

DISKUSSIONSPAPIERE

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EU-Arab Development Cooperation
Scenarios and Policy Options

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Abbreviations

| | |
|-------|--|
| EU | European Union, previously European Community (EC) |
| NAFTA | North American Free Trade Agreement |
| NIS | Newly Independent States (former Soviet Union) |
| NMC | Mediterranean Non-Member Countries of the EU |

1. Arab Development Performance in Third World Comparison

From the perspective of European policy makers, the Arab World is of immediate geopolitical concern. Its population amounts to some 210 million people, with population growth rates in the magnitude of 2.5 percent in North Africa and closer to 3 percent or above in the Mashreq and Gulf countries. In a number of countries total fertility rates (births per woman) are still quite high, and so are illiteracy rates (see Table 1, Annex). Female labor participation, another socio-economic indicator, is very low in international comparison due to the restrained public role of women.

In the non-oil countries, economic development has made progress in recent years but lags behind the industrial dynamics of more advanced developing regions as the NICs of the Far East. For instance, in 1958 South Korea and Egypt had similar per capita incomes (US\$ 104 and 116 respectively).¹ Both have a population of similar size (44 and 56 million), both were exposed to military confrontation, and both are industrial leaders in their respective Third World regions. Meanwhile, South Korea is turning into a sophisticated industrial and service economy with a per capita income of US\$ 7,670 whereas Egypt still struggles with typical features of underdevelopment at US\$ 660. Illiteracy rates stand at close to zero vs. 52 percent and female labor force participation at 34 vs. 11 percent respectively.²

Even the Gulf countries have not been able to use their oil receipts to establish a more sophisticated industrial structure beyond their hydrocarbon complexes. Saudi Arabia's per capita income (US\$ 7,780) only amounts to 40 percent of Singapore's (US\$ 19,310), and its illiteracy rate still stands at 38 percent.³ Both oil and non-oil countries are exposed to substantial environmental degradation as a result of climatic change

¹ United Nations 1962, pp. 314, 316.

² World Bank 1995a.

³ Ibid.

and increasing desertification. E.g. Jordan's fossile water resources will be exhausted in a few decades.⁴

Without getting into the details country by country, it is obvious that the overall development performance has not been able to match the rising expectations⁵ particularly among the unemployed Arab youth. Structural adjustment programs have been started. They have not really got off the ground in countries like Algeria and Egypt,⁶ but have been quite successful in Tunisia, Morocco and Turkey. The social cost of economic transformation have added to social tension. The area has witnessed repeated "bread revolts", violence, and armed clashes eventually referring to ethnic or religious symbols.

Probably these trends will not be reversed during the current decade. According to a World Bank study⁷, the target of doubling the GNP of the Arab World until 2010 would require a GNP growth rate of 3 percent for the period 1990 to 2000, and of 5 percent for the period 2000 to 2010. Essential preconditions would be

- a sustainable peace with a reduction of military expenditure,
- the implementation of comprehensive economic development programs,
- an effective regional cooperation among the countries of the Middle East and substantial short-term foreign assistance (ODA) to compensate for the social and political costs of economic reforms, and
- much larger flows of foreign direct investment and commercial loans to supplement domestic savings.

But even then - still quoting the World Bank - per capita incomes would remain low because of the ongoing population growth, and the poverty gap between the EU and the Maghreb/

⁴ Libiszewski/Schiffler (eds.) 1995, pp. 22-23. See also Schiffer/Köppen/Lohmann/Schmidt/ Wächter/Widmann 1994, pp. 3 f.

⁵ World Bank 1995b pp. 15 f.

⁶ Weiss 1991, pp. 13 f.

⁷ Diwan/Squire 1992.

Mashreq countries may widen from a present relation of 10:1 to 20:1. The overall political, economic, social and cultural framework in the Arab World is not conducive to a full mobilization of the human factor, its creativity and its innovative drive.⁸

Hence, Europe must be prepared to face mounting tension at its southern flank, hazards to trade links and to its oil and gas supplies, continuing Arab environmental degradation eventually leading to mass migration to Europe, possibly aggravated by an additional migration pressure from the Sahelian countries on the Arab World as a result of increasing desertification.

2. European Perceptions of the Arab World

The dimensions of this problematique have not yet been fully perceived by the general European public which is preoccupied by the Balcans and Eastern Europe, in addition to economic and social adjustment issues within the EU itself exposed to mounting international competition within the "Triade" (EU, USA, Japan) and from Newly Industrializing Countries catching up to the industrial world.

At its meeting in Lisbon of June 1992 the European Council stated that the southern and eastern borders of the Mediterranean and the Near East are essential for European security and social stability. During its subsequent Korfu meeting in June 1994 the European Council asked the European Commission to evaluate its global Mediterranean policy and to suggest measures for its short and medium-term intensification. In July 1994, the European Council of Foreign Ministers took an initiative and asked the Commission to prepare guidelines for short and medium-term action to promote peace, stability, security, and socio-economic development within the framework of the so-called European Mediterranean Policy which includes the EU relations with the Maghreb, the Mashreq, Israel, Cyprus, Malta,

⁸ Weiss 1986, pp. 377 f. Weiss 1990, pp. 208 f.

Turkey, and former Yugoslavia. In the following, we are mainly concerned with the Arab countries.⁹

The EU Commission is aware of the mutual dependence as regards environmental protection, energy supplies, migration, and trade. Therefore, it has a genuine interest in helping Arab countries to cope with the challenges, and in developing a balanced approach to the Arab World on the one hand and Eastern Europe on the other. The general goal is to develop a partnership between the EU and the Mediterranean Non-Member Countries¹⁰ (NMCs) including the promotion of free trade - against heavy protectionist trends in the Common Agricultural Market and various "sensitive" industrial sectors. Substantial EU financial assistance will be required for a long process of modernization and structural transformation to raise the international competitiveness of the Arab partners. In the long run, the EU aims at a close political and economic cooperation. A Euro-Mediterranean "zone of peace and stability"¹¹ is to evolve as part of a political dialogue based on the principles of democracy, good governance, and human rights, eventually extended to problems of security and peace-keeping activities.

3. EU Policy Objectives

In view of an increasing regionalism (NAFTA, ASEAN, Asia-Pacific region etc.¹²), the EU Commission adheres to a long-term vision of an emergence of the world's largest free trade area consisting of the EU, Central and Eastern Europe, and all NMCs bordering the Mediterranean.¹³ Beyond moves toward free trade, the Community aims at extending its cooperation with the Arab World to industrial cooperation, energy resources, environmental protection, communication, tourism and other services, free

⁹ Kommission 1994, p. 4.

¹⁰ NMCs: Morocco, Algeria, Tunisia, Jordan, Lebanon, Syria, Palestine, Egypt, Israel, Cyprus, Malta, Turkey.

¹¹ Kommission 1994, p. 8.

¹² See for a comprehensive discussion of Large Economic Areas (LEAs): Lorenz 1995, pp. 101 f.

¹³ Kommission 1994, p. 12.

movement of capital, science and technology, measures to combat drugs, and direct Euro-Arab interaction of NGOs.

Immediate operational targets are:¹⁴

1. An increase of EU technical and financial assistance as part of a comprehensive Middle East development program for the years 1995 to 1999 amounting to ECU 4.685 billion;¹⁵
2. an incentive system to stimulate private European investment in the Arab World;
3. the establishment of a permanent economic policy dialogue;
4. EU measures to encourage regional cooperation and trade among Arab countries, e.g. through cumulative rules of origin.
5. The Commission insists that preparations for an EU enlargement toward Central and Eastern Europe do not conflict with the EU goal to develop closer links with the Mediterranean countries.
6. With Tunisia and Morocco, new so-called Euro-Mediterranean association agreements have been concluded in 1995¹⁶. Negotiations with Egypt on a similar agreement are on their way.

Peace and stability in the Arab World are threatened by lagging economic development and rising social tension, e.g. violence in Algeria and a deteriorating security situation in Egypt. Therefore, the EU Commission argues for support measures for

- a) political reforms, i.e. respect for human rights, freedom of expression, and steps toward democratization and public accountability,¹⁷
- b) economic reforms aiming at sustainable growth, and

¹⁴ Ibid., p. 3.

¹⁵ Nachrichten für den Außenhandel, November 27, 1995.

¹⁶ Cf. para 8.2.

¹⁷ Kommission 1994, p. 5.

- c) cultural reforms starting with the educational system, and encouraging innovative thinking and creativity at large.¹⁸

EU-Arab interdependence is vital as regards environmental protection, energy supplies, combat of drug production and drug trade, and migration. A large proportion of immigrants living in the EU come from the Arab World. Their remittances supply substantial foreign exchange assets for their home countries. The migration flows need careful bilateral management and close Euro-Arab cooperation as mounting social tensions are imminent.¹⁹

4. EU Policy Constraints: Decision-making Capability

Substantial challenges as to the EU's capability to formulate and implement policies are involved. To begin with, a closer Euro-Arab cooperation must face the vested interests of both the northern and southern EU member states. They will demand protection against north African competition as regards citrus fruits, vegetables, textiles and clothing, and a number of other manufactured goods, or EU financial compensations for a more liberal stand. Hence, a subtle balance must be struck in dealing with a long list of conflicting interests among EU member states as well as among different sectors within individual EU member states. E.g. German export-oriented industries and large department stores call for inexpensive imports and argue for free trade whereas German trade unions and entrepreneurs in declining industries do not welcome competitive Arab goods and services. Painstaking bargaining processes will be necessary to reconcile such conflicting issues within the EU. The Maastricht Treaty of 1992 states the EU's determination to proceed toward unification. But so far, the central political EU decision-making structure is still weak both with regard to parliamentary legitimacy and executive competencies.

¹⁸ Weiss 1993a, pp. 11 f.

¹⁹ Kommission 1994, p. 6.

In the historical process of European unification emphasis has been put on the economic aspects of integration. This has led to a notorious and lengthy struggle on piecemeal economic advantages among the member states. On the other hand, the centers of political power are still vested in the national governments dependent on their own parliaments and electorates.²⁰ This state of affairs is not conducive to a sustained common long-term vision for the EU as a whole, let alone for the strengthening of an operational executive power center in the EU Commission eventually responsible for weighing the costs and benefits of EU-wide policy alternatives in a complex international setting with its inherent risks. Instead, individual EU member policies prevail, and there have been many examples of unscrupulous free rider strategies of member governments to gain short-term economic advantages for their home clientele. In the Maastricht Agreements the EU member governments have committed themselves to proceed toward a workable political union, but this will be a long and difficult process. Current political inertia as related to former Yugoslavia has painfully demonstrated the lack of common decision-making capability even in vital areas of EU foreign policy and security matters.

Thus, painstaking internal bargaining processes are ahead if the EU will proceed toward substantial trade concessions to the Arab World, possibly linked with EU-internal compensations for its member countries (e.g. Mediterranean) and for various sectors (e.g. European farmers). Positive EU decisions are easier in the field of aid than of trade. The enlargement of the European Union from the original six to fifteen members and the expected further East enlargement calls for consequences with regard to an adaptation of its internal decision-making structures. Therefore, the EU will start a new inter-governmental review of its objectives and organization in 1996.²¹

²⁰ For instance, the Preamble of the Maastricht agreement vaguely stages the determination "to implement a common foreign and security policy including the eventual framing of a common defence policy, which might in time lead to a common defence, thereby reinforcing the European identity and its interdependence in order to promote peace, security and progress in Europe and in the world".

²¹ Marín 1995, p. 3.

5. European Policies vis-à-vis the Arab World
5.1 Mediterranean Countries
5.1.1 Agreements

The Community started to establish a network of agreements with most of the Arab countries since the 1960s. In the beginning they were focussed on trade, especially on free access of manufactured goods to the European market, and on a few concessions with regard to agricultural products²² as long as they did not seriously challenge the interests of the farmers within the system of the Common Agricultural Market.

In the 1970s economic and financial co-operation was included in the agreements, although with fairly limited aid volumes as compared to the bilateral foreign assistance budgets of the European member states.

After the EU accession of Greece in 1981, and of Spain and Portugal in 1986, we have the following situation: In addition to association agreements with Turkey, Cyprus and Malta with the objective to establish a customs union, cooperation agreements exist with the other NMCs within the framework of the EU's so-called Mediterranean Policy. Cooperation agreements with Morocco, Tunisia and Algeria were signed in 1976. The four Mashreq countries Egypt, Syria, Jordan and Lebanon followed in 1977, and Yemen in 1985. Sudan, Somalia, Mauretania and Djibouti are members of the Lomé Convention (covering more than 60 African, Caribbean and Pacific developing countries). In 1989 the Community and Israel signed a free trade agreement for manufactured goods.

The cooperation agreements with the Arab countries dealt with firstly, unilateral trade concessions for Arab exports to the EU markets - however, with substantial exclusions of agricultural products and "sensitive manufactures" particularly in fields where Arab countries are competitive -, secondly, development assistance within the Financial Protocols, and thirdly,

²² Kommission 1994, p. 23.

equal treatment of Arab migrant workers in the EU with regard to payment and social security services.

The negative impact of the accession of Spain and Portugal on NMCs with competing products (e.g. olive oil, citrus fruits, textiles, etc.) were cushioned through additional protocols to the agreements offering concessions for agricultural products.²³

Another series of agreements has been concluded with Tunisia, Morocco and Israel as part of the EU initiative to move toward a Euro-Mediterranean Free Trade Area by the year 2010.²⁴

5.1.2 Achievements

5.1.2.1 Trade

Between 1979 and 1993, the share of manufactured exports in total exports of NMCs to the EU has risen from 28 to 54 percent, with substantial increases for Morocco (from 24 to 66 percent) and Tunisia (from 40 to 77 percent).²⁵ On the whole, the exports of the NMCs are not yet diversified enough. A more substantial export boom has been impeded by many disincentives on the supply side in the Arab World²⁶ (see Table 6, Annex).

During the last twenty years access for agricultural products has also improved, but it is still far from being satisfactory. However, for the most important NMC agricultural exports customs duties have been reduced step by step. Agricultural exports of NMCs have risen in absolute terms although their relative share has declined. This partly reflects their industrialization efforts. Only Morocco and Turkey have an agricultural share of more than 15 percent of their total exports to the EU. Generally, the NMC attempts to strengthen their

²³ Kommission 1994, p. 24.

²⁴ See para 8.2.

²⁵ Kommission 1994, p. 24.

²⁶ This is in line with the general experience as regards regional integration, cf. Bormann/Fischer/Jungnickel/Kooppmann/Scharrer 1995, p. 102.

agricultural production has not been satisfactory. Most countries have not been able to reach self-sufficiency in basic foodstuffs and to reduce their dependence on food imports from the EU.²⁷

5.1.2.2 Financial and Technical Cooperation

Community aid amounts to 0.1 percent of the European GNP - in addition to bilateral development assistance of EU Member States. Additional EIB loans made up 0.3 percent of EU GNP. Aid has been focussed on vocational training and agricultural development. However, its impact on the overall economic growth in the recipient countries has been negligible. Quite often the implementation of the assistance programs was impeded by political obstacles and administrative deficiencies in the recipient countries.²⁸

5.2 Gulf Countries

As to the Gulf countries the common basis is the EU's interest in energy resources and the Gulf countries' interest in supplying them. The latter have lost market-shares to the North Sea oil fields, and to other non-OAPEC producers. Meanwhile, only 22 percent of European oil imports come from the the countries of the Gulf Cooperation Council (GCC)²⁹, although 46 percent of the world's proven oil reserves lie there. The Gulf countries are the EU's foremost Arab trading partners with almost 40 percent of European trade with the Arab World. The GCC is the EU's 5th largest export market (after the U.S., Japan, Central and Eastern Europe, and ASEAN). In 1994 EU exports to the GCC totalled ECU 19.3 billion. The GCC accounts for 23.7 percent of EU oil imports. European imports include natural gas, refined petroleum products and petrochemicals. The GCC accounts for 4 percent of European exports to third coun-

²⁷ Kommission 1994, p. 25.

²⁸ Ibid.

²⁹ Saudi Arabia, Kuwait, Bahrain, United Arab Emirates, Qatar, Oman.

tries, whereas the EU supplies 35 percent of the GCC's imports, well ahead of Asia (27 percent), and the U.S. (12 percent). The EU's trade surplus vis-à-vis the GCC amounted to ECU 7.9 billion in 1994.³⁰

The EU is linked with the six countries of the GCC since 1988 by a cooperation agreement. The main purpose of this non-preferential agreement was to establish a framework of cooperation in a wide range, i.e. energy, industry, trade and services, agriculture and fishery, private investments, science and technology, and environmental protection. The agreement is supposed to strengthen the industrial diversification of the GCC economies (Art. 1) and to improve market access for both sides taking in consideration the interests of both parties (Art. 3). Joint analyses are to improve trade with crude oil, gas and petrochemicals, and downstream manufactures between both regions (Art. 6). Both parties concede the most favored nations clause to each other (Art. 4). Free trade negotiations began in 1990, but have not progressed and results deriving from the Cooperation Agreement have been limited. The two sides held a Ministerial Meeting in Granada in July 1995 to give a new political impetus and momentum to their relationship.

The GCC tries to prevent European environmental policies such as the reduction of fuel consumption, e.g. by means of a carbon-energy tax as proposed by the Commission. The Gulf countries will be affected by growing public European pressure for higher energy prices to reduce CO₂ emissions as expressed during the International Berlin Climate Conference in 1995.

The unsolved conflicts between the EU's claim to promote free trade on the one hand and its protectionist stand on the other had been reflected still more bluntly in an earlier EU-GCC agreement which had postponed all sensitive discussion points to the agreement of 1988.³¹ The two parties had committed themselves to seek solutions which

- are compatible with the GATT,

³⁰ EU Commission 1995a, p. 2. EU Commission 1995d, p. 2.

³¹ Cf. Kooperation 1988, pp. 53-66.

- do not endanger the main interests of the European petrochemical and refinery producers,
- protect the infant industries in the Gulf states, and
- guarantee EU non-discrimination of Gulf oil products as compared to competing oil products from other parts of the world.³²

Obviously, these points were not compatible and remain unsolved in spite of the 1989 agreement. The second item (protection of EU petrochemicals) continues to be subject to conflict. The positions range from tough protectionist stands to efforts aiming at positive joint action. The EU is particularly sensitive when it comes to the access of more sophisticated petroleum products from the newly established downstream activities in the Gulf countries. The rate of protection increases with the degree of processing, thus aiming at protection of European processing plants.

Meanwhile five Ministerial Meetings between the EU and the GCC Joint Council have taken place: 1990 in Muscat, 1991 in Luxembourg, 1992 in Kuwait, 1993 in Brussels, and 1994 in Riyadh. They reaffirmed the importance of cooperation and underlined the common views held on most aspects of international affairs. In the last two meetings, the GCC reiterated its concern on the possibility of a European carbon-energy tax.³³

The EU has introduced a new general system of preferences from January 1995. Its impact on GCC exports to the Community is insignificant since crude oil makes up 90 percent of GCC exports to the EU, and European customs duties on crude oil are zero percent. According to Article 6 of the new regulation, the economically most advanced countries shall be excluded from entitlement. Thus, Saudi Arabia has been "graduated" from April 1995 with regard to salt, sulphur, earths and stone, plastering materials, cement, and refined petroleum products like gaso-

³² Cf. Joint Declaration Concerning Article 11,2. Bangemann 1988, p. 17.

³³ EU Commission 1995a, p. 5.

line. All other GCC countries will probably be excluded from 1998.

In order to facilitate private business contacts and to promote cooperation in manufacturing, trade, and transfer of technology, various EU-GCC industrial conferences have been held (Granada 1990, Dohar 1992, and Muscat 1995). Financial services and environmental issues are of growing importance.³⁴

A three year technical assistance program in the field of customs and standards is to help GCC countries to set up technical legislation and procedures compatible with EU routines.

Various working groups keep discussing issues of energy, industrial cooperation, support services for promoting trade and enhancing industrial cooperation, mainly for the sake of keeping the dialogue going. Thus, EU technical assistance supports a life sanctuary project in Jubail/Saudi Arabia, a network of GCC marine protection centers, and customs cooperation activities including training.³⁵

5.3 Euro-Arab Dialogue

One of the most extensive inter-regional cooperation frameworks in which the European Community has been involved with its Southern neighbors was the Euro-Arab dialogue. Launched over 20 years ago at a time of war in the Middle East and oil embargos, this ambitious undertaking has been frustrated by recurring political difficulties which even today prevent the normal functioning of the formal mechanisms of the Dialogue. As a consequence, there have been no major achievements. However, the two sides have been determined not to lose the momentum of cooperation at the Euro-Arab level and cooperation in significant areas is currently being promoted by the European Commis-

³⁴ Ibid., p. 6.

³⁵ Ibid., p. 7.

sion, the Arab League and its specialized agencies.³⁶ As a political signal, in the sector of management training the EU has established a Euro-Arab management school in Granada/Spain in 1995 "which could, with sufficient support, develop into a future Euro-Arab university".³⁷

6. The New Mediterranean Policy

By the end of 1989, after the fall of the Berlin Wall, the Commission reconsidered its Mediterranean policy as part of a reorientation toward Central and Eastern Europe.³⁸ The Maghreb countries and especially Morocco (that had applied for EU membership in 1987) demanded equal treatment as compared to the EU's "Europe Agreements" with the Visegrad countries.³⁹ France, Spain and Portugal within the EU lobbied for a "fair share" for their North African clientele in relation to the heavy emphasis on the European East favored by Germany and the Northern EU member countries.

A political compromise - led by President Mitterand and Chancellor Kohl - was struck between the East and South orientations of the EU. As a result, in December 1990 the European Council declared its so-called New Mediterranean Policy. It basically extends past activities and adds EU support for economic reforms.

In 1993, the Commission presented proposals for a closer economic cooperation with the Maghreb and Mashreq countries. This initiative led to a series of negotiations particularly with Morocco and Tunisia focussed on

- a political dialogue,
- free trade of manufactured goods,
- economic, social and cultural co-operation, and
- enlarged financial assistance.⁴⁰

³⁶ Marín, p. 5.

³⁷ Ibid.

³⁸ See para 11 of this paper.

³⁹ Poland, Hungary, Czech Republic, Slovakia.

⁴⁰ Kommission 1994, p. 23-24.

The Commission also expressed the desirability to adjust the existing bilateral co-operation agreements. Within the limits of its competencies and its budgetary constraints, the Commission tried to move ahead toward a closer political and economic partnership in view of mounting social and political risks in the Arab World.

The overall EU financial assistance (EIB loans plus EU budget lines) to the Arab World has considerably risen as part of the New Mediterranean Policy (see Tables 2-4, Annex). In addition to its traditional commitment to vocational training and agricultural development, the EU supports structural adjustment policies through quick disbursing aid and programs for public health, education and low cost housing - also making use of revolving local currency funds which have piled up as part of the import programs supplied by the EU.

A few NMCs have been able to achieve encouraging results with regard to their structural adjustment programs engineered by the World Bank and the IMF, particularly Morocco, Tunisia, and Jordan. But their trade barriers are still substantial, and they have a long way to go before they will reach international competitiveness within a free trade area envisaged by the EU Commission.⁴¹

A number of other countries in the region have started later in their reform policies. Meanwhile their structural adjustment problems have aggravated as a result of continuing population growth, rising mass poverty, increasing social tension, and an erosion of the internal political consensus.⁴²

The EU Commission also supports direct Euro-Arab cooperation among various actors of the civil society (e.g. universities, NGOs, townships and local administrations, etc.). It tries to promote direct links between European and Arab small and medium industries through various EU instruments. In some countries

⁴¹ Kommission 1994, p. 26.

⁴² Cf. Weiss 1993b, pp. 70-75.

the deterioration of political security has obstructed these programs, whereas very attractive opportunities for EU investors have opened up in Eastern Europe.

As a whole, the budget aid of the Community during the years 1989 to 1992 amounted to only 3 percent of the total international aid to NMCs. The overall results of the EU policies are not particularly positive in spite of the improvements since the introduction of the New Mediterranean Policy.⁴³

The free access of manufactured goods to the EU market had positive results in countries pursuing economic reforms, but even there a substantial increase in employment has not materialized. The elimination of European protectionism in various subsectors will be necessary in order to arrive at more tangible income and employment effects in NMCs.

The European financial support of structural adjustment programs in Arab countries had no major macroeconomic impact either. The aid instruments and policies were too narrowly specified and the total aid volume was too small. The EU Commission holds that the challenges ahead require a financial support and a European political awareness which are up to the EU's economic and political stakes in the Arab world.⁴⁴ However, the political response in the EU member states remains weak.

7. Support of the Middle East Peace Process

In line with these considerations, the Commission also promoted the Middle East peace process by supporting the Palestinians in their struggle for autonomy. Five years after the Madrid conference of October 1991, the parties are far from a comprehensive settlement of the Arab-Israeli conflict in spite of the Second Interim Agreement signed between the PLO and Israel in September 1995. Withdrawal from the Occupied Territories has

⁴³ Kommission 1994, p. 27.

⁴⁴ Ibid.

been postponed, new Israeli settlements have been built, and territories in Arab Jerusalem have been confiscated. The European member states have rejected the confiscation decision and have reasserted that Arab Jerusalem is part of the Arab territories occupied in 1967. The EU is aware of the continuing risks of this process. As Vice President Marín of the European Commission has stated at the inauguration of a conference on "The Future of Euro-Arab Relations at the Beginning of the 21st Century" on 5 July 1995 in Brussels: "None of the recent security, political and economic developments are of course irreversible... The European Union is fully committed to the success of the Peace Process, and the EU and its Member States are by far the biggest contributors to the new Palestinian Authority and its activities on behalf of the Palestinian people".⁴⁵

The EU supports the establishment of Palestinian institutions. It supplied 300 observers for the Palestinian elections in January 1996, technical and financial assistance for the Palestinian Authority (Statistical Office, Broadcasting and TV, reintegration of former prisoners, Energy Authority, local administration).

The EU supplied ECU 12.1 million for the establishment of administrative structures, ECU 80 million for running costs of various administrative units. Total aid amounted to ECU 215 million since September 1993. In 1995 alone, ECU 164 million were supplied as grants, in addition to EIB loans of ECU 24.6 million. This amounts to 45 percent of total international aid (as compared to ECU 76 million/19 percent of World Bank/Saudi Arabia, the U.S. (ECU 64 million/16 percent), and Japan (ECU 30 million/8 percent). For the years 1994-1998, the EU has committed itself to a total financial volume of ECU 500 million (thereof 250 million grants from the Community budget and 250 million of the EIB).⁴⁶

⁴⁵ Marín, 1995, S. 2.

⁴⁶ Kommission 1993, p. 2. Kommission 1994, p. 24. Kommission 1995, p. 2-4.

8. EU Perspectives of Future EU-Arab Relations

The Commission emphasizes that the EU politics vis-à-vis the Arab World should relate to many areas of mutual interdependence and should be conceived within the context of the EU's overall political objectives. A long-term strategy is envisaged: "The policy of the Union should concentrate on the establishment of a zone of stability and security and the creation of conditions for rapid and sustainable economic development".⁴⁷

8.1 Toward a European-Arab Zone of Political Stability and Security

The Commission argues that the main target of peace and stability in the Mediterranean region should be supported by all available instruments including foreign and security policy. The EU should "as far as possible" act as a whole and avoid uncoordinated member country initiatives.⁴⁸ The Commission recalls the declaration of the European Council of 1992 in Lisbon, stating that the Southern and Eastern border regions of the Mediterranean and the Middle East are of vital interest to the EU as regards security and social stability. "The actual political, economic, and social conditions in many of these countries threaten their stability and lead to mass migration, fundamentalist extremism, terrorism, drug problems and organized crime."⁴⁹ Priority should be given to the political dialogue with emphasis on human rights, democracy, good governance, rule of the law, and non-proliferation of non-conventional weapons.⁵⁰

The dialogue has in fact intensified after Morocco's request for EU accession in 1987, and its plea for a EU treatment similar to the Visegrad countries. The Commission signalled general

⁴⁷ Ibid., p. 8.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Ibid., p. 8-9.

openness, but also its preference for joint negotiations with the Maghreb group as a whole, hopefully enlarged by Egypt.

The Commission also proposed a code of conduct to mediate conflict. In addition confidence-inspiring measures in the political and military spheres are suggested in cooperation with the West European Union (WEU) and its transatlantic partners. The EU is also prepared to offer its good services in cases of internal conflict in Arab countries. An early warning system is called for to identify potential conflict and impending destabilization.⁵¹

8.2 A New Series of Agreements

Since 1992 the EU has been in the process of negotiating a closer integration of the Maghreb countries and Egypt into the emerging European free trade system. A new Euro-Mediterranean Agreement has been concluded with Tunisia and Morocco in 1995, and negotiations with Egypt are under way.

The EU-Tunisia Agreement of April 1995 typically contains the essential elements of the long-term cooperation pattern envisaged by the EU Commission. After a transition period of twelve years, Tunisia is to be fully integrated into the European economic area. A political dialogue is being institutionalized. An association council is supposed to take decisions based on recommendations of a committee. The essential element is the free exchange of manufactured goods, whereas the treatment of the sensitive fields of agriculture and services have been postponed to further negotiations in the year 2000. Tunisian industrial products will continue to be subject to preferential EU treatment. A new feature is the reduction of Tunisian customs duties for European manufactured goods. They will be completely eliminated for products such as investment goods and semi-finished products which are not being produced in Tunisia. For a second group, not being manufactured in Tunisia either and making up some 28 percent of Tunisian imports from the EU,

⁵¹ Ibid., p. 9.

customs duties will be phased out over a period of five years by an annual 20 percent. For a third group of goods manufactured in Tunisia which are relatively competitive and which represent 30 percent of Tunisian imports from the EU, customs duties are supposed to be eliminated within twelve years by a twelvth p.a. For a fourth product group manufactured in Tunisia and making up 29% of Tunisian imports from the EU, customs duties shall be phased out beginning five years from now over a period of eight years. Here the adaptation to international competitiveness shall be supported by EU promotion programs. A positive impact of these EU assistance measures is a condition for the overall time schedule. In addition, the Tunisian government is entitled to postpone the liberalization steps for specific products for a limited period.

The EU promotion programs include technical assistance for Tunisian enterprises, modernization of the plants, consulting and training.⁵²

The Agreement also envisages Euro-Tunisian cultural cooperation.

The costs of adjustment for the Tunisian economy will be substantial. Tunisian officials estimate investment needs for business modernization of US\$ 2.5 billion over one decade, hopefully coming from European investors. Tunisians are aware that they have no other option than full integration into the European economy which already absorbs almost 80 percent of Tunisia's foreign trade.

The EU maintains quotas for Tunisian olive oil, trousers and cotton T-shirts. But there are substantial Tunisian export opportunities in other fields. However, Tunisian business circles expect that some 50 percent of the enterprises will not be able to stand the enlarged competition. E.g. Tunisian assembly plants for washing machines and refrigerators from foreign supplied parts may be abolished completely when present import restrictions on these items have been lifted. The actual unem-

⁵²

Nachrichten für den Außenhandel, November 30, 1995.

ployment rate of 15 percent is expected to rise. Tunisian entrepreneurs will meet difficulties in all fields where European high-quality mass production will get access to the domestic markets. They will have to specialize on particular market niches.

After three years of negotiations, a similar agreement was concluded with Morocco in November 1995. Major disputes dealt with fishing rights⁵³ and canned sardines vis-à-vis Spain and Portugal, exports of cut flowers to Germany and the Netherlands - allowed to enter the EU between the end of October and the end of March - and exports of tomatoes to Belgium.⁵⁴ Similar to the Agreement with Tunisia, the Agreement with Morocco includes a close political dialogue, an enlarged economic, social, cultural and scientific cooperation, a step-wise reduction of trade barriers aiming at a Free Trade Area, and EU technical financial assistance in modernizing Moroccan industry. For manufacturing goods, customs duties on Moroccan imports from the EU now at an average of 30 percent (for some products up to 220 percent) will be phased out over a period of max. twelve years with a few exemptions. EU market access for Moroccan agricultural products and processed foodstuffs will be improved. The Agreement will be subject to revision in the year 2000.⁵⁵

Also in November 1995 a trade and cooperation accord was signed by the EU and Israel which replaced the previous agreement of 1975, against concerns raised by Spain over oranges, by Austria over apple juice, France over foie gras and maize. In a separate agreement Israel was allowed to sit on EU research and development committees, although without the right to vote.⁵⁶

The customs union between the EU and Turkey has helped to speed up negotiations on the third Association Agreement of the EU with a North African country, i.e. with Egypt (after Tunisia and Morocco - so far not considering Algeria and Libya for

⁵³

A special four year fishery agreement was concluded in November 1995.

⁵⁴

Financial Times, November 10, 1995.

⁵⁵

Nachrichten für den Außenhandel, November 20, 1995.

⁵⁶

Financial Times, November 21, 1995.

political reasons). Again, the goal is a Free Trade Area after a transition period of twelve years. The ongoing negotiations have been more difficult than expected because of Egyptian agricultural exports to Europe and free access of EU manufacturing products to the Egyptian market. The EU is Egypt's most important export market. The recent establishment of a customs union between Egypt's major rival Turkey and the EU has opened up a privileged access of Turkish goods to the European Market. Both countries compete with similar products, particularly in textiles. Generally, Egyptian industrial products have unlimited access to the EU, but textiles and agricultural products are excluded. Egypt also competes with Turkey with regard to private foreign investment, where the customs union gives Turkey another advantage. Thus, Egyptian negotiators in Brussels are under pressure.⁵⁷ Turkish industry has been exposed to structural adjustment since the World Bank and IMF programs in the 1980s, and this process will speed up with the customs union, whereas Egypt with its less effective structural adjustment programs⁵⁸ has kept its private and its large public sector protected behind high tariff and non-tariff barriers. It will be far more difficult to implement effective EU support programs for the Egyptian industry than for the enterprises of Tunisia and Morocco operating in a far more outward-looking macroeconomic environment.

Similar problems will arise when it comes to EU negotiations with Syria, in addition to the problematique of the countries directly involved in the Middle East Peace Process.⁵⁹ EU relations with Algeria and Libya will be subject to internal political development in the respective countries.

8.3 Economic and Social Development Perspectives

The European Commission is aware that without a marked improvement of their development performance the Arab countries will

⁵⁷ Nachrichten für den Außenhandel, December 18, 1995.

⁵⁸ Weiss 1991, pp. 13 f.

⁵⁹ Weiss 1995b, pp. 6 f.

not be able to supply their growing population with employment, income and acceptable standards of education, public health, low-cost housing, etc.⁶⁰

Major issues are

- a reform of the economic policy framework of the Arab countries, and the respective streamlining of their administrative rules and regulations,
- an improvement of their international competitiveness,
- the creation of incentives for a substantial increase of private European direct investment,
- the encouragement of a large variety of decentralized networks to improve mutual understanding on both sides of the Mediterranean.

The Arab countries, pressurized to adopt a large number of trade-related EU rules and regulations with regard to customs, norms, competition, intellectual property, liberalization of services, free flows of capital, etc., demand for their part

- supportive measures and financial assistance for the modernization of their industries during a period of transition and structural adjustment,
- improved EU market access for their agricultural exports, and
- a reliable EU contribution to the social cost of structural adjustment.⁶¹

The long-term vision of the EU is a Euro-Mediterranean Free Trade Area by the year 2010 with

- free trade for almost all manufactured goods on the basis of reciprocity in line with WTO regulations,
- preferential access on the basis of reciprocity for agricultural products essential for both sides, and
- free trade among the NMCs themselves.

Cyprus, Malta, Turkey and Israel are heading this process both with regard to the West and East European markets and among

⁶⁰ Kommission 1994, p. 11.

⁶¹ Ibid.

themselves. Cyprus and Malta are preparing their accession to the EU.

The Commission is aware that particular measures will be necessary with regard to the poorer Mediterranean EU member states which will be exposed to competing Arab products such as citrus fruits, olive oil, clothing, etc. Similar conflicts arose when Portugal, Spain and Greece joined the Community and then displaced former EU imports from NMCs.

8.4 Financial Assistance

In the last decades the impact of foreign aid on Third World economic development has grossly been overestimated. Countries with scarce resources managed to turn into NICs, whereas countries with substantial financial surpluses have not been able to arrive at internationally competitive industries. A number of aid recipients have relied too heavily on sustained foreign support rather than on the full mobilization of their domestic resources, particularly of the promotion and efficient use of their human capital within a suitable framework of economic, social, cultural, and political conditions favorable to creativity, innovation and entrepreneurship.

Nevertheless, an essential rise of financial aid to the Arab countries is considered to be necessary. According to the Commission, EU aid shall deal with five major items:

- Support of modernization and structural adjustment in countries ready to open their markets within the framework of new Association Agreements as concluded with Tunisia and Morocco,
- acceleration of economic modernization in less successful Arab countries to prepare them for a liberalized Euro-Arab trade,
- support of regional cooperation among Arab countries, inter alia with regard to environmental protection,
- intensified cooperation across the Mediterranean and among NMCs themselves in a variety of economic, social and cul-

tural fields (universities, research centers, local administration, townships, NGOs, etc.),⁶²

- support of the Middle East peace process.⁶³

The EU Commission is aware that its aid volume is quite limited as compared to the needs. All the more a comprehensive political dialogue with the recipient countries is to help to focus aid to their specific needs and priorities. In addition, the Commission calls for a better coordination of EU assistance with the World Bank, the IMF, and with the bilateral aid of the EU member states.⁶⁴

8.5 Other Fields of Cooperation

The Commission argues for a broad network of additional areas of cooperation:

- A permanent dialogue on trade- and investment-related regulations (taxation, norms, customs);
- industrial sourcing, transfer of technology, professional training, joint ventures;
- energy transmission systems, energy-saving technologies, renewable energy resources, and solar energy;⁶⁵
- protective labor legislation, safety measures, labor relations, social security;
- environmental protection (particularly with regard to the Mediterranean Sea), erosion, desertification;
- integrated water resource management, population policies, urban agglomeration;

⁶² In international comparison, Arab disposition for regional cooperation has been smaller than in Africa and Latin America as a result of ideological disputes, political instability, military conflicts and large differences in the level of development. Cf. Borrmann/Fischer/Jungnickel/Scharrer 1995, p. 127.

⁶³ Ibid., p. 13.

⁶⁴ Kommission 1994, p. 13.

⁶⁵ For a comprehensive appraisal of Euro-Arab cooperation in supplying solar energy to Europe on a large scale see: Diekmann/Gierer/Krupp/Pinkau/Queisser/Schäfer/Schaefer/Stephan/Weiss/Witt 1991, pp. 218 f.

- information and communication technologies, standardization, and a related legal provisions;
- cooperation in the fields of transport, banking and other services;
- liberalization of capital markets;
- scientific cooperation;
- tourism;
- problems of illegal immigration, terrorism, and organized crime;
- joint EU-NMC strategies against drug production and drug trade.⁶⁶

8.6 EU Policy Conclusions

The EU envisages a process of growing EU-NMC interaction. The new Euro-Mediterranean agreements with Tunisia and Morocco are essential moves toward a Mediterranean free trade zone. The talks with other countries are to be carried on.

The Commission makes it clear that this strategy will require "a certain flexibility of the EU Council, especially with regard to agricultural trade and financial assistance". A comprehensive EU-NMC cooperation program (comparable to the PHARE program for Eastern Europe)⁶⁷ with an aid volume of ECU 4.685 billion (originally proposed 5.5 billion) between 1995 and 1999 is to be supplemented by EIB loans, contributions made by other international finance institutions, and bilateral aid of the EU member states.⁶⁸

The overall policy outline has been formulated at the summits of the EU chiefs of governments in Korfu (June 1994), Essen (December 1994), and Cannes (June 1995) emphasizing political reforms, human rights, freedom of expression, economic growth, social development and regional integration, and EU support for the transition process. At the conference of Barcelona in

⁶⁶ Kommission 1994, p. 14.

⁶⁷ See para 11 of this paper.

⁶⁸ Kommission 1994, p. 16-17.

November 1995, the long-term strategy has been discussed with Morocco, Algeria, Tunisia, Egypt, Syria, Lebanon, Jordan, Palestine, Israel, Turkey, Cyprus, and Malta and formulated in the Declaration of Barcelona. The long-term strategic perspectives of a Euro-Mediterranean partnership have been discussed.

9. Alternative Scenarios

9.1 Scenario One: "Cautious Official Optimism"

The general EU policy outline may be characterized as "Cautious Official Optimism". Apparently, it is just one possible option among others. The strategic goal of a European-Mediterranean zone of peace and security based on economic well-being and promoted by a free trade zone implicitly assumes that development policies in the Arab countries will turn out to be fairly successful by the end of the decade, that additional employment opportunities will emerge and income levels will reach acceptable levels, that internal political stability can be maintained or regained, and that major political chaos and mass migration to Europe can be avoided. In the following, we refer to this perspective as the official "Scenario One".

However, none of these implicit assumptions can be taken for granted, and the Commission itself refers to World Bank projections of a widening income gap between Europe and the majority of the Arab countries.

The Commission is, of course, aware of the impending uncertainties as to the future economic performance of its Arab partners, but - understandably - avoids blunt assessments and their diplomatic irritations. As discussed in para 4, its mandate with regard to policy design and executive power is limited. As a result, the Commission tends to formulate policy proposals which try to anticipate the foreseeable compromise within the EU, i.e. usually reduced to the minimum common denominator and in careful rhetoric.

It is clear that the EU Commission cannot explicitly address the risk that the envisaged Euro-Arab partnership will not be able to neutralize dangerous tensions in the medium run. Related scenarios cannot be elaborated. Diplomatic jargon does, of course, make sense in international politics. However, it is less helpful when it comes to sensitive core questions, the clarification the controversial issues and an analysis of the scope of feasible action within a set of sensitive constraints.

As a matter of fact, a number of divergent scenarios can be envisaged and should indeed be considered. They may lead to substantially different EU policy strategies to be discussed in order to clarify the issues and to broaden the conceptual base of long-term policy options available to the EU. Apart from the implicit official EU "Scenario One" one can basically distinguish three additional scenarios if alternative assumptions as to essential constraints are considered. Major constraints relate to, firstly, the development performance of the Arab countries, secondly, to the willingness of the European political public and electorate to support a comprehensive European response to the mounting economic, social and political problems of the Arab World, and thirdly, to the uncertainties of climatic change.

9.2 Scenario Two: "General Malaise"

Here we assume that the economic performance of the majority of the Arab countries will by and large remain as unsatisfactory as in the past for the same well-known reasons: basically the obstacles to the full productive use of the human factor, of its creativity and its innovative potential.⁶⁹ As addressed above, these were the crucial elements of development success in NICs rather than the availability of financial resources as demonstrated in a number of OPEC countries as well as in various resource-rich non-oil countries in Africa like Zambia or Zaire. Technical and managerial capabilities in the majority

⁶⁹ Cf. Weiss 1995a.

of the Arab countries have not been able to keep pace with the successful NICs, particularly those of the Far East.

The full activation of the human potential depends on the political and socio-cultural milieu which encourages or rather obstructs entrepreneurship and human creativity at large. This framework essentially includes political rights, freedom of thought and of expression, social acceptance of critical and self-critical thinking, and a positive attitude toward questioning established views and authorities.⁷⁰ Irrespective of prevailing ideologies, socialist or feudal rule, persistent cultural patterns in the Arab World have not been favorable to an appreciation of independent minds in a civil society, let alone to an explicit and forceful encouragement of their intelligentsia to challenge established ways and means in favor of socio-economic innovation.

On the contrary, various forms of political pressure are on the rise, and the overall environment is not conducive to an innovative drive neither in oil rich feudal systems restricting freedom of political expression and free flows of communication nor in former socialist countries like Algeria, Syria and even Egypt (which introduced a new system of press censorship in 1995). Even Morocco risks a set-back.

Considering these tendencies, Scenario Two assumes that there will be no substantial positive deviation from the overall Arab development performance of the past with the result that GNP growth rates will continue to be insufficient to allow for a sizeable increase of per capita incomes. Population figures will continue to grow albeit with slightly declining rates (Tab. 1), and will add to environmental deterioration. Scenario Two therefore assumes that unemployment and social unrest will rise, and that political instability is imminent, whatever form of political reaction will eventually emerge - within or beyond the present spectrum of feudal or military, presidential or fundamentalist rule. It remains to be seen how various regimes

⁷⁰ Weiss 1992b, pp. 4. Weiss 1993a, pp. 11f.

will cope with rising mass dissatisfaction in the face of limited options and constrained scope for manoeuvre.⁷¹

At any rate, Scenario Two calls for a fairly different range of EU policy considerations. Before turning to possible EU strategy options, we delineate Scenario Three.

9.3 Scenario Three: "New Dualism"

Whereas Scenario Two assumes a general economic and social decay and sweeping political unrest - eventually suffocated by hard-handed suppression, Scenario Three focusses on the current phenomenon of newly emerging islands of rapid economic and technological progress within Arab countries amidst depressing poverty and a further decline of the coverage of the public social services - both trends accelerated by the ongoing stabilization and structural adjustment programs. Egypt is a case in point: Efficient infrastructural facilities (e.g. Suez Canal Authority) and modern private sector factories (e.g. joint ventures with Korean electronics firms in the new satellite towns such as Tenth of Ramadan) coexist with desolate public sector enterprises and organizations. The overall result is the emergence of a new economic elite on the one hand and mass impoverishment on the other, with a new dualism in economy and society. The rich segment has established workable links to the international technological system and participates in its innovative thrive, whereas the poor segment is struck by technological and economic stagnation and continued disguised unemployment in the overstuffed public sector. An increasing portion of the urban dwellers and particularly of the rural migrants seek their sustenance in the informal sectors of the metropolitan areas.

Scenario Three assumes that modern segments, regions and sub-sectors coexist with sweeping stagnation, social degradation, and rising mass poverty leading to political tension. This situation may invite suppressive power structures - be they

⁷¹ Weiss 1993b, pp. 66-70.

feudal, presidential or bluntly military - politically allied to the high yielding segments of the economy. The risks of political unrest may be even higher than in Scenario Two. EU decision-makers will find it difficult to deal with these phenomena, apart from some limited social sector support programs.

9.4 Scenario Four: "Ecological Deterioration"

Climatologists caution that a limited number of observations are not sufficient to prove long-term changes of weather and precipitation, although substantial fluctuations have been witnessed in recent years. The Sahelian countries, the Arab World and Southern Europe have been struck by environmental deterioration, water shortages and increasing desertification.

Scenario Four assumes that these phenomena will continue at least for the next decade. According to various climate forecasts, parts of North Africa may be exposed to a Saharan desert climate, whereas Southern Europe may have to face present Maghrebian weather conditions. This would have far-reaching consequences for sustainable forms of agriculture, water management, environmental protection, and migration. Scenario Four would call for other priorities of EU cooperation policies than those presently considered.

A number of additional scenarios can be delineated. But in the following we restrict the analysis to the scenarios presented above which already indicate that "Cautious Official Optimism" may not be sufficient to arrive at feasible EU policies.

10. Policy Options

10.1 The Official Response to Scenario One

Scenario One is based on "Cautious Official Optimism". Its assessments of future development perspectives use a diplomatic wording acceptable to the Arab partners, although EU professionals are well aware of the inherent risks. The rationale of a

very large political-bureaucratic organization leads to a situation in which official jargon restrains the scope of eligible policy alternatives. Language creates a new reality.⁷²

The EU aims at a Euro-Arab free trade zone by the beginning of the next century. The major EU policy tools are the new series of Euro-Mediterranean Free Trade Agreements as with Tunisia and Morocco offering and demanding trade concessions, supplemented by financial and technical assistance in various sectors conducive to economic and social development which may hopefully help the Arab countries to become internationally competitive partners in a common "Mediterranean zone of peace and stability". At the same time, the Commission deplores the scarcity of financial assistance and the protectionist tendencies of the EU vis-à-vis Arab products which are already competitive (agricultural products, textiles etc.).

Other scenarios lead to fairly different policy options. For the sake of analytical clarity, it may be helpful to identify essential elements of these deviating policy alternatives.

10.2 Extended Policy Options for Scenario Two

Scenario Two assumes a continuing "General Malaise" where substantial development achievements are not forthcoming rapidly enough. It will take time to arrive at Free Trade Agreements with the majority of the Arab countries - apart from Tunisia and Morocco - and the EU Commission itself envisages a time span to the year 2010 for the implementation of this process. The mutual trade concessions are subject to debate, and protectionist interests will not easily be overcome, also on the European side. Hence, the Free Trade concept proposed by the Commission will have no immediate impact on the development performance of the majority of the Arab countries.

How should the EU deal with a deteriorating socio-economic situation giving rise to increasing political tension? We may

⁷² Weiss 1973, pp. 84-85.

exclude the alternative of terminating EU cooperation policies altogether, basically for geopolitical reasons. As EU trade concessions will not rapidly be forthcoming, and certainly not in the field of agricultural products, EU cooperation policies will be centered on aid through official budget lines (ODA) and access to EIB loans. Therefore, the following observations focus on the aid aspect.

10.2.1 Option A: "Business as Usual"

We suppose that actual aid policies are carried on within the framework of the Financial Protocols to the end of the 1990s and beyond without substantial additional increases (see Tables 2-4, Annex). Generally, a "Business as Usual" approach is not necessarily unappropriate per se. It can make sense as a reflection of a complex web of constraints both on the donor and the recipient sides. "Option A" can be a feasible strategy of keeping operations going and keeping future options open.

Pros: Conflict minimization and continuation of established routines. Their value should not be underestimated in view of increasing structural adjustment problems within the EU itself and many additional strains when it comes to an EU East enlargement.

Cons: The established size and content of cooperation will not be able to turn the tide of increasing socio-economic decay in the Arab countries. Thus, "Business as Usual" may accompany us right into an untenable situation. This could lead to a backlash in the European public as to the general acceptance of development cooperation. There is already a debate on the "crisis of legitimacy"⁷³ of foreign aid in European donor countries.

⁷³ Scientific Council 1995, p. 10.

10.2.2 Option B: "More of the Same"

Option B is the enlarged version of Option A, possibly as a result of growing awareness in the European public of critical economic and political trends in the Arab World. The EU member countries may make more tangible aid contributions for crash operations, food-for-work programs, employment measures, small and medium industry and public works, general budget support, debt relief, etc.

Pros: Short-term relief for EU decision-makers, also from possible public European pressure for noticeable action.

Cons: As for Option A. Additional problems of implementation of programs and projects as in the past as a result of a larger financial volume. An even stronger effect on recipient countries to postpone effective self-help efforts and to shift responsibilities to the donor side.

10.2.3 Option C: "Technological Competence"

Foreign assistance cannot replace the countries' own efforts, particularly in grassroot development and infrastructure on low and medium levels of technology which are usually available in the recipient countries. Meanwhile, large areas of education and training, agriculture, small and medium-scale industry can be managed by the countries themselves. Option C means concentration of EU aid on sectors where technological support is really needed and where the EU and its member states have a superior technological competence, e.g. in the field of environmental protection.

Pros: Concentration of EU assistance on specific technological bottlenecks with substantial spill-over effects. More efficient project implementation in clearly delimited fields of advanced technology. Political benefits of supplying forms of assistance which are highly esteemed by the recipients and which have a great symbolic value from the Arab perspective, e.g. cooperation in solar energy both for large-scale industrial use within

an integrated Euro-Arab transmission network by activating desert areas in the Maghreb.⁷⁴

Cons: Reduction of the sectoral variety of EU aid and its broad institutional contacts in the recipient countries. Opposition among "Third World Groups" in the European public insisting in direct measures to fight rural and urban poverty (however, without taking into consideration the sheer numbers of impoverished people and the difficulties to reach the target groups).⁷⁵

10.2.4 Option D: "Islands of Efficiency"

In an environment of economic stagnation, increasing social frustration and political tension, a possible course of action could be to focus EU assistance on restricted areas and subsectors in Arab countries where useful and noticeable contributions can be made without, however, claiming that foreign aid is able to replace major efforts of the recipients themselves. Aid measures may include support of institutions of higher education, common applied research projects on agricultural and environmental issues, maintenance of essential public infrastructural functions etc. Option D aims basically at a withdrawal to islands of efficiency linked with a positive public response in the recipient countries without unrealistic expectations (also in the European public) that foreign aid can solve the problems of underdevelopment.

Pros: EU assistance is relieved from untenable expectations among Third World activist groups in EU member countries as to "eradication of poverty" and can focus on efficient projects with limited but attainable objectives.

⁷⁴ See recommendations presented by the Berlin Academy of Sciences. Diekmann/Gierer/Krupp/Pinkau/Queisser/Schäfer/Schaefer/Stephan/Weiss/Witt 1991, pp. 218 f.

⁷⁵ See for the current German discussion on direct versus indirect forms of poverty-oriented aid: Scientific Council 1995, pp. 9 f.

Cons: As for Option C, resistance of political groups in the EU committed to comprehensive aid activities with emphasis on the grassroot level and marginalized people.

10.2.5 Option E: "Open EU Markets"

Here we assume a shift in the European public awareness, for instance as a result of dramatic events demonstrating the EU's immediate vulnerability by crises in the Arab World. Though highly unlikely, this might lead to a EU-wide support for an unlimited access of Arab products starting with the elimination of the protectionist rules of the Common Agricultural Market. This would mean immediate and substantial incomes for Arab fruit and vegetable growers and a transfer of millions of jobs to Arab lands (with corresponding losses of sales, employment and income especially in the southern EU member states). This trade liberalization is the declared long-term policy of the Commission. It would be the most efficient form of assistance. However, in spite of its official stand (at least in its Directorate General IB in charge of EU-Arab relations), the EU is far from such a determined move of turning its fairly rhetoric position into practice now - and not in one and a half decades at best when Arab populations have probably grown by another 40 percent with foreseeable social implications.

Option E includes EU technical, managerial and marketing assistance to help Arab industrial producers to become competitive in the Common Market, also with goods which are so far considered to be "sensitive" from the European perspective. Higher Arab industrial exports would be possible, partly as a result of general trade creation in a larger market, and partly as trade diversion at the expense of European jobs and incomes.

Pros: The overall outcome would be a substantial transfer of jobs from the EU to the other side of the Mediterranean, and a real step toward free trade as reiterated by the EU Commission.

Cons: It is hard to imagine that the losers not only in the European South (and in future years eventually in the East)

would agree to this transfer of jobs and income for the sake of a common solidarity and an avoidance of spill-over effects from social upheavals in the Arab World. The European losers would probably demand compensation payments within the EU. The present awareness of the European electorate is far from a comprehensive perception of the impending international issues of redistribution vis-à-vis the Arab World and less affluent European member countries.

10.2.6. Option F: "Grand Design of a European-Arab Security Partnership"

Potential social and political crises in the Arab World represent an immediate threat to EU security. Similar dangers exist for the oil-rich Gulf countries as demonstrated by the Iraqi invasion of Kuwait in 1991. Thus, the GCC states and the EU have a common vital interest in the economic and social stabilization of Arab non-OAPEC countries.

After World War II the United States played a crucial role in Europe by giving an economic guarantee for peaceful common survival (Marshall Plan), and a security guarantee in the process of European unification (fears of France and other West European countries with regard to German recovery).

The EU could assume a similar role with regard to a peaceful development process in the Arab World as part of a closer inter-Arab regional cooperation. Within its concept of a Euro-Mediterranean zone of peace and security, the European Commission has made substantial moves to support regional cooperation among the Maghreb countries. It has also urged the countries involved in the Middle East peace process to join forces for reconstruction, and has supported such moves by European aid programs and projects of high economic and symbolic importance such as joint water supply for the new Palestinian entity, Jordan and Israel. These measures can be conceived as steps towards an economic security guarantee for the whole region - below the military security guarantee which is being considered

to be part of the U.S. engagement in the region, although American commitments made during the second Gulf war as to a more balanced approach to Israeli vs. Arab claims have not been fully implemented.

The EU involvement is restricted to the economic domain below the military threshold, offering a European contribution to a reliable sustenance for all countries involved. They should feel sure that steps toward political coexistence can be taken without fears that some participant countries might become economic losers in the process of economic adjustment. Economics of agglomeration and marginalization usually work in favor of the strongest partner.⁷⁶

Option F means a comprehensive development approach within the framework of a joint GCC-EU effort in favor of the Arab non-OAPEC countries. This would require total annual transfers to Syria, Jordan, Lebanon, Israel, Palestine and Egypt in the magnitude of some US\$ 10 billion over a decade to finance a thorough modernization and development process of the region as a whole (with largely inefficient public sectors in Egypt and Syria) and a social security net for some 50 percent of the actual labor force in the public and parastatal domains which may be released during the reform process.

Pros: A fundamental economic reform and a sustainable political coexistence appear to be possible.

Cons: Option F seems to be still less realistic than Option E as to the reaction of the European political public. The recipient structures with regard to the absorptive capacity for a much larger aid volume are weak. And the GCC countries seem to be far from sharing a much larger part of the burden than in the past on a sustainable medium-term basis. However, impending dangers may require nothing less than a completely new dimension of joint Euro-Arab strategies of common survival.

⁷⁶ Weiss 1995b, pp. 5-7.

10.3 Scenario Three

Scenario Three puts emphasis on the emergence of a „New Dualism“ with newly mushrooming modern segments on the one hand and a sweeping mass poverty on the other. How would the Options A to E fit into this scenario (see Table 8, Annex).

Apparently, Options C ("Technological Competence") and D ("Islands of Efficiency") would rather accelerate this dualism. We have learned that trickling-down effects from the modern core sectors are usually not forthcoming.

Particular EU aid strategies would have to be designed to balance the economic forces which cause a growing marginalization of ever larger segments of the economy and society while remaining aware of the limited possibilities of foreign donors. But it still appears to make sense to develop an additional Option G "Social Sector Support". It is clear that it is beyond the operational range of foreign aid to finance large parts of the social sectors in the Arab World. The most ambitious attempts so far have been made by the so-called Social Funds as part of the structural adjustment programs engineered by the World Bank. Even with financial volumes in the magnitude of US\$ 500 million for employment programs, small-scale industry promotion etc., the impact on the social situation in countries like Egypt has been disappointing.⁷⁷

Apart from financial funds, conceptual assistance can be useful, for instance in designing cost-efficient supply systems for low-cost housing, education and health services, manageable (and preferably simple) social security nets, mobilization of self-help efforts, and non-conventional forms of savings.

Pros: Crucial problems of social cohesion and political viability are directly addressed. Experience from Europe's own history of social networks on the one hand and successful practice in other Third World countries on the other can be used.

⁷⁷ Nour 1995, pp. 15 f.

Last but not least, Option G has a political appeal as it deals with essential problems of human survival.

Cons: The problematique is beyond manageable proportions. Hopes cannot be fulfilled, the overall results will be less than satisfactory. The EU risks that the Arab public may perceive its mass poverty as a European problem, and that Arab governments may be inclined to shift the responsibility to the EU. The donor side gets involved in highly sensitive issues, e.g. birth control, conflicts on distribution, and internal power struggles.

10.4 Scenario Four

Scenario Four focusses on the possibility of further ecological deterioration, water scarcity and desertification. None of the previous Options A to G have explicitly dealt with this perspective which may lead to mass migration.

Therefore, we add Option H "Environmental Protection". Its policy elements include technical assistance to establish incentives for water savings, responsible water and resource management, renewable energies, reforestation, and related research efforts. Components of Options C ("Technological Competence") and D ("Islands of Efficiency") can be incorporated.

Again, it cannot be the task of EU assistance to "solve" the environmental problems of the Arab World in the years to come. The EU contribution should be efficient; in some areas it could become even symbolically spectacular (e.g. in the field of solar energy). However, responsibility for the problematique and its uncertain outcome must remain on the Arab side.

Pros: Option H offers a meaningful, technologically competent contribution in a field where various EU members can supply internationally leading techniques. Joint Euro-Arab R&D activities on the front of essential fields of science and technology would create substantial political goodwill and would build

Arab self-esteem when R&D professionals of both sides are acknowledged as equal partners.

Cons: Option H addresses highly sensitive issues involving problems of redistribution of arable land and water, and migration within Arab countries.

So far no feasible concepts are being discussed as to how the EU should react to the eventuality of mass migration from the Arab World.

10.5 Second Thoughts

In addition to the EU "official line" we have tentatively delineated three additional scenarios with emphasis on particular problem areas: increasing mass poverty, the emergence of a new dualism, and ecological deterioration. This may help to clarify possible futures and available EU policy options.

Eight policy options - partly implemented by the Commission - have been formulated with emphasis on selected issues: "Business as Usual", "More of the Same", "Technological Competence", "Islands of Efficiency", "Grand Design of a European-Arab Security Partnership", "Social Sector Support", and "Environmental Protection". Neither the scenarios nor the options are meant to cover the full range of possible action. Instead, they try to highlight different aspects of the overall problematique which may gain importance in the years to come, and which - for good reasons - are not bluntly addressed in the various EU policy outlines for general public use. Easy solutions do not exist. Future Euro-Arab coexistence is just one of the many international policy areas of high complexity and substantial risks.

The "Cautious Official Optimism" of the EU is a feasible option since it reflects the existing parallelogram of power, resources and constraints. It would be naive to formulate abstract goals rather than to start from the given constraints.

But on the other hand, the "Cautious Official Optimism" may be a companion to increasing social turbulence in the Arab World. The EU calls for effective action, but it cannot overcome the constraints inherent in the Brussels power structure and a stubborn resistance from other EU policy areas, particularly the protectionism of the Common Agrarian Market.

Being aware of these constraints, the EU Commission still calls for free trade, but does not expect that the Scenario E ("Open EU Markets") can be implemented in the next few years. Scenario E would substantially and immediately improve the economic and social situation of many Arab countries, particularly if applied to a free access of Arab agricultural products to the EU market. The EU Commission confines itself to refer to this problem in careful diplomatic wording.

If we assume that substantial moves of the EU toward a reduction of protectionism or even toward a comprehensive "Grand Design" (Option F) will not be forthcoming, the Gulf countries will not be inclined to join hands in favor of their Arab brethren beyond the actual financial transfer volume, and the development efforts of the Arab non-OAPEC countries will continue to lag behind the performance of their competitors in the Far East and the NICs of Latin America (Scenario Two), then a more limited "second best" EU approach would be feasible as delineated in Options C ("Technological Competence") and D ("Islands of Efficiency").

If we look at particular problem areas like the new dualism and environmental deterioration (Scenarios Three and Four), the related Options G ("Social Sector Support") or H ("Environmental Protection") seem to be feasible, again keeping in mind realistic constraints right from the beginning. A medium-term vision should be combined with clearly defined programs and projects visible for the Arab public and achieving noticeable and efficient technical results as well as political goodwill - in the Arab World always linked with a sensitive and

precarious self-esteem as a heritage from its old confrontation with the West and its recent embarrassment from the Far East.⁷⁸

The problems ahead cannot be solved in the conventional sense. Partly they are beyond manageable proportions. Intelligent problem "handling" rather than problem "solving" is the actual challenge. An implementation of this sort of policy approach is difficult enough within a national donor administration vis-à-vis an electorate which has become accustomed to unrealistic promises of their politicians. In Europe at least, voters still expect the state to deliver "solutions" and to guarantee all sorts of "consumption".

It is still more difficult to implement this approach of "problem handling" within the EU with its much wider range of perceptions, goals, constraints and its difficulties to formulate and implement coherent and consistent policies subject to the institutional weaknesses.⁷⁹

The EU and its member states will face difficult years. It will not do to shy away from painful decisions and their costs. It is essential that some sort of responsible power center will emerge to face the ever increasing internal and external complexity which challenge the Commission's capacity to absorb relevant information and to arrive at feasible policy reactions. The field of Euro-Arab relations is just one arena among many others like Eastern Europe, the Balkans, the relationship with the Far East, and Sub-Saharan Africa.

It is equally essential to establish a sound legitimacy vested in the European Parliament in order to be able to articulate realistic policy alternatives in weighing attainable goals against their constraints, costs and probable outcomes. Huntington's "clash of civilizations" is not an unrealistic scenario. It is one among others calling for responsible action based on an awareness of the critical historical situation.

⁷⁸ Weiss 1986, p. 381.

⁷⁹ See para 4.

11. The Impact of the EU Policies vis-à-vis Eastern Europe on Euro-Arab Relations

It is essential to understand the spill-over effects of the political transformation of Central and Eastern Europe on EU policies towards the Arab World. Whereas France, Italy, Spain, Portugal and Greece are mainly concerned with developments in the Mediterranean basin, the focus of political and economic attention of the northern EU member states has shifted toward the East. This is particularly true for the Scandinavian countries facing the Baltic Sea (Finland, Sweden, Denmark), and for the countries sharing common borders with Russia (Finland), Poland, the Czech Republic and Hungary (Germany, Austria). Political attention and economic resources (aid, direct foreign investment) have shifted to the new Eastern challenges and opportunities. This has had an impact on the overall external orientation of the EU.

11.1 The Phare Program

Already in December 1989 the Council of Ministers of the EU decided to assist Poland and Hungary by the so-called Phare technical assistance program (grant finance to support the process of economic transformation and to strengthen democracy). Operations began in 1990. As the political changes spread across Central and Eastern Europe, the number of countries covered by Phare increased from the first two in 1989 (Poland, Hungary) to another four in 1990 (Bulgaria, Czechoslovakia, Yugoslavia⁸⁰, East Germany⁸¹). Albania and Romania joined in 1991, followed by Estonia, Latvia, Lithuania and Slovenia in 1992. Czechoslovakia was replaced by the Czech Republic and Slovakia on 1 January 1993. Between 1990 and 1994, the EU made available from its budget ECU 4,248 million to finance Phare. Country shares are based on population, GDP, and qualitative criteria. Poland (ECU 1,017 million), Hungary (491), and Roma-

⁸⁰ Aid to Yugoslavia was suspended in 1991.

⁸¹ Aid to East Germany ceased after German unification.

nia (542) are the largest receivers.⁸² The four major sectors supported by the Phare program are private sector development (ECU 932 million), education, health, training and research (699), energy, transport and communications (588), and environment and nuclear safety (401).⁸³

A condition of Phare funding is that each country maintains a commitment to democracy and market economy. "Building a larger democratic family of nations leading to greater prosperity and security for all is a vision shared by the European Union and its central and Eastern neighbours. All believe that this will be achieved by following a policy of closer political, economic and cultural integration based on shared values and common understanding."⁸⁴ It is essential to see this base of common values, including the commitment to democratic structures, which does not exist with regard to the majority of Arab political regimes, be they presidential/military or feudal. Even Kuwait did not honor promises of greater political freedoms made during the second Gulf war.

11.2 The Tacis Program

Phare was supplemented by a Technical Assistance Program to the Former Republics of the Soviet Union (Tacis) as the central pillar of the EU's overall program of assistance to the Newly Independent States (NIS): Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, Ukraine and the Baltic States.⁸⁵ At the meeting of the European Council in Rome in December 1990, the European Community decided to support the Soviet authorities in their ongoing efforts to bring about fundamental economic and social reform through a program of technical assistance (grants) in selected priority sectors and help create the conditions favorable to a market-oriented economy and a democratic society. ECU 400 million were made available for the first year

⁸² EU Commission 1995b, pp. 4-5.

⁸³ Ibid., p. 7.

⁸⁴ Ibid., p. 1.

⁸⁵ The latter 1991 only.

1991. On the basis of a joint EU-URSS assessment five priority sectors were selected: Training in the public and private sectors, energy (with special emphasis on nuclear reaction safety⁸⁶), transport, financial services and food distribution.⁸⁷

As the process of disintegration of the former Soviet Union accelerated and the Union moved towards the Commonwealth of Independent States (NIS), the Tacis Program was adjusted, and in February 1992 the twelve NIS committed themselves to implement the original 1991 program. The funds were distributed according to a formula taking into account the countries' respective needs, their state of political and economic reforms, and their absorptive capacity.⁸⁸

Since 1992 the program was enlarged by privatization and restructuring of enterprises, small and medium-size enterprises, conversion of defence-related industries, environment, human resource development, public administration reform, food production, processing and distribution,⁸⁹ and support for women (e.g. female entrepreneurs in Uzbekistan).⁹⁰ Funding from 1991-1994 for more than 2000 projects amounted to a total of ECU 1,757 million.⁹¹

The Arab World has difficulties to understand Europe's commitment to democratic decision-making structures. The author recalls a discussion with a high ranking member of the Saudi ruling family in the 1980s where it was difficult to explain that it would not do to induce a change in EU positions if His Majesty would entertain Foreign Minister Genscher, and that GCC interests must be effectively communicated to a wide spectrum

⁸⁶ After the Chernobyl disaster of April 1986, an accident at the St. Petersburg nuclear power plant in Spring 1992 highlighted the need for coordinated international action to resolve the pressing safety issues.

⁸⁷ EU Commission, TACIS Report on Activities 1992, Brussels, n.d., p. 7.

⁸⁸ Ibid., p. 9.

⁸⁹ Ibid., pp. 27-34.

⁹⁰ EU Commission, TACIS Annual Report 1993, Brussels, n.d., p. 55.

⁹¹ EU Commission 1995c, p. 5.

of pluralistic societies including the European Parliament which made it clear at repeated occasions (e.g. financial assistance to Israel linked with West Bank exports, and to Morocco linked with human rights issues) that its views should be taken into due consideration.

11.3 Democracy Programs

This issue of democracy has been incorporated by the Democracy Program of Phare (since 1992)⁹² and Tacis (since 1993) in order to help the countries of Central Europe and the Newly Independent States of the former Soviet Union and Mongolia to support non-governmental organizations and the promotion of a stable, open society and of good governance based on democracy and rule of law. Support is given particularly to techniques of parliamentary practice, NGO activities working for democratic society, and the transfer of know-how relevant to democratic practices and rule of law for special professional groups and professional unions. In 1994, the EU Commission allocated ECU 10 million each to the Tacis and Phare Democracy Programs.⁹³ Both programs are taken care of by the European Human Rights Foundation.⁹⁴

More than 50 east-west partnership projects between NGOs have been undertaken, e.g. training in parliamentary practices, promotion and monitoring of human rights, developing independent media, and promoting free trade unions.⁹⁵ Similar initiatives in Arab countries are being financed through EU budget lines. A more convincing Arab stand in favour of civil society would give a completely different dimension to the nature and scope of EU-Arab cooperation. Instead, there is long-standing concern particularly among European parliamentary circles about the

⁹² Albania, Bulgaria, Estonia, Lithuania, Latvia, Poland, Romania, Slovakia, Slovenia, Czech Republic, Hungary.

⁹³ TACIS News 2, October 1994, p. 3.

⁹⁴ EU Commission, Das Phare und TACIS Demokratieprogramm. Eine Initiative der Europäischen Union zur Förderung einer demokratischen Gesellschaft, Brussels, n.d., pp. 1-2.

⁹⁵ EU Commission 1995b, p. 13.

deteriorating human rights situation in a number of Arab countries.

The countries eligible for Phare funds have different agreements with the EU. Six countries - Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia - have signed Association Agreements (so-called Europe Agreements) with the EU. They are a framework for close cooperation in preparation for future EU membership. Slovenia and the Baltic countries will have Association Agreements in the near future.

The Europe Agreements set the path for the EU and its partner countries to converge economically, socially, politically and culturally. They cover a regular political dialogue, favorable trade relations and a reduction of customs, economic, scientific and cultural cooperation, financial assistance and a harmonization of rules and regulations.⁹⁶ Meanwhile, however, the Visegrad countries have voiced harsh criticism.

Private economic activities have expanded explosively, shortages have disappeared, but the transformation process was coupled with a much stronger contraction of production than originally expected, and there are still frictions in the functioning of the newly created institutional systems. Privatiza-

⁹⁶

Cf. Beschluß des Rates und der Kommission 1993, vom 13. Dezember 1993 über den Abschluß des Europa-Abkommens zwischen den Europäischen Gemeinschaften und ihren Mitgliedsstaaten einerseits und der Republik Polen andererseits, in: Amtsblatt der Europäischen Gemeinschaften, 36. Jg., 31.12.1993, 1-28. Beschluß des Rates und der Kommission vom 13. Dezember 1993 über den Abschluß des Europa-Abkommens zwischen den Europäischen Gemeinschaften und ihren Mitgliedstaaten einerseits und der Republik Ungarn andererseits, in: Amtsblatt der Europäischen Gemeinschaften, 36. Jg., 31.12.1993, 1-28. Beschluß des Rates und der Kommission vom 19. Dezember 1994 über den Abschluß des Europa-Abkommens zwischen den Europäischen Gemeinschaften und ihren Mitgliedsstaaten einerseits und der Tschechischen Republik andererseits, in: Amtsblatt der Europäischen Gemeinschaften, 37. Jg. 31.12.1994, 1-30. Beschluß des Rates und der Kommission vom 19. Dezember 1994 über den Abschluß des Europa-Abkommens zwischen den Europäischen Gemeinschaften und ihren Mitgliedsstaaten einerseits und der Slowakischen Republik andererseits, Amtsblatt der Europäischen Gemeinschaften, 37. Jg., 31.12.1994, 1-31.

tion advances more slowly than predicted in Poland and Hungary, and the radical choices in the successor states of the former CSFR in favor of free market mechanisms have brought about substantial social costs. Growing EU protectionism is blamed in the Czech Republic which somewhat naively liberalized its imports in order to expose its industry to immediate western competition.⁹⁷ Rising protectionism in Western Europe, the EU's trade surplus with the Czech Republic and the negative impact on the Czech recession have provoked embittered criticism against the EU.

In Poland, the economic aspects of the association agreement have been assessed negatively by most political parties. EU anti-dumping tariffs were imposed on Polish goods.⁹⁸ Hungary sees the agreement as an important step toward the primary goal of joining the EU, although the economic and social costs have been heavy. It is a fiercely criticized issue in the Czech Republic, Hungary, Poland and Slovakia that exports to the EU of exactly those East European products fall under the longest liberalization period where the four countries have the highest comparative advantages (food, chemicals, textiles and clothing, shoes, metals and steel).

In all Visegrad countries, disappointment and criticism prevail. On the other hand, the agreements are seen as a tool to solve domestic problems: stimulation of competitiveness in Hungary, of elimination of bottlenecks in infrastructure, banking and telecommunications in Poland, putting domestic enterprises under performance pressure in the Czech Republic and Slovakia.⁹⁹ Disappointment also exists with regard to EU financial aid in spite of substantial flows (see Table 7, Annex).

Trade and Cooperation Agreements exist with Albania, Estonia, Latvia, Lithuania and Slovenia. More advanced trade agreements are being negotiated with the Baltic states. These provide a framework for the development of trade, commercial and economic

⁹⁷ Richter 1994, p. 4.

⁹⁸ Ibid., p. 9.

⁹⁹ Ibid., pp. 12 f.

cooperation. Here the overall goal is to create a pan-European economic area.¹⁰⁰

11.4 EU Membership

Phare took on an additional dimension in 1993 when, at the Copenhagen Summit of June, the European Council offered those countries with Europe Agreements the prospect of EU membership as soon as certain economic and political conditions were met. This commitment was re-enforced at the Essen Summit in December 1994. Membership requires that the country nurtures stable institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities, the existence of a functioning market economy able to cope with competitive pressure and market forces in the EU.¹⁰¹

In the beginning all Visegrad countries wanted the fastest possible EU membership. Meanwhile, Poland recognizes that it will not be ready to meet all Maastricht criteria before a ten-year transition period.¹⁰² In Slovakia it is believed that too rapid opening of the borders would not be advantageous with regard to Western competition. All Hungarian parties want membership by 1998-99, and the Hungarian government applied for full membership in April 1994. The Czech government's target is also full membership in the shortest possible time.¹⁰³

11.5 Relations to the Newly Independent States

Another set of trade, cooperation and partnership agreements have been negotiated with the Soviet Union and its twelve NIS successors of which six have been signed (Russia, Belarus, Ukraine, Moldavia, Kazakhstan, Kirgistan). They include a political conditionality as to a commitment to democracy and human rights and the possibility to suspend the agreements if these

¹⁰⁰ EU Commission 1995b, p. 3.

¹⁰¹ Ibid., p. 3.

¹⁰² Ibid., p. 21.

¹⁰³ Ibid., p. 17-20.

essential elements are violated. The partnership agreements with Russia, Ukraine, Belarus, and Moldavia hold the political perspective of future free trade agreements.

11.6 Effects on Trade

Trade flows between Central and Eastern Europe and the EU have substantially increased. Both sides have benefitted from the agreements. However, Poland and Hungary complain that the EU has realized a trade surplus (in spite of free access of their goods to the EU market whereas the Central European states are entitled to maintain their trade barriers vis-à-vis the EU). As a consequence, during the last year the Central European countries have become more protectionistic. For the Visegrad countries free trade is envisaged for 1998.

11.7 Impact on Euro-Arab Relations

This historical process has been described in some detail in order to explain why it has absorbed much of the European political attention and initiative. Meanwhile the Mediterranean policy was carried on along established lines, until France, Spain and Portugal pressured for a due consideration of complaints of the North African countries which felt neglected and called for similar treatment as awarded to the Visegrad countries (Morocco had applied for full EU membership as early as 1987 and had been turned down). This initiated the beginning of the New Mediterranean Policy on the basis of a package deal basically between France and Germany representing the crucial East and South interests within the Community. Funds for the East policy were not reduced, but finance for the South was increased. In a way, the new EU initiatives toward the Arab countries of the Mediterranean are an outflow of the historical change in Eastern Europe and the EU's response to it. The competition of both areas with regard to aid, trade concessions and especially with regard to direct foreign investment will continue. Cultural affinity and political risks favor European

engagements in the Visegrad countries rather than in the Maghreb or Mashreq, from shared values as to human rights to personal security as in Algeria.

The Visegrad countries have a European tradition of entrepreneurship, technical expertise and craftsmanship, and a clear advantage in attracting direct foreign investment. Within a decade Central Europe, i.e. the Visegrad and the Baltic States may be fully integrated into the Common European Economic Region, and the "four essentials" may be fully guaranteed (free movement of goods, services, capital and labor).

The Arab countries insist that their particular cultural tradition and political outlook should be respected (form of government, political rights, role of women etc.). The outcome is that investments in Central and Eastern Europe are more attractive, creating another disadvantage for the Arab world.

The long-term outcome in terms of Arab prosperity and stability may be far from satisfactory in comparison to current official EU proclamations. The concern with Central and Eastern Europe may lead to a precarious situation at Europe's South flank by the end of the 1990s. Official EU policy tries to avoid this with insufficient resources. The European political debate is absorbed by many highly complex issues both as to internal structural adjustment and external policies in an ever more turbulent international setting. The issues compete for public awareness and administrative attention.

The EU has "recognized that equal, but not necessarily identical, importance must be given to our East policy and South policy".¹⁰⁴ The trade volume in 1992 amounted to US\$ 43.1 billion for EU-Visegrad trade and US\$ 42.5 for EU-Maghreb/Mashreq trade (plus 18.3 for EU-Turkey and 12.3 for EU-Israel).¹⁰⁵ Since the Lisbon European Council in 1992 the EU has proposed and is negotiating new forms of bilateral free trade and partnership agreements with Mediterranean countries

¹⁰⁴ Marín 1995, p. 4.

¹⁰⁵ Borrmann/Fischer/Jungnickel/Koopmann/Scharrer 1995, p. 150.

modelled after the Visegrad agreements, thus reacting to the demands of the Maghreb countries for equal treatment.

During the Cannes summit in 1995 the European Council set out the details of the EU position "to ensure that the Mediterranean becomes an area of peace, stability and well-being for all those who live around it ... The European Commission's view of the development of EU relations with its neighbors to the South is ambitious: by early next century Europe and Mediterranean countries should be bound closely together in a vast partnership based on free trade, economic cooperation and political and cultural dialogue."¹⁰⁶

¹⁰⁶ Marín 1995, p. 4.

Tab. 1: Economic and Social Indicators of the Middle East

| Country | Population 1993 (million) | Population growth rate (1985-93 (% p.a.)) | GNP (billions of US\$) | GNP per capita (US\$) | GNP real growth rate 1985-93 (% p.a.) | Total fertility rate (births per woman) | Illiteracy rate (%) | Female labor force (% of total) |
|--------------|---------------------------------|--|------------------------------|-----------------------------|--|--|---------------------------|---------------------------------------|
| Morocco | 26.7 | 2.4 | 27.6 | 1030 | 0.9 | 3.8 | 51 | 22 |
| Algeria | 26.9 | 2.6 | 44.3 | 1650 | -2.2 | 4.3 | 43 | 10 |
| Tunisia | 8.6 | 2.1 | 15.3 | 1760 | 2.2 | 3.8 | 35 | 25 |
| Libya | 5.0 | 3.6 | .. | .. | .. | 6.4 | 36 | 10 |
| Egypt | 55.7 | 2.3 | 36.7 | 660 | 0.7 | 3.8 | 52 | 11 |
| Sudan | 27.3 | 2.8 | .. | .. | -0.2 | 6.1 | 73 | 23 |
| Jordan | 4.1 | 5.9 | 4.9 | 1190 | -5.9 | 5.2 | 20 | 11 |
| Syria | 13.4 | 3.3 | 14.6 (a) | 1170 (a) | -2.1 | 6.1 | 36 | 18 |
| Lebanon | 3.9 | 2.3 | .. | .. | .. | 3.1 | 20 | 27 |
| Iraq | 19.8 | 3.2 | .. | .. | .. | 5.7 | 40 | 23 |
| Kuwait | 1.5 | -2.9 | 34.1 | 23350 | 0.8 | 3.7 | 27 | 16 |
| Saudi Arabia | 17.4 | 4.4 | 126.4 (a) | 7780 | -0.9 | 6.4 | 38 | 8 |
| Oman | 1.7 | 3.9 | 9.6 | 5600 | 1.2 | 7.2 | .. | 9 |
| Qatar | 0.5 | 5.3 | 7.9 | 15140 | -0.7 | 4.0 | 24 | 8 |
| U.A.E. | 1.7 | 3.2 | 38.7 | 22470 | 0.5 | 4.5 | .. | 7 |
| Bahrain | 0.5 | 3.1 | 4.3 | 7870 | -1.0 | 3.7 | 23 | 10 |
| Yemen | 13.4 | 4.4 | .. | .. | .. | 7.6 | 62 | 14 |
| Israel | 5.3 | 2.9 | 72.7 | 13760 | 2.3 | 2.7 | 5 | 34 |
| Turkey | 59.5 | 2.1 | 126.3 | 2120 | 3.0 | 3.4 | 19 | 34 |
| Cyprus | 0.7 | 1.1 | 7.5 | 10380 | 5.2 | 2.4 | .. | 36 |
| Malta | 0.4 | 0.7 | 2.6 (a) | 7300 | .. | 2.1 | 16 | 24 |

Source: World Bank Atlas 1995.
(a) Figures of World Bank Atlas 1994.

Tab. 3: Sectoral Allocation of Aid from EU Budgets 1978 - 1996

| Sectors | 1. PROTOCOL (1978/81) | | 2. PROTOCOL (1981/86) | | 3. PROTOCOL (1986/91) | | 4. PROTOCOL (1991/96) | | TOTAL (1978/96) | |
|--------------------------------|--------------------------|-----|--------------------------|-----|--------------------------|-----|--------------------------|-----|--------------------|-----|
| | mill ECU | % | mill ECU | % | mill ECU | % | mill ECU | % | mill ECU | % |
| Infrastructure, Water | 85 | 28 | 34 | 8 | 44 | 7 | 23 | 3 | 186 | 9 |
| Slum Clearance, Environment | 60 | 20 | 27 | 7 | 56 | 9 | 61 | 8 | 204 | 10 |
| Electricity, Gas | 5 | 2 | 23 | 6 | 31 | 5 | 10 | 1 | 69 | 3 |
| Agriculture | 35 | 11 | 145 | 35 | 260 | 42 | 63 | 8 | 503 | 24 |
| Commerce, Industry | 34 | 11 | 75 | 18 | 138 | 22 | 139 | 18 | 386 | 18 |
| Scientific Coope- ration | 20 | 7 | 26 | 6 | 18 | 3 | 4 | 1 | 68 | 3 |
| Education | 61 | 20 | 41 | 10 | 44 | 7 | 12 | 2 | 158 | 7 |
| Public Health, Housing | 1 | 0 | 22 | 5 | 4 | 1 | .. | .. | 27 | 1 |
| Structural Ad- justment | .. | .. | .. | .. | .. | .. | 50 | 6 | 50 | 2 |
| Other | 6 | 2 | 22 | 5 | 20 | 3 | 413 | 53 | 461 | 22 |
| Total | 307 | 100 | 415 | 100 | 615 | 100 | 775 | 100 | 2112 | 100 |

Source: EU Commission, Brussels, November 1994

Tab. 4: Sectoral Allocation of Financial Assistance of the European Investment Bank

| Sector | 1. PROTOCOL | | 2. PROTOCOL | | 3. PROTOCOL | | 4. PROTOCOL | | TOTAL | |
|---------------------------|-------------|-----|-------------|-----|-------------|-----|-------------|-----|----------|-----|
| | mill ECU | % | mill ECU | % | mill ECU | % | mill ECU | % | mill ECU | % |
| Infrastructure | 166,5 | 46 | 136,5 | 23 | 97,5 | 10 | 284 | 22 | 685 | 21 |
| Water | | | | | | | | | | |
| Slum | .. | .. | 10 | 2 | 129 | 13 | 12 | 1 | 151 | 21 |
| Clearence, Environment | | | | | | | | | | |
| Electricity, | 97 | 27 | 201,5 | 34 | 188 | 19 | 127 | 10 | 614 | 19 |
| Gas | | | | | | | | | | |
| Agriculture | 20,5 | 6 | 132 | 22 | 284 | 28 | 59 | 5 | 496 | 15 |
| Other | 78 | 22 | 120 | 20 | 187,5 | 19 | 134 | 10 | 520 | 16 |
| | | | | | 117 | 12 | 684 | 53 | 801 | 25 |
| Total | 362 | 100 | 600 | 100 | 1003 | 100 | 1300 | 100 | 3265 | 100 |
| | | | | | | | | 0 | | |

Source: EU Commission, Brussels, November 1994

Tab. 5: Foreign Direct Investment of EU Countries in 1992
(mill ECU)

| | |
|---|-------|
| United States | 9549 |
| Latin America | 3333 |
| Western Europe | 6014 |
| ex-COMECON | 1868 |
| Africa | 1286 |
| thereof Maghreb | 111 |
| Asia | 2518 |
| thereof Mashreq | 20 |
| Gulf | 178 |
| Israel | 39 |
| Turkey | 343 |
| other Middle East | 19 |
| Oceania and Other Territories | 1339 |
| Subtotal Arab World | 328 |
| Subtotal World excluding Western Europe | 19893 |
| World Total | 25907 |

Source: EUROSTAT, Brussels 1994, pp. 16-17

Tab. 6: EU - Arab Trade in 1993 (bill ECU)

| Country | Exports to Arab Country | Import from Arab Country | Balance for EU |
|------------|-------------------------|--------------------------|----------------|
| Morocco | 4,2 | 3,4 | 0,8 |
| Algeria | 4,1 | 6,3 | - 2,2 |
| Tunisia | 3,6 | 2,5 | 1,1 |
| Libya | 2,2 | 6,1 | - 3,9 |
| Egypt | 4,4 | 2,2 | 2,2 |
| Jordan | 1,0 | 0,2 | 0,8 |
| Lebanon | 1,7 | 0,1 | 1,6 |
| Syria | 1,4 | 1,7 | - 0,3 |
| Israel | 7,6 | 3,4 | 4,2 |
| Turkey | 11,8 | 6,5 | 5,3 |
| Cyprus | 1,9 | 0,7 | 1,2 |
| Malta | 1,8 | 0,9 | 0,9 |
| Arab World | 22,6 | 22,5 | 0,1 |
| Total | 45,7 | 34,0 | 11,7 |

Source: EUROSTAT, Brussels 1994

Tab. 7: Assistance to Visegrad Countries 1990-1992, cumulative, in million US\$

| Donors | CSFR | Hungary | Poland | Total |
|-----------------|------|---------|--------|-------|
| EC | 3798 | 5128 | 9618 | 18544 |
| EFTA | 477 | 384 | 1588 | 2449 |
| Western Europe, | | | | |
| Total | 4275 | 5512 | 11206 | 20993 |
| Global | 8334 | 12588 | 25259 | 46181 |
| of which grants | 632 | 734 | 10645 | 12011 |

Source: Richter 1994, p. 14.

Tab. 8:
Scenarios and Policy Options of Euro-Arab Cooperation

| | Scenario 1 „Cautious Official Optimism“ | Scenario 2 „General Malaise“ | Scenario 3 „New Dualism“ | Scenario 4 „Ecological Deterioration“ |
|---|--|---------------------------------|-----------------------------|--|
| Option A: „Business as Usual“. | x | x | | |
| Option B: „More of the Same“ | x | x | | |
| Option C: „Technological Competence“ | | x | | x |
| Option D: „Islands of Efficiency“ | | x | | |
| Option E: „Open EU Markets“ | | x | | |
| Option F: „Grand Design of a Euro-Arab Security Partnership“ | | x | | |
| Option G: „Social Sector Support“ | | | x | |
| Option H: „Environmental Protection“ | | | | x |

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