

## **AN INTERNATIONAL POLITICAL ECONOMY VIEW OF EU-GCC PARTNERSHIP**

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### **ABSTRACT**

After several years of being blocked, the signing of the EU-GCC FTA seems imminent at the time of writing this paper. At the same time, the US is launching an ambitious proposal for a US-Middle East Free Trade Area in 2013, with Bahrain being the last country to adhere to a list that already includes Morocco and Jordan. The UAE and Oman are the next countries to start free trade negotiations with the US. In this context, the objectives of the present paper are to shed some light on the EU-GCC relationship and its differentiated nature from the US approach. The paper starts by setting a previous conceptual framework and comparing the EU-GCC Cooperation Agreement with other EU regional initiatives. It also explores the evolution of EU-GCC relations and its distinct nature when compared with other regional initiatives, mainly its strong political dimension. The paper points to the need for economic cooperation, including the long-awaited FTA, and cultural dialogue to transit from its current fragmented and low profile level to an inclusive and institutionalised EU-GCC Association Agreement. Two qualifications are added: that EU-GCC relations should adopt a more sophisticated partnership model than Euro-Mediterranean Partnership, and that it should take into account the G8 strategy on the Middle East.

*Paper presented at the "International Conference on Challenges of Economic Development for the GCC Countries", Kuwait City, 29-31 January 2005, organized by the Kuwait Institute for Scientific Research (KISR) and sponsored by The World Bank.*

After several years of being blocked, the signing of an EU-GCC FTA is expected for March 2005. Most obstacles seem to have been overcome, like GCC customs union, GCC countries' concerns on political conditionality by the EU, and trade on EU sensitive products (like chemicals, petro-chemicals and aluminium). However, some obstacles remain for EU-GCC relationship to transcend cooperation in low politics issues and to attain partnership status. Those obstacles have been listed in previous work on EU-GCC relations, like Saudi Arabia not being a member of WTO, institutional differences, US-EU differences on Middle East strategies, and asymmetries in the volume of trade conducted with the EU: for instance, Kuwait is more export-oriented towards Asia, while most of its imports come from the EU.

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

In this context, the objectives of the paper are to shed some light on EU-GCC relations and its differentiated nature from the US approach. It starts by setting a previous conceptual framework based on the international political economy of EU external relations and its 'europeanization' (section one). The second section of the paper frames EU-GCC relations within the different EU regional initiatives. The third section concentrates on the particularities of the EU-GCC Cooperation Agreement itself. The final section draws upon the precedent ones to highlight some final remarks on the international dimension of EU-GCC partnership and highlight the need for the EU to upgrade the status of its relations with the GCC, not in a competitive but rather complementary manner to US efforts.

### **The international political economy of europeanization**

Globalization has brought about challenges that transcend the economic sphere. Increased economic interdependency puts pressure on national socio-economic structures and calls for the adjustment of domestic policies to deal with an open economy environment. Economic development, together with international communications, generates social demands for the modernization of economic and political institutions. Trans-national threats dominate the security agenda, and the provision of international

public goods such as peace, health, a clean environment or human rights, is becoming prominent in international relations. Many countries choose regionalism as the way to further integrate themselves into the world economy (Fischer, 1998) and to achieve collective action in the international arena. In the European case, as Helmut Kohl once put it, “europeanization is the European response to globalization”. From the need to articulate such a response, a new set of ‘europeanized’ foreign policies has emerged in the EU to conduct external relations. In this section we try first to link international economics and politics in order to analyse regionalism. Then, we introduce the concept of ‘europeanization’ to account for the EU approach in international relations.

Economic analysis has for long underestimate the political factors underlying regionalism and its political and security consequences. On the other hand, the literature on international relations has often omitted the economic pre-conditions for regional integration to proceed successfully. The idea of political externalities stemming from international trade dates back to Kant (1795) and the writings of the classical economists (Doyle, 1986). Nowadays, there is a growing consensus about the beneficial effects of international trade on economic and political issues. These results could easily be extended to other categories of economic relations, like foreign investment, development aid, labour migration or cultural diffusion abroad. Adding the political dimension to the economic benefits listed by Fernández and Portes (1998), we can consider the increased time consistency of economic policies and political reforms, signalling that certain economic and political conditions prevail, insurance against future political or economic developments, increased bargaining power, and to serve as a catalyst for those who expect to gain from trade liberalisation or political reforms.

Assuming that trade between neighbours reduces the likelihood of conflict, Schiff and Winters (1998) distinguish three cases for regionalism: improved protection against civil strife, a response to regional threats, and the will to inhibit future wars among neighbours. The interaction of markets and political institutions to explain regionalism has been pointed by Mattli (1999). In his view, two pre-conditions are needed if regionalism is to succeed. First, the so-called demand conditions, of economic nature: there must be a strong potential for economic gain derived from economic integration, so that societies demand it. Second, the supply condition, of political nature: the political willingness to match the integration demands, which depend on the expected outcome of regionalism; as far as economic welfare increases after integration, governments maximise their possibilities to keep in office. The two pre-conditions can be useful insofar as it lets political and economic considerations fully interact and can be applied to foresee the future of a regional initiative.

The international political economy of regionalism shows how international economic relations may have political externalities, and how the domestic political and economic processes influences the outcomes at the international policy level. But regionalism is a bi-directional process, with integration outcomes influencing its members institutions and policies. In recent years some political scientists have recur to

the concept of 'europeanization' to analyse the impact of European integration in Member States foreign policies. In doing so, they draw on the europeanization literature started by the pioneer work by Ladrech (1994) on the French case. The concept has been mainly applied to changes in Member States domestic institutions by the political science literature, and within it by followers of the institutionalist approach (Börzel, 1999). But it has also been pointed out that the concept may be extended to other areas of policy interaction, like external relations (Torreblanca, 2001; Vaquer, 2001).

Torreblanca (2001) distinguish between the twin processes of policy convergence and policy transfer. The former implies policy convergence towards EU-like positions, while the latter describes the efforts led by Member States to influence EU policies to match its own domestic policy agenda. Europeanization is defined by Ladrech (1994, p. 69) as a process reorienting policies as a result of adapting to EU dynamics. Other scholars complement this passive concept (known as 'reception') with the term 'projection', to describe the proactive choice of Member States to profit from the enhanced opportunities that EU provides. The europeanization literature has mainly remained within the borders of political science, and when it has gone beyond it to analyse the domestic changes of economic policies the perspective still being a political one. The europeanization concept has been applied by political scientists to agricultural policies, microeconomic and macroeconomic policies – mainly EMU and employment-, 'Lisbon' policies, pharmaceuticals, and even fisheries (Hennis, 2001; Schmidt, 2001; Barry, 2003; Hodson and Maher, 2001; Prange, 2002; Vaquer, 2003).

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

Either under classical or open methods, transfer and convergence does not account for the full story. There has also been a clear substitution of 'converged' policies to preserve national preferences. 'Policy substitution', as we have called it (Escribano, forthcoming), has been applied as a way to fill in the gaps of external policy convergence that policy transfer could not address. Interestingly enough, policy substitution has often proceed through 'low politics' instruments, like non-trade

economic relations and cultural action. To some extent, this 'soft power' approach is also a result of europeanization, as far as it is consistent with the "civilian power" logic that characterise the EU. Policy substitution is born out of the needs of assuming external obligations that are most times inherited from history. When institutions like the common external tariff or tariff preferences does not reflect a Member State's preferences, the affected country recur to redirect already existing domestic instruments or creating new ones.

In this respect, path-dependency (North, 1990) may help to explain the permanence of regional preferences, external policies and institutions, and the need to rebalance external relations through both new and old instruments when policy projection is not at hand for a particular policy goal. True, europeanisation is mainly about Member States changes in institutions and policies being path-dependent from a highly institutionalised model of integration – the 'community' model (Parsons, 2002). But some authors in the europeanization literature have also underscored a distinct fact of path-dependency: that domestic institutions do not always immediately adapt to external changes (Olsen, 2002). And Börzel (1999) employs the term 'institution dependency' for explaining how Spanish and German regions reacted with different strategies to face centralising pressures stemming from EU policy-making taking place at the national government level. For instance, Gillespie (2001) shows how the Spanish efforts to conduct a proactive Mediterranean policy through EU channels (the Euro-Mediterranean Process launched at the Barcelona Conference) have been subject to existing institutions and resources.

Europeanization is received and projected along domestic existing institutions and interests. Its results will depend on what is being received and projected, and how it is adapted and transferred. Path-dependant europeanisation can bring about illiberal convergence (like EU protectionist agricultural policies) or even 'europeanisation against Europe' (the rise of anti-EURO political activism in the UK- Vassallo, 2003). More interestingly for the purpose of this paper is the process of 'europeanization without Europe' experienced by non EU European countries, that in our view is also the model of the new EU proposal to its neighbours, as expressed in the new EU 'neighbourhood policy' (Escribano, forthcoming).

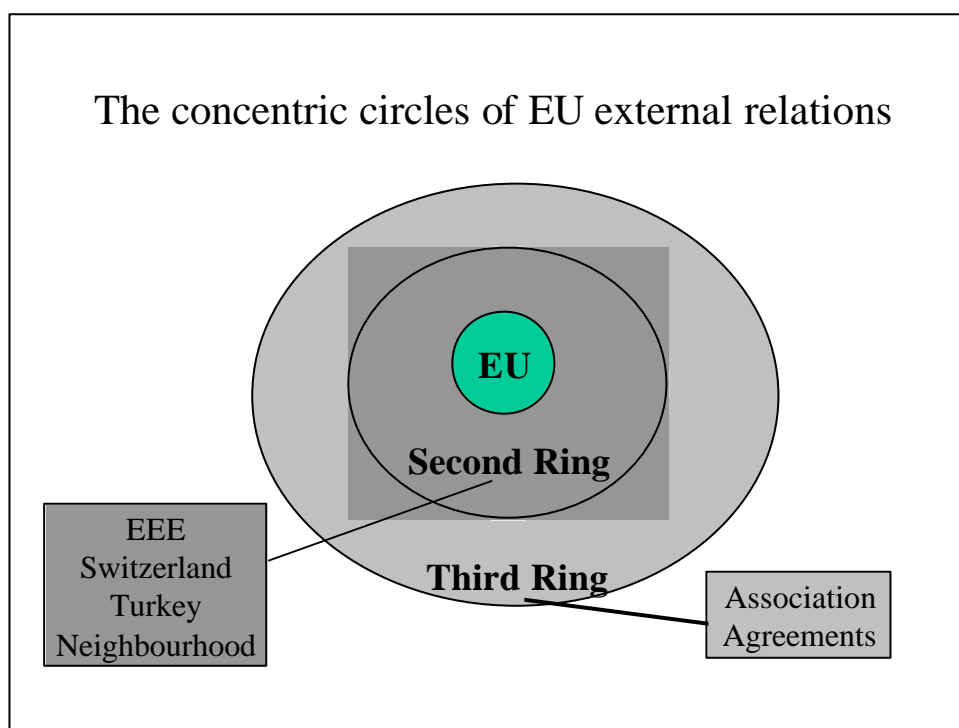
### **EU models of external relations**

There are several models applied by the EU to manage its external relations. In addition of being a key actor in the multilateral trade system, the EU has always incorporated other areas than trade in its bilateral or regional agreements. The first generation of agreements, the Cooperation Agreements, already included several non-trade concerns and instruments. In spite of being the biggest player in international trade, EU external relations have never been a 'just trade' issue, nor have they been dominated by military issues. As a 'civilian power', the EU has focused on substantial financial and technical cooperation (it is the first international donor), and pursued a

comprehensive approach of political and cultural dialogue among civil societies. However, given its prominence in international trade the most visible aspect of EU external relations always comes to be trade arrangements.

Conceptually, we can distinguish between three models of institutionalised EU external relations. First, at the lowest part of the preferential pyramid, we find Cooperation Agreements. Second, we find the Association Agreements. And finally, there is an heterogeneous pyramid's peak, made out of customs unions and single markets. For sure, the most successful EU external relations model is enlargement, but it is barely relevant for our current purposes. Those agreements can be understood as concentric circles encompassing successive countries or groups of countries, according to its geo-political and geo-economical significance for the EU and the willingness of the countries itself to develop a preferential relation with it (see figure 1).

Figure 1



The core or 'first ring' are EU Member States. Single market and/or customs union are granted to 'second ring' partners, some of which may be candidate countries expecting to enter the EU core (like Turkey), or unwilling to adopt the EU political institutions and procedures but wishing to benefit from the European Single Market (EEE countries). 'Third ring' partners are offered comprehensive Association Agreements and can qualify to enter the 'second ring' depending upon its ability to cope with EU's competitive pressures and to accomplish EU's institutional criteria.

Preferential and Cooperation Agreements constitute the periphery of EU external relations, but can eventually lead to the 'second ring' under specific circumstances. The following paragraphs are devoted to explain the main characteristics of these models as applied to Arab countries.

### *Preferential Agreements*

Preferential treatment by the EU to third countries varies greatly from preferential access to EU markets to institutional coverage including trade preferences, aid and political dialogue. Some preferential agreements can be assimilated to Cooperation Agreements in Brussels jargon. Cooperation Agreements used to be the standard model for EU relations with third countries, and were mainly based on non-reciprocal preferential access to EU markets and financial cooperation. For instance, the first Mediterranean Cooperation Agreements signed by the then EEC with European and non-European Mediterranean countries consisted on duty-free access to EEC for industrial products, with some exceptions in sensitive products like textiles and iron. Agricultural exports towards EEC markets were subjected to tariff rate quotas, with the preferential component limited to the in-quota imports, a mechanism that still being applied to Mediterranean Partner Countries under the existing Association framework. Economic cooperation included development aid to Third Mediterranean Countries.

In 1988 a Cooperation Agreement was signed with the GCC, that entered into force in 1990<sup>1</sup>. It was the first agreement signed by the EU with an Arab regional organisation, and its objectives were to facilitate trade relations and, more generally, to strengthen stability in the Gulf region. The Agreement provided a framework for initiating a political dialogue with the institutionalisation of annual Joint Ministerial Councils, intended to overcome the difficulties encountered by the Euro-Arab Dialogue. Notwithstanding its political relevance, its content is quite deceiving from an economic perspective. Apart from goodwill, 'joint analyses' and 'exchange of information', few concrete economic measures have been approved to date.

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

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<sup>1</sup> Official Journal L 054 , 25/02/1989 p. 0003 - 0015

dimension and the economic content of even early EU-Mediterranean Cooperation Agreements.

### *Mediterranean Association Agreements*

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

The Mediterranean Association Agreements (AA) means a transition towards free trade and enhanced financial cooperation, but also towards institutional convergence. Due to the fact that southern Mediterranean countries' manufactures already entered freely (with minor exceptions) in the EU markets, the EMFTA offers few benefits from the demand side to these countries<sup>2</sup>. On the contrary, the EMFTA looks to foster structural, supply-side reforms in the southern Mediterranean countries. Given the mediocre results obtained by the demand-side preferential treatment granted to Mediterranean countries, this is to be done through trade liberalisation and *mise à niveau*, upgrading measures, partially financed by the EU.

However, EMFTA should be placed as one pillar of a more comprehensive approach dealing with security and political issues, as well as cultural dialogue. Without entering into the contents of the Declaration of Barcelona, it is important to highlight that the EMFTA constitutes just the economic dimension, while political and cultural dialogue were seen as complementary to the commercial and financial support measures. The Barcelona Process has meant the signing of bilateral MPC's-EU Association Agreements with all MPC's (the last one being the EU-Syria AA that has just been concluded at the time of writing this paper). However, some MPC's asked for a more ambitious approach than a mere partnership, without demanding accession, as we will see in the next sub-section. This process of evolving EU-MPC's relationship is interesting for EU-GCC relations, as far as the EU-GCC AA also includes a FTA and enhanced political and cultural dialogue. But before turning to the EU-GCC AA, it is interesting to analyze the EU models for external relations with its 'second ring'.

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<sup>2</sup> A similar asymmetry was experienced by Spain when entering EEC.



*More than partnership, less than accession*

The most sophisticated model of 'deep integration' achieved by the EU is the European Economic Area Agreement (EEE after the French *Espace Economique Européen*). The EEE extended the European internal market to Iceland, Liechtenstein and Norway in 1994. It has been described as an "internal market association" that goes beyond a mere FTA but do not reach the Custom Union status. It overcomes the objectives of a simple FTA because it extends to the EFTA (European Free Trade Area) States, with the only exception of Switzerland, the application of almost the whole *acquis communautaire* relative to the four freedoms of the internal market (free circulation of goods, people, services and capitals) and competition policy. As a result, over 80% of the *acquis communautaire* is adopted in the internal legislation of EFTA countries. The EEE constitutes the "second ring" in the outline of concentric circles that EU external relations embody. However, it is not a Customs Union as far as it does not deal with fiscal harmonization nor with trade liberalization of products from third countries being introduced in the EEE. The EEE lacks a common external tariff, neither it includes a common trade policy regarding third countries.

The EEE institutional design is quite complex; furthermore, it incorporates a budgetary instrument, the so-called EEE Financial Instrument, devoted to reduce the economic and social disparities among European regions, allowing to grant supplementary aid to development projects in Greece, Ireland, Portugal, and some other EU regional policy 'Objective One' regions. In spite of not achieving the Custom Union status, the EEE represents the most sophisticated and well-developed model of EU international agreements. But its extension beyond Western Europe is rather limited, because the conditions for a viable implementation of the four freedoms and the competition policy that characterize the Single Market are barely matched in other partner countries. Additionally, the degree of institutionalisation of the EEE is so high that this model requires a substantial amount of resources and institutional capabilities from EU partners. The EFTA countries are rich, developed European economies who can afford such an institutional investment, and even the transfer of income towards less-developed EU regions, something that is clearly inapplicable to developing countries.

In 1992, Switzerland decided not to participate in the EEE, but from 1994 there have been several negotiations over a vast range of specific sectors, like the free circulation of people, air and terrestrial transport, scientific and technological cooperation, agriculture, public procurement, environment, cooperation against fraud, and an agreement for the free trade of services. Concerning Turkey, it is a candidate country for whom the European Commission has recently issued the recommendation to start negotiations for its accession, and as such benefits for an enhanced financial and technical assistance under pre-accession strategies. In spite of having an Association Agreement, its status is different from other partner countries, insofar as it has a Customs Union with the EU and that other deep integration measures has been adopted.

In 1996 a EU-Turkey Customs Union came into effect, with the only exception of agricultural products, and subsequent negotiations have taken place on the issues of services and public procurement.

The most innovative initiative is the New Neighbourhood Policy (COM (2003) 104 and COM (2003) 393). The proposal, presented in 2003, assumes the necessity of a differentiated regional cooperation scheme based on geographical proximity and common values that could favour political stability and economic development in the EU 'third ring', a process that could eventually lead to its future integration in the European Single Market. The New Neighbourhood Policy considers three border fronts: Russia and the former Soviet Republics, the Western Balkans, and the South of the Mediterranean. In a first phase (2004/2006) it will be implemented by means of a better coordination of the programs and existent financial instruments to open the way to the definition of individual Neighbourhood Programs. The neighbourhood policy was born out of the new enlarged EU external environment, and consists in offering 'everything but the institutions' to its border countries. To some extent, this gets close to what MPC's such as Morocco and Israel have been demanding to the EU: 'more than partnership, less than accession'. The proposal consists in setting incentives, like enhanced financial assistance and access to EU markets, to MPC's willing to adopt the European *acquis communautaire*.

For MPC's the New Neighbourhood Policy entails for the Mediterranean a different cooperation framework than the existing one, incorporating economic and social cohesion objectives, and new financial instruments to match them. Among the measures that should be tackled we can highlight the modernization of economic and social infrastructures and institutions. The initiative relies on the harmonization of the MPC's legal framework with the EU *acquis communautaire*, in order to pave the way towards a Euro-Mediterranean Single Market and reduce transaction costs of EU-MPC's economic relations. Although the Neighbourhood Programs are presented like a complement to EMP, rather than an alternative, some points remain to be better defined. Perhaps the most important innovation is the subordination of the proposed enhanced financial and trade instruments to the progresses achieved in political and economic reforms, which will be quantified at a country level by the 'reference criteria' included in each Neighbourhood Program.

### **From Cooperation to Partnership: the EU-GCC Agreements**

The 1990 EC-GCC Cooperation Agreement presented three general objectives: to provide an institutional framework for EC-GCC relations, to improve economic and technical cooperation, and foster development and diversification in the GCC countries. The instruments to achieve these objectives were the institutionalisation of EU-GCC relations, economic cooperation, and progress towards freer trade. The institutional dimension was inspired by the European experience on the importance of intergovernmental relations, and consists in a Joint Council that "shall periodically

define the general guidelines of cooperation" (art. 10). The Joint Council is composed by EU and GCC representatives, meets at least annually, and acts on a mutual agreement basis. The Joint Council is supported by the Joint Cooperation Committee and any other specialised committee the Joint Council might need. The high level of government representatives attending to the Joint Council in the last years (foreign ministers or first-rank officials) shows the importance attached by both parties to EU-GCC relations.

Economic cooperation were instrumented through the creation of sector-specific working groups in the areas of energy, environment, and industry. The outputs have varied from the organisation of conferences and symposiums to the establishment of the Jubail marine sanctuary in Saudi Arabia. Other actions include the opening of a GCC delegation in Brussels (1994) and the recent opening of the EU delegation in Riyadh after it has been delayed systematically. Concerning standards, a Cooperation Program was established by which the EU provided training and assistance to the Standards and Metrology Organization of the GCC (GSMO). Another cooperation program was instituted in the field of customs, with the EU providing for the training of GCC customs officers on EU experience. In the education field, some seminars were held, and a program aimed at promoting scholars exchange and the development of Gulf Studies and EU Studies centres in European and Gulf Universities; however, its failure remains a serious handicap to mutual understanding and cultural dialogue. Only the Euro-Arab Management School, located at Granada, may be underscored as a significant academic move, but not a GCC exclusive one. In the investment field, a GCC priority, few initiatives have been implemented.

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

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

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

However, progress remained limited to the political domain, while economic issues and cultural exchanges lagged well behind political declarations. For instance, positions on the Arab-Israeli conflict and on Middle East politics converged. A review of the joint communiqués issued after each annual Joint Ministerial Council meeting shows how international (Middle East) politics dominated the agenda. In this respect, the Cooperation Agreement was a political success, insofar as it provided the institutional framework for an open political dialogue between both parties. Additionally, a reinforced political will may be observed in the fact that most representatives in the Joint Council from 1996 on are foreign ministers rather than high officials. But EU-GCC cultural dialogue through academic and civil societies cooperation remained at a low, almost inexistent level, economic cooperation stayed at a 'low cost', declaratory level, and FTA negotiations kept blocked by divergent narrow interests and the lack of a GCC customs union.

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

One of the reasons for the EU approving a new mandate stems from the deceiving results obtained by the Cooperation Agreement in fostering EU-GCC trade. The reasons for the low profile of EU-GCC relations have been summarized as follows (WGESTG, 2002; Weidenfeld, 2004; Saleh, 1999; Chirullo and Guerrieri, 2002):

- EU environmental policy is perceived as harmful by Gulf states. Within the Kyoto Protocol framework, the EU wants to stabilize CO<sub>2</sub> emissions and improve energy efficiency. For achieving this goal, the European

Commission proposed a new energy and carbon dioxide tax that is expected to lower energy imports.

- Some EU actors, like the European Parliament, have shown opposition against the FTA on human rights and democracy grounds, while these are sensitive criticisms for GCC countries.
- Both the GCC and the EU have a weak mandate on the energy sector, which concentrates important common economic interests, as well as in the industry and services sectors.
- There is a low degree of 'europeanization' of EU policies towards the GCC, which still dominated by the policies of countries having close security ties with the region, like UK and France, and divergent economic interests across Member States and EU actors.
- GCC countries came from different backgrounds, with countries like Kuwait and Qatar being far more liberal than its counterparts, making it difficult the transition towards a common external tariff and hence FTA negotiations with the EU. In a similar way, GCC states economic interests also differ, with Saudi Arabia more concerned with the petrochemical dispute while Dubai and Bahrein concentrates on the aluminium issue.
- The GCC does not match the EU as a regional organisation, given its lower degree of institutionalisation. Some observers (Baabood, 2003) add that GCC states failed to organise properly, due to its little experience in collective diplomacy and the weak mandate GCC have on external relations.
- The slow pace of Saudi Arabia WTO accession process make it difficult to frame the ongoing EU-GCC negotiations. Most EU-Saudi Arabia sensitive issues are WTO-related, like dual-pricing as an instrument to promote the petro-chemical sector, the liberalization of services (mainly telecommunications and financial services), preferential margins in public procurement for local and GCC companies, obstacles to foreign ownership, respect for intellectual property rights, and technical barriers to trade (mainly in the licensing system applied to EU's food exports).
- The EU lacks a well-defined strategy towards the Gulf region. Clear-cut models of relations are or have been offered to regions like Eastern Europe (enlargement/neighbourhood), the Mediterranean region (association and/or neighbourhood), Sub-Saharan Africa (trade preferences or even association) and Latin America (association). But

GCC status remain undefined somewhere between mere cooperation and association.

- Finally, inconsistencies in EU and US Middle East policies also hamper a better-defined EU approach to the Gulf. Transatlantic dialogue is an essential input of EU-GCC dialogue itself. EU-US divergences implies deficiencies in the set of signals offered to GCC countries, making it difficult for the latter to adequately and coherently respond and adapt to EU and US incentives. For instance, lack of Transatlantic dialogue may turn the perception of EU and US-GCC FTA's as non compatible, instead of mutually reinforcing, opening a kind of 'agreement competition' that could be harmful at a collective level.

In this framework, the main objective of the EU-GCC Agreement is the deepening of existing relations. In fact, political dialogue seems extremely fruitful, as can be seen in the joint declaration of the 14<sup>th</sup> Joint Council meeting (Brussels, May 2004). In this joint statement, among other things, the EU-GCC Joint Council "agreed to incorporate in the FTA agreement clauses on human rights" (point 4), as has become the usual pattern in EU agreements, and "noted progress in the steps towards political reforms undertaken by several GCC countries" (point 5). Convergence over Middle East politics are also noteworthy. Regarding the Palestinian situation, "the EU and the GCC reaffirmed their commitment to a negotiated two-State solution" and supported the Quartet Roadmap, endorsed by UNSCR 1515 (point 6.1.1). They "expressed concern about the security situation in Iraq" and "their abhorrence at recent evidence of mistreatment of prisoners in Iraqi prisons", and were "convinced that a strong UN role in this political transition process is an essential element for its success" (point 6.1.4). The Joint Council also "urged Iran to provide full and proactive co-operation with the IAEA" (point 6.1.3).

In fact, in spite of having been created with the aim of fostering economic cooperation and FTA negotiations, until recently the Joint Council has mainly been used as a political forum (Saleh, 1999). This is not to say that political dialogue has been a mere substitute for failing results in the FTA negotiations (Fürtig, 2004). However, given the good shape of the political dialogue, the dual challenge of the EU-GCC Agreement is to move from fragmented economic cooperation to comprehensive partnership and free trade, and upgrade the instruments devoted to cultural and civil society dialogue. It appears that renewed efforts are being done in order to revitalise existing working groups that have been de-activated for long, like the environmental one, or whose results have remained at the declaratory and shared analysis level, like the industrial and energy ones. On the cultural dialogue issue, the 14<sup>th</sup> Joint Council rejected "any equating of terrorism with any civilisation, culture or religion" (point 6.2.1). It also agreed to "further relations and cooperation beyond trade and economic issues" and asked for concrete initiatives "in the fields of civil society, (and) learning mechanisms (...) to promote mutual understanding, security and prosperity" (point 4).

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

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

EU interests in better access to its manufactured exports have already been addressed by the GCC customs union. This meant the adoption of a 5% unified GCC common external tariff, much closer to the 3,8% MFN EU average tariff rate than the pre-existent situation, where GCC average tariffs varied widely (3.4% for Kuwait, 4.4% for Qatar, 9.6% for Oman, 11.5% for Saudi Arabia, 14.3% for the UAE, and 16.3% for Bahrein- Price Waterhouse Coopers, 2004). So, the liberalization of services is now the main obstacle for the conclusion of a 'package deal' on the GCC side. The EU is the world's largest exporter and importer of services, and enjoys substantive comparative advantages *vis a vis* GCC countries. The negotiating directives on the services chapter of the EU-GCC FTA negotiations contemplates more far-reaching obligations than those prevailing under the GATS. But GATS provisions are quite flexible when compared with GATT ones, so leaving a higher margin for a EU-GCC agreement to pursue a differential deepening of services trade.

The main trade obstacle on the EU side are GCC complaints about high EU tariffs on petrochemicals. This is an issue of special interest for Saudi Arabia, that has also been raised in its WTO accession negotiations. Dubai and Bahrain are more concerned by the 6% tariff the EU applies to its aluminium exports. However, the EU argue that the level of tariff protection is justified by the subsidies received by Gulf producers by means of low-cost feedstock. Saudi Arabia removal of its double pricing system on gas in return for the eventual removal of EU duties on aluminium and petrochemical products seems to have unlocked the impasse on the manufactures

domain. Regarding Oman, its main complaints refer to the EU Common Fisheries Policy, that entails high tariffs on fisheries; the small size of Oman fishery figures when compared with EU fleets make it easy for the EU to offer a generous proposal.

A more difficult issue is EU tax policy on energy products. In GCC countries high EU energy taxation is perceived as crude protectionism, even if disguised in environmental-friendly arguments. True, for EU Member States governments energy taxation clearly transcends the environmental problem. EU governments are concerned about capturing its share in EU consumer's income transfers towards foreign energy producers, and try to maximise it for budgetary reasons. Lowering EU's energy dependence upon foreign producers by setting up incentives in favour of alternative, non-oil based energies is also a powerful geo-strategic concern. However, GCC states should be aware that EU's environmental policies also respond to European constituencies demands, mainly in most developed (and sometimes most polluted) Member States. Environmental policies are closely scrutinised by civil society, and worries about pollution and climate change represents a relevant political issue.

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

The few existing econometric estimates of a GCC-EU FTA points to relevant net trade creation, implying that the agreement will be on the whole welfare improving for both parties. PWC (2004) recur to a partial equilibrium model of world trade whose results may be summarized as follows. First, net trade creation for GCC amounts to \$2,3 billions and concentrates, as expected, in manufactured products trade, and economic welfare improves by 2.7% of GDP. As for the EU, PWC estimates a net trade diversion of \$1 billion, and a reduction of \$1.1 billion in economic welfare who represents a negligible amount of EU GDP loss. For Kuwait and Qatar, PWC results points to the fact that the GCC-EU FTA eliminates most disadvantages of the GCC Customs Union, with its GDP growing by 0.8% and 1.7%, respectively. Saudi Arabia, Oman and UAE GDP will improve by 2.8%-3%, while Bahrein's will grow by as much as 7%. Most welfare increase in GCC countries would be realised in the mineral sector and, to some extent, in the manufacturing sector. However, agriculture turns out to be the loser of the FTA, experiencing sector GDP losses in every GCC country; even if those losses are reduced when compared with both overall results of the FTA and Gulf states GDP, they are significant at the sector level.

Baier and Bergstrand (2004) apply a gravity model with two alternative, restricted and unrestricted, specifications. The unrestricted specification proxies a 'deep integration' scenario in which prices vary due to tariffs *and* other internal obstacles to



trade removal, while the restricted one simulates a multilateral-like scenario based upon the mere elimination of tariffs. Under the unrestricted model, the net trade creation effect for EU-GCC trade is \$28.3 billion, what accounts for a 64.5 increase in bilateral trade. These impressive gains are due to the minimal trade diversion with the US and the rest of the world (less than \$1 billion). So, EU net trade creation accounts for \$28 billion while GCC trade creation attains \$27 billion. The results using the theory constrained restricted model points to a EU-GCC net trade creation of 25.4%, only 40% of the net trade creation under the unrestricted specification, but a significant magnitude whatsoever (\$11.1 billion). For the GCC, however, the restricted model offer a high, 7.1% gross trade diversion effect with the rest of the world (\$15.4 billion), which results in GCC net trade diversion from an EU-GCC agreement of \$4.3 billion. By contrast, the EU would experience a net trade creation of \$2.8 billion.

On the whole, those studies obtain positive results, with the PWC's SIA report pointing to more modest figures in trade creation and welfare effects, and Baier and Bergstrand obtaining very significant trade creation effects when 'deep integration' domains are taken into account. These results suggest that FTA benefits depend greatly upon non-tariff issues, and that economic cooperation may further lower trade transactions costs than mere tariff removal. But the concept of transaction costs may also be extended to the political and cultural arenas, then providing an economic rationale for increased political and cultural dialogue to achieve a better degree of mutual trust and understanding as much-needed ingredients of any regional integration initiative in both the Gulf and the whole MENA region.

### **Final remarks: the international dimension of EU-GCC partnership**

As we have shown in the previous sections, EU's cooperation efforts with GCC countries dates back to 1989. European 'civilian power' engagement in the Middle East have surpassed that of the US in the fields of political dialogue and economic cooperation, whilst European officials openly criticized the American focus on the military dimension. Even when supporting regional integration efforts in the region, like the Simon Peres' New Middle East Initiative, the objective were openly securitarian ones. However, September 11 events abruptly changed the US Middle East strategy. The first initiative, a US-Middle East Partnership, was presented on December 12, 2002 at the Heritage Foundation by Collin Powell. In February 2003 the US announced a new initiative to achieve a US-Middle East Free Trade Area by 2013. While partnership were to play the pivotal role in these initiatives, the so-called Greater Middle East Initiative (GMEI) soon turned out to be a unilateral US approach, closer to imposition than partnership (Ottaway, 2004).

Reactions to the GMEI were straightforward. Arab and European leaders rejected the idea of building up a US-Arab regional initiative without consulting with the Arab countries themselves, either at a government or a civil society level. Some scholars have named US emphasis on modernization and economic development the

new American messianism, and doubt that imposing modernization and unqualified Washington Consensus economic policies would be advisable for Middle East countries, and especially for Gulf states (Richards, 2003). For instance, professor Richards warns that GCC countries have limited comparative advantages in non-oil goods and services, and remember that refusal by Middle East countries to liberalize its capital accounts prevented them from contagion when the Asian financial crisis exploded. So, an across-the-board services liberalization might well be a disaster under an inflexible, ideologically driven FTA initiative.

EU countries also complained that the US initiative could harm their long-standing efforts to develop a fruitful partnership with Arab countries through both EMP and the EU-GCC Cooperation Agreement. Youngs (2004) identifies EU's cooperative and gradualist approach as its distinctive elements: 'facilitating but not imposing change' and 'building partnerships' with Middle Eastern countries. EU-GCC relations or EMP seems on the whole more balanced than the US initiative, for the former includes political and cultural dialogue and substantial economic cooperation in addition to free trade. Its institutional framework, i.e. the EU-GCC Joint Council, provides for an equal ground political dialogue, and the civilian nature of EU power is less prone to develop fears of a renewed imperialism among Arab societies.

However, the US-led GMEI forced the EU to better define its own strategy towards the Middle East. The December 2003 European Council asked for concrete proposals on a EU Strategic Partnership with the Mediterranean and the Middle East'. The "Interim Report on an EU Strategic Partnership with the Mediterranean and the Middle East" highlights as a key fact that "EU relations with our partners in the region have been built on consultation". However, it recognises that "there is a view in the region that its perspectives have not been fully taken into account in the development of the current initiative". The EU also states that "the strategic partnership must also include a strong commitment to the resolution of the Arab-Israeli conflict". Concerning the Gulf, the Interim Report recognises that "there is a clear need for a broader agenda" and that the Cooperation Agreement "has not reflected the strategic significance of the countries involved".

The EU "welcome the possibility to work together and to co-ordinate with the US in the framework of the Transatlantic Partnership", but it also clearly states that the EU "should define a complementary but distinct approach". How complementary and how distinct the EU approach would be remain to be seen. EU officials should bear in mind the importance of regime security for GCC states, and their strategy of balancing security ties with the US through low politics channels, like trade and economic cooperation, with other international actors (Baabood, 2003). Anyway, there are clear signs of the EU be willing to upgrade its current relations with the MENA region. This could be interpreted as a furthering of some, better prepared, MPC's entry into the EU's 'second ring' by way of Neighbourhood programs, and GCC countries accession to the 'third ring' by the way of Association or Partnership Agreements. In fact, there are

prospects that EU-GCC FTA could be completed even before the EMFTA, given the more liberal trade policy background of GCC states.

The distinctiveness of EU and US approaches towards the Middle East may be appreciated in the results of the June 2004 G-8 Summit. Even if the adoption of the Broader Middle East and North Africa Initiative by the G-8 represents a diplomatic victory for the United States, some authors think of it as a hollow victory, as far as the EU managed to scale-down the US initiative and modify the agenda to match some Arab demands, like including the Arab-Israeli conflict (Ottaway, 2004). The Summit document “Partnership for Progress and a Common Future with the Region of the Broader Middle East and North Africa” contains a mere statement of political and economic principles. More interestingly, it also calls for the institutionalisation of a Forum for the Future, consisting on regular ministerial and civil society meetings on political and economic reform in the region, a narrower and less attractive debate for Arab countries than those that can be held for instance at a EU-GCC Joint Council level. A second output of the G8 meeting consists on a plan to support reform in Arab countries through marginal initiatives (micro-finance, enhancing literacy, and training programs for business). However, financial commitments are vague, and the EU reasonably argues that it is preferable to channel its eventual new efforts through the already bilateral institutional framework provided by EMP and the EU-GCC Cooperation Agreement.

There are other differences in the EU and US strategies. The EU approach has for long incorporate trade arrangements as an important instrument to conduct external relations. However, the EU rarely resorted to ‘negative’ incentives, like embargoes or the suspension of already granted preferential treatment. In this respect, the EU prefers the carrot than the stick. A clear example are EU relations with Israel. While some Israeli analysts have called for an enhanced Israel-EU relation, either under the form of EEE-like or Neighbourhood participation in the EU Single Market, or even by accession (Tovias, 2003), the EU refuses to offer such possibilities on political grounds, making it conditional to substantial progresses in the Peace Process. In a similar way, the EU adopted a more open approach to Iran than the US, keeping political and economic dialogue on track, and some EU companies working with Iran have had difficulties in dealing with US extra-territorial legislation.

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

In a first stage EU-GCC partnership may be upgraded following the EMP model, but GCC states particularities calls for a differentiated approach that in the future may bring the Gulf countries closer to the EU 'second ring', and at a faster pace than the one expected for many MPC's. Previous proposals for the convergence of EMP and the EU-GCC relationship, like the one expressed in 1997 by the British Foreign Minister Malcom Rifkind, raised mistrust towards EU motives in GCC civil society. However, coherence of EMP and EU-GCC Partnership still a much-needed input for a EU 'strategic partnership' with the Middle East.

Secondly, EU efforts should contemplate the US-led Broader Middle East initiative as a ground for complementarity, and not as a new area to materialise Transatlantic disagreements. In this respect, Western-Arab dialogue is in dare need of a previous effective Transatlantic dialogue. The challenge here is how to make compatible cross initiatives like the FTA's agreed by the EU and the US with countries such as Morocco, Jordan and eventually Bahrein and the GCC countries that are currently negotiating FTA's with the US. Notwithstanding EU officials declarations of compatibility problems among, for instance, US and EU-Morocco FTA's, as a matter of fact the EU has included provisions to ensure that it will benefit from any concession granted by Morocco to the US in agricultural trade. Even American analysts criticizing EU soft power policies towards the Middle East for having "limited effects on the region's key strategic challenges", recognises that the EU can "use its considerable economic and institutional ties to make a real contribution to (Middle East) stability" (Rathmell, Karasik and Gompert, 2003). At the same time, the EU should understand the Gulf external relations long trend in maintaining balanced relations with foreign actors (Baabood, 2003; Fürtig, 2004).

Third, cultural dialogue to promote mutual respect and mutual understanding is clearly a much-needed ingredient in any EU-GCC partnership. In our view, the EU is better equipped to conduct such a cultural dialogue than the US, given its backgrounds. The EU is a 'civilian power', mainly when compared with the US, and there are several EU Member States coming from recent experiences of modernization and economic development, like Spain or the new Central Europe Member States. Moreover, several EU Member States, mainly Spain, have common cultural and historical heritages with Gulf countries. Many EU Member States have significant Arab populations. All these facts calls for a closer cultural dialogue between civil societies, and more precisely, for an intensification of academic exchanges and common programs to provide for mutual understanding.

In short, instead of considering the Middle East either as 'new', 'great' of broader', or any other empty concept, the EU must consider it as a 'partner'. Not an entity with which the West is prone to huntingtonian clash, but a partner with whom to trade, cooperate and exchange political views, culture and scientific knowledge. This implies greater consultation with the Arab countries, enhanced economic cooperation,

concluding a generous FTA deal, and an upgraded cultural dialogue between Gulf and European civil societies.

### **List of Acronyms**

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

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