

Editorial

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The phenomenon of Free Trade Agreements needs to be analyzed not only in terms of economic processes underway, but also in terms of its implications for possibilities to increase the role of international arrangements and agencies in the maintenance of peace and security, in general, and in the prevention of inter-state and intra-state conflicts in particular. Since the end of the Cold War, the problem of security on national, regional, and international levels have acquired new dimensions. In specific, with the collapse of the bipolar system of international relations, the concept of security and conflict prevention through Interdependence started to evolve and attain popularity.

The need to develop further economic cooperation is usually the main incentive for states to widen and enlarge cooperation in other non-economic fields. Therefore, every single step forward in this direction increases the foundations for stable and peaceful relations between the participating states in the long-term perspective. To explain, the deep and broad interdependence of the member states in free trade agreements makes the risk of violent resolution of interstate disputes and contradictions irrational and almost non-existent. In other words, involvement of different countries, people and territories in such integration processes on regional and even sub-regional levels, with proper legal, institutional and financial arrangements, can result in a long-term perspective in the creation of a firm ground for the prevention and peaceful settlement of both inter-state and intra-state disputes and deadly conflicts.

Against this background, the following two articles attempt to test the hypothesis which argues that trade agreements can reduce conflicts between different countries. In his article titled “The Nexus between Regional Trade Agreements and Conflict Prevention in the Middle East: An Arab Point of View” Ahmad Ghoneim starts by providing insights on the historical motivations behind joining trade agreements. Ghoneim compares the Middle East with other parts of the world to identify the similarities and differences. He finally focuses on the trade agreements in the Middle East to test whether they (can) act as a vehicle for preventing conflicts. Khalid Sekkat’s article “Free Trade Agreements and Conflict Prevention in the Middle East and North Africa: A view from Europe”, on the other hand, makes the European integration experience as the starting point of his article. He focuses on inter-sovereign-states wars, by abstracting from intra-states and colonial wars in Europe, concluding that the European experience shows that the MENA countries are capable of remarkable achievements in this regard.

Roberto Aliboni’s article titled “Euro-Mediterranean Partnership: A New 5-Year Work Programme by the Commission” sheds light on the EU Commission’s recent Communication to the Council and the European Parliament that expresses ideas and proposals to reinforce the Euro-Mediterranean Partnership in the next five years. ■

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EURO-MEDITERRANEAN PARTNERSHIP: A NEW 5-YEAR WORK PROGRAMME BY THE COMMISSION

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On April 14, 2005, the EU Commission issued a Communication to the Council and the European Parliament to express its ideas and set out a number of proposals with a view to reinforcing the Euro-Mediterranean Partnership (EMP) in the next five years⁽¹⁾.

The Communication came up at the occasion of the 10th anniversary of the Barcelona Declaration. In 2005, further to the ordinary EMP Ministerial conference scheduled in Luxembourg on 30-31 May, there will be an extraordinary anniversary conference of the Foreign Ministers in Barcelona at the end of November. The anniversary meeting will take stock of the ten-year experience with the EMP and try to upgrade the process by adopting fresh guidelines and policies. The document we comment on in this note is the EU Commission's contribution to such an endeavour.

Among many policies carried out by the EU in a conflict prevention perspective, the EMP belongs to the family of the policies directed at peace-building, which is aimed at shaping the international environment and making it either less conflict prone or more conducive to co-operation. Conflict prevention objectives are strongly mainstreamed in the EMP.

The EU Commission document deals with the three basic dimensions of the Barcelona process (political dialogue and security, economic development, social and human co-operation). It sets out, however, three transversal "critical areas" as the most significant challenges the EU should tackle within the next 5 years in the EMP process: (a) human rights and democracy; (b) sustainable economic growth and reform; (c) education. Let's deal with the political and security dimension in this note. If this dimension is taken into consideration, the promotion of human rights and democracy is the prominent "critical area", although education may be relevant to political and security relations as well.

The Commission says that an "important issue in this respect is to strive towards common perceptions of the challenges of democratisation, including the role of democratic Islamic political movements in national polities". Two aspects are noteworthy in this statement. First, the Commission does not use the concept of "promoting democracy" but alludes to a process in which Partners are expected to "strive" towards "common perception" of democracy and democratisation. Indirectly, this perspective stresses the idea of a dialogue in which democratisation would be stimulated from outside

but expected to emerge from inside, in tune with the on-going debate in the region.

The second significant aspect is the statement on the integration of democratic Islamic political movements in domestic political processes. The statement reflects the Western debate of the last years, in which the role and structure of the Islamic parties and groups have been thoroughly reconsidered. Western analyses on this point came to the conclusion that only a minority in these parties and groups use violence and is moved by undemocratic principles and objectives, the large majority being ready to acting democratically or evolving more or less quickly towards acting democratically in the political arena - although there will be significant ideological differences between Middle Eastern/Mediterranean emerging democracies and Western/European ones.

So, these two statements are very innovative. They reflect a more mature thinking in the European public opinion - turning decidedly away from the "one man, one vote, one time" syndrome that influenced it so markedly since the Algerian 1991 elections. They promise a significant renewal in EMP policies and practices.

In this perspective, the Commission puts forward two specific initiatives: (a) to hold a Euro-Mediterranean conference on human rights and democracy in 2006; (b) to set up a "Democracy Facility" that will contribute to promote, support and reward Partners showing a clear commitment to common values and agreed political reform priorities.

While the conference is expected to be an occasion for political mobilisation and ideological cohesiveness, the Democracy Facility will support the inclusive policy envisaged by the European Neighbourhood Policy (ENP) predicated on rewarding Partners which would abide by the understandings enshrined in the Action Plans, that is the plans for political and economic reform that the parties are expected to agree upon within the framework of the ENP. The Democracy Facility would be a section in the European Neighbourhood and Partnership Instrument (ENPI), the ENP financial fund that will enter into force in 2007 by replacing MEDA (and the other funds presently acting towards the European East). The Democracy Facility will work side by side with the European

(1) Communication from the Commission to the Council and the European Parliament, Tenth Anniversary of the Euro-Mediterranean partnership: A Work Programme to Meet the Challenges of the Next Five Years, published in the "Euro-Med Report" series, edition No. 89, 14 April 2005
http://europa.eu.int/comm/europeaid/index_eng.htm

Initiative for Human Rights and Democracy (EIHRD), the first having the task of addressing the governments, whereas the second will continue to deal with non-governmental actors.

In the same political and security perspective, other specific actions the documents sets out in the field of migration and education are worth being mentioned. Although these actions are not targeting democracy and human rights, they affect the latter indirectly.

Education - a theme given strong significance in the Arab Human Development Report series - is going to become a high priority in the EU initiatives towards the EMP as well. "The Commission - points out the document - proposes to engage in a dialogue with partner countries and member states in order to substantially increase bilateral cooperation to the sector of education and

vocational training". The goal would be an increase of 50% with respect to present flows. An increase devoted to mobility, mostly in the field of higher education, would be linked to that broad increase.

As for migration, the broad political orientation expressed by the Commission in the document looks crucial to shifting from present security-oriented programmes towards a broad policy of integration of migrants in the Union. The document says "Rather than focussing on reducing migratory pressures, Partners should agree on a more strategic approach that aims to optimise the benefits of migration for all Partners". No doubt, innovative approaches- such as those just mentioned on education and migration- would strongly contribute to security and political co-operation in the EMP as well as upgrade significantly the conflict prevention potential of the Barcelona process. ■

About ConflictINFOCUS:

Conflict In Focus is a bi-monthly online bulletin designed to provide busy readers in the EMP policy community and interested general public with a concise and regular update on the current state-of-affairs of the most significant situations of conflict or potential conflict in the Middle East. Conflict in Focus is compiled by RCCP/IAI, drawing on multiple sources including the resources of our software (CCP).

Conflict in Focus alerts readers to situations where, in the near future, there is a particular risk of new or significantly escalated conflict. In specific, the newsletter is divided into three sections. The first section includes accounts of and comments on EU developments and policies during the previous two months in the field of conflict prevention.

In its second section, Conflict in Focus summarizes recent developments in a conflict analysis perspective, using our CCP model of analysis, where the overall situation in each case has significantly deteriorated.

The third and final section aims at providing experts and researchers from the Partnership with a forum for common work and collaboration. Toward this end, the newsletter will host, in each issue, two short articles, one by a European scholar and the other by a Middle Eastern one on conflict prevention in the Middle East, with the final aim of provoking a debate on such sensitive subject.

We welcome your feedback at info@rccp-jid.org

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THE NEXUS BETWEEN REGIONAL TRADE AGREEMENTS AND CONFLICTS PREVENTION IN THE MIDDLE EAST: AN ARAB POINT OF VIEW

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Introduction

The world has experienced a proliferation in the Regional Trade Agreements (RTAs) over the last 20 years. In parallel, the conflicts between different countries and among various ethnic and religious groups have increased or intensified over the last decade. This article attempts to test the hypothesis, which argues that RTAs can reduce conflicts between different countries. It begins by providing insights into the historical motivations prompting the joining of RTAs. The article then questions whether RTAs can act as a vehicle for reducing conflicts between countries, by comparing the Middle East with other parts of the world to identify the similarities and differences. It finally focuses on the RTAs in the Middle East with the aim of testing whether they (can) act as a vehicle for preventing conflicts. In conclusion the article suggests some policy implications.

Historical Motivations behind joining RTAs

Despite the fact that RTAs⁽¹⁾ are of an economic nature and deal mainly with trade issues, history illustrates that in many cases the real motivations in joining RTAs have been political. Precedence can be found in the classical case of Germany and France, wherein both countries jointly decided to join the European Community (EC) as a method to preventing any future war. This was followed by several such RTAs taking place worldwide with a view to reducing the tension between a set of countries, or to prevent any future conflict.

The fact that the main motivations prompting the joining of RTAs or expanding new ones are political is reflected in the phenomenon that countries pursue such agreements even though the essentials for their economic success might be minimal. The literature on RTAs produces an expected conclusion, which is “anything can happen” in terms of economic gains and losses, and as usual in the economic field much depends on a certain set of criteria, which if present might increase the likelihood of the success of such RTAs, these however remain a second best. For example, the literature emphasizes that one of the criteria for RTAs to succeed is if the trading partners are neighbors or as -in trade jargon “natural trading partners”, however in the case of the USA one of its first RTAs was signed with Israel (where certainly USA and Israel are not geographically close) and their trade relationship is counted as successful. Another criterion

is the potential of increased foreign direct investment arising from the large size of the market, but again witness the case of Egypt joining the Common Market for Eastern and Southern Africa (COMESA) (where the size of population and GDP of Egypt alone is much larger than the total number of the COMESA members altogether). We can proceed by providing a large number of examples, but we would reach the same conclusion which is RTAs are mainly joined for political rather than for economic motivations.

Among the most important political motivations is conflict prevention. This has been the case with the classic example of Germany and France and other examples mentioned below. However, in many cases the long run political motivations, which are implicit, might include the dimension of conflict prevention, this is not necessarily spelled out clearly in the treaty of the RTA. For example, in the case of the European Union (EU) policy, in allowing the former USSR countries to accede to the EU ensures that the EU aims at hedging its society and economy against any potential conflict, which might have negative spillovers on the EU. Another example is, the case of the intentions of the USA to back Israel by using an economic tool instead of a political or military one, thereby helping it to stand weak in front of the Arabs and hence prevent a conflict that can arise if there is no balance of power between Israel and the Arabs. In the case of COMESA, Egypt might be securing its backyard by ensuring that it is part of the African continent and hence prevent any kind of economic disputes which can lead to political or military frictions in the future.

In a nutshell, RTAs are economic tools used to achieve, among others, political targets among the most important of which are an existing or a potential conflict prevention case.

Can RTAs act as a Vehicle for Conflict's Prevention?

In theory, and as argued by Schiff and Maurice (2003)⁽²⁾ RTAs can act as a promoter of peace for at least three reasons: 1) The increased economic interdependence between countries involved in a RTA creates a form of joint welfare objective, which in turn strengthens political pressures against going to war; 2) RTAs make peoples and governments of the countries involved more

(1) We use RTAs instead of free trade areas or customs unions in specific, because we extend our discussion to the Qualified Industrial Zones, which are preferential trade agreements that did not reach the stage of a free trade area.

(2) Schiff, Maurice and Alan Winters (2003), *Regional Integration and Development*, A co-publication of the World Bank and Oxford University Press.

familiar with each others' cultural, political, and social institutions thus enhancing mutual trust; and 3) RTAs reduce the threat of trade embargo, thereby reducing the likelihood of initiating war, especially since RTAs secure access to the partners' supplies of strategic raw materials (as in the case of French access to German resources, mainly steel). In addition RTAs as they lead to mutual trust generate peace dividends as defense spending falls.

History teaches us several lessons where RTAs have acted to reduce conflict or eliminate it. Besides the classical case of France and Germany, ASEAN is also a good example of eliminating conflict, before it's formation intraregional conflicts was an ongoing occurrence among the five founding members until the formation of ASEAN. The same is demonstrated in the case of MERCOSUR, which reduced the tension between Argentina and Brazil. Africa, which has been lagging behind in terms of democracy and development was no exception. In fact ECOWAS enabled its members to develop cooperative behavior that allowed them to address mutual security concerns.

On the other hand, there were cases where RTAs led to more conflict. This has been the case with the American civil war as well as the East African Community. The main reasons behind the initiations of such conflicts were the unfair distribution, at least from some members' point of view, of the gains from such RTAs.

Hence, whilst it is safe to argue that RTAs contain the seeds for reducing conflict, there is, however, no guarantee that RTAs will result in conflict prevention if other institutions are not in place, including methods of gains redistribution among different members. In other words, RTAs are neither a necessary nor a sufficient condition for conflict prevention, though empirical evidence tends to tilt toward a more positive type of causality running from RTAs to conflict prevention.

Does the Middle East have special characteristics?

When tracing history we find that the Middle East is not unique in terms of being a highly vulnerable area of regional conflicts. In fact, if anything history teaches us that RTAs have been in many cases successful in reducing tensions among traditional enemies. From this perspective, the Middle East is similar to the rest of the world and RTAs can play the role of a vehicle of peace promotion and a buffer for conflict prevention. However, there are special characteristics related to the Middle East that when combined together reduces the likelihood of allowing RTAs play this role. For example, the specific nature of the Arab-Israeli conflict when combined with relative lack of democratic regimes and high dispersion of incomes among countries are all facts that affect negatively the likelihood of success of RTAs in the region. This is not to say that such elements of failure were not present in the successful models, but rather they

were not simultaneously present. The question that then follows is whether there is no hope for the success of a RTA in the Middle East. The answer is, nowhere is there certain hope for a number of reasons:

- 1) The nature of a number of RTAs that started to prevail recently in the region which are described as deep in contrast to shallow⁽³⁾ integration schemes and extend to include political dimensions and social stability as in the case of the Euro-Med Partnerships. Such agreements go beyond tariffs removal and reach the roots of institutions, not only in economic terms, but in political and social aspects as well. Such features are likely to reduce the sliding back on political advancements, considered a main pillar for democracy thus increasing the chances of success of RTAs. Even if we are confined to the economic dimension, the harmonization of rules and regulations and adopting the same norms create a closer relationship between peoples and reduces the differences, an important element for making such agreements succeed and lessening trade frictions that can result in conflicts.
- 2) The external pressures from stronger partners such as the EU and the US, which though debatable in terms of making a RTA in the Middle East succeed, can still play a positive role, as is evident in signing the Protocol of the Qualified Industrialized Zones (between Egypt, US and Israel and between Jordan, US and Israel) and in the case of signing the Aghadir agreement (between Egypt, Jordan, Tunisia, and Morocco). These two categories of RTAs would have been impossible to conclude without the presence of external pressure from the US and the EU. Moreover, the likelihood of activating such RTAs is likely to increase with the presence of such external pressures. External pressures substitute the role of a leading country, which can direct other members and initiate what is commonly referred to as "political will". The outside pressure has proven to be a weak instrument in sustaining economic reforms (the literature on the failure of World Bank and IMF reform packages is abundant). However, what we emphasize here is the initiation of undertaking RTAs and not their sustainability. In fact, if members of RTA are not willing to sustain the agreement, it will subsequently fail, but the argument is that the first difficult steps needed to initiate the RTA and push forward the negotiations phase can be undertaken by the presence of major powers as the EU and the US. What should be avoided is the unfair distribution of economic gains, but evidence shows that there is always a way to modify the agreements to ensure this aspect. For example, in the case of Qualified Industrial

(3) The first scholar who coined this term is Robert Z. Lawrence, see Lawrence, Robert (1996) *Regionalism, Multilateralism, and Deeper Integration*, Washington D.C.: Brookings Institution.

Zones, the percentage of required Israeli inputs in the manufactured Jordanian exports has been reduced. This implies that flexibility is needed if some provisions turn out to be not realistic. The EU in its Euro-Med Partnership Agreements includes periodic revisions of the Agreements to ensure it is functioning well. Hence, the external pressure of the EU and/or US in that specific case is likely to bring positive effects on initiating RTAs in the region, and ultimately lessen the probability of conflicts and disputes. However the sustainability of such RTAs depends on the willingness of the members of any RTA.

- 3) The realism of the regional integration in the form of reaching the GAFTA, where the former trials among Arab countries were too optimistic in terms of their targets could not have been met. The same applies to the Qualified Industrial Zones Protocol, which has been modified to lower the extent of required inputs of Israeli origin in the manufactured Jordanian products. This sense of realism ensures that even here, there might be problems, negotiations can solve them, rather than opting out of the agreement. This is a very important aspect of ensuring the success of any RTA. In other words, the contract that has been signed is always subject to modification, and it is not an issue that cannot be renegotiated in the future. Such realism and flexibility ensures the high probability of success of the new RTAs in the region. Such realistic approach in dealing with RTAs explains the success of the Gulf Cooperation Council (GCC) as well as all the previous failure of Arab Integration trials that started in the 1950s. The key word in explaining success as well as failure is realism which was highly evident among the members of the GCC and completely absent among the Arab countries in their trials to have a successful model of integration since the 1950s. This issue has been dealt with in the newly born GAFTA where realism is a main and evident feature of its provisions.
- 4) The “domino” effect prevailing where the number of RTAs concluded worldwide has been accelerating affecting the thinking of policy makers in the Arab world. This is an important issue which not only affects the policy makers but the general public as well. Before the proliferation of the recent wave of RTAs, many policy makers and the general public could have taken a position against signing a RTA basing their arguments on the need for a Most-Favored-Nation (MFN) rule. In fact if the Qualified Industrial Zones Protocol had been discussed before the proliferation of the RTAs, it might have faced major resistance. But, with being used to having several RTAs, the issue of MFN has occupied less and less importance in the thinking of policy makers and general public, and the issue of discriminating among trading partners became the norm rather than the exception.

- 5) The invoking of high-quality institutions of conflict management in the newly concluded RTAs (though still not enacted and clearly defined) can serve to mitigate the negative effects of adverse external shocks and social conflict on long-run economic growth by inducing the countries in the Middle East to behave more cooperatively.

Conclusion and Policy Implications:

The article illustrates that RTAs can act as a vehicle for reducing tensions and preventing conflicts, provided that other conditions are favorable. The article emphasizes that the likelihood of RTAs playing this role is high, however, they are neither a necessary nor a sufficient condition to ensure conflict prevention. Historical evidence is mixed, though tilting more towards positive influence of RTAs on conflict prevention.

The Middle East has its own characteristics which might make it difficult for RTAs to play this role, however, it was clearly identified that the presence of certain factors have deemed to play a positive role in enhancing the positive impact of RTAs on conflict prevention and tension reduction.

The road ahead for building a prosperous future of peace in the Middle East depending on RTAs is clear. What is needed is having a realistic approach, avoiding areas of friction, including biased compensation schemes, and invoking certain provisions that ensure joint security acts. RTAs cannot do the job alone, but certainly they can act as an important locomotive for accelerating peace and excelling the prevention of conflicts in the region. Certainly the Arab countries can be another EU if such issues are taken in consideration. A review the history of EU pinpoints that all the aspects that affect the Arab countries today were prevalent in the case of the EU, ranging from American hegemony to major conflicts in the region to unequal development among members. However, the main difference between the EU experiences and that of the Middle East is that a realistic and flexible approach was adopted in the former while the latter adopted ambitious political slogans that led us nowhere; however the future is different as we learn from our mistakes. ■

FREE TRADE AGREEMENTS AND CONFLICT PREVENTION IN THE MIDDLE EAST AND NORTH AFRICA: A VIEW FROM EUROPE

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Unsurprisingly the starting point of this article is the European integration experience. After two especially horrifying wars, six western European countries engaged in a long process of economic integration. Now there are 25 members and the number is expected to increase. Starting with a free trade agreement, the process moved its way to an Economic and Monetary Union (EMU). Besides its economic relevance, the use of a common and single currency constitutes a remarkable symbol of European achievements in the field of economic integration. The adoption of a common constitution and the path toward a political union are the present challenges for Europe.

The political motivations behind the free trade agreement, which constituted the first stage of European integration, counted at least as much as its economic foundations. The founding fathers of the European Union saw it as an instrument that reduces the risks of intra-European war, especially between France and Germany. “There will be no peace in Europe... unless the States of Europe join in a Federation or a ‘European entity’ that results in a common economic unit.” (Jean Monnet, 5 August 1943, as reported by Schiff and Winter, 1998).

In what follows, I will focus on inter-sovereign-states wars, abstract from intra-states and colonial wars and when talking about wars in Europe, I refer to inter-European-states.

Did Jean Monnet’s “dream” of a peaceful Europe materialize? Although the response is clearly yes, the extent of the achievement is impressive. Table 1 reports various indicators of inter-states wars, which took place in the World since 1816 as well as the share of Europe with respect to each indicator. Over the whole period, European wars count of about one third of the total inter-states wars around the World. While the duration of European wars is below the World’s average, the damage in terms of deaths is much higher. Over time the share of European wars in the total is steadily declining. Amounted to more than 40% in the past century, this share declined to 7% between 1961-1990 and 0% since then. Similar trend, although less pronounced, can be observed for the average duration and the average number of deaths. More importantly, the period from the end of World War II to present constitutes, by far, the longest (60 years) peaceful period⁽¹⁾ Europe has witnessed since 1816.

There is a strong temptation to relate Europe’s achievements in term of peace to its process of economic

integration and, hence, to examine how this can benefit the Middle East and North Africa (MENA) progress toward peace. Economic integration being associated, at least in its early stage, with trade, I will first discuss the potential impact of trade, pre se, on conflict occurrence. Then, I will examine how formal integration may complement the role of trade. Finally, I will look at conditions that determine the success of integration in calming political tensions.

There is an intense debate among political scientists, and to a lesser extent among economists, about the role of international trade in reducing the risk of interstate wars. A strand of the literature referred to as Liberals argue that economic interdependence lowers the likelihood of war by increasing the value of trading over the alternative of aggression: interdependent states would rather trade than invade. The other strand associated with Realists argues that high interdependence means mutual dependence and, thus, vulnerability. It gives states an incentive to initiate war to ensure continued access to necessary materials and goods.

Table 1:
Number of wars, duration & deaths in the World & in Europe:

1816-1997*				
Region	Period	Number	Duration	Deaths
World	1816-1997	76	386	155454
Europe		29%	78%	144%
World	1816-1899	28	302	34937
Europe		43%	55%	134%
World	1900-1929	16	428	208885
Europe		38%	124%	215%
World	1930-1960	16	401	318144
Europe		19%	122%	176%
World	1961-1990	15	480	158497
Europe		7%	3%	1%
World	1991-1997	1	110	26343
Europe		0%	0%	0%

* Average duration and deaths per war. Europe refers to cases where all parties are Europeans.
Own Calculations from Reid (2000).

Empirical analyses sought to test the validity of the Liberals and the Realists views. In a seminal paper,

(1) A part from this period, the longest one counts 27 years.

Polachek (1980) analyzed the relationship between the volume of bilateral trade and an indicator of conflict between countries. He found an inverse relationship between these variables, providing support to the liberal position. Gowa and Mansfield (1993) argue that a simultaneous relationship exists between trade and conflict. Trade may foster peace, but peace also shape commerce. Their empirical findings support that the relationship between trade and conflict is indeed reciprocal. Gasiorowski (1986) pointed out; however, that trade may have different impacts among partners. Hence, while the gains from economic exchange should inhibit conflict as the Liberals predict, an unequal distribution of these gains could aggravate conflict as Realists predict. Trade can have both conflict-inhibiting and conflict-promoting effects. Barbieri (1996) focused on the effects of trade asymmetries and supported the Realists believe that trade can be conflict inducing. Although Barbieri's work has been criticized for a lack of robustness, it reinforced the claim that the effects are not invariable. Mansfield and Pollins (2001) convincingly showed how the relationship between trade and wars might differ over time and across countries depending, in particular, on domestic and international institutions.

Free Trade Agreement (FTA) is a type of international institutions that affects the gains from trade and the likelihood of wars. Following Macdonald (2004), a distinction has to be made between trade and free trade as implied by FTA. Free trade, and not just trade, promotes peace by removing an important foundation of domestic privilege i.e. protective barriers to international commerce. Preferential trade arrangements limit the capacity of participants to subsequently raise such barriers following pressure of hostile societal groups. Moreover, Baldwin (1992) has shown that parties to a preferential arrangement have reason to anticipate a rise in foreign investment inflows. Firms can generate substantial benefits from locating assets in a free trade area because this grants them preferential access to each participant's market. Inter-states conflicts hamper the ability of states to realize these gains by undermining commitments to sustain commercial liberalization and inhibiting investment by firms that are reluctant to operate in unstable regions. Hence, RTA membership adds to the expected gains from trade and further reduces the likelihood of inter-state wars.

Membership to a FTA also allows mitigating some sources of wars to which Realists point out. First, RTA can inhibit antagonism by establishing a forum for bargaining and negotiation among members, thereby facilitating the resolution of interstate tensions prior to open hostilities. Mansfield and Pevehouse (2000) explained how RTA has helped containing or resolving economic disputes before they damage political relations in Southeast Asia and Latin America. Second, RTA can help addressing the issue of distribution of gains stemming from trade that may impede international cooperation. It may promote

arrangements guaranteeing that economic concessions made by one party will be repaid, rather than exploited, by its counterparts. In Europe, a redistribution system was designed, almost from the beginning, and aimed at facilitating solidarity among EU member countries and fostering public support for greater integration. It operates mainly through the Structural and Cohesion funds and is expected to allow catch-up growth in low per-capita-income countries of the European Union. The new endogenous growth theory lends further support to the use of redistribution mechanisms. For instance Aghion et al. (1999) suggest that if poor are credit constrained, redistribution may improve their productivity while Benabou (1996) stresses the role of redistribution in reducing social conflicts which are harmful to growth.

To test the argument that the risk of inter-state wars is lower between members of an FTA than between non-members, Mansfield and Pevehouse (2000) focused on military disputes during the period from 1950 to 1985. They found a strong negative relationship between conflict and FTA membership. Parties to an FTA are less likely to engage in hostilities than other states, and the likelihood of a military dispute dips markedly as trade increases between them.

Turning to domestic institutions, the role of civil liberties, government accountability and electoral effectiveness and transparency (i.e. democracy) is very important for our purpose. To illustrate such an importance, let's recall two un-controversial facts related to wars and government. First, even in democracy the decision to engage into a military conflict belongs to national leaders. Second, regardless of the political regime, national leaders wish to retain office. This is because of either of altruistic concerns or self-interest. In general autocratic leaders need to satisfy a narrower coalition than democratic leaders. They do so by providing some privileges to their supporters. Although some exceptions may exist (e.g. Singapore, South Korea or Taiwan some years ago) autocratic leaders are not concerned with large-scope public policy successes, including macroeconomic growth. In contrast, democratic leaders need a majority in larger constituency and are, therefore, constrained to secure large-scope public policy successes such as growth. The role of international trade in improving growth (Frankel and Romer, 1999) may make democratic leaders much more averse to wars than autocratic ones. Building on this intuition, Gelpi and Grieco (2004) offer a deep and illuminating analysis of the sensitivity of national leaders to the costs of conflict in term of trade losses. They examine a sample of international conflict initiation by democratic and autocratic states from 1950 to 1992. They confirm that the effect of trade on wars depends upon the presence of democracy. Democratic states are unlikely to initiate military conflict. The effect of trade is statistically significant but its magnitude depends on the state's regime type. To constrain states from initiating military

action, one needs a higher level of trade in autocratic states than in democratic ones.

The above discussion suggests that FTA can be an effective mechanism in preventing inter-states conflicts provided some conditions are fulfilled. What are lessons for the MENA? Some evidence does not induce optimism concerning the realization of a free trade area in this region. First, the historical record shows that FTAs span almost the entire space of the MENA: each country belongs to at least one regional integration agreement. Until now no noticeable signs of these FTAs effectiveness is visible. Second, not only the actual level of intra-MENA trade is very low but it is lower than it should be. This is among the most important motives of pessimism about the potential of FTAs in the region. Other evidence, however, allows optimism. First, while the figures in Table 1 show that Europe has faced numerous wars over the past two centuries, European historians document the existence of a number of FTA projects over the same period. Second, the argument about the low level of intra-MENA trade should be mitigated. It involves a vicious circle: FTA failed because there is little intra-MENA and there is a little intra-MENA because of the absence of effective FTA. Thus one way of breaking up the circle is to investigate the possibility of increasing such a trade, which may in turn motivate the move toward effective FTA. In this respect, Havrylyshyn (1997) computed a “complementarity index” that shows that the Arab region’s product complementarity is of the same order of magnitude as those of MERCOSUR. Hence, there is a room for further trade and success of FTA especially given the additional gains from their effects on peace.

Table 2:
Democracy in selected regions

Region	Political rights	Civil liberties	Number of countries classified as not free
MENA	6	6	15 (19)
Latin America	2	3	0 (13)
South Asia	4	4	3 (10)

Note: In parentheses is the total number of countries in the region as reported in the data set.

Own calculation based on “Freedom in the World Country Ratings 1972 through 2003”, Freedom House, 2004.

In spite of their presumed benefits, it is legitimate to wonder about the conditions for the success of FTA in the MENA. I focus on three important conditions. First, previous analyses have shown that the MENA disappointing outcomes in terms of integration are due in large part to inadequate economic policies. Hence, further progress in the way of economic reforms is clearly welcome. Second, the benefits and costs of

integration may affect the participants in different ways. Some who will be more closely aware of the costs than of the benefits might constitute a serious blockage in the process. The introduction of mechanisms for the redistribution of the profits of increased openness become crucial if this risk is to be obviated. Third, the success of the European integration experience owes a lot to the democratic environment in the region, which allows advocating and convincing citizens about the merits of integration. The democratic environment in our region is, by far, below international standards. Table 2 presents the ranking of the MENA, Latin America and South Asia in terms of political rights and civil liberties. Political rights and civil liberties are measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest. Although caution is a must when interpreting such figures, the disappointing performance of the MENA cannot be hidden.

To conclude, the challenge is very important but the long history of the MENA shows that the countries are capable of remarkable achievements. ■

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