The U.S. Greater Middle East Initiative:
Implications for Persian Gulf Economies and Polities(1)

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Introduction

The Bush Administration has declared an ambitious plan for deeper economic and political engagement with what the Administration calls "The Greater Middle East." The professed objectives are to open markets and export democracy to the Muslim World. The Greater Middle East, according to the Administration, extends as far west as the Atlantic coast of Morocco, as far east as the Karakoram Highway of Northern Pakistan, as far north as the Black Sea coast of Turkey, and as far south as the port of Aden in Yemen.

What is the Greater Middle East Initiative? What are its professed goals and specific components? How is its progress to be evaluated? And what is its likely impact on the economies and polities surrounding the Persian Gulf?

This paper canvasses the various agreements and programs that comprise the Greater Middle East Initiative. These include the U.S.-Middle East Partnership Initiative and the bi-lateral trade agreements between the United States and governments in the region that are the platform for the Administration's Middle East Free Trade Area. The paper assesses the economic consequences of the changing U.S. economic, financial, and regulatory presence in the Persian Gulf and discusses the likely impact on Persian Gulf economics and politics.

The Greater Middle East Initiative is an ambiguously defined set of economic and political initiatives and policies. At the core of the Initiative are a series of bi-lateral free trade agreements and a program for the development of "civil society" in the Muslim World referred to as the Middle East Partnership Initiative. Informal parts of the Initiative include substantially increased funding for the Middle East through such organizations as the National Endowment for Democracy. The National Endowment for Democracy, for example, received an additional $US 40 million in 2004 targeted for the Middle East. The Millennial Challenge Account, which provides funds to governments that meet a series of political, economic, and human development criteria, a global initiative, does buttress the political goals of the Greater Middle East Initiative.

The Administration defines the Greater Middle East geographically to include all countries covered by the U.S. Department of State's Bureau for Near Eastern Affairs, with the exception of Israel and the additions of Afghanistan, Pakistan, and Turkey. Some official discussions of the Initiative include Muslim majority countries that are not contiguous to the region, including Bangladesh, Indonesia, and Malaysia.

Grand Political Visions: Exporting Democracy:
The Middle East Partnership Initiative

The U.S.-Middle East Partnership Initiative (MEPI) is an important component of the U.S. Greater Middle East Initiative. Former U.S. Secretary of State Colin Powell introduced the Middle East Partnership Initiative at a talk to the Heritage Foundation in December 2002. President George Bush provided the ideological justification for MEPI in a speech to the National Endowment for Democracy in November 2003.

The Middle East Partnership Initiative involves four "pillars," related to economics, education, politics, and women. Within the economic pillar, for example, the Middle East Entrepreneurship Training program brings businesspeople from the Middle East to the United States for management training. The Office of MEPI is located in the Bureau of Near Eastern Affairs within the U.S. Department of State. The professed aim of MEPI is to build a robust civil society in the Middle East. The Administration has committed more than $290 million to the MEPI. The considerable financial resources do not, however, fully convey the rhetorical significance of MEPI. The U.S.-Middle East Partnership Initiative provides the ideological cover of democracy building to the Administration's grand ambitions for changing commercial law throughout the Great Middle East.

MEPI has funded educational, economic, and political programs in Algeria, Egypt, Jordan, Kuwait, Lebanon, Oman, Morocco, Saudi Arabia, Tunisia, the United Arab Emirates, Qatar, and Yemen. No funding has been provided to the Israeli-occupied Palestinian territories. Political funding has gone to such projects as establishing Campaign Schools for aspiring politicians throughout the Middle East and North Africa and creating new media outlets in Jordan. Funding in the Women's Pillar has gone to literacy programs in Yemen and to bringing women from across the Middle East and North Africa involved in politics to the United States to witness elections in progress.(2)

Opening Markets: The Middle East Free Trade Area

The Administration seeks to establish of a Middle East Free Trade Area (MEFTA) to encompass the Middle East, North Africa, and Southwest Asia by 2013. The plan parallels the ambitious plan that the Administration has for the Americas. At the Summit of the Americas held in Miami in 1994, the U.S. declared its intention to establish a Free Trade Agreement of the Americas (FTAA). Intense public criticism of the anti-social protection and pro-corporate FTAA prevented it from being enacted on schedule, by 2005.

The United States seems to be well on its ways to meeting its grand goal of establishing a Greater Middle East Free Trade Area. Israel and Jordan had bilateral free trade agreements with the United States before the Bush Administration took office. Since then, the United States has negotiated free trade agreements with Bahrain and Morocco and is negotiating others with Egypt, Oman, and the United Arab Emirates. The United States has new trade investment and financial arrangements with Afghanistan, Algeria, Egypt, Kuwait, Pakistan, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen. Trade investment and financial arrangements (TIFAs) are typically precursors to free trade agreements.

The trade agreements that have been negotiated with Israel, Jordan, Bahrain, and Morocco and that are being negotiated with Egypt, Oman, and the United Arab Emirates go well beyond trade. Currency convertibility, investment, and taxation regulations; patent and intellectual property rights rules; product and process standards; health and safety regulations are only a few of the many areas covered in trade agreements. A typical U.S. bi-lateral trade agreement includes more than one dozen chapters, most of which serve to extend U.S. commercial law to foreign economies. The U.S.-Morocco Free Trade Agreement, for example, includes chapters on market access to the Moroccan market for U.S. consumer and industrial goods; agriculture; services; electronic commerce; protections for foreign investors; trademarks; copyrights; patents and trade secrets; intellectual property rights enforcement; government procurement; customs procedures; the environment; workers' rights; and enforcement procedures.

The authority under which the U.S. trade representative has been negotiating and concluding bi-lateral trade agreements was temporarily assigned to the U.S. President by the U.S. Congress in August 2002. Under the U.S. Constitution, authority for establishing foreign economic relations, like the authority to declare war, belongs to the U.S. Congress. The concession by elected legislators of their Constitutionally mandated authority to the executive is a dangerous incursion into fundamental principles of U.S. democracy.

Persistent Economic Realities

The Content in U.S.-Gulf Cooperation Council Country Trade: Arms and Oil

Despite the rhetoric on democratization, economic opportunity, and women's empowerment, considerations related to the advance of democracy and human rights do not drive U.S. relations with the governments of the Middle East. Oil and arms do. Economic relations, especially with Saudi Arabia, Kuwait, and Qatar, are largely based on U.S. military exports and crude oil, petroleum, and petroleum products imports and two-way foreign direct investment. (See table 1.)

The United States relies upon fossil fuels for approximately 85% of its energy needs. Approximately 40% of those fuels are imported. These figures are not expected to decline in the next twenty years.(3) The large value of U.S. military sales — private direct commercial sales (DCS) and government foreign military sales (FM) — indicate not only the strength of the relationship between the U.S. and a foreign government but also the character of that relationship. While the other four members of the Gulf Cooperation Council have substantially less trade with the United States, the content is largely similar to that of trade between Saudi Arabia and Kuwait with the United States.

Non-military trade between the United States and the economies of the Persian Gulf is predominantly in petroleum, automobiles, and civil engineering and telecommunications equipment. Growth in U.S. agricultural and telecommunications exports is expected. The relationship between the Persian Gulf economies and the United States, however, is expected to remain focused on oil in exchange for weapons, engineering, and automobiles.

Oil platforms employ few people relative to the value they contribute to the economy, preventing the development of educated working classes that have almost always been the driving force for representative government. Manufacturing, which allows for the development of a vibrant and politically assertive middle-class, is not being encouraged by the new trade agreements.

Table 1:

Largest Components and Totals of U.S.- Gulf Cooperation Council Non-Military Trade by value (in US$ millions) from November 2003 to November 2004

Saudi Arabia to U.S.			U.S. to Saudi Arabia
petroleum & petro. products	19,714	13	petroleum & petro. products
motorized cars, vehicles, & parts	0	1,017	motorized cars, vehicles, & parts
total	20,529	4,671	total
Kuwait to U.S.			U.S. to Kuwait
petroleum & petro. products	2,973	2	petroleum & petro. products
motorized cars, vehicles, & parts	0	449	motorized cars, vehicles, & parts
telecommunications equipment	0	57	telecommunications equipment
total	3,196	1,356	total
UAE to U.S.			U.S. to UAE
petroleum & petro. products	201	33	petroleum & petro. products
organic chemicals	124	7	organic chemicals
motorized cars, vehicles, & parts	1	417	motorized cars, vehicles, & parts
civil engineering equipment	1	277	civil engineering equipment
total	1,109	3,604	total
Qatar to U.S.			U.S. to Qatar
natural gas	88	0	natural gas
fertilizer	82	0	fertilizer
motorized cars, vehicles, & parts	0	56	motorized cars, vehicles, & parts
civil engineering equipment	0	49	civil engineering equipment
total	339	398	total
Oman to U.S.			U.S. to Oman
petroleum & petro. products	162	0	petroleum & petro. products
motorized cars, vehicles, & parts	0	47	motorized cars, vehicles, & parts
civil engineering equipment	0	36	civil engineering equipment
total	433	301	total
Bahrain to U.S.			U.S. to Bahrain
women's garments	104	0	women's garments
petroleum & petro. products	78	4	petroleum & petro. products
motorized cars, vehicles, & parts	0	37	motorized cars, vehicles, & parts
civilian aircraft	0	26	civilian aircraft
total	401	271	total

All figures are rounded to the nearest US$ million. All figures are drawn from the U.S. Census Bureau's *Foreign Trade Statistics*. U.S. exports are calculated on a FIS basis. U.S. imports are calculated on a CIF basis. Petroleum products includes SITCs 333, 334, and 335. Motorized cars, vehicles, and parts include SITCs 781, 782, and 784.

The Method of Trade Opening: Aggressive Unilateralism

As troubling as the content of the trade between the Gulf Cooperation Council economies and the United States is the way that the Administration is constructing its envisioned Greater Middle East Free Trade Area. The Administration's promotion of a Greater Middle East Free Trade Area belies the Administration's use of aggressive unilateralism in opening Middle East markets.

Senators Max Baucus (D-MT) and John McCain (R-AZ) introduced legislation in 2003 that would unilaterally extend trade preferences to the region. The Administration is opposed to the legislation, the so-called Silk Road bill, which is now stalled in Congress. The proposed legislation would allow duty free imports of Middle East products into the United States, along the lines of the Caribbean Basin Initiative and the African Growth and Opportunity Act. Each of these programs has enabled beneficiary countries to development their capacity not only to trade with the United States but also to ensure that the benefits of trade are widely shared in society.

Instead of supporting the Middle East Opportunity and Engagement bill, the Administration has argued for and used an approach that United States Trade Representative Robert Zoellick often referred to as "competitive liberalization," under which the Administration singles out and punishes or rewards individual governments according to political criteria. The Administration's treatment of Bahrain, Chile, and Egypt illustrate the use of aggressive unilateralism by the Administration.

Of the six Gulf Cooperation Council countries, U.S. trade with Bahrain is the smallest. The U.S.-Bahrain Free Trade Agreement, signed in September 2004, took only 4 months – from start to finish – to negotiate. It is widely understood that Bahrain was chosen as the first U.S. free trade partner among the Gulf Cooperation Council countries to reward Bahrain for its support to the U.S. military. Bahrain is the base for the U.S. Navy's Fifth Fleet.

Singapore was the first country to be identified by the Administration as a prospective free trade agreement partner. Negotiations with Chile followed. However, when Chile refused to support the U.S. invasion and occupation of Iraq, the Administration punished Chile by postponing scheduled negotiations and the approval of the free trade agreement. Having its negotiations and approval accelerated rewarded Singapore, which supported the Administration's policy toward Iraq.

Egypt has also been punished for policies that displeased the Administration. There was strong momentum for a Free Trade Agreement with Egypt until spring 2003 when Egypt withdrew it support of a complaint by the United States before the World Trade Organization. The U.S. complaint alleged that the European Union's ban on genetically modified foods was discriminatory. When Egypt withdrew its support, the Administration chose to punish Egypt by putting its free trade negotiations on hold and publicly announcing that Egypt was very far from meeting basic requirements for further negotiations. Such announcements can have serious consequences for foreign investor confidence.

The Administration's use of aggressive unilateralism is not directed only against those who challenge its foreign military and economic policies. Allies of long-standing have also been at the receiving end. At the same time that the Administration is forging free trade agreements with governments across North Africa, the Middle East, and Southwest Asia, the "special relationship" that once persuaded the government of Saudi Arabia to discount oil sales to the United States is unraveling.

The two major causes of the unraveling of the U.S.–Saudi Arabian special relationship are the foreign policy of the United States and the economic growth and rising energy needs of China, fed by the massive U.S. trade deficit with China. By meeting U.S. rather than East Asian demands for oil in the 1980s and 1990s, Saudi Arabia was loosing about US$ 0.30 per barrel of oil. Saudi Arabia made that choice because the security of the close political relationship between Washington and Riyadh made it worthwhile. The Saudi government opposed the U.S invasion of Iraq. As the Administration assembled forces for an invasion in 2002, the Saudi government re-assessed the strength of the relationship and found it wanting. Accordingly, oil sales to the United States in late 2002 plummeted while sales to East Asia increased dramatically. In 2004, Saudi Arabia oil imports by China increased by 40% over 2003, making Saudi Arabia China's largest supplier of oil. Saudi investments in and business partnerships with the United States have also declined.(4)

The U.S.-Bahrain Free Trade Agreement has placed additional pressure on the U.S.-Saudi "special relationship." Gulf Cooperation Council governments form a customs union in which tariffs on goods from outside the GCC are set at a uniform 5% and goods inside the GCC may travel between countries without additional tariffs. The Gulf Cooperation Council's Supreme Council agreed in 2001 that

> no member state may rant to a non-member state any preferential treatment exceeding that granted herein to member states, nor conclude any agreement that violates provisions of this agreement.(5)

The U.S.-Bahrain Free Trade Agreement provides U.S. and Bahraini companies with immediate tariff-free trade terms in all goods except U.S. textiles and some U.S. agricultural products. This is in a direct violation of the Gulf Cooperation Council Agreement. In January 2005, Saudi Arabia threatened to levy tariffs against "foreign goods imported through Gulf countries,"(6)

Implications the Persian Gulf

What are the implications of the U.S. Greater Middle East Initiative for the economics and polities of countries bordering the Persian Gulf? It is helpful here to distinguish between the rhetorical purposes of public announcements and the actual impact of the trade agreements that are at the center of the Initiative.

Rhetorical Defensive

The Greater Middle East Initiative is designed for United States consumption rather than for the results it professes to seek. Proper evaluation of the Initiative must recognize that the democracy, civil society, and women's empowerment programs that make up the Initiative are designed to capture the support of the American public and Washington D.C. insiders from both major political parties and to distract the American public and the political classes from focusing on the core of the Administration's Great Middle East Initiative: a free trade area that would protect corporations from democratically enacted national laws. Public pronouncements about the Initiative are not intended to explain candidly the Administration's plans for the region.

The Initiative has not been prepared with the attention to detail nor discussed in such a way with potential partners that would give it a reasonable reception in the region. The talk at which the President is said to have launched the initiative is a collection of generalizations about the importance of bringing democracy and civil society to the Arab world. No matter how well-intentioned many of the officials and professionals who are working to develop civil society in the Muslim World, the Initiative gives ideological cover to an agenda that is merely a collection of free trade agreements with friends of the United States.

That the Initiative is design largely for domestic consumption is demonstrated by the way it was presented to potential Middle East partners. The Initiative was leaked to the international press not discussed with leaders in the Middle East, virtually dooming it from its inception. Jordan's Foreign Minister, Marwan Muashar, on hearing of the initiative, publicly wishes that the Initiative would "never see the light of day." Arab League Secretary-General Amr Musa declared it "illogical to speak of an initiative which requires the cooperation of the Arab states without consulting those very states on the nature and details of such ideas."(7) Prince Saud al-Faisal, Foreign Minister of Saudi Arabia, asserted that the Initiative "include{s} clear accusations against the Arab people and their governments that they are ignorant of their own affairs."(8) In response to the criticism by imputed Middle East partners and G-8 allies alike, the United States quietly changed the name of the Greater Middle East Initiative into the Partnership for Progress and a Common Future, now also known as the Broader Middle East and North African Initiative."

It is revealing that the Administration and Congressional supporters sell trade agreements to the American public as instruments of national security rather than as vehicles for greater economic opportunity, even as the Administration now sells the invasion of Iraq no longer as a national security necessity but as a democracy-building mission. When President Bush signed the U.S.-Morocco Free Trade Agreement into law, Chairman of the U.S. House of Representatives' Ways and Means Committee, Bill Thomas, declared that the Agreement was in keeping with the 9/11 Commission's recommendation that the U.S. promote economic development in the region as a national security priority. Using similar logic, Robert Zoellick declared that free trade agreements are tools in fighting terrorism. There is deep concern among the American public about the economic and social costs of trade agreements. There are few, however, who oppose the goal of helping to improve economic opportunities abroad so as to reduce threats of terrorism.

As a rhetorical instrument, the Administration's Greater Middle East Initiative seems to be a success. Just as the Administration changed its public justification for the invasion of Iraq from a national security necessity to an initiative to build democracy, the Administration has changed its justification for a mess of bi-lateral trade agreements from an economic opportunity to a national security priority. The Democratic Party has failed to highlight and to challenge the

Administration's shifting rational for military and trade policy. Accordingly, the Republic Party has controlled the agenda for both for military and trade policy.

As a force for democracy in the region, the Initiative is inherently self-limiting – for two major reasons. First, the Initiative fails to take seriously U.S. support of authoritarian and dictatorial governments in the region. The military equipment that the U.S. government sells to the governments of the region do not promote peace. Rather they are themselves sources of violence. Second, the Initiative takes insufficient account of the dire educational and employment needs of the region. In many countries of the Greater Middle East, unemployment, by the most conservative estimates, is greater than 20%.

Regulatory Offensive

While the Greater Middle East Initiative must be understood in the context of U.S. domestic politics and, thereby, as more rhetoric than substance, the trade agreements that are being feverishly negotiated with governments of the Middle East, North Africa, and Southwest Asia are having a substantial impact on the regulatory environment in the region. It is the regulatory impact that will have the widest ranging consequences for the region.

The bi-lateral trade agreements that the Administration is negotiating in the Greater Middle East weaken the ability of governments to make laws in the public interest. For example, the U.S.-Morocco Free Trade Agreement requires the government of each country to provide patent protection on animals and plants. National legislation seeking to limit the patenting of life forms is prohibited.

Similarly, rules regulating government procurement designed to assist local business and to protect the environment are also prohibited by the U.S.-Morocco Free Trade Agreement. Rules requiring governments to purchase from nationals or to purchase recycled products, for example, are prohibited by the U.S.-Morocco Free Trade Agreement when investors from either country use government procurements of the other country.

Further, much of the language of the Free Trade Agreements is extraordinarily vague. Rules against government expropriation refer to the "character of government action" as a determining factor in whether government actions constitute expropriation, an extraordinary imprecise definition for legal action. Further, the expropriation rules do not define property rights and do not adopt the

United States Supreme Court standard that "a government action must interfere permanently with a property in its entirety." The rules do not specify that government actions to protect the environment, public health, or public welfare are not considered acts of expropriation. Instead, the rules allow such government actions in "rare instances." (9)

Moreover, the bi-lateral trade agreements that the Administration is negotiating in the Greater Middle East allow investors to side-step national law. The U.S.-Morocco Free Trade Agreement, for example, allows individual investors to by-pass national courts, which apply national law, and to take grievances to international dispute mechanisms.(10)

As the Administration piles up bi-lateral free trade agreements, it limits substantially the ability of governments in the Greater Middle East and in the United States to legislate in the public interest. These prohibitions on national legislation undermine representative government in the region. Thus, the core of the Greater Middle East Initiate, a collection of hastily negotiated bi-lateral trade agreements, undermines the professed goals of the Initiative, to encourage representative government, the rule of law, and civil society in the Middle East.

Conclusion

The two major components of the Greater Middle East Initiative are incompatible. The economic component — a series of hastily negotiated bi-lateral free trade agreements intended to culminate in a Greater Middle East Free Trade Area — undermines the political component — the civil society building projects intended to promote democratic governance in the region. Nowhere is this clearer than in the fact that the bi-lateral agreements shelter foreign investors from domestic law. Foreign investors may take complaints directly to un-elected and un-representative dispute panels.

The only antidote for the incursion of trade rules into laws that have been enacted by democratically elected representatives of the public to serve the public interest is to re-assert popular sovereignty. Unelected dispute resolution mechanisms — whether at the World Trade Organization or within U.S. bi-lateral trade agreements — cannot be expected to achieve democratic outcomes.

NOTES

(1) This paper was prepared for the March 1-2, 2005 Institute of Politics and International Studies' 15th International Conference on the Persian Gulf. All data and information were taken from publicly available sources as noted below.
(2) Project details and funding levels are available on the U.S. Department of State web site.
(3) Frank Verrastro, quoted in "Securing U.S. Energy in a changing World," *Middle East Policy*, II: 4, (Winter 2004), 3.
(4) James Placke quoted in "Securing U.S. Energy in a changing World," *Middle East Policy*, 11: 4, (Winter 2004), 8.
(5) quoted by N. Janardhan and Emilie Rutledge, "US-Bahrain Trade Deal Exposes GCC Chinks" *The Daily Star*, (November 28, 2004).
(6) Reuters, "Saudis Threaten Action Over US-Bahrain FTA Deal" (January 4, 2005), quoting Saudi Finance Minister Ibrahim Al Assaf.
(7) Each official was quoted in "The Greater Middle East Initiative," *Al Jazeera*, May 20, 2004.
(8) quoted by Charles Recknagel, "Washington's 'Greater Middle East Initiative' Stumbles Amid Charges It Imposes Change," Radio Free Europe/Radio Liberty, March 23, 2004.
(9) See Daniel Magraw and Rhoda Karpatkin, "Separate Comments on the U.S.-Morocco Free Trade Agreement," Center for International Environmental Law, April 6, 2004.
(10) The U.S.-Australia Free Trade Agreement, negotiated at the same time as the US.-Morocco Free Trade Agreement, requires individual investors to seek redress in national courts before appealing to international dispute mechanisms.

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