



ISSN: 2036-5438

Cooperation or Silent Rivalry? The EU and the USA in the Mediterranean – The Case of Egypt

by

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Perspectives on Federalism, Vol. 2, issue 3, 2010



Abstract

For decades the US has had a hegemonic position in the Middle East. A key country in this respect has been Egypt. However, in recent decades the EU has made itself increasingly felt in the region. Due to enlargements the EU came geographically much closer, and the Internal Market has generated a gravitational pull which goes beyond economic problems. Furthermore, the EU has gradually built up a coherent policy on many fields. The EU has become the “reform anchor” and most important cooperation partner for Egypt. The progress towards increasing Egypt’s “Stake in the Internal Market” places cooperation on an increasingly institutionalized basis.

In terms of military cooperation the US is still the partner for Egypt. But outside the military sphere institutionalized cooperation is comparatively weak. In particular the failure of the US to conclude a free-trade agreement has been crucial. But it would be wrong to see the US and EU as rivals. Their roles are rather complementary.

The article explores developments in a long-term perspective. Internal and structural developments have had a heavy impact, but at important junctions ideas and strategies for gaining political legitimacy were powerful factors too.

Key-words:

Middle-East, Egypt, EU, Soviet Union, US, foreign policy.



1. Introduction

In this article I explore US and EU policy in the Mediterranean in a long-term perspective, focusing particularly on Egypt. This country is the most populous one in the Arab world, and since the 1970s she has been an important partner for the US. But by now (2011) it appears that the EU is shaping Egyptian society much more than the US. We might speak of a “return” of Europe. But the European presence of today is very different from the times of colonialism. As we shall see, internal developments and external orientations were closely intertwined. The first parts of the article contain mainly historical narratives. Some explicit theoretical conclusions will end this paper.

2. European Colonialism and the Emergence of Independent Arab States

Before 1914 the whole of North Africa became subjugated to European rule; either as colonies (Algeria, Libya), or under the somewhat milder form of a protectorate (Morocco, Tunisia, Egypt). The end of World War I brought the collapse of the Ottoman Empire and delivered its Arab territories to the mercy of the victors. In spite of British war-time promises of Arab independence the Paris Peace Conferences and the conference of San Remo (1920) made Iraq, Palestine and Transjordan British protectorates; Syria and Lebanon were assigned to France. Widespread resistance against European rule was mercilessly suppressed.

It is perhaps important to recall the dark sides of European dominance because it created long-lasting resentments. But British and then French politicians gradually realized that colonial rule could not be sustained for long. Egypt gained nominal independence in 1922 and in 1936 internationally recognised sovereignty. The British retained, however, control over the Suez Canal Zone and, in case of conflict, over vital lines of communication. A similar arrangement was signed with Iraq in 1932. By 1945, the Arab League was founded by the by then seven independent states (Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, Syria, Yemen). Libya gained independence in 1951, Morocco and



Tunisia followed in 1956. But Algeria had to go through the horrors of a long and gruesome war (1954-1962). Finally in 1971 nine British protectorates at the Persian Gulf became fully independent, as the Union of Arab Emirates (later: United Arab Emirates), Bahrain and Qatar.

In some cases (Jordan, Morocco, Tunisia) relationships with the former colonial powers remained uncomplicated; also Saudi Arabia maintained good relationships with the West. In all these cases traditional elites stayed in power, gradually to be complemented by modern business elites. And once independence was gained, they saw no reason for conflicts with the former colonial powers; on the contrary, cooperation with them could support internal and external security. But in other cases, Egypt among them, matters turned out differently.

3. Egypt's march towards "Arab Socialism" and "anti-imperialism"

The institutions of most Arab countries were rather weak, and this made the region prone to military coups, Syria starting this chain of events in 1948. Of far-reaching consequences was the coup of the "Free Officers" in Egypt on 23 July 1952. Their ideas were rather vague. But they soon reached agreement to abolish all political parties and to cancel parliamentary elections. This placed the question on the agenda how the officers could legitimate their power. One move in this context was a first (still rather modest) land reform. The practical effects of this reform remained limited. But it "engineered enormous goodwill among the citizens of Egypt" (Rogan 286). At the same time it weakened the traditional elites. But it was not yet an all-out onslaught on private property (Roussillon 338).

By March 1954 Colonel Gamal Abd-el Nasser had emerged victorious from the power struggles among the officers. A very gifted orator, he indulged first in Egyptian nationalist and then increasingly in Pan-Arab rhetoric. He soon gained wide-spread admiration, even among the Arab populations at large – the radio transmitting his voice all over. In Weberian terms we might see it as charismatic legitimacy. But we can also classify it as output legitimacy because he successfully seemed to advance the Arab cause. "Charisma" has always been closely linked to "output".



The first priority of the “Free Officers” was the termination of the British presence, the traditional goal of Egyptian nationalism. After protracted negotiations Britain agreed to withdraw all military personnel from the Suez Canal Zone. But the government in Tel Aviv saw the British military presence as a buffer and viewed the Free Officers with utmost suspicion. After two infiltrations of Palestinian *fiḍa’iyyin*, Israeli forces dealt a devastating blow to Egyptian installations in the Gaza Strip, killing 37 soldiers and wounding 31. For Nasser acquiring modern weaponry became an urgent priority; the Western powers, however, refused to sell it. But in September 1955 a triumphant Nasser announced that Egypt would obtain 275 Soviet T-34 tanks and 200 war plans from Czechoslovakia (Rogan 287-290 and 297).

This move strained relations with the US, whose support was needed for the financing of the Aswan dam. This project should enable Egypt to irrigate land and to power new industries. But on July 18, 1956 US Secretary of State John Foster Dulles said no, arguably “the worst diplomatic blunder Dulles ever committed” (Goldschmidt 107). Nasser responded by announcing the nationalization of the Suez Canal on 26 July. Thereafter, the French government, hostile to Nasser because of his support for the Algerian FLN, designed a scheme according to which Israeli forces should invade Egypt, whereafter English and British troops should occupy the Suez Canal Zone, “in order to restore peace”. Accordingly, Israeli forces crossed the Egyptian border on 29 October, and on 31 October British and French planes bombed Egyptian air bases. Paratroopers landed in the Canal Zone.

Nasser was saved by Soviet and (no less important) massive American pressure. His mere survival was seen as a major victory. The political losses for France and Great Britain were enormous. As Muhammed Heikal, editor of *Al-Ahram* and Nasser’s advisor, put it: “No Arab leader could be Britain’s friend and Nasser’s enemy after Suez. Suez cost Britain Arabia” (Rogan 304). This was exaggerated, but not by much.

The Suez aggression triggered a first wave of large-scale nationalisation, in the beginning directed against British and French interests, then also against Jewish, Armenian and Syrian-Lebanese property; the capital of all banks and insurance companies had to be “Egyptianized”. Together with the Suez Canal these expropriations created an important state sector in the economy (Roussillon 339). However, large-scale expropriations can create a *systematic* dynamic to proceed to a full socialist system. We can depict these



mechanisms as follows: Once large-scale expropriations have taken place, the state had to replace private profit-driven accumulation by state investments. For this purpose the state needed ever more money. And in order to protect state-owned enterprises from competition, the state had to establish ever-closer control over the other economic spheres. Control of cross-border transactions became particularly important, in order to prevent the flight of capital (Zank 2009 b, 117-122). In this light it was only logical that in July 1961 the Egyptian state took over not only banking, insurance, transport and practically all of industry, but also cinemas, theatres, newspapers and publishing houses (Roussillon 345).

Such a development presupposed a necessary (though in itself not sufficient) condition in the political sphere, namely a dictatorial regime with no constitutional constraints.

The political system became transformed into one-party rule. But the military supervised the Arab Socialist Union (ASU) from the background. Egypt came to resemble the Soviet model, or rather the Polish model of the time, agriculture remaining formally mainly private. With good reason the Soviet party leader Nikita S. Khrushchov, visiting Aswan in May 1964, could state that Egypt was indeed “building socialism” (Roussillon 352).

From a Western European view this development was something of a disaster. European property was expropriated and economic and social transactions substantially reduced. In external relations Egypt showed strong leanings towards Europe’s Cold-War enemy.

4. The Large-Scale Collapse of European Positions

In the 1960s Nasser’s regime got company. After gaining independence in 1962 Algeria experienced a civil war between factions of the FNL. The Border Army under Colonel Houari Boumédiène, during the independence war stationed in Morocco and Tunisia, decided the outcome and made Ahmed Ben Bella chief of government. The new regime tried to base its legitimacy on the successful fight for independence. We might see this again as a combination of output and charismatic legitimacy. The FNL was formally in charge, but once again the single-party system had as its main function to legitimize the omnipresence of the army (Stora 129). In 1965 Boumédiène took power directly.



With military dictatorship established, the necessary condition for “building socialism” was in place from the outset. The first step was the confiscation of French farms or enterprises. Thereafter the state sector comprised practically the whole modern sector of Algeria’s agriculture (Stora 134).

From 1966 onwards Boumedienne resorted to successive waves of expropriation. In the biggest move on 24 February 1971 he nationalized all oil and gas reserves and pipelines. Finally on November 8, 1971, Boumédiène declared an “agricultural revolution” and forced some 90,000 peasants into cooperatives. As in Egypt, the state resources were augmented by credits and used to finance gigantic industry projects which, however, mainly turned into loss makers.

Another priority of the regime was “Arabizing” the educational system. As the minister of Information and Culture, Ahmed Taleb, put it in 1973: “France killed Algerian culture by cutting it off from all lifeblood, and by keeping it outside the moment of history. That is real murder” (Stora 169). Small surprise that Algeria refused to participate in the Francophone movement.

Relations with France and Western Europe were not cut off completely. There were, for instance still numerous French experts in the country. But on balance, transactions with Western Europe shrank enormously. The new regime looked instead to the Soviet Union or China. Also the Algerian variant of “Arab Socialism” implied an automatic reduction of cooperation because private business contacts across the borders became severely restricted.

In the case of Libya, relations with Western Europe remained cooperative for many years after independence in 1951. The British gave the throne to Sayyid Muhammed Idris al-Sanussi, leader of the Sanussi religious brotherhood. As other traditional rulers, Idris saw no reason to turn hostile towards Western powers. And western payments for the use of military bases were an important source of income (Rogan 358-60). In 1959 oil was discovered in commercially relevant quantities. By 1969 Libya produced as much as Saudi Arabia.

On 1 September 1969 young officers under the leadership of Captain Muammar al-Qadhafi engineered a successful coup. Qadhafi was an admirer of Nasser and indulged in Pan-Arabism and anti-imperialism. The remaining Italian settlers were expelled. British and American bases were closed. Qadhafi also imposed Islamic norms such as a ban on alcohol



and closed churches. Foreign property was “Libyanized”. In September 1970 in a trend-setting move he could press Occidental Petroleum to accept a price hike. Other countries soon followed these examples (Rogan 361).

Thus European interests in the Mediterranean suffered another severe setback. Qadhafi turned out to be the most bizarre of the revolutionary dictators, going so far as to finance terrorist activities on a wide range.

Syria also gradually developed into a system of revolutionary anti-Western military dictatorship. In 1963 the Ba’ath party inspired a coup, and by then Ba’ath and army leadership had taken on ideas on social transformation which were similar to Nasser’s. In 1965 the Syrian economy became closed (if measured by criteria elaborated by Jeffrey Sachs and Andrew Warner)¹ when the state trading company SIMES received an import monopoly (Sachs and Warner 92). In foreign relations also this regime began leaning towards the Soviet Union and China. “Anti-imperialism” became a long-standing feature of the regime discourse. Writing in 2005 Rosemary Hollis observed: “The Ba’ath party in Syria still lambasts the French at independence day celebrations to stir national sentiment and unity” (Hollis 314).

Among the circle of the eight Mediterranean Arab countries (Jordan included), by the mid-1970s four had become revolutionary dictatorships which had no interest in closer cooperation with the EU^{II} countries and leaned instead towards the Soviet bloc or China. Deliberately they cut many ties with Western Europe. Furthermore, their socio-economic system of “Arab socialism” implied by itself the drastic reduction of cross-border transactions. This was economically detrimental, but it also meant that there were fewer contacts, little coming-to know each other, little mutual understanding and few common work projects.

The case of Morocco and Tunisia was different. In both cases the traditional elites survived, and their foreign-political positions remained basically pro-West. However, in these cases as well the development strategy chosen in the 1960s implied a reduction in cross-border transactions. Tunisia experimented from 1961 with a (comparatively mild) form of Arab Socialism. But this course met considerable resistance which the regime – authoritarian, but also corporatist-inclusive – could not simply override.. Finally in 1969 after a revolt of the peasants of Ouardine cooperatives became dismantled, some state-owned land was sold and the private sector explicitly acknowledged. However, the weight



of the state economy and bureaucratic regulations remained heavy for many years to come (Zank 2009 b 113f).

In Morocco the monarchy based its stability on a careful balance between traditional rural notables and modern bourgeois forces. Under these conditions large-scale confiscations or collectivization were excluded. However, Morocco opted for “Import-Substitution Industrialization” where new industries and agriculture were meant to thrive behind high protectionist tariff walls; also here the state tried to steer many economic processes through tight regulations (Zank 2009 b 115). At independence in 1956 the Moroccan economy was open, but became closed in 1964 (Sachs and Warner 86). Moreover, Morocco endeavoured to strengthen the role of Arabic in the education system. The French position was felt to be too dominant, but Morocco turned to the US for balancing, not towards the Soviet Union. Though not hostile to Europe or France, Morocco also witnessed a process of diminishing cooperation with the West.

Lebanon and Jordan followed basically a pro-Western course, which, however, meant a relative decline of European influence and a growing position for the United States. In the 1950s and 1960s both governments had to tread very carefully because Nasserist propaganda was very influential.

All in all, the years from the Second World War up into the 1970s saw a dramatic decline of European influence in the Arab world. As the main factors behind this development we have identified the emergence of revolutionary dictatorships which tried to build legitimacy on an “anti-imperialist” stance, and which erected socio-economic systems which were inimical to cross-border cooperation. In Morocco or Tunisia the case was much milder, but also there the development strategy implied reductions of cooperation.

In the 1970s “Europe” hardly existed. There was the European Economic Community. But this community had no common foreign policy. Trade matters were already regulated on a supranational basis. And in 1969 trade agreements with some preferential access were signed with Morocco and Tunisia. But the common trade policy did not generate much common political influence because the member states had divergent views on many matters. And in addition, the “common market” was not yet very common. Internal tariffs were abolished in the 1960s, but numerous non-tariff barriers hindered transactions. The crisis of the 1970s saw many neo-protectionist measures in European countries. The



smaller and highly fragmented European market was therefore much less of an attraction at that time than the enlarged and highly unified Internal Market which emerged from 1985 onwards.

5. The rise of US hegemony

After the Second World War three main issues made the region important for the US: communism, oil and Israel.

In 1948 Kermit Roosevelt, an American intelligence expert, wrote: “Almost all Americans with diplomatic, educational, missionary, or business experience in the Middle East protest fervently that support of political Zionism is directly contrary to our national interests, as well as to common justice” (Hudson 289). Nevertheless President Harry Truman decided that the US would support the establishment of a Jewish state. Truman was under the influence of Zionist friends and wanted to gain Jewish support in the presidential campaign of 1948.

When the United Nations in 1947 proposed a division of Palestine, the Israeli side accepted, whereas the Arab governments tried to prevent the foundation of Israel by force. The following *Al-Nakba*, “the disaster” of Palestine, had a tremendous impact on Arab politics, weakening the position of many Arab governments (Rogan 276). This was one factor behind the coup of the Free Officers in Egypt 1952. And as we saw, the Israeli attack on the Gaza Strip in 1955 made Nasser look for Soviet help. In this way the Palestine conflict and US support for Israel helped bringing the Soviet Union into the region.

During the 1950s and 1960s Soviet influence grew, mainly due to the establishment of revolutionary dictatorships. However, “Arab Socialism” was a model of limited duration, despite substantial aid from both the US and the Soviet Union to Egypt (Roussillon 353-5). Economic growth in Egypt remained slow, with the country becoming heavily dependent on external financing. The war of 1967 was not only a political, but also a financial disaster. Nasser’s successor Anwar al-Sadat came to the conclusion that Egypt’s policies needed a profound correction. In his view the US held “100 percent of the cards” (Roussillon 360).

The US had many instruments at her disposal. There was, on the one hand, the strong military presence and the ability quickly to project military force to any spot in the region.



In 1967 the 6th Fleet was set in motion towards the Eastern Mediterranean to counter a possible Soviet intervention (Steininger 38). In 1973 the threat of military intervention was part of the diplomatic “game”. And then there were, of course, the Gulf War of 1991 and the invasion of Iraq in 2003. The US could credibly give protection, or alternatively threaten regimes. Another powerful instrument was the delivery of high-tech armament. The US could thereby shift the balance of power effectively. Sharing intelligence has also been an important asset, routinely strengthening Israel, but also e.g. Saddam Hussein during his war with Iran 1980-8. The US could moreover give generous economic aid. Giving (or negating) access to the huge US market was another important tool to reward or sanction political behaviour. Also as a source of Foreign Direct Investment (FDI) the US was very important. Finally, up to the 1970s the US had considerable “soft power” in the region, not being tainted by a colonial past (Hudson 285). All in all, Sadat had good reasons for concluding that the US held the trumps.

6. Egypt Becomes an Ally of the United States.

Still in May 1971 Sadat signed a “friendship and cooperation treaty” with the Soviet Union which enabled a reconstruction of the Egyptian forces. But in July 1972 the Soviet military experts were expelled. And on October 6, 1973 Egypt and Syria jointly attacked Israel. Successful at the beginning, the war turned into a near-disaster for the Egyptian army. But meanwhile Arab oil producers, including Saudi Arabia, became enraged by massive US military aid to Israel and imposed a boycott on the US and Western Europe: The Arabs had discovered the “oil weapon”. Finally, after intensive diplomatic activity an armistice was reached on October 22 (Rogan 370-2).

The US was under the pressure of the oil-boycott and had a strong interest in negotiated solutions. After US mediation, the Israeli agreed in January 1974 to give the Canal Zone back to Egypt. The oil producers ended their boycott in March 1974. After othergraduated Israeli retreat Egypt regained the oil fields on the Sinai. In this way the near-disaster of the October War turned into a remarkable political success for Sadat.

Regaining income from the canal and the oil fields was not sufficient to cure Egypt’s desperate economic situation. Sadat hoped that by opening the Egyptian economy he could attract foreign investment, not least from the oil-rich countries. His “October Document”,



presented in March 1974, marked the shift away from “Arab Socialism” and spoke of creating an association of Arab capital, western technology and Egyptian know-how in a pacified Near East (Roussillon 361). Experience had brought pragmatism to economic thinking.

In June the parliament passed Law 43 on foreign investment, the core document of the policy of *infitah*, the opening. It contained many privileges to foreign investors such as tax or tariff exemptions and allowed foreign banks to operate in Egypt again (Roussillon 361). The *infitah* could indeed attract some investment, but all in all this investment remained below expectations (Goldschmidt 148). As experiences from other countries have shown: Partial reforms in a socialist system are not sufficient to create new dynamism because market economies demand *a whole set* of interrelated reforms. However, to implement them has nowhere been easy: Followers of the previous ideology have mobilized resistance, and in addition there are many vested interests associated with the old system. These interests were perhaps managers and workers in sectors so far sheltered against competition, or politicians who depended financially on these sectors. Furthermore, the benefits of reform have been rather diffuse for the population at large, whereas the risks are much clearer, at least to some groups. These factors can explain why transition to an open market economy has often been slow. In Egypt it took more than 30 years. Many observers say it is still unfinished (see below).

Violent riots broke out when on 17 January 1977 the Egyptian authorities announced the removal of subsidies on commodities such as butane, flour, oil, rice or sugar. Three days later the regime withdrew the measures.

In his financial desperation on 16 July 1977 Sadat launched an armed attack on Libya, in order to occupy some oil fields. The Egyptian army and public were unenthusiastic, and Washington made its strong opposition clear. Sadat had to back down after nine days. To quote again Heikal: “Thus it was that the food riots in January and a botched foreign adventure ... led Sadat to the conclusion by mid-1977 that Egypt would have to negotiate a new relationship with Israel” (Rogan 388). This way Egypt could hope to attract substantial US aid and foreign investment. Also institutions such as the International Monetary Fund (IMF) where the US had a strong influence could be expected to become much more helpful. Thus also in this case hard economic realities brought about new political thinking



The first serious peace process between Israel and one of her neighbours began, with active US mediation. Finally President Jimmy Carter convened Sadat and Israel's Menachim Begin to a meeting in Camp David, Maryland, in September 1978. An agreement was reached which formed the basis for a formal peace treaty, on March 26, 1979. Begin conceded retreating from the whole of Sinai. But crucially, the agreement did not specify the future status of the Palestinian territories; the Palestine conflict remained unsolved.

Egypt was boycotted by the other Arab states. But she also gained a lot, besides peace: From the US Egypt received more than 2 billion dollars every year for most of the 1980s and 1990s (Sharp 78-80). Most of the aid was military aid, usually about 1.3 billion dollars as grants – every year (Sharp 80). Only Israel has received more. Egypt could replace the Soviet hard ware with US high-quality equipment.

The US and Egypt also regularly conducted joint military exercises. These made the Egyptian forces capable of going into action jointly with the US. They did so in 1991 in Kuwait. How close US-Egyptian military cooperation became is testified by a declassified report from the State Department, of August 1994 (Momami 2003 2):

The thrust of our security assistance program is to build a modern force with interoperable equipment capable of maintaining Egypt's defense and of working effectively with U.S. forces in coalition warfare. Egypt's strong military is a stabilizing force in the region. Its strength is at an apex when combined with U.S. forces in regional coalition operations, as was demonstrated during the Gulf War. We rely on Egyptian cooperation in providing quick transit of Egyptian airspace and through the Suez Canal. The U.S. military routinely conducts 6-8 transits of the Suez Canal and some 500 military overflights of Egypt each month. Egypt has developed extensive experience in peacekeeping and its military forces are working to enhance these abilities. At our request, Egypt contributed significantly to UN peacekeeping operations in Somalia. Egypt also participated in peacekeeping operations in Bosnia and provided troops or observers in Georgia, Liberia, Mozambique, Western Sahara and Namibia.

But the close military cooperation did not turn Egypt into a blind ally. In March 2003 she advised against the invasion of Iraq and did not participate in it. However, Egypt continued to allow for transits and was in 2005 the first Arab country, together with Jordan, to send an ambassador to Baghdad (Sharp 61). The US military aid has remained on a level of 1.3 billion dollar a year in the new millennium.

There has also been close cooperation in the field of intelligence, not least after 9/11. The long experience of the Mubarak regime in combating domestic fundamentalist



violence makes Egypt a valuable partner for the Central Intelligence Agency (CIA). There have been reports that the CIA has deported Al Qaeda suspects to Egypt for interrogation. It should be noticed that the US State Department has often criticized Egypt's widespread use of torture (Sharp 62 and 72f).

After 9/11 the Bush administration placed democracy promotion higher on the agenda. Among the instruments used were public speeches by top-ranking officials, aid to pro-democracy organizations, or negatively, withholding economic aid (see below). However, some have doubted the earnestness behind this commitment, at least after the Hamas election victory in the Palestine territories in January 2006 (Sharp 65f).

In the long run deep economic cooperation is perhaps the most important factor when it comes to placing relations on a stable basis. And they usually also create new dynamics in other fields. Economic ties have a socializing effect: People cooperate and interact, come to know each other and build trust, in particular among business elites and parts of the political and administrative elites. Deepening economic relations require also stable and expanding legal and institutional arrangements, with common decision-making and dispute settlement mechanism, thereby paving the way to at least *some* political integration. However, in the case of Egypt and the US, economic cooperation did not properly get off the ground. It is true that US economic aid was generous for many years after the Camp David Accord, about 800 million dollars a year (Momami 1). One of the purposes was to promote economic reform. But Egypt remained for a long time an ineffective statist system, and, seen from Washington, much of the aid was wasted. US policy had usually no levers to press for reforms. According to a report from the U.S. Government Accounting Office (GAO) officials in the State Department "believe that pushing too hard for these changes may raise political tensions ... and could adversely affect other important aspects of our bilateral relationship." USAID reported that "... the Egyptian government would greatly resent any effort on the part of the United States to conditions or even create the appearance of conditionality being attached to assistance." Seen from Cairo the US aid was an entitlement for the Camp David Accord (Momami 3f).

However, Egypt's external debt was rapidly growing, 10 billion dollars in 1976, 40 billion in 1987 and 53 billion at the end of the decade (Roussillon 374). Egypt had to ask the IMF for assistance. In 1987 the IMF granted 325 million dollars, conditional of economic reform: Reduction of subsidies and "price reality" e.g. as regards electricity and



petroleum derivatives, liberalization of agricultural prices and of foreign trade, higher interest rates, privatization of the state-owned industries, unification of the exchange rate and devaluation. Cairo accepted but then did not comply. The Egyptian government was afraid of social unrest and asked for more time, but did not deny the necessity of reform (Olsen 61). In 1989 Egypt could not pay 600 million dollar on its military aid; and according to the Brooke Amendment in such cases economic aid has to be suspended (Roussillon 375). In 1991 a new agreement was signed with the IMF and a third one in September 1993 which released new funding. Egypt's creditors agreed on a reduction of its debt, from above 50 billion dollars to 20 billion. In connection with the 1991-agreement a "Social Fund" was also created. It should directly support Egypt's poor and create 150,000 jobs (Olsen 64).

Egypt did indeed undertake several reform steps from 1991 to 1997. The fiscal deficit fell to 0.9 percent of GDP by 1997, the exchange rate was united and devalued and then used as nominal anchor for monetary policy. Inflation dropped to 6.2 percent, and the current account came into surplus. Quantitative restrictions on imports were abolished and tariffs lowered. Privatization began in earnest; in 1997 83 firms were sold for 2.4 billion dollars, about 2.5 percent of GDP (Galal and Lawrence 12). In 1995 Egypt became member of the World Trade Organization, an important step for anchoring reforms.

In the 1990s pressure was rising in the US Congress to reduce aid to Egypt. But in 1994 a report by the Congressional Budget Office (CBO) also stated: "Larger cuts could well be imprudent. Israel and Egypt remain very important US allies in a region still fundamentally unstable and dangerous. Moreover, Egypt's political stability – a linchpin of the prospects for lasting Middle East peace – is hardly assured at this time, and its prognosis might worsen if economic conditions deteriorated further" (Momani 5).

7. "Qualified Industrial Zones", but no Free Trade Agreement

The solution to this dilemma was seemingly found in the formula "trade and not aid". On the one hand, economic aid (not military) was reduced from 1998 onwards, from 815 million dollar down to 490 million in 2006 (Sharp 77). On the other hand initiatives were taken to strengthen US-Egyptian trade links and for promoting private-sector investment (Momani 6).



In 1994 Vice President Al Gore became responsible for the dialogue with President Mubarak within the so-called “US- Egypt Partnership for Economic Growth and Development.” Various committees were formed in order to give advice. A bi-national Presidents Council was founded, which consisted of 15 American and 15 Egyptian corporate representatives. Among them was Gamal Mubarak, the president’s son.

The Presidents’ Council became a new channel for communicating US desires as regards economic reform. In March 1997 US President Bill Clinton declared that “the U.S. Egypt partnership for economic growth and development has made a real difference by promoting privatization and tariff reductions ... The Presidents’ Council ... has achieved dramatic success, increasing trade and economic reforms, and deepening support for necessary economic reforms” (Momani 7).

In 1996 the Clinton administration opted for establishing so-called Qualifying Industrial Zones (QIZ) in Jordan and Egypt. These are industrial parks from which companies can export their products to the United States duty free, provided that part of the inputs comes from Israel and/or West Bank/Gaza Strip (Bolle et al. 111). Jordan responded quickly and established 13 QIZs, and trade figures rose substantially. By 2005 US imports, most of them from the clothing sector, had risen to 1.3 billion dollar, 80 times higher than in 1998. US exports were about 646 million dollar, 1.8 times their 1998 level. In 2001 Jordan was awarded a Free Trade Agreement with the US. Bilateral trade between Jordan and Israel rose, not the least due to the QIZ. In 2004 Israel exported roughly in the value of 133 million dollars to Jordan (21 million in 1997), and Jordanian exports rose from 12.5 million to about 51 million. By 2003 the QIZs had created some 40,000 jobs, most of them for women. However, traditional attitudes still forbid many women to work outside the house, and therefore about half of the new vacancies have been filled with expatriates from Asia. The economic gains have, however, come with a political price, because many Jordanians have opposed any normalization of relations with Israel (Bolle et al 112-6).

Not least with a view to the political costs, Egypt initially did not respond to the QIZ initiative. However, in 2004 she signed a corresponding agreement with Israel, whereafter in December 2004 Robert Zoellick, the US Trade Representative, designated three QIZs in Egypt and in November 2005 a fourth one. Egypt felt under pressure because on 1 January 2005, following a WTO agreement, the quotas on textile and clothing were to be abolished. New exports from China or India could crowd out Egyptian producers (Bolle et al 113f).



The QIZs were not the only form of Israeli-Arab economic cooperation. In Jordan and Egypt Israeli investors have created numerous jobs, most prominently Dov Lautman, the biggest entrepreneur in the textile industry. By 1999 20 Israeli companies had invested some 30 million dollars in joint ventures. The biggest single project is a deal worth 2.5 billion dollar, signed in June 2005. Egypt will deliver gas to Israel for a period of 20 years. Jordan can use the Israeli harbour of Haifa; bilateral projects address the problem of water scarcity, and Jordanian workers were to be employed in Israel. Together with Jordanian partners Israeli companies gained access to Iraqi orders. Shimon Peres announced early in the 1990s the vision of stabilizing the region by extensive Israeli-Arab networking (Hofmann 31f). There has actually been progress in this direction.

On 1 July 1998 the US and Egypt signed a Trade and Investment Framework Agreement (TIFA). US Trade Representative Charlene Barshefsky declared it “marked the first step towards creating freer trade between our two countries, and established the basis for stronger economic ties to bolster our joint efforts at further peace in the region” (Momani 8). However, the TIFA contains mainly declarations of intention. Its main substance is the creation of a joint Council on Trade and Investment at ministerial level for consultation (US Trade Representative).

The American members of the Presidents’ Council lobbied in Congress for a Free-Trade Agreement (FTA) with Egypt. A Congressional letter to President Clinton, of 1 November 2000, highlighted its political importance: “A U.S.-Egypt free trade agreement, when combined with free trade agreements with Israel, the Palestinians, and Jordan, would form the basis for a Middle East Free Trade Region with the essential peace partners. Regional economic integration will be a key to lasting peace and stability in the region” (Momani 8).

However, presidential elections were approaching, and the Democrats counted on the support of labour unions which were opposing more free trade. Officially the administration said that Egypt was not yet “ready”. The US ambassador in Cairo, Daniel Kurtzer, presented a long list of things which Egypt had to do before negotiation could begin (Momani 8):

- 1) Full implementation of the WTO TRIPS [Trade-Related Aspects of Intellectual Property Rights] agreement;
- 2) Implementation of the WTO Customs Valuation Agreement,
- 3) joining the WTO Information Technology and



Basic Telecommunications Agreement; 4) liberalization of additional services and additional tariff reductions; 5) additional IPR [Intellectual Property Rights] Protection; 6) improving Egypt's standard and inspection program; and 7) consider joining the WTO Government Procurement Agreement.

George W. Bush presented himself as free trader during the election campaign, and after taking office he announced his *Competitive Liberalization Strategy*, by simultaneously negotiating market opening at the multilateral, regional and bilateral levels (Mildner 21). This seemed to bode well for Egypt. On 1 March 2001 President Mubarak announced that he the following month would initialize a FTA. However, the US government demanded an immediate implementation of the TRIPS agreement, in order to protect American pharmaceutical companies' patent rights. For fear of social unrest Cairo declined.

Two years later there seemed to be new reason for Egyptian hopes when Bush proposed the project of a Middle East Free Trade Agreement (MEFTA), on May 9, 2003. This was presented as a means to fight terrorism, by supporting the spreading of prosperity and democracy. Zoellick explained more details on June 23 at the World Economic Forum in Amman: All countries which belong to the "Middle East", as defined by the US Trade Representative, were invited to join. The MEFTA initiative proposed some short-term measures such as the extension of trade preferences within the Generalized System of Preferences (GSP). The long-term project aimed at FTAs. Interested countries should join the WTO, sign a Trade Investment Framework Agreement (TIFA) with the USA and conclude a bilateral investment Treaty (BIT). A FTA would be the culmination of this process. And once a FTA was signed, neighbouring countries could be "docked" (as US sources express it) to it. When MEFTA was announced, Egypt had already concluded all four preparatory agreements (Bolle 149-153 and 162).

The MEFTA initiative seemed to address the region as a whole, which is a rarity in US diplomacy. However, the negotiations with the countries were carried out on a strictly bilateral basis, even if this meant a setback for existing schemes of regional integration. One example is the FTA with Bahrain, approved on 1 November 2006. Bahrain has been member of the Gulf Cooperation Council, and this was supposed to be a customs union. But this did not prevent Bahrain from negotiating bilaterally with the US.

At any rate, it does not appear that Bush and Zoellick invested too much time into preparing the MEFTA initiative. It is perhaps revealing that Cyprus, being part of the



“Middle East” in the office of the US Trade Representative, was mechanically included in it. And a report by the Congressional Research Service (GRS), dated January 2006, about the “progress towards MEFTA”^{III}, also listed Cyprus in its tables, without any comment. But when Bush announced MEFTA, membership negotiations between the EU and Cyprus were already finalized. The country became a member in 2004, thereby losing her competence to negotiate individual trade treaties.

When the MEFTA initiative started, FTAs were already in place with Israel and Jordan, and one with Morocco on track. Negotiations with Bahrain were completed in September 2004 (Bolle 158), and with Oman some time later. This is a very patchy outcome. Globally the Bush administration finalized FTA negotiations with sixteen countries (Blustein 291). It does not appear that the Middle East has had a privileged position, the high-flying rhetoric when launching the MEFTA initiative notwithstanding.

The FTA with Egypt remained a non-starter. On January 17, 2006 the “New York Times” reported that the start of negotiations had been put on hold. Allegedly this was a protest against the five-year prison sentence of Ayman Nour, a leading figure of the secular opposition (Sharp 68).

By this time the US were again gripped by trade paralysis. In 2005 President Bush’s Trade Promotion Authority (TPA) expired. Under this arrangement, granted to him in 2002, Congress would only vote “yes” or “no” on a treaty, but not amend or change details. Without a TPA, ratification in Congress becomes a very lengthy process with substantial changes. This reduces incentives for other countries to negotiate, because compromise packages can be unravelled. And in the American public the mood has shifted. According to a poll from March 2007 almost half of the US citizens believe that globalization is detrimental. This should be seen against the background of high deficits in US trade and the corresponding threats to jobs, particularly for non-skilled workers. Social security in the United States is moreover severely underdeveloped. Unemployment subsidies are paid for 26 weeks only, and 60 percent of those entitled to a health insurance have it only via their job (Mildner 24-6). In this respect the lack of social security can have a substantial impact on a country’s “integratability” into the world economy, and thus on its foreign policy.

In November 2006 the Democrats gained the majority in both American legislative chambers. Thereafter human rights, environmental regulations or labour standards had to



be incorporated into trade agreements. Third-World representatives uniformly have vigorously objected to these inclusions because they can destroy their biggest advantage: Cheap labour. The FTAs with Panama, Peru and South Korea were altered and the one with Columbia postponed until further notice (Mildner 26f).

In our context, the important point is that the US has become unable to place economic relations with Egypt on a more institutionalised ground. This has also meant that the US lost much influence when it came to supporting the Egyptian reform agenda. As Ahmed Galal and Robert Z. Lawrence stated in a publication aimed at promoting a FTA (Galal and Lawrence 28):

The recent history of economic reforms in Egypt suggests that processes are more sustainable, and reform elements better integrated, when they are carried out in the context of external binding agreements. Conversely, unilateral reforms tend to be volatile and often not sufficiently integrated.

The US could not fill this role. But another external actor appeared to fill the vacancy.

8. Europe becomes an “attractive” neighbour

In 1972 at their Paris summit the EU member governments asked the Commission to have a look at the rather patchy pattern of agreements with Mediterranean countries and to develop proposals to ensure “an overall and balanced handling” of the matter (Gomez 30). The Commission answered by proposing a Global Mediterranean Policy (GMP). The long-term object should be a Mediterranean free-trade area, the idea thus being aired some 30 years before President Bush did so. The main instruments of the GMP were to be new “Cooperation Agreements”, covering not only trade, but also capital movements, technology transfer, migration and environmental and financial assistance. The non-member countries should gain free access to the EU market in manufactured goods (with the important exception of textiles and refined petroleum) and improved access in agricultural products, whereas the EU did not demand similar concessions. Cooperation Councils and committees were to be established for each agreement, comprising representatives for the Commission, the member states and individual non-members.

The GMP can be seen as the first example of a coherent EU foreign policy (Gomez 34). Under the GMP eight new agreements were signed (with Egypt in January 1977). With



another five countries quite comprehensive agreements were concluded already before the start of the GMP. The agreements thus covered all Mediterranean countries, save Libya and Albania. The economically more advanced countries were indeed drawn closer to the Community. But the effects on the Arab Mediterranean countries were less marked. The remaining restrictions on agricultural products and textiles hit exactly branches where these countries had comparative advantages (Gomez 31-3).

Several points are worth noting. Firstly, the European Union managed to develop a consistent long-term policy towards the region. Secondly, the policy was constructed with a view to the region as a whole, not just an addition of country specific policies. Thirdly, economic policy and trade occupied a central place, but cooperation with binding rules was extended to fields such as migration, and political dialogue was sought to cover practically all fields. Fourthly, strengthening of economic ties was a long-term policy. It would be erroneous to see this only as economic opportunism. It shows a rather different philosophy to that on the US-side. The countries should not be “rewarded” with a free-trade agreement in case they “behaved well”. Rather, more trade and economic cooperation were seen as vehicles which would make these countries “behave” better.

Four processes gradually led to a rather dramatic increase of the EU’s weight in the Mediterranean. The first was the EU’s geographic expansion. In 1981 Greece became member and 1986 Spain and Portugal. Turkey formed a customs union with the EU in 1995 and gradually adopted huge parts of EU’s regulatory *acquis communautaire*, not least after the start of membership negotiations in 2004. And finally in 2004 Cyprus, Malta and Slovenia joined the EU. Thus the EU came geographically closer to the Middle East, and the EU trade conditions became extended to the new members.

Secondly, from 1985 onwards the EU endeavoured to create an Internal Market. Tariff barriers among the member states had been abolished in the 1960s, but non-tariff barriers such as diverging product standards or state monopolies had kept the EU market fragmented. However, with the Milan Summit in 1985 and the new treaty of the Single European Act in 1987 the non-tariff barriers in Europe were addressed. From then onwards in matters pertaining to the Internal Market the EU could pass legislation by Qualified Majority in the council of ministers, with a proper role for the EU parliament. Hundreds of supranational legal acts were generated which created regulations on an EU-wide scale. In other words, the EU passed to “deep integration”, implying not only changes



at the borders (as in the case of “shallow integration”). Detailed “deep” integration requires common legislative bodies and monitoring and supranational adjudicative institutions such as the European Court of Justice. No other regional-integration scheme has gone so far in this direction as the EU.

The construction of the Internal Market has had various consequences in our context. Firstly, the EU-market started to exert a strong gravitational pull on its neighbours. Many exporters in neighbouring countries focused their attention on this big market. This often required adaptation to the EU rules. And once the rule-making institutions for deep integration were in place, the process could be extended beyond the EU borders. The others “just” have to adapt.

The third factor increasing the EU’s weight was the re-modelling of the Common Agricultural Policy (CAP). With the McSharry Reform of 1992 the guaranteed internal agricultural prices were stepwise lowered and external protection and export subsidies correspondingly reduced. The farmers were compensated by direct payments. This made it much easier for the EU to become open to agricultural imports. Thereby it gained more room for manoeuvre in trade matters.

And fourthly, the EU gradually evolved into a much more coherent foreign-policy actor. With the Maastricht Treaty of 1992 the Common Foreign and Security Policy became part of the EU policies, albeit only on an intergovernmental basis. In 1999 a military component was added which enabled the EU to conduct peace-keeping missions. The EU has not become a completely unified foreign political actor (as evidenced in 2003 at the invasion of Iraq). But in ever more fields the EU can agree on common policies and common actions.

Finally: Colonial repression and Suez 1956 have become history. As to the Palestine conflict the EU is seen much more as a neutral arbiter than the US. Arab élites have come to wish for a stronger EU role in the region (Hollis 325). Consequently it appears that the EU has overtaken the US as regards to “soft power”.

9. The EU progresses to “deep integration” with her neighbours

During the 1980s France, Italy, Spain and the Commission successfully pushed for giving the Mediterranean a higher priority. As one step, in 1990 these countries got quota-



free access in textiles. By 1994 the EU policies towards the Mediterranean came under one framework called “Euro-Mediterranean Partnership” (EMP) (Gomez 49f).

The EMP developed along two lines. The first one consisted of the conclusion of new Association Agreements with practically all Arab Mediterranean countries (save Libya and Syria). The agreement with Egypt was signed in June 2001 and entered into force in June 2004. The agreements provided for a transition to *mutual* free trade in manufactured goods. Non-sensitive products were to be opened quickly sensitive areas from year 4 to 12 (Holden 50). Tunisia actually completed liberalization by January 2008, two years ahead of schedule. This process of opening towards the EU should be accompanied by liberalization *among* the Arab countries, with a view of creating a proper Mediterranean free-trade area. An important step in this respect was the Agadir Agreement between Egypt, Jordan, Morocco and Tunisia, signed in 2004, where these countries agreed on free trade among themselves. These countries had already agreed upon substantially free trade in the framework of the Greater Arab Free Trade Area (GAFTA). However, the countries of the Agadir Agreement agreed on liberalization based on the terms as agreed with the EU, thereby complementing the treaties with the EU. Crucially, as to rules of origin the Agadir countries adhered to the “Pan-Euro-Mediterranean System of Cumulation”, as finally adopted by the EU Council in October 2005. This allows for the accumulation of value-added through the whole area of European Economic Space and the Mediterranean partner countries. For instance, a Tunisian exporter might sell shirts in Egypt or Italy as “Tunisian”, even when little work on the product had been done in Tunisia itself, but instead in Jordan and/or France. Or Israel. However, by the end of the decade none of the four Arab countries had yet properly implemented these rules of origin (Zank 2010).

The Association Agreements did not yet cover trade in agriculture or services, nor did they aim at a harmonization of regulation. These fields should be addressed later in the process. But the agreements were not just on trade. Promotion of rule by law, human rights and democratization were explicit elements of the agreements. The EU has also repeatedly pushed partner countries to adhere to international conventions, e.g. UN conventions on torture, WHO standards or OECD rules on government procurement. Numerous common institutions were established in the context of the Association Agreements, from a high-level Association Council to specialised Association Committees



and working groups. A new financial programme was also installed, MEDA (*mesures d'accompagnement*).

In 2003 the EU launched the European Neighbourhood Policy. The neighbours should get a “Stake in the Internal Market”. This meant the offer to extend most of the Internal Market and other EU programmes to them. The financial means were again upgraded (MEDA II). A neighbouring country and the EU should together elaborate an Action Plan which listed the main fields of cooperation and EU assistance. With Jordan, Morocco and Tunisia such Action Plans were finalized in 2004. Egypt and Lebanon followed in 2005.

In this context the EU developed a new type of conditionality: Unlike e.g. US aid to Egypt, the EU did not allocate fixed MEDA sums to individual countries. Instead, it is based on a kind of competition among the receiving countries. The best proposals get the money (Holden 61). It is, of course, the EU to decide which projects are the best.

There has also been a *multilateral* process going on since 1995, inaugurated by the Barcelona Conference, with the EU members and twelve Mediterranean non-members participating, including Israel, Lebanon, the Palestinian Authority and Syria. A common declaration laid out guide lines for a working programme on all levels. In the course of the Barcelona Process several new agreements were negotiated, e.g. on combating pollution. New types of collaboration were established, for instance *FEMISE*, a network of economic institutes. In general, however, the results remained below expectations. This was perhaps already due to the broad multilateral setting. Furthermore, when *Intifada*, the revolt in the Palestine territories, broke out, Arab politicians withdrew from many sessions with Israeli representatives. But also between the EU and Arab countries misgivings emerged. For instance, words like “democracy” or “human rights” for Arab regimes often smacked of interference when used by the EU

In 2008 the Barcelona Process experienced a kind of revival with the “Union for the Mediterranean”. This was initiated by French President Nicolas Sarkozy and his aim was presumably to avert Turkish EU membership, offering instead membership in another club. Other EU leaders “convinced” Sarkozy that such an initiative must be placed within the Barcelona Process. It suffered, however, similar problems, for instance in 2009 when Israel invaded the Gaza Strip. Egypt accepted the first co-presidency (together with France), thus signalling (again) her wish for more cooperation.



All in all, the EU has become an important actor in the Mediterranean. In a process stretching over decades, the Union has developed a dense network of binding contractual relations and institutionalized forms of cooperation and dialogue. In economic terms the EU has become the most important partner for the Arab Mediterranean countries (and Israel). Furthermore, economic integration has proceeded to some “deep integration” and many adaptations – of the neighbours to the EU.

We shall have a closer look what this has meant for of Egypt.

10. Beginning “Deep” Integration” with Egypt

The Association Agreement came into force in June 2004, and an ENP Action Plan was mutually approved in March 2007, for a period of three to five years. Implementation began in June 2007. By the end of 2009 meetings have taken place on all levels. The highest ranking body, the Association Council, held its sixth meeting in April 2010. In addition to the Association Committee, seven of the eight subcommittees and a working group on migration have met; likewise an Economic Dialogue was held. As the EU Commission reported, the overall progress in 2009 “can be summarised as encouraging, with a strong commitment to social, economic and sector reforms, and to a lesser extent to political reform” (European Commission 2010, 2). In 2008 Egypt expressed her wish for deepening relations; an *Ad hoc Group* was formed to explore possibilities for this.

According to the Commission’s latest *ENP Progress Report*, Egypt is an “active partner” for the EU’s Common Foreign and Security Policy (CFSP) (European Commission 2010, 7). Cairo has continued to explore a comprehensive solution to the Middle East Peace Process, in particular through mediation efforts between the Palestinian factions. Egypt is actively engaged in Africa (e.g. Darfur) and in the Africa-EU political dialogue. Cairo also pursues a policy of regional disarmament and non-proliferation of weapons of mass destructions.

In October 2009 an agreement was signed with the EU on the bilateral liberalization of trade in agriculture, processed agricultural products and fish and fishery products. Only a “very limited number” of sensitive products are left subject to some protection (European Commission 2010, 10). The agreement entered into force on 1 June 2010. The dismantling of Egyptian industrial tariffs has proceeded in line with the Association Agreement. However, in 2009 the Egyptian authorities introduced some restrictive measures such as an



export ban on cement or new import duties on white sugar, without respecting the notification rules of the Association Agreement. As to the establishment of a dispute settlement mechanism no progress has been made.

On the other hand, Egypt speeded up the preparations for an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). In December 2009 an EU expert mission assessed the progress made. The Egyptian Accreditation Council became an associate member of the European Cooperation for Accreditation body. Egypt adopted EU standards for toys, vehicles and vehicle parts, low voltage equipment and milk and milk products. A Consumer Protection Agency began operations in 2009, and Egypt signed cooperation agreements with some European laboratories which can provide services to Egyptian companies. Egypt is in the process of establishing a single food safety authority and a unified food law. However, in August 2009 the EU banned the import of Egyptian potatoes because they were brown-rot infested. After new Egyptian guarantees trade could be resumed for the 2009/10 season. In April 2009 Commission experts undertook a control mission to Egypt as to fishery products. Thereafter the Egyptian authorities provided an action plan, in order to address the deficiencies found. In 2009 Egypt also linked up to EU's Rapid Alert System for Food and Feed (European Commission 2010, 11).

Negotiations between the EU and Egypt on liberalization of services and establishment of companies are ongoing. Potentially their impact is vast. By 2008 the Egyptian competition law had been amended and the competences of the Egyptian Competition Authority (ECA) strengthened. The Egyptian authorities will introduce legislation on state aid to companies based on the EU model. As to intellectual property rights only limited progress has been made. At least, Egypt ratified the Madrid Protocol relating to the Madrid Agreement on International Registration of Marks. But in order to fulfil her obligations in the ENP Action Plans Egypt still has to accede to several conventions in this field.

Egypt has endeavoured to improve her statistical system, with assistance from EU's MEDSTAT program. A twinning contract, bringing Egyptian and European institutions in contact was signed in July 2008 (European Commission 2009, 15). In 2009 the statistical offices of Egypt, Israel, Jordan and the Palestinian Authority were working together in order to reduce "asymmetries". Together with the World Bank the EU Commission



undertook an assessment of internal audit and expenditure control of Egyptian public expenditure; there is still considerable need for reform. As to enterprise policy, Egypt actively implements the Euro-Mediterranean Charter for Enterprise, a program endorsed on 4 October 2004 at the Fifth Conference of the Euro-Mediterranean Ministers for Industry, aiming at improving the conditions for smaller companies. Egypt has eased access to financing for small and medium-sized enterprises and expanded the network of Technology and Innovation Centres.

In the field of transport the EU supports a reform of the regulatory framework under a program endowed with 80 million euro. In road transport Egypt has taken steps to introduce regulations for issuing operator licences in line with EU standards. There are ongoing negotiations with the EU on a horizontal agreement in civil aviation. A maritime framework law which will bring Egyptian legislation closer to international and EU standards was sent to the cabinet for approval. However, a new decree demands that all companies in maritime services must have an Egyptian “partner share” of at least 51 percent, and this has created a barrier to the liberalization of services (EU Commission 2010, 15).

In 2008 Egypt and the EU signed a Memorandum of Understanding on a strategic partnership on energy. Egypt intends to become an energy bridge connecting the Mashraq countries, Iraq, Africa and the EU. The Arab Gas Pipeline from Egypt currently reaches Syria and will connect with the EU via Turkey. Egypt also supports Mediterranean electricity and gas connections, and the Mediterranean Solar Plan can one day form the basis for electricity exports to Europe. Egypt has started to export electricity to Lebanon, via Jordan and Syria. Egypt also plans to construct nuclear power stations. The EU and Egypt have started a project aiming at strengthening Egyptian nuclear institutions.

The regulatory framework on telecommunication is in the process of being aligned to the EU. An EU-Egypt Innovation Fund finances investments in new R&D-based products. Egyptian researchers also participate in the seventh European framework program for research (FP7). 464 Egyptian applications were sent, of which 59 were successful. Reform in Higher Education is implemented with reference to relevant aspects of the Bologna Process. EU’s TEMPUS program has been one of the main catalysts for Egyptian reforms in the field of higher education. Students and scholars have benefited from Erasmus Mundus scholarships, including 139 mobility grants.



Cooperation does not seem to work smoothly on all fields. For instance, no progress was reported on border management. “Egypt has declined to enter into dialogue on this issue” (European Commission 2010, 13). Nor has Egypt signed the Ottawa Convention, thus hindering EU support for mines clearances in Sinai and El-Alamein (European Commission 2010, 7). In general, there has been only limited progress on the fields of democracy and human rights. There have been, however, some encouraging signs. For instance, the number and readership of independent newspapers continued to grow in 2009; , non-Muslim citizens do not have to have their religion registered in identification documents anymore; the participation of women in public life has increased; there has been progress in combating Female Genital Mutilation which was prohibited by law in 2008.

All in all, the closer cooperation between the EU and Egypt is of a rather recent date. But the process of “deep integration” has apparently begun in earnest. Galal and Lawrence pointed out that a US-Egyptian Free-Trade Agreement could become a reform anchor in Egypt. It now looks as if Europe has taken on this role.

Measured in economic terms, the EU is Egypt’s largest partner. In 2008/09 the EU received 33.9 percent of Egypt’s exports. In spite of the steep economic contraction in Europe this was a slightly higher share than in the years before. The share of the US dropped to 25.5 percent, down from 31.6 the year before (American Chamber). The Egyptian economy, still in the 1990s caught in a low-growth trap, has become very dynamic, with growth rates around seven percent in the three years before the crisis and still 4.7 percent in 2009 (European Commission 2010, 2)

In 2002 Søren Dosenrode and Anders Stubkjær quoted Arab officials: “Ambitious as it may sound, the Arab world may be revitalized as a potential trading partner and political ally of Europe” (Dosenrode and Stubkjær 145f). It appears that Egypt has indeed moved in this direction. Others, notably Tunisia, have been even more successful (Zank 2010).

11. Comparison and Theoretical Conclusions

When comparing US and EU relations with Egypt, similarities and differences appear. The EU and the US share a similar ambition, namely to push Egypt (and other countries) on the way towards open market economy, rule by law and democracy.



However, there are differences in their capabilities. The US influence in the region is to a high extent based on military power. Only the US can protect a country or restore its independence, as evidenced e.g. in 1991 in the case of Kuwait. Egypt is also dependent on armament deliveries and military cooperation with the US. But the military cooperation and economic aid do not seem to give much leverage to the US to influence internal developments.

In other fields, notably economic cooperation, the US has been much less successful. The failure to conclude a free-trade agreement stands out. In this context, US-internal factors, i.e. anti-globalization moods have been crucial. In economic and other types of practical cooperation the EU has overtaken the US. Egypt has enjoyed free access in manufactured products to the EU for decades, and with the Association Agreement of 2004 a process towards mutual free trade began, including agriculture and presumably services. Moreover, economic integration has entered the sphere of “deep integration”. Egypt has begun to implement EU juridical acts and entered into technical cooperation in many fields. Suppose Egypt wants to continue on this road, and most probably she will do so, reforms on many fields will follow which hardly leave any section of Egyptian society untouched. Taking full advantage of EU’s Internal Market requires, for instance, transparent and rule-based handling of state aid to companies. In general, making Egypt’s market economy efficient and taking full advantage of the cooperation with the EU requires strengthening rule by law. Egypt has taken many steps in this direction already. Getting a “Stake in the EU’s Internal Market” also requires a reform of the education system which brings curricula and demands on the labour market closer into correspondence. The EU is involved in this. And because Egypt is adapting to the Internal Market, it follows also that EU decisions will have an ever growing impact on Egyptian society. Increasing Egyptian endeavours can be expected to influence EU decisions.

We can also link these developments with theories of international relations. In the 1970s the region was characterized by intensive inter-state rivalry, even war. The axioms of “Realism” seemed to be setting the tone. And in this “realist” world hard capacities such as military power, were of prime importance, which in turn can explain why Egypt turned to the United States. But the picture became very different in the new millennium. War between Israel and Egypt can presumably now be excluded. Military means, while not being unimportant, have lost much *relative* importance. Furthermore, due to the processes



of economic opening, Egypt and other countries in the region have entered patterns of mutual dependence, not the least with Europe, but also to some extent with Israel. For this new world “Liberal Interdependence” seems to be a much better theoretical framework. And this implies also that factors of influence which are highlighted in this theoretical school, e.g. economic attractiveness or soft power, have become more important. In this field the EU is much stronger than the US.

Most likely, Egypt will continue on the road to further integration with the EU because it is the interest of the regime whose stability depends on economic growth. In case Egypt turns democratic, the interest in closer relations with the EU will rise even further because democrats in the EU’s neighbourhood view the Union as an anchor for democracy. Matters would, of course, take a different turn in case of an Islamic revolution. But this looks extremely unlikely today.

The current situation is therefore completely different from the 1950s and 1960s when Europe’s influence in the region collapsed. The Arab countries and notably Egypt were by then completely different *internally*. Due to fragile institutions the region was particularly vulnerable to military coups. And once a military dictatorship was established, the power of ideas could become crucial. In the 1950s and 1960s it was still perfectly possible to think that socialism was a promising development strategy. Political legitimacy moreover could in that era be built up in a way impossible today, namely by appeals to nationalist or pan-Arab sentiments, and by lambasting “imperialism” and “Zionism”. This in turn increased the likelihood of conflicts.

However, if the power of ideas was very important when it came to explain why Egypt and other countries started a policy of confiscations, it comes nevertheless as a surprise that the Nile country came to build up a system which came to resemble the Soviet Union, or at least Poland. After all, Nasser and his comrades were not Marxist ideologues. Here the model of the “affinity among the elements of the socialist system” has high explicatory value (see e.g. Kornai, 365-8). As explained above (page 3), once confiscations have reached a certain level, strong structural pressures emerge which press the system towards a fully-fledged socialist system. We can see this also a case of “path dependency” in the light of Historical Institutionalism.

However, Arab socialism and Import-Substitution Industrialization turned out to be dead-end roads. Main-stream economic theory has highlighted for many years why this has



been the case, and systematically so: The destruction of the price mechanism as measure of scarcity and efficiency, distorted calculations for investment decisions, long and cumbersome bureaucratic decision-making procedures, and the like are economically devastating.. It was Kornai who placed particular emphasis on the “soft budget-constraint”: State-owned companies could continue to be loss-makers without being punished by markets or competition. It was therefore no coincidence that “Arab Socialism” failed. This was part of a world-wide pattern. The power of the ideas of the 1950s necessarily came to an end.

Hard economic lessons forced these regimes to start reforms towards open market-economic systems. There was no credible alternative any more. Under the pressure of harsh economic problems and social and political instability (e.g. in the form of radical Islamism) postponing economic reform indefinitely was not an option.

Against market-oriented reforms there has been much resistance, and policies have often been inconsistent. Small wonder because every reform is risky, not least for certain groups which hitherto have been sheltered from competition. And these groups with concentrated interests could at times be particularly influential. In this context we can revert to the theories of collective action, as developed e.g. by Mancur Olsen. In addition we should also take into account ideological anti-globalisation resistance, based e.g. on Muslim values which were perceived to be threatened in such a process. Here Social Constructivism can contribute something.

However, in spite of much resistance and many inconsistencies, after many years most of these countries, Egypt included, ended up becoming rather open economies. By increasing economic integration and division of labour with the world outside they revitalised their economies, and regime stability depends on this. Closer cooperation with the outside world, and this means first and foremost the EU, has become therefore an interest of the regime. The march towards the market economy has been conditioned by structural forces. Efficient market economies demand a whole set of interlinked reforms such as economic opening, a stable monetary system, secure property rights, and the like. That still leaves much room for differences among countries, but these basic functional prerequisites must be in place. We might see this again as a case of Path Dependency: Once the decision for an efficient market economy is taken, a whole set of necessary steps



follows, if the government does not want to see the country stuck in non-performing institutional hybrid settings.

That the EU countries have built up a huge Internal Market and also developed a common external policy can also be explained by structural factors: The logic that economic growth presupposes increased division of labour and interactions with other countries applies to the EU countries as well, even more so because high-developed countries have also a higher level of specialization. Furthermore, countries with a high dependency on their external surroundings have a common interest in making these surrounding stable and calculable. Common experiences in similar settings lead first to similar views and then to common activities towards stabilizing the surroundings of the EU.

Inviting the neighbouring countries to take a “Stake in the Internal Market” was the most effective policy at hand in Europe. And the political will was in place in the EU and in most of the neighbouring countries. However, that the neighbours de facto feel obliged to take over many EU norms can again be seen as a structural prerequisite. Otherwise the advantages of economic exchanges cannot be realized. The EU has pioneered the process of “deep integration”, including reforms “behind the borders.” This has given a first-mover advantage to the EU. Now it is a question of expanding the existing EU norms to the neighbourhood. We can see this process as a geographic spill-over process of European integration, in the light of neo-functional theory.

By comparison with the US, the EU has followed a rather continuous and long-termed policy whereas US policy appears to be much less systematic. This is also grounded in differences in the political systems. EU policy is rather impersonal. When the EU acts externally, a consensus on the principal points has to be created first. And afterwards it is not easy to change it. Furthermore, policy options have often been shaped by the Commission, and this is a bureaucratic body with much expertise and a strong institutionalised memory. It is inconceivable that a comparatively small intellectual group such as the neo-conservatives could capture the EU agenda as it was possible in the US after 9/11. Special interest groups such as the textile lobbies have in Europe much less influence than in the US; they could, for instance, not stop the quota-free access for the Mediterranean countries in 1990.



By contrast in the US, policies towards the Middle East are heavily shaped directly by the White House (Hudson 296). At times that can give to the personal idiosyncrasies of the incumbent a substantial impact. Furthermore, US politicians have to take account of the influence of the Israel lobby. The Senate has proven to be captured by special interests quite often.

Consequently, as Michael C. Hudson wrote, when it comes to Middle East policy an academic observer is “struck by the narrow, uninformed, and ad-hoc nature of some policy outcomes” (Hudson 298).

Is the growing role of the EU detrimental to US interests? Hardly. It is in the US interest if the EU can bring more stability and prosperity to the region. Since the EU’s Internal Market with its “stake-holding” neighbours is not surrounded by protectionist walls, strengthening and enlarging it makes it actually easier for US companies to operate. On the other hand, the EU can not provide hard security. It is therefore in principle in Europe’s interest that the US is present in the Middle East (which does not mean that all US decisions are equally productive). The EU and the US therefore seem to fulfil complementary roles.

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¹ Sachs and Warner labelled an economy as "closed" if at least one of the following criteria were fulfilled: 1) Non-tariff barriers covering 40 percent of trade or more 2) Average tariffs of 40 percent or more 3) A black market exchange rate that was depreciated by at least 20 percent in comparison to the official rate (indicating



restrictions at getting foreign currency) 4) A socialist economic system as defined by Kornai 5) At state monopoly on major exports (Sachs and Warner 22). It should be noted that these criteria allow for quite some protectionism and do not demand laissez-faire purism for being “open”.

^{II} For the sake of simplicity I write consistently EU, although the name shifted over time.

^{III} The source quoted just above, Mary Jane Bolle, is an excerpt of this report.