

# Why the European Union needs a 'broader Middle East' policy



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European foreign policy in the Middle East and North Africa (MENA) is a highly fragmented construction. Since the mid-1990s the EU's policies with Maghreb and Mashreq countries have been pursued under the rubric of the Euro-Mediterranean Partnership (EMP), the European Neighbourhood Policy (ENP) and now the Union for the Mediterranean (UfM). This plethora of highly institutionalised initiatives has been developed with negligible linkage to policy in the rest of the Middle East. Relations with the Gulf Cooperation Council (GCC) remain low key and strikingly disconnected from the EMP. Contrary to its rhetorical emphasis on supporting regional integration around the world, the EU has failed to build its strategy towards Iran and Iraq into a regional security framework. Even more reproachable, given its credibility and influence in the economic sphere, has been the EU's inability to foster regional economic integration between the Mediterranean and the Gulf.

Many member states have for long held up the Mediterranean's separation from other dimensions of Middle Eastern policy as a positive distinction of European foreign policy. This overarching policy design certainly seems highly distinctive to the United States, other powers and international institutions who structure their efforts in terms of a Middle East policy rather than separate Mediterranean and Gulf policies. Many European diplomats still argue that organising policy around a Mediterranean logic is a welcome advance on the historical legacy of colonialism.

However, important trends now render the divide between Europe's Mediterranean and Gulf policies increasingly incongruous. We identify here two factors that are of particular importance. First, Gulf states are increasingly active in and interdependent with Mediterranean (Maghreb and Mashreq) states. Second, the Obama administration is making efforts to re-engage more positively with the Arab world in a way that links together challenges in different parts of the Middle East. It makes little sense for the EU to work against the grain of these trends.

In response to these changes, the EU should work

towards a single Middle East policy. Splitting up North Africa and the rest of the Middle East for the EU's bureaucratic convenience belies the political logic of the region. The continued resistance of many member states to such a step is a costly mistake. It privileges narrow-minded short-term interest to the detriment of strategic foresight. We suggest six policy questions in relation to which Europe, southern Mediterranean states and Gulf countries can more productively work together under a broader Middle East regional framework.

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## The Gulf in the Mediterranean

Gulf states are playing an increasingly influential role in the Mediterranean. This trend has been most recently illustrated by the repercussions of the Dubai debt restructuring announcement on the Egyptian stock exchange.<sup>1</sup> European Middle Eastern policy must begin to react to the deeper linkages taking shape between the Gulf and the Mediterranean in a range of areas: economics, politics, social and communications exchanges, remittances and development assistance.

The long decline and traumatic implosion of Iraq, the isolation of Egypt following its recognition of Israel, and suspicions over Syria's relations with Iran and Hezbollah, combined with the poor economic performance of all three countries, have resulted in the rise of Saudi Arabia as the most influential country in the Arab world. Saudi leadership has yet to prove effective – the country has been late to get involved in Iraq, thwarted in its attempts to create a unity government in Palestine, caught flat-footed in its response to an escalating terrorist threat from Yemen and obliged to watch others take the initiative in Lebanon. However, its rising power cannot be ignored. Saudi Arabia has spent millions supporting Lebanon's

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<sup>1</sup> Andrew England, 'First signs of contagion as Egyptian stocks take a battering', *The Financial Times*, 1 December 2009.

pro-western Sunni political bloc in its struggle with Hezbollah, is critical to the future stability of Yemen and is seen as the only regional power capable of bringing Arab countries into line with the goal of a comprehensive Arab-Israeli peace deal.<sup>2</sup>

Qatar has also taken it upon itself to act as mediator in regional affairs. Its increasing diplomatic hyperactivity has been viewed as an annoyance by the US, except perhaps for its involvement in negotiations leading to UN Security Council Resolution 1701, which called for a ceasefire and the movement of Hezbollah's militia away from the border with Israel. Qatar is seen by the US to be unhelpful in terms of the Arab-Israeli conflict and the challenge of Iranian ambitions, and is generally regarded as punching above its weight. Saudi Arabia has also viewed Qatar's mediation efforts, most particularly in Lebanon and Yemen, with a strong degree of scepticism. Ultimately, however, Qatar's ties with Iran, Hamas, Hezbollah and Zaydi Shia rebels in Yemen, as well as its long-standing ties with Israel, give it unique leverage and position in the region. The highly disparate approaches of Qatar and Saudi Arabia to regional diplomacy, combined with the pragmatism of the other GCC member states' relations with Iran, have severely hampered prospects for the emergence of a common Gulf political strategy for the region.

Economically, MENA trade and investment figures confirm a glaring, and even widening, gap between wealth concentrated in the GCC and the struggles of the Maghreb and Mashreq. The GCC's population is a mere 42.5 million out of a total 345 million for the region, yet it dominates the region's foreign exports earnings. In 2007 \$477 billion of the MENA region's total exports of \$654 billion were from the GCC countries.<sup>3</sup> The relative peace enjoyed within the Gulf, the decoupling of political disputes from the maintenance of pragmatic economic relations,

improved management of energy revenues leading to a degree of economic diversification, and the emergence of the region's only truly successful economic union, the GCC, has resulted in the region rapidly out-performing other countries in the MENA. In recent years Saudi Arabia has significantly increased its share of new intra-Arab investments to over 50 per cent.<sup>4</sup>

GCC investments in the region have grown considerably, due to a period of high energy revenues and increased investor confidence following infrastructure and internal market reforms in many Mashreq and Maghreb countries. From 2003 to 2008 GCC countries' investment in the rest of the MENA amounted to over \$110 billion.<sup>5</sup> The rapid increase of trade with the rest of the MENA, coupled with rising intra-GCC trade, means that the EU's share of overall investment by GCC countries is declining. Such a trend is corroborated by the Institute of International Finance (IIF), which has reported a 10-15 per cent rise in FDI holdings from the GCC in other MENA countries.<sup>6</sup> The type of GCC investment has also shifted: whereas in the 1970s and the 1980s GCC investments in the MENA were mainly in hydrocarbons and real estate, today they include financial services and manufacturing – these two sectors together add up to the 70 per cent of GCC investments in Egypt for 2007-2008, for example. The UAE is easily the most prolific Gulf investor in the Mashreq and the Maghreb, holding over 52 per cent of new investments from 2003 to late 2009, a significant portion of which are Dubai-held assets.<sup>7</sup>

The GCC also has a rapidly increasing influence over the development of communications in the region, not least with regard to the proliferation of news and entertainment channels. Arabsat has more than 164 million viewers, carrying such channels as al-Jazeera,

<sup>2</sup> Margaret Coker, 'Saudi Arabia's Renewed Political Influence Counters Tehran', *The Wall Street Journal*, 12 June 2009.

<sup>3</sup> World Bank, '2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness', pp. 104-114.

<sup>4</sup> The Arab Investment and Export Credit Guarantee Corporation, 'Investment Climate in the Arab countries', 2007, p. 2.

<sup>5</sup> Samba Financial Group, 'Tracking GCC Foreign Investments: How the Strategies are Changing with Markets in Turmoil', December 2008, p. 12.

<sup>6</sup> Ibid, p. 4.

<sup>7</sup> ANIMA Investment Network, 'Mapping Investment in the Mediterranean', 2 October 2009, <http://www.animaweb.org/en/index.php>

which has a major influence on pan-Arab opinion. An important recent measure led by the GCC states was the establishment of an Arab Network of Regulators (ARNET), which has moved to harmonise regulatory practices including National Information and Communication Technology (ICT).<sup>8</sup>

The value of Gulf investments over those from Europe can be measured in sheer scale. An average Gulf investment in the MENA is \$268 million compared to \$70 million from Europe.<sup>9</sup> Gulf investors have become a vital source of job creation in the region. GCC investments now constitute a third of foreign holding in Egypt and almost half in Jordan. (In contrast, GCC investors have avoided Algeria due to the complexity of regulations and the erratic behaviour of the government in Algiers.<sup>10</sup>) Despite an ambiguous political relationship with the Iraqi government, the UAE and Kuwait have recognised the enormous economic potential of Iraq and have been willing to put aside distaste for some of that country's ruling factions to invest heavily – the UAE topped the list of foreign investors for the first nine months of 2009 with holdings of \$37 billion, while Kuwait spent \$6.8 billion.<sup>11</sup>

The long period of economic decline in the 1980s and 1990s after the misspent boom of the 1970s, during which time the MENA share of global trade fell from 8 per cent to 2.5 per cent, served as a sharp lesson for the region.<sup>12</sup> Despite the failure to negotiate a comprehensive FTA for the MENA, in 2007 intraregional trade constituted 11.1 per cent of total foreign trade. This is still a modest figure, but a significant increase from the stagnant levels of the mid-1990s. In the non-energy sector, intraregional

trade now accounts for just under 25 per cent of all exports.<sup>13</sup>

Many problems persist. The negotiation and implementation of a raft of trade agreements aimed at integrating the economies of the MENA has been notoriously slow and ineffectual. Implementation of the Greater Arab Free Trade Area (GAFTA), negotiated in 1997, has varied considerably from country to country. The World Bank estimates that the total gain from GAFTA to the MENA economy has so far amounted to a modest 0.1 per cent boost to regional income, which compares very unfavourably with the benefits of bilateral trade agreements with the EU.<sup>14</sup>

In the same way, the lack of integration of the MENA with the global economy represents a missed opportunity for economic growth – the World Bank has calculated that if the MENA had maintained its 1985 share of world exports (which was already relatively low), it would have received some \$2 trillion in extra export revenues during the period 1986-2003. By extension, if a comprehensive MENA FTA existed during this period it would have boosted trade by a further 147 per cent.<sup>15</sup>

However, while such problems exist, the emerging opportunities of deeper intra-MENA integration reflect an incipient trend that the EU should lock onto. The reasons for the non-emergence of a free trade area in the MENA include the frequency of war and severe political disagreement in the region, high transportation and communication costs and, perhaps most importantly, the preponderance of a corrupt and bloated public sector. In some ways, external actors have added to the problems: the lure of trade agreements with the US, the EU and other external powers has shifted the focus away from intra-regional efforts.<sup>16</sup> The GCC has been quick to complain about

<sup>8</sup> World Bank, '2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness'.

<sup>9</sup> Pierre Henry, Samir Abdelkrim and Bénédicte de Saint-Laurent, 'Foreign direct investment into MEDA in 2007: The switch', ANIMA Investment Network, July 2008.

<sup>10</sup> Mahmoud Mohieldin, 'Neighbourly Investments', *Finance and Development*, December 2008.

<sup>11</sup> Dunia Frontier Consultants, 'Private Foreign Investment in Iraq: Update November 2009', Dubai, November 2009.

<sup>12</sup> Allan Dennis, 'The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North African region', Washington DC: World Bank Policy Research Working Paper 3837, February 2006, p. 1.

<sup>13</sup> World Bank, '2008 MENA Economic Developments and Prospects: Regional Integration for Global Competitiveness'.

<sup>14</sup> Allan Dennis, 'The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North African region', World Bank: Policy Research Working Paper 3837, February 2006, p. 12.

<sup>15</sup> *Ibid*, p. 8.

<sup>16</sup> *Ibid*, pp. 7–8.

not being consulted on EU initiatives in the Maghreb and Mashreq, such as the Union for the Mediterranean – although it has itself been generally reactive and unimaginative in its relations with other Arab states.<sup>17</sup>

Although the proportion of expatriate Arab workers in the Gulf has declined considerably since the 1970s and 1980s, remittances to other Arab countries remain a vital source of income, totalling \$31 billion in 2008. The MENA region mainly relies on two regions, the GCC and the EU, as a source of remittances. Egypt and Morocco receive the highest volume of remittances in the MENA region. Remittances to Lebanon, Jordan and Egypt are predominately derived from expatriate labour in the GCC, while those of Morocco and Algeria are mostly from the EU. Iraq and Syria are exceptions to the Mashreq-Maghreb divide, as for these states both the EU and the GCC are an important source of remittances. As a share of GDP for countries in the region, Lebanon ranks highest with 20 per cent and 400,000 expatriates in the Gulf alone, followed by Jordan at 14 per cent, and Morocco at 8 per cent.<sup>18</sup>

There is, finally, a growing trend of MENA dependence on aid from the Gulf region. In 2007 alone Jordan received \$565 million in aid from Saudi Arabia.<sup>19</sup> There is also an increasing awareness within the GCC of the leading role the Gulf must play in preparing the MENA for the challenges the region will face in the future – 80 million new jobs alone will have to be created in the region by 2020 to avoid severe political and social upheaval in an already combustible regional environment.<sup>20</sup> There have been some encouraging signs that the Gulf is increasing its aid to the MENA.

GCC member states' aid is predominantly distributed bilaterally rather than through multilateral channels.

The main multilateral institutions in the region are the Arab Fund for Economic and Social Development (Arab Fund), the OPEC Fund for International Development (OPEC Fund), the Arab Monetary Fund (AMF) and the Islamic Development Bank (IDB). Of these, the IDB distributes the largest amount of multilateral assistance in the region, providing 38 per cent of the total, compared to 30 per cent from the Arab Fund, 17 per cent from the AMF and 10 per cent from the OPEC Fund. The Saudi Fund for Development operates almost exclusively in the form of bilateral loans from a capital base of \$8.2 billion.<sup>21</sup> The Kuwait Fund for Arab Economic Development also provides similar loans to recipient governments. In total the Kuwait Fund has provided 17 per cent of Arab financial aid during the last thirty years, compared to 4 per cent of the Abu Dhabi Fund for Arab Development.<sup>22</sup> The Saudi Fund allocates half its budget to Arab countries, similar to that of the Kuwait Fund but less than the 79 per cent distributed to Arab recipients by the Abu Dhabi Fund. The OPEC Fund, by contrast, concentrates its \$3.5 billion capital on projects in sub-Saharan Africa, contributing only 17 per cent of its annual budget to the MENA region.<sup>23</sup> In 2007 the ruler of Dubai, Sheikh Mohammed bin Rashid al-Maktoum, donated \$10 billion towards supporting the education of young Arabs in the region.

The GCC member state Development Funds that provide loans and other forms of assistance generally do not maintain an in-country team to monitor the use of funds and there are few reporting obligations on the part of the recipient country. Yet there are emerging exceptions. Innovative Gulf development organisations such as 'Dubai Cares' have already gained a reputation for their close monitoring of projects, working with international NGOs such as Care International, and may offer a useful template for other emerging Gulf development agencies. A cash-strapped Europe would do well to seize upon opportunities for the enhanced

<sup>17</sup> Speech by Prince Turki al-Faisal, Eurogolfe conference, Venice, 17 October 2008.

<sup>18</sup> International Monetary Fund, 'World Economic and Financial Surveys, Regional Economic Outlook Middle East and Central Asia', May 2009.

<sup>19</sup> Andrew Mernin, 'Amman on a mission', *Arabian Business*, 18 February 2007.

<sup>20</sup> Lionel Barber, 'Restive young a matter of national security', *The Financial Times*, 2 June 2008.

<sup>21</sup> See the website of the Saudi Fund for Development, [www.sfd.gov.sa](http://www.sfd.gov.sa)

<sup>22</sup> Espen Villanger, 'Arab Foreign Aid: Disbursement patterns, aid policies and motives', CMI Report R 2007: 2, Bergen: Chr. Michelsen Institute, p. 9.

<sup>23</sup> See the website of the OPEC Fund, [www.ofid.org](http://www.ofid.org)

coordination of development funds and programmes with willing Gulf partners.

The initial years of excessive optimism on the part of GCC investors and recipient countries are now likely to give way to a more realistic review of investments following the global financial crisis, beginning with a debt-ridden Dubai. A serious downturn in the GCC may feel like a 'crash landing' for the rest of the MENA. Egypt, with over two million citizens working in the GCC, is heavily dependent upon the \$3 billion of remittances it receives from this labour. Any further increases in food prices in the region could also see an increase in unrest, as already witnessed in Algeria, Egypt, Morocco and Yemen during 2008 and the first half of 2009. Reduced EU and GCC remittances, investment and development assistance will seriously strain governments' ability to maintain political and economic stability in the region. For now much of the Gulf appears to have weathered the economic storm, largely due to resurgent oil prices, but both regions would do well to take note of the vulnerability of parts of the Mashreq and Maghreb to the current global crisis.

## Obama's re-engagement

A second trend highly germane to the design of European Middle Eastern policy is the evolution of US strategy in the region. The administration of Barack Obama has sought to move beyond the more pernicious elements of the Bush era, by engaging in the Middle East with a new tone and a more sophisticated effort to link the region's problems together in a more holistic strategy. The EU needs to seize this as an opportunity and support such efforts rather than undercut them by stubbornly prioritising the institutional structures of its own fragmented Middle Eastern initiatives.

The EU has traditionally been very protective of its policies towards the Mediterranean construct in an attempt to carve out for itself a parcel of influence

within the dominant US policy towards the Middle East. The Mediterranean offered an area where the EU could claim an advantage and where it did not have to follow the US's lead. Obama's efforts at re-starting the US relationship with the Middle East on a more even footing offer an opportunity for the EU to let go of an outdated mind-set which has proved pernicious to its interests. By parcelling out the Mediterranean as a Euro-sphere of influence, the EU has ceded the upper hand (even further) to the US in the Gulf. Obama's new MENA policies restructure the EU-US-MENA triangle, and require a flexible response from the EU.

Institutionally, the US approach to the region reflects a broader approach, with the Bureau for Near Eastern Affairs covering all Maghreb, Mashreq and Gulf countries while singling out Iraq, Palestine, counterterrorism and economic and political reform as particular regional concerns. The EU would be well served to heed this approach, not in an effort to mimic the US, but because it is reflective of geographic and geostrategic reality. Gulf states view the 'Mediterranean' as defined by the EU as a construct less reflective of local realities than of European interests. The EU often overlooks the strong relations between Mediterranean and Gulf states and the bonds of 'Arabism' that play into these relations.

The Obama administration has heralded changes in tone and approach, which make it easier for the EU to respond and engage in a broader Middle East policy. There has been a significant change in style, tone and attitude which reflects greater sensitivity, a US willingness to engage and to listen rather than dictate. The Obama administration's change of approach has also been reflected in the newfound willingness to engage with Iran, Syria and Hezbollah in an effort to seek negotiated solutions to long-standing problems. This is the type of approach long favoured by the EU and a far cry from the axis of evil listings promulgated by Bush.

As Obama stated in an interview with Al Arabiya, the US is 'ready to initiate a new partnership based on mutual respect and mutual interest.' Under-Secretary

of State William Burns further elaborated: 'We have reoriented our approach to diplomacy, focusing on partnership, pragmatism, and principle. This puts a premium on listening to each other, respecting differences and seeking common ground and areas of shared interests.'<sup>24</sup> This attempt to reconcile principle and pragmatism reflects the EU's stated approach to external affairs, although in reality it is often member state narrow interests that take precedence over EU principles. The potential for deeper US-EU cooperation in the region is being squandered by the competition between member states to secure lucrative bilateral defence procurement deals. While the extent of discussions with European governments is unclear, France, Spain and Germany have been talking with individual members of the GCC about security issues.<sup>25</sup>

The failure of the EU and US to coordinate means that both are beginning to lose out to third players, not only in terms of defence procurement but also in terms of trade and energy. Up to now, American and European military suppliers have provided 90 per cent of the weapons sought by the Gulf countries. But now a potential Russian deal has taken shape to sell \$2 billion worth of tanks and helicopters to Saudi Arabia. In 2007 Russian President Vladimir Putin visited Saudi Arabia, the first official visit by a Russian head of state to the kingdom. The Gulf states, especially Saudi Arabia as a member of the G20, have played an important role in supporting international efforts to stem the global financial crisis. While the GCC's weight in economics and international finance has increased, the half century of US predominance in the region in economic terms is over. The centre of gravity is clearly shifting eastwards as the loss of US standing in the region is being filled not by Europe, but rather by emerging Asian states.

The Obama administration believes that the challenges which confront the US in the region - regional conflicts, undiversified economies, unresponsive political systems, proliferation of weapons of mass destruction,

and violent extremist groups - are all connected and thus should be treated simultaneously, on a pan-regional basis. It also recognises the significant role Gulf states could play in regional issues. In June 2009 Secretary of Defense Gates stated that the array of security issues affecting the Gulf are all interrelated, and thus would be best addressed through a comprehensive approach. Special Representative for Afghanistan and Pakistan Richard Holbrooke has stated that the US seeks to 'establish an intellectual strategic base' with the Gulf states to coordinate policy on Afghanistan, Pakistan and Middle East issues. On Iran, the Gulf states have repeatedly asked the US to coordinate its policies with them.

The Obama administration has also declared a willingness to address the Israel-Palestine issue as a vital lynchpin of progress on all other issues in the region. For the first time the US seems to acknowledge the importance of a conflict which other Arab states consider to be the key to regional stability. Although Obama began well by appointing as his Middle East special envoy the respected former senator George Mitchell and calling for a freeze on all Israeli settlement in the Occupied Territories, his resolve has since floundered and disappointment has set in throughout the region. At the beginning of December 2009 the EU agreed on a statement of policy on Palestine and Israel which the US considered to be an unwelcome intrusion. If the EU had not willingly ceded ground to the US in all areas save the Mediterranean, its policies could be coordinated with, rather than being subservient to, the US.

It is no longer expedient for the EU to sit back in the knowledge that the Gulf region is a US sphere of influence. Despite Obama's 'punt on multilateralism' it is unlikely that the US administration will go out of its way to cooperate with the EU in the Gulf. The Obama administration might prefer to work with a more united Europe, but it is up to the EU to live up to the rhetoric and forge a strategy in the Gulf that places it in a credible role as interlocutor for both the US and the GCC. To do so it must incorporate the Gulf and the Mediterranean into a common overarching MENA strategy. A more proactive EU role which takes into

<sup>24</sup> Speech by William J. Burns, Under Secretary of State for Political Affairs, Conference on 'US-Saudi Relations in a World Without Equilibrium', New America Foundation, 27 April 2009.

<sup>25</sup> Institute for National Strategic Studies, *Global Strategic Assessment 2009: America's Security Role in a Changing World*, Washington D.C., September 2009, p. 199.

account the Gulf states' aspirations and builds on its credibility could go a long way towards re-establishing some of Europe's lost influence in the region.

While the Obama administration is seeking to regain credibility, the EU can still play a much-needed role in helping smooth persistent tensions between the US and MENA countries. The US 'has so far failed to come to terms with the GCC states defining their own interests outside of the context of the need for US military protection'.<sup>26</sup> The US still has to realise that the security-for-oil equation is no longer a panacea. The Gulf states feel neglected by the US, especially in terms of dealing with Iran, and annoyed at being asked publicly to provide confidence building measures to Israel. More than anything else the Gulf states want movement on the Palestinian front, for Iran to be contained but not appeased at their expense, and general recognition for their role in the region. On all these concerns, the EU needs to take advantage of the current juncture in US policy, help mediate between Washington and the region, and adapt its own policies to back up the stated desire for a more holistic approach.

## Joining the dots

European Union policy statements and ministerial speeches often refer to the need to link together events and trends in different parts of the MENA region. In 2004, when defining the need for a European Strategic Partnership with the region, the European Council observed that 'Europe and the Mediterranean and Middle East are joined together both by geography and shared history. [...] Our geographical proximity is a longstanding reality underpinning our growing interdependence; our policies in future years must reflect these realities and seek to ensure that they continue to develop positively.'<sup>27</sup>

<sup>26</sup> Christian Koch, 'Respecting Arab interests', *Khaleej Times*, 26 October 2007.

<sup>27</sup> See 'Final Report on an EU Strategic Partnership with the Mediterranean and the Middle East': <http://www.consilium.europa.eu/uedocs/cmsUpload/Partnership%20Mediterranean%20and%20Middle%20East.pdf>

There is much talk of the need for 'triangulation' between Europe, the Arab Mediterranean and the Gulf. But in practice it is remarkable how far European policy is still divided into separate 'policy blocks'. One covers the Mediterranean, another the Gulf, another Iraq, another Iran, and yet another Yemen's fragile state status. The disjuncture between the Mediterranean and Gulf components is especially notable. In 2008, amidst much fanfare, the Union for the Mediterranean was launched. At the same time, the EU's Strategic Partnership with the Broader Middle East was being quietly forgotten. No attempt was made to get these two initiatives 'talking to each other'.

Several member states have been actively hostile towards submerging the EU's Mediterranean policy into a 'broader Middle East' policy. In a contemporary institutional sense, the 'Mediterranean' is a distinctively European construct. Other powers do not have 'Mediterranean' policies separate from their Middle East strategies. But the reasons for blocking better coordination are not good ones. Southern EU member states must move beyond a defensive position of defending 'Mediterranean primacy' merely because they fear losing a privileged EU focus on their immediate neighbours in North Africa. GCC states increasingly seek EU support for initiatives in the Middle East that dovetail with their own activity.

A broader and less fragmented approach to the Middle East would be especially valuable in relation to six policy challenges:

### 1) *Iraq, Iran and regional security*

It is often pointed out that the MENA is the only region lacking an institutionalised security framework. The EU should seek to exercise what influence it has to rectify this situation. It has the potential to play such a role by harnessing its firmly institutionalised 'collective security' arrangements in and with the southern Mediterranean as a template to extend into the broader Middle East. In particular this would entail triangulating EU-Mediterranean-GCC strategies towards Iran and Iraq. GCC states have for some time

pushed the EU to assist more generously and determinedly in Iraq's reconstruction and stabilisation; Gulf states feel that the EU's reluctance to engage fully in Iraq, to take GCC concerns over the direction of that country into account and to include the GCC in their planning for future strategy in that country represents one of the major strategic blockages in relations with Europe.<sup>28</sup> Gulf concerns over events in Iraq and Iran, including fear of increasing Iranian influence, represent one of the region's most pressing strategic pre-occupations – one they feel Europe still has little empathy for.

The EU's aims in this sense must of necessity be modest. But some concrete moves could begin to move security deliberations in this more pan-MENA direction. The Strategic Partnership for the Mediterranean and Middle East agreed in 2004 has been a profound disappointment, having delivered little in tangible terms that helps broaden out Europe's policies across the MENA. New and much more concrete steps should be implemented. For example, the EU could hold joint meetings of its EU-Mediterranean and EU-GCC security dialogues, and use this as an opportunity to provide an incentive to Iraq and Iran to participate in the first steps towards a broader collective security architecture. This would constitute a major upgrading of the current 'Iraq and its Neighbourhood' multilateral initiative. By addressing Gulf concerns in this way, the EU would be more likely to convince GCC regimes to deploy their own vast financial resources to help stabilise Iraq.<sup>29</sup> And it must be the case that a more unified EU-GCC-Mediterranean alliance would have much more chance to influence developments in Iran in a positive direction.

## 2) *Palestine*

Saudi Arabia and Egypt hold key roles in the Middle East peace process. There is some competition between

their respective approaches and initiatives that risks being highly prejudicial. Here the EU might find a role in mediating and ensuring that such competition between Mediterranean and Gulf initiatives does not begin to harm the prospects for peace. The EU should also move to reassure Saudi Arabia that rejection of the Fatah-Hamas Mecca Agreement in 2007 by the Bush administration represented a major missed opportunity to establish a working relationship between the two Palestinian factions and that the EU seeks strengthened cooperation with Riyadh on this crucial issue. The EU also urgently needs to engage other GCC states, not least Qatar, on its vision for a peaceful resolution of the Israel-Palestine conflict, urging caution where necessary and harmonising efforts where possible. A *sine qua non* to an improved EU-GCC political relationship on this issue is for the EU to take a firm position against the continued expansion of Israeli settlements within the Palestinian territories.

## 3) *Trade relations*

The EU has been pursuing two free trade areas, one with the Mediterranean and another with the Gulf. The former is due for completion in 2010, but is well behind schedule. The free trade agreement with the GCC is still not signed, after nineteen years of talks. The EU should re-energise efforts to sign both these outstanding trade deals and demonstrate greater flexibility to this end. But over the medium term, the two respective EU FTAs could and should be joined. It is well known that inter-regional interdependence is at a lower level in the Middle East than in other regions. Joining the separate strands of EU commercial relations together could help correct this dearth. Iraq's putative Partnership and Cooperation Agreement could eventually be linked into this widened area of trade liberalisation. The EU could in this way use the undoubted leverage of its common commercial regulations and norms as a means of enhancing integration within the broader Middle East region – so vital in political and strategic terms for Europe and the region itself.

## 4) *Responses to the financial crisis*

The crisis is arriving in force on North Africa's shores.

<sup>28</sup> Oxford Research Group, King Faisal Center, Saudi Diplomatic Institute, 'From the Swamp to Tierra Firma: The regional role in the stabilization of Iraq', June 2008.

<sup>29</sup> Bertelsmann Stiftung, 'Europe and the Gulf Region – Towards a New Horizon', Discussion paper presented at the 12th Kronberg Talks, Riyadh, May 2009, p. 16.

The EU and the GCC have a joint interest in helping the Mediterranean weather the storm; it will be harder for each to help effectively on their own. Several European governments now work with Saudi Arabia within the G20. They should form an alliance to address together prudential regulatory weaknesses in the southern Mediterranean. The same implies the other way around: the regular dialogue and engagement the EU has built up in the Mediterranean could be extremely helpful in shoring up European efforts to reach further and deeper into the Gulf. Much more cooperation is needed on international currency issues too. The fall-out over the Dubai debt crisis in December 2009 also points to a need for an enhanced economic dialogue. With the GCC inching towards a possible single currency, this is an obvious area of under-explored 'lesson sharing'. It is an area of policy cooperation that needs to be triangulated with a Mediterranean dimension too, to reflect the growing economic and financial interdependence of different parts of the MENA region.

It is here that the EU should enhance cooperation with Gulf development funds, to pool efforts to palliate the effects of the financial crisis and encourage the economic and social reforms necessary to sustained recovery. In an effort to support regional economic integration across MENA, the EU could extend some of the funding projects and measures which have proved most effective in its relations with the Mediterranean countries, namely those relative to the economic basket, coordination of regulatory and legal reform, building standards and capacity, judicial training and reform, bureaucratic reform, technical cooperation and capacity building in cross-border projects, twinning, and administrative secondments.

##### 5) *Energy*

Today it makes little sense for the EU to pursue separate energy dialogues and policies in the Mediterranean and Gulf. Policy-makers do recognise this. The prospective pan-Arab pipeline, which the EU has promised to support, requires a restructuring of European energy policy. Iraq, which holds some of the world's largest oil and gas deposits and has an

egregiously low reserve-to-production ratio, is perhaps the energy partner in the Middle East with which Europe is underperforming most. In January 2008, Commissioners Benita Ferrero-Waldner (External Relations) and Andris Piebalgs (Energy) spoke of a new 'EU-Iraq energy partnership', noting that the EU was 'keen to see Iraq play a full role in the Arab gas pipeline which will supply the EU including through the Nabucco.' These encouraging statements have not been followed up by a regular high-level political and energy dialogue with Iraq, neither has significant assistance been forthcoming to improve Iraq's creaking infrastructure in order to link it for export to European markets.<sup>30</sup> There is also potential for the EU to link GCC energy exports through an enhanced pipeline grid via Iraq to European markets.

The Commission has proposed extending the structure of both the ENP Energy Treaty and the Euro-Med Common Energy House to the GCC states, as well as offering the latter the kind of energy agreement offered to Algeria and Egypt. Cooperation between Europe, the Arab Mediterranean and the Gulf has begun on the issue of solar energy. However, the continued impasse in trade negotiations between the EU and the GCC undercuts the prospects for other aspects of policy cooperation on a broader Middle East basis. The EU has proposed a Memorandum of Understanding on energy cooperation, but the GCC states have rejected the idea, insisting that an FTA is the precursor to deepening other areas of cooperation. A long-standing bi-annual EU-GCC energy experts meeting has been diminished rather than expanded in recent years, with officials of a lower level than was previously the case presiding on both sides. The Commission has sought to deepen energy cooperation at the bilateral level with individual GCC states, but here the potential is limited to technical issues such as reducing flaring and energy-efficient product development. Elaborating a triangulated EU-Mediterranean-GCC energy strategy would offer the potential for unblocking some of these frustrating and persistent shortcomings.

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<sup>30</sup> Edward Burke, 'The Case for a New European Engagement in Iraq', FRIDE Working Paper 74, January 2009.

### 6) Counter-terrorism

Saudi Arabia's well-known influence over Islamist trends across the Mediterranean means that it must be brought into any comprehensive European efforts to deal with radicalisation. GCC cooperation is also critical to stopping the flow of money to *jihadi* groups in places such as Algeria, Palestine and Lebanon. The EU and the GCC also face a mounting terrorist threat emanating from Yemen. The GCC is the largest donor to Yemen and critical to the future stabilisation of that country. Although Saudi Arabia has been reluctant to engage in bi-lateral talks on Europe's concerns in Yemen, other GCC countries have shown a more open approach. Enhanced cooperation on these issues will only arise out of a trust-building dialogue and strategic thinking with the Gulf on major political concerns in the region, an approach that has been evidently lacking to date.

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## Careful steps forward

In sum, the overarching institutional logic should be one of graduated regionalism. This does not mean abandoning existing initiatives, such as the EMP or ENP. But it does mean shifting the balance of diplomatic effort to deepen the linkages between the Mediterranean, the Gulf, Iran and Iraq. A better and clearer balance is required between bilateral, sub-regional and 'broader Middle East' dynamics. These different levels must be made to lock into and reinforce emerging pan-regional dynamics, rather than cutting across them. The ENP offers at least a partial model of 'bilateralism-within-regionalism', which could be useful within the broader Middle East too. The MENA region is changing; US policy in the region is changing too. If the EU fails to move with these changes, instead sticking fast to its own idiosyncratic institutional structures, this head-in-the-sand stubbornness will soon consign it to irrelevance.

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European foreign policy in the Middle East and North Africa (MENA) is highly fragmented. While a plethora of initiatives towards Maghreb and Mashreq countries have been developed these are not contained within an overarching EU strategy for the Middle East. Many member states insist upon the Mediterranean's separation from other dimensions of Middle Eastern policy as a positive distinction of European foreign policy. However, important trends now render the divide between Europe's Mediterranean and Gulf policies increasingly incongruous. This paper commissioned by the Istituto Affari Internazionali concludes that it makes little sense for the EU to work against the grain of trends that see Gulf states increasingly active in and interdependent with Mediterranean states in addition to the US making efforts to re-engage more positively with the Arab world.

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