerted long-term policy. A strong common position would make the struggle against proliferation more effective, and would make the threat of a joint response more credible in the event of an outbreak of hostilities. The general aim of the new policy should be to integrate Iran and Iraq into a stable regional system to assure peace in the region in the long term.

concerted long-term policy with U.S. required

Europe's Agenda for Action:

- Considering the formulation of a Common European Strategy for the Gulf region or extension of the strategy for the Mediterranean;
- Deepening the transatlantic partnership with the U.S. and other fora in order to coordinate policies in the Gulf region, starting with a more frequent expression of common points of view;
- Developing a sustainable security system for the region in order to re-integrate Iraq and to prevent further aggression.

V. Conclusion

European foreign policy in the MENA region is not unanimous, and the approaches of certain member states diverge considerably. The introduction of the Common Foreign and Security Policy (CFSP) at Amsterdam and the appointment of a high representative proved to be important steps, though these are far from being sufficient to produce a consistent European policy. Coordination has to be intensified in the near future, especially in regard towards the Gulf region, where members, notably Britain and France, disagree widely. In addition, cooperation with the U.S. has to be enhanced, especially in the peace process and in the Gulf where Europe cannot proceed on its own.

Cooperation within the CFSP has to be intensified, coordination with the U.S. enhanced

The new Common Strategy on the Mediterranean offers a unique opportunity to reassess and reshape European policies in the region in order to render them more effective. The EU should provide more incentives to those states which are able and willing to move ahead faster than the rest, while keeping the door open for the laggards. The Mediterranean states should consider adopting more of the EU's message of flexibility. When it comes to expressing priorities and concerns and proposing measures, one should not require unanimity from all partners. The EU's southern borderlands must also realize that the only policies which will improve their political and economic prospects are those which are home-grown and implemented locally.

the Barcelona process should be reshaped based on flexibility and domestic implementation

Israelis and Palestinians have proven to be unable to agree on a final status agreement now, while it seems highly unlikely that Syria and Israel are ready for reconciliation in the short run. Decision makers have to muster broad domestic support to agree to painful concessions. External mediation is extremely helpful to open a window of opportunity, but, as Camp David has shown, cannot enforce any solution. Even worse, the wave of violence on the Israeli-Palestinian stage has dragged the peace process to the brink of collapse, all but demolishing the optimism which prevailed after the election of Ehud Barak in 1999. The basic decision of all parties concerned to resolve their conflict by negotiations is severely threatened by the recent outbreak of violence.

basic decision for negotiated solution is threatened by recent outbreak of violence

The necessary reorientation in the Gulf towards an enduring regional system to integrate Iran and Iraq is only feasible if there is intensive cooperation of Europe, the U.S. and, perhaps, Russia. A first step towards a system in which each country has its own place and does not nurture a desire to disrupt the status quo might be a general dialogue among the littoral states. This would encompass discussion of a set of principles for good neighbourliness, including non-interference, and a ban on support for dissidents and hostile propaganda. Eventually this could become a code of conduct among the littoral states, including agreement on principles governing the resolution of territorial disputes. Here the EU could help the states concerned by referring to the lessons learned from its own experience in building confidence and trust. The negotiation and ratification of peace treaties should be the next step (especially between Iraq and its neighbours). In concrete cases of territorial disputes the EU could offer to mediate or conciliate. This may well require arms control measures, surveillance or early warning technology, demilitarised or low-level zones near frontiers, and the appropriate forces to act as buffers.

development of an enduring regional system for stability in the Gulf

A long-term European strategy for the Middle East should link the Mediterranean and the Gulf region in economic and political terms.¹² Both the GCC and the EU share a strong interest in maintaining political stability and economic prosperity in the Mediterranean, thereby reducing the influx of labour, providing for expanding markets, and lessening the chances of political turmoil. The Mediterranean is an important physical and psychological bridge between the two regions. In order to strengthen and sustain their stability, the prosperity that both the EU and the GCC enjoy must be extended to their neighbours. GCC countries have become more aware that prosperity and the resulting political stability in the region provide the best guarantee for their security in the long term. Cooperation with the Mediterranean countries is one way of promoting security without massive and probably futile defence spending. As the level of GCC aid declines in relation to that of Europe, cooperation between the GCC and the EU could emerge in the area of economic assistance.

cooperation
between Europe
and GCC to secure
a stable
Mediterranean in
the long run

¹² This point is based on Riad al-Khouri, *The EU, the Arab Mediterranean Countries, and the GCC: Links and Separations*, which was presented to the Workshop "Future Political and Economic Perspectives for European-Gulf Relations" on September 3-5, 2000 in Frankfurt