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Abstract

Regional integration scores alluringly high on the hit list of the most promising cures for the world's major problems. Undoubtedly, the European Union has considerable experience in developing a sophisticated regional integration scheme – but does it possess the 'magic formula' for fostering integration in other parts of the world? This paper asks how and why the European Union promotes regional economic integration in its neighbourhood and to what extent it is successful. We argue that as a 'normative power' the EU aims both at exporting its norms and values and at increasing its security by stabilising its neighbourhood. We assess the EU's success in promoting the regional trade agreements located in the Western Balkans (CEFTA 2006) and the Mediterranean (Agadir Agreement). The findings of these two case studies show that the EU pursues different political objectives with its support on a general political level as well as through concrete financial and technical assistance programmes. Although the existence of an EU membership perspective has an influence, the Union is not necessarily more successful in promoting regional economic integration among (potential) candidate countries.

1. Introduction: Regional Economic Integration as a 'Magic Formula'?

Regional integration scores alluringly high on the hit list of the most promising panaceas for the world's major problems. If successful, it is expected to transform political adversaries into cooperating allies or even security communities, thereby reducing the instances of raw power politics of modern states and contributing to civilised, post-modern patterns of interactions. Hopes for intra-regional trade, competitiveness and modernisation of economies are put in regional economic integration, enabling whole regions to rush upwards on the ladder of development. Moreover, positive experiences with regional economic integration in the form of regional trade agreements (RTAs)¹ encourage multilateral liberalisation in so-called 'deep integration' issues such as the creation of common rules for foreign investment, intellectual property rights, government procurement and competition. A further convenient feature of regional integration is that it also benefits external actors' security when it leads to the reduction of development and prosperity gaps and to more cooperative behaviour.

The fact that the European Union (EU) appears to be the only example of mature regional integration to date illustrates, however, the importance of the qualifying words "if successful". Indeed, most of the literature on regional integration focuses on the identification of conditions and recommendations for success, often taking the EU as point of reference. Still somewhat neglected is the aspect of the promotion of regional integration by external actors.² Undoubtedly, the EU has considerable experience in developing a sophisticated regional integration scheme but does it also know the magic formula for fostering integration in other parts of the world? The promotion of regional integration is becoming a significant tool for the EU

¹ RTAs are trade agreements concluded between two or more countries within a region to reduce tariffs and/or other restrictions on trade while the underlying intentions are often of a political nature. See F. Söderbaum & L. van Langenhove, 'Introduction: The EU as a Global Actor and the Role of Interregionalism', in F. Söderbaum & L. van Langenhove (eds.), *The EU as a Global Actor: The Politics of Interregionalism*, London, Routledge, 2006, p. 7. For an overview on recent theories and debates, see A. Willenberg, 'The Promotion of Regional Economic Integration in the EU's Neighbourhood', Master's thesis presented at the College of Europe, Bruges, May 2009, pp. 4-6.

² Called "region-building from outside" by Karen E. Smith, 'The EU and Central and Eastern Europe: The Absence of Interregionalism', in F. Söderbaum & L. van Langenhove (eds.), *The EU as a Global Actor: The Politics of Interregionalism*, London, Routledge, 2006, p. 100.

to realise its foreign policy objectives (some authors even call it the EU's new 'foreign policy doctrine'³).

The region whose stability and prosperity most immediately affects the EU's security is its Eastern and Southern neighbourhood,⁴ where 'a ring of friends' is to be created. To prevent this ring from breaking, strong bonds connecting the individual parts must be formed. Accordingly, the EU seeks to foster regional integration among the individual neighbouring countries, complementary to the bilateral relations. While this encompasses also political and cultural regional cooperation, this work focuses on the promotion of regional economic integration by the EU in its neighbourhood. The EU's own starting point was economic cooperation with an overarching political motivation to prevent further violent conflicts on the European continent. Correspondingly, there is hope that successful economic cooperation can lead to the reduction of political tensions and increased cooperative behaviour also in other regions. This would also offer investment and export opportunities for European companies and contribute to the spread of EU norms and standards in the context of competition for becoming the global regulatory capital. Moreover, the EU as 'normative power' exports its core norms through different mechanisms, one of them being its trade policy.

The objective of this work is to illustrate the motivations for the EU's support for regional economic integration in its neighbourhood, to analyse which instruments it uses and to assess if the EU is successful in this endeavour. In other words, how and why does the EU promote regional economic integration in its neighbourhood and to what extent is it successful? To answer this question, we will analyse and compare EU support to two regional trade agreements: the 'new' Central European Free Trade Agreement (CEFTA) 2006 and the Agadir Agreement, both in force since 2007. CEFTA 2006 comprises eight countries of the Western Balkans⁵ and foresees free trade in all industrial and most agricultural products; includes modern provisions on trade related issues and evolutionary clauses on trade-related issues, mechanisms for implementation and dispute settlement; and envisages harmonisation with the EU

³ F. Söderbaum & L. van Langenhove, *op.cit.*, p. 2.

⁴ The term 'neighbourhood' here refers to both the (potential) candidate countries and the countries covered by the European Neighbourhood Policy (ENP).

⁵ Albania, Bosnia and Herzegovina (BiH), Croatia, the former Yugoslav Republic of Macedonia (FYROM), Moldova, Montenegro, Serbia and UNMIK/Kosovo.

acquis in many areas. Except for Moldova, the participants of CEFTA 2006 are (potential) candidate countries for accession to the EU and take part in the Stabilisation and Association Process (SAP) preparing them for future accession. With the Central and Eastern European enlargement of 2004/07, regional integration has become a pre-condition for accession to the EU. In contrast, the participants of the Agadir Agreement (Egypt, Jordan, Morocco and Tunisia) do not have an accession perspective; their relations to the EU are governed through the Euro-Mediterranean Partnership (EMP). While CEFTA 2006 is a comprehensive RTA in that it covers all Western Balkan countries and has a member even from beyond that region, only four out of the eleven Southern Mediterranean Partner Countries (MPCs)⁶ are members of the Agadir Agreement. It aims at the establishment of an Arab Mediterranean free trade zone as required for the creation of a broader Euro-Mediterranean free trade area (FTA) foreseen in the EMP, while liberalisation in agricultural goods and services proceeds according to broader liberalisation agreements – the Greater Arab Free Trade Area (GAFTA) and GATS.

Both RTAs have in common that they receive general political and specific financial and technical EU support. The EU has also been actively involved in the creation of the two RTAs. The most striking difference between the two cases is the issue of an EU membership perspective. The ‘carrot’ of an accession perspective is often mentioned as the EU’s most powerful foreign policy tool. In this work, one question to be answered is whether the EU can also successfully promote regional economic integration when the carrot ‘only’ consists of increased (economic) integration with the Single Market, such as through the Euro-Mediterranean free trade area. This is of relevance also to regions located beyond the EU’s immediate neighbourhood as it influences whether the EU should continue its current path towards fostering regional integration or concentrate on alternative foreign policy tools.

Our analysis will first establish a framework of analysis for the two cases, that is for the identification of the EU’s objectives and the evaluation of the instruments used. While it is not the main aim of this work, we provide an evaluation of the RTAs as such to the extent necessary for the subsequent assessment of the EU’s promotion

⁶ These are currently Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Mauritania, Morocco, the Occupied Palestinian Territories, Syria and Tunisia.

efforts. From these results, we can then deduce a general condition for the EU to be successful in the promotion regional economic integration.

2. Framework of Analysis

This section sets out an analytical framework to assess the economic and political effects of RTAs and the EU's influence as a norm exporter.

2.1 Regional Economic Integration

As a first step, we establish criteria to identify the economic effects of the regional integration schemes by analysing to what extent overall economic change occurred after the creation of the RTA – looking at economic growth, growth in intra-regional trade and export-led growth, increase in inflows of foreign direct investment (FDI) – and by comparing the provisions of the RTAs (i.e. we check whether and how traditional liberalisation issues, new trade issues, operating rules, contingent protection and dispute settlement and exceptions to the agreement are covered).

To assess the political effects of the RTAs, we establish two broad categories. The first category, 'practice international cooperation', includes the creation of interdependence and solidarity, the increase in cooperative behaviour and reduced tensions among the participants.⁷ We use the existence of institutionalised, regular meetings as an indicator and analyse relevant documents. The underlying mechanism is one of socialisation processes, that is through regular and institutionalised interaction actors develop trust and are increasingly willing to make concessions in recurrent bargaining. While these aspects focus on the intergovernmental nature of regional integration, we use the establishment of supranational institutions by the RTA as an indicator for the practice of delegation of sovereignty. We further expect increased local ownership and commitment to be a political effect, depending on economic benefits from the RTA (indicated by the level of public funding available at regional level⁸). Increasing local ownership and commitment can be assumed when parties take on more financial responsibility for

⁷ G. Bertrand, at the time representing the European Commission, at a conference on subregional integration in Bucharest in October 1996, referred to in M. Dangerfield, 'Subregional Cooperation in Central and Eastern Europe: Support or Substitute for the "Return to Europe"?' in C. Ross (ed.), *Perspectives on the Enlargement of the European Union*, Leiden, Brill, 2002, p. 98.

⁸ For details on this reasoning, see Joseph S. Nye, *Peace in Parts: Integration and Conflict in Regional Organization*, Boston, University Press of America, 1987 (1971), pp. 31, 38.

regional-level institutions. The second category is 'training ground for EU membership', implying that through acquiring practice on regular, institutionalised cooperation, the partly adoption of the *acquis* and interaction with the EU through its support measures, the participants in an RTA are better prepared for EU membership. We assess this category mainly on the basis of interviews conducted with Commission officials and official documents.

2.2 The EU as a Norm Exporter

The basis for the EU's influence in RTAs can be accession conditionality. Although only one Western Balkan country, Croatia, is currently negotiating membership, the others 'voluntarily' adhere to EU conditions to smooth the path to accession. As stated by Commissioner Rehn, "[e]nlargement is a matter of extending the zone of European values, the most fundamental of which are liberty and solidarity, tolerance and human rights, democracy and the rule of law".⁹ As regards countries without accession perspective, the EU has a preference for using 'carrots' (or incentives) and not 'sticks'. As O'Brennan notes, the "process of diffusion can only be implemented with the voluntary acceptance of these norms by outside states".¹⁰ The political will of the RTA's participants is thus not only an important factor influencing the success of an RTA as such, but also the success of external actors' efforts to promote regional integration.¹¹

To analyse to what extent the EU is successful in its promotion of RTAs, we first establish the general EU objectives and see if they are achieved. We thereby distinguish between foreign policy objectives (i.e. preparation for accession or increased security through further integration with the EU) and economic objectives. The assessment here builds on the results of the political effects of the integration scheme as such. As regards the economic objectives, we use four explanatory factors for the EU's trade policy established by Guerrieri & Caratelli (commercial diplomacy, development objectives, hub-and-spoke regulatory power and

⁹ O. Rehn, 'Values Define Europe, not Borders', *Financial Times*, 4 January 2005, retrieved 19 April 2009, http://ec.europa.eu/commission_barroso/rehn/pdf/statements/rehn_ft_european_values_en.pdf.

¹⁰ J. O'Brennan, *The Eastern Enlargement of the European Union*, London, Routledge, 2006, p. 160.

¹¹ For an elaboration of Ian Manner's concept of the EU as a 'normative power' see A. Willenberg, *op.cit.*, pp. 8-10. At this point, we limit ourselves to the EU's treaty basis which refers to fundamental values (Art. 6 TEU, Art. 11 TEU, Art. 40 TEC).

competition objectives¹²). We use the findings of the assessment of the economic effects of the RTAs as such as starting point. In a second step, we identify the specific objectives the EU pursues with support programmes carried out by the Commission to the two RTAs and analyse whether they have been achieved.

3. Case I: CEFTA 2006

The EU, in particular the Commission's DG Trade, was the "main partner"¹³ of the Stability Pact for South Eastern Europe (SPSEE) in creating CEFTA 2006 in the early 2000s. The institutional structure consists of a Joint Committee¹⁴ (composed of ministers responsible for trade issues), its sub organs such as the sub-committees on agriculture, on customs and on non-tariff barriers to trade, and a permanent secretariat located in Brussels.¹⁵

3.1 EU Support for CEFTA 2006 – Objectives and Instruments

One mechanism to prepare the Western Balkan countries for EU membership is regional economic integration, implying that CEFTA 2006 can be perceived as "an important economic means to a major political end".¹⁶ Further objectives are increased competitiveness as called for by the Copenhagen criteria and consequently a reduction in the costs of accession for the old EU Member States. Moreover, Western Balkan countries are expected to progressively adopt EU norms and standards, offer market access and investment opportunities for EU companies. The objective of competition seems to be not of immediate concern anymore as the decision to integrate into EU structures (and not, for example, to pursue integration with Russia) has been largely taken.

The EU supports CEFTA 2006 both through general support, for instance illustrated by the Commission's involvement in its creation and the presence of high-

¹² Guerrieri and Caratelli include 'foreign policy objectives' as fifth motivation for trade policy. P. Guerrieri & I. Caratelli, 'EU's Regional Trade Strategy: The Challenges Ahead', *The International Trade Journal*, vol. 20, no. 2, 2006, pp. 139-184. For details on the adjustment of their model to the EU's involvement in RTAs, see A. Willenberg, *op.cit.*, pp. 9-10.

¹³ E. Busek, Special Co-ordinator Stability Pact for South Eastern Europe, 'Opening Remarks, CEFTA 2006 Joint Committee Meeting', Ohrid, 28 September 2007.

¹⁴ CEFTA Chairmanship of Montenegro 2009, 'CEFTA 2006 Joint Committee', retrieved 27 April 2009, http://www.cefta2006.com/Zajednicki-komitet/en-Z_komitet.html.

¹⁵ CEFTA Chairmanship of Montenegro 2009, 'CEFTA 2006', retrieved 27 April 2009, <http://www.cefta2006.com/en-index.php>.

¹⁶ P.M. Wijkman, 'A Reader's Guide to "CEFTA 2006"', presentation on Expanding Trade and Investment in South Eastern Europe, Friedrich-Ebert-Stiftung, Brussels, 18-21 April 2007, p. 7.

level officials in key events,¹⁷ and through financial and technical assistance in the framework of the Instrument for Pre-Accession Assistance (IPA).¹⁸ EU funding is provided for the CEFTA Secretariat and for technical assistance to the participating countries (e.g. for training seminars).¹⁹ As for any component of IPA funding, rather vague expected results are stated in the programming documents. Measurable indicators are set up in the Commission's Standard Summary Project Fiche on the Regional Programme on Trade and Investment in the Western Balkans.²⁰ The overall political motivation behind the support for CEFTA 2006 is illustrated by the inclusion of the support programme in the first priority axis ('political criteria') of the multi-beneficiary programme for 2008.²¹

3.2 Assessment

3.2.1 Effects of CEFTA 2006 as Such

As CEFTA 2006 entered into force only in 2007, it is not possible yet to draw overall conclusions as regards the economic and political effects of the RTA. Nevertheless, there are promising signs. Representatives from several participating countries stated that their trade with CEFTA partners had increased.²² Unlike these optimistic official statements, there is criticism from business. Expectations have been high, but to date, many companies are disappointed about the increase in administrative procedures mainly related to rules of origin (RoOs). Also, there is a feeling that Serbia and Croatia keep exemptions from tariff eliminations out of protectionist motivations.²³ In general, economic growth increased in all countries, except for Moldova, from 2006 to 2007.²⁴ Also total exports and imports of goods and services

¹⁷ Such as the Commissioners for enlargement and trade and Presidents of the European Council. See SPSEE, Press Release, 6 April 2006, retrieved 5 March 2009, <http://www.stabilitypact.org/pages/press/detail.asp?y=2006&p=308>.

¹⁸ For details on the programming documents, see A. Willenberg, *op.cit.*, pp. 17-18.

¹⁹ Commission, Commission Decision establishing a Multi-Beneficiary Multi-annual Indicative Planning Document (MIPD) 2008-2010, p. 17.

²⁰ Commission, Standard Summary Project Fiche – IPA centralised programmes, Regional Programme on Trade and Investment in the Western Balkans, 2008, p. 4.

²¹ Commission, Commission Decision adopting the Multi-Beneficiary Programme 2a under the IPA Transition Assistance and Institution Building Component for the year 2008, C(2008)8472, Brussels, 19 December 2008, p. 7.

²² See the speeches made at the second Joint Committee meeting, CEFTA Chairmanship of Montenegro 2009, 'CEFTA 2006 Joint Committee', *op.cit.*

²³ SEE market, 'CEFTA Progress?', *B92*, 10 July 2008, retrieved 28 April 2009, http://www.b92.net/eng/insight/opinions.php?yyyy=2008&mm=07&nav_id=51802.

²⁴ There is no data on UNMIK/Kosovo. World Bank, *Quick Query Selected from World Development Indicators*, retrieved 27 April 2009, <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>.

(in % of GDP) increased in all countries (exports remained equal in Croatia) in 2007. Yet, a more significant rise in the share of exports in GDP is needed for substantial export-led growth. FDI net inflows increased substantially from 2006 to 2007 in all countries except FYROM. The figures for 2008 should be considered cautiously as a negative impact of the global financial and economic crisis is likely. Increasingly, there is FDI also from within the region.²⁵ However, overall trade deficits deteriorated until 2008. We can conclude that the overall economic situation of the participating countries improved slightly.

As regards the concrete provisions of the agreement, it can be observed that they have mostly been implemented, even though the early stage of the integration process implies that it is mainly analyses carried out and action plans established for future liberalisation. This stage of rather procedural decisions (such as establishing sub-committees, rules of procedures, and the secretariat) is rather uncontroversial. At the Joint Committee meetings in 2007 and 2008, Prime and Trade Ministers made quite optimistic statements, displaying high commitment to regional integration and liberalisation. However, there is increasing criticism that political will is lacking when it comes to substantial issues, as illustrated by the planned imposition of duties on agricultural imports by Bosnia and Herzegovina²⁶ and the perceived increase in administrative burdens.

Concerning the political effects of CEFTA 2006, difficulties can be found in the first of our categories of analysis, practice international cooperation, both on the intergovernmental and supranational level. Although meetings are held regularly on all levels and decisions are adopted, accessible for the public as well as on schedule with the agreement's provisions, it is less certain whether CEFTA 2006 fosters cooperative behaviour and reduces tensions among the participants. It is relatively easy to produce positive political statements when the issues at stake are not yet in the implementation phase. As illustrated by the dispute on BiH's import duties on agricultural products, it seems that cooperative behaviour is not yet achieved. In several documents, also the status of UNMIK/Kosovo is mentioned as a potential risk

²⁵ S. Kathuria (ed.), *Western Balkan Integration and the EU: An Agenda for Trade and Growth*, Washington, D.C., World Bank, 2008, p. 77.

²⁶ In April 2009, BiH considered to re-impose full customs on agricultural imports from Croatia and Serbia to protect local farmers. S. Latal, 'Bosnia Risks Violating CEFTA Trade Agreement', *BalkanInsight.com*, 28 April 2009, retrieved 28 April 2009, <http://balkaninsight.com/en/main/news/18473>.

to the smooth functioning of CEFTA 2006 as regards participation of UNMIK/Kosovo in the committees.²⁷ An additional factor hindering successful implementation of CEFTA 2006 are understaffed and under-resourced national administrations.²⁸ There is no delegation of sovereignty to the secretariat as it has only a supporting function. As to regional ownership and commitment, indicated by the regional budget, the participants follow up their commitments and contribute to the secretariat's budget.²⁹ Interestingly though, the Secretariat's Outline Strategic Work Programme 2008-2011 mentions that "[t]here is a risk that despite their formal agreement some CEFTA Parties may not transfer funds to the Secretariat".³⁰

Concerning the second category of political effects, training ground for accession, there is a mixed record. On the one hand, we expect that regular institutionalised meetings in the CEFTA committees familiarise the participants with recurrent consensus-based decision-making. However, political tensions in the region often prevent the cooperative behaviour that would be needed for decision-making in EU Council structures. We also note that the participants' different stages of pre-accession influence their attitude towards regional integration. Especially Croatia as being most advanced towards EU membership is suspected to perceive CEFTA 2006 merely as a 'waiting room' and therefore not committed to regional liberalisation.³¹ In the following, we will take a closer look at the impact of the accession perspective on the success of CEFTA 2006 and on the EU's support for it.

3.2.2 Assessment of the EU's Success in Promoting CEFTA 2006

As only two of the Western Balkan countries obtained candidate status and one is not even an official 'potential candidate', EU membership is still a very distant and vague project for most of the participants. Regional cooperation in trade matters spilled over into formal political cooperation, but did not yet lead to a real reduction in political tensions. Here, the EU might be caught in a 'vicious circle' as tangible economic benefits from the RTA increase incentives for political cooperation but at the same time, the political will of Western Balkan leaders to cooperate is needed to realise these economic benefits. As regional cooperation has become a *de facto*

²⁷ CEFTA Secretariat, *CEFTA Secretariat Work Programme 2009*, February 2009, p. 9.

²⁸ See for BiH: EU TPP (Support Trade Policy Development and Capacity Building in Bosnia and Herzegovina), *Trade Related Needs Assessment Report*, Sarajevo, November 2007, p. 40.

²⁹ CEFTA Secretariat, *op.cit.*, p. 2.

³⁰ CEFTA Secretariat, *Outline Strategic Work Programme 2008-2011*, October 2008, p. 9.

³¹ SEE.market, *op.cit.*

accession condition, CEFTA 2006 participants do not really have a choice but have to cooperate at least formally in the established institutions: "The EC repeatedly made it clear in the Working Group that a regional free trade area in SEE [South Eastern Europe] is a key part of the process of European integration. Regional free trade and the SAAs [Stabilisation and Association Agreements] were to be the two legs for a country in SEE to walk on its approach to Europe."³²

As illustrated above, political will to implement provisions of the agreement decreases when national producers face increased regional competition. As nationalism is still a prevalent feature of politics in the region, further defections may be expected. As to the objective of providing a 'training ground for EU accession', we can thus state that CEFTA 2006 participants become familiar with the formalities of regional cooperation. The aspects of 'creating solidarity' and 'fostering cooperative behaviour' are not (yet) achieved. The bilateral SAAs remain the most important framework for Western Balkan countries and the EU uses them to influence political decisions (such as support to pro-European forces in the Serbian election in spring 2008 by signing the SAA; and police reform as condition for the signature of the SAA with BiH). Also, access to EU markets is still more important as most trade is still carried out with the EU and not within the region. Nevertheless, a training ground for EU accession is provided in the sense of an adoption of parts of the *acquis* and interaction with the EU through its support measures.

Concerning development as one of the EU's economic objectives, it is yet too early to state whether CEFTA 2006 leads to increased prosperity (see above). Should all provisions of CEFTA 2006 be implemented as foreseen, there is little justification to expect negative consequences on the participating economies once they have adapted to increased competition. Support to CEFTA 2006 is an adequate instrument to pursue regulatory power as the agreement includes several references to harmonisation of EU rules and standards. The EU's overall support for CEFTA 2006 is an adequate vehicle to further implementation of these harmonisation measures. Concrete EU support directly impacts on rules and standards in the form of technical assistance to the relevant sub-committees. As stated in the programming fiche for IPA assistance to CEFTA 2006, the EU firstly supports studies to identify in which areas technical assistance is necessary. Again, the most concrete support for

³² P.M. Wijkman, *op.cit.*, p. 3.

harmonisation with EU rules and standards will be carried out under the national IPA projects. As regards commercial diplomacy and market access, the EU can be expected to be successful once Western Balkan countries proceed closer towards accession. Through support for investment-related projects in the framework of CEFTA 2006, the EU contributes to the improvement of the investment climate for European companies. As mentioned above, the objective of competition is of rather minor importance and already achieved with the Western Balkan countries decision to pursue integration with the EU.

When looking at the IPA support programme, it becomes clear that the focus is on financial and technical assistance that has already proved its value in the 2004/07 accession rounds. Again, the underlying logic is that once the technical details work, economic benefits emerge and the political will for cooperation increases. The three components of IPA assistance (funding to the secretariat; assessment of trade flows and investment environment; and technical assistance for the sub-committees) are thoroughly planned and expected results and indicators stated, so that we expect the foreseen measures to be carried out and to contribute significantly to the overall functioning of the technical aspects of CEFTA 2006. Problems might arise for the Commission's evaluation of these measures as its indicators do not always distinguish between the functioning of CEFTA 2006 or the secretariat as such and the concrete EU contribution to it. As the projects only started to be implemented recently, it is too early to draw conclusions on their success at this point.

Overall, the EU's focus on financial and technical assistance is adequate as it builds on expertise acquired through its own process of regionalisation and accession assistance. The EU will probably achieve its goals but in combination with bilateral accession assistance and SAA conditionality. As to the political tensions in the region, there is little that an external actor can do more than apply pressure for dialogue and concentrate on technical cooperation in uncontroversial areas.

4. Case II: The Agadir Agreement

On the whole, it seems that the EU exerted critical external influence for the creation of the Agadir Agreement. Working groups were established by the Euro-Med trade

ministers to assist in preparing the RTA.³³ The EU is in general the most important trading partner, leading to 'hub-and-spoke' patterns without "generalized and substantial trade flows between the 'spokes'".³⁴

As a basis, the agreement mentions explicitly "the bonds of Arab brotherhood" and "the strong relationships existing between [the parties]".³⁵ The EU is only mentioned in the penultimate recital. The application of Pan-Euro-Med RoOs is foreseen³⁶. In general, the Agadir Agreement is less specific than CEFTA 2006 and does neither include concrete target dates for revision or negotiations on further liberalisation nor a general evolution clause. Moreover, provisions on e.g. government procurement and financial transactions are weaker than those of CEFTA 2006, not only because of their unspecificity, but also because laws and procedures of each participant can be used as justification for non-implementation.³⁷ While some deeper integration issues are included, provisions remain vague, increasing the risk of diverging interpretations. As to the institutional structure, a Foreign Ministers' Committee, a Committee of Foreign Trade Ministers, a Technical Committee and a secretariat (the Amman-based Agadir Technical Unit, ATU) have been established.³⁸

4.1 EU Support for the Agadir Agreement – Objectives and Instruments

While South-South integration is one condition for the establishment of the Euro-Med FTA, the underlying motivation of support to the Agadir Agreement is of political nature. In the words of then Commissioner Patten, regional integration is "an instrument of economic growth – and ultimately, [...] an instrument of political

³³ A. Bayar, 'An Evaluation of the Benefits and the Challenges of the South-South Integration among the Mediterranean Partner Countries', FEMISE Research Network 2004-2005, Marseille, 2006, p. 16.; S. Neaime, *South-South Trade Monetary and Financial Integration and the Euro-Mediterranean Partnership: An Empirical Investigation*, FEMISE Research Network 2004-2005, Marseille, June 2005, p. 12.

³⁴ G. Escribano & J.M. Jordan, 'Sub-regional Integration in the MENA Region and the Euro-Mediterranean Free Trade Area', *Mediterranean Politics*, vol. 14, no. 2, 1999, p. 135.

³⁵ Agadir Agreement, Recital 2.

³⁶ Relevant for our analysis is diagonal cumulation (the RTA participants adopt common ROOs so that a product does not lose its origin status when it crosses borders within the RTA). R. Baldwin, S. Evenett & P. Low, 'Beyond Tariffs: Multilateralising Deeper RTA Commitments', Paper presented at WTO-HEI Conference on "Multilateralising Regionalism", 10-12 September 2007, Geneva, p. 3.

³⁷ See e.g. Art. 11 and 13, Agadir Agreement. There is however a provision on joint exhibitions (Art. 14 of the agreement).

³⁸ Agadir Agreement, Art. 24-28.

cooperation and peace".³⁹ By supporting the Agadir Agreement, the EU sends a signal to all MPCs concerning the importance of regional cooperation and contributes to the spread of its own rules and norms. Commercial diplomacy and market access are objectives, too, as the Agadir Agreement creates a market of around 120 million consumers⁴⁰ and opportunities for international supply chains.⁴¹ This directly links with competition as despite the Agadir countries' current trade orientation towards the EU, they concluded several bilateral FTAs, inter alia with the US and are potentially attractive markets not only for European companies.

As with CEFTA 2006, the EU supports the Agadir Agreements generally (illustrated for example by the Euro-Med Trade Ministers' meetings and by the presence of the External Relations Commissioner during the signing ceremony as well as of the Trade Commissioner at the First Agadir Investment Forum in April 2008⁴²) and through financial and technical assistance. Aid is channelled through the European Neighbourhood and Partnership Instrument (ENPI), which provides funding for institution building (support to the ATU), regional trade facilitation (e.g. training activities) and awareness rising and promotion activities.⁴³ The Commission Delegation in Amman manages the contractual and financial aspects of the grant.

4.2 Assessment

4.2.1 Effects of the Agadir Agreement as Such

As regards the overall economic situation of the Agadir countries, "[t]he first year of implementation of the Agadir Agreement [...] has shown so far mitigated results in terms of increase of trade flows amongst the partners".⁴⁴ Regarding the attraction of FDI, the Agadir Agreement did until now not fulfil expectations.⁴⁵ In 2007, FDI inflows

³⁹ C. Patten, EU Commissioner for External Relations, 'Speech on the Occasion of the Signature of the Agadir Agreement', Agadir, Morocco, 25 February 2004, p. 1.

⁴⁰ Commission, DG External Relations, 'Commissioner Patten attends signature of Agadir Agreement', *Press Release*, Brussels, 24 February 2008, p. 1.

⁴¹ Interview #1: Interview with an official, DG Trade, European Commission, Brussels, 5 February 2009.

⁴² S. Wippel, *The Agadir Agreement and Open Regionalism*, EuroMeSCo Paper, no. 45, Lisbon, September 2005, p. 9.

⁴³ Interview #6: Interview by e-mail with an official, Commission Delegation to Jordan, 13 April 2009.

⁴⁴ Partenariat EuroMed, 'Chairman's Conclusions', 7th EuroMed Trade Ministerial Conference, Marseille, 2 July 2008, p. 2.

⁴⁵ P. Mandelson, EU Trade Commissioner, 'Agadir and after: Prospects for a Free Trade Area of the Mediterranean', *First Agadir Investment Forum*, Brussels, 8 April 2008, p. 2.

decreased as compared to 2006 in Jordan and Tunisia.⁴⁶ The available data on trade balances illustrate significant deficits in all Agadir countries and real GDP growth decreased from in 2007 in Egypt and Morocco.⁴⁷

Concerning the provisions on traditional liberalisation issues, the implementation of the Agadir Agreement did not start smoothly. Already in the very beginning, tariff dismantling was late due to the delay of entry into force of the agreement.⁴⁸ Agriculture still generates significant parts of GDP in three of the Agadir countries, but the agreement does not go beyond GAFTA provisions and for some products, trade is even more liberalised with the EU than among Agadir countries. Provisions on new trade issues are in general rather vague and do not include concrete target dates for revision or further liberalisation. Since there are no documents publicly available on the work of the Agadir institutional bodies, we cannot make any statements on progress in implementation. Liberalisation of trade in services is proceeding in the framework of GATS, while there are no concrete provisions on investment and the provisions on competition, state aid and government procurement remain vague, and it is unclear what has really been implemented so far. Concerning the operating rules, RoOs have received most attention so far. The agreement foresees the application of the Pan-Euro-Med RoOs. There is no data yet on the extent to which they are used.⁴⁹ While adoption of the required customs procedures is positive,⁵⁰ different RoOs apply under GAFTA to which the Agadir countries are also parties.⁵¹ The Agadir Agreement has also been praised for its provisions on harmonisation of regulation and co-ordination of policies in several areas.⁵² However, these provisions (which are only referred to in one recital) remain so vague that it is not clear how coordination will proceed or if they are actually implemented. In general, we can conclude that it is not likely that the agreement will lead to deep integration because it does not cover important aspects such as services and investments. In addition, there are no publicly

⁴⁶ UNCTAD Country Fact Sheets, retrieved 10 March 2009, <http://www.unctad.org/Templates/Page.asp?intitemID=2441&lang=1>.

⁴⁷ Author's own compilation based on European Commission, DG Trade, Economic Fiches, retrieved 10 March 2009, 2008, http://trade.ec.europa.eu/doclib/cfm/doclib_search.cfm?action=search.

⁴⁸ S. Wippel, *op.cit.*, pp. 16-17.

⁴⁹ Interview #1

⁵⁰ Commission, *Action Fiche for the ENPI Southern Region*, *op.cit.*, p. 8.

⁵¹ S. Wippel, *op.cit.*, p. 19.

⁵² *Ibid.*, p. 17.

accessible documents by the committees established under the agreement and the ATU's website is still rudimentary.

As to the political effects of the RTA, only the first category, practice international cooperation, is relevant here due to the lack of a membership perspective. While there are meetings on the intergovernmental level, these are barely visible and bilateral channels are sometimes used more frequently.⁵³ Moreover, the Agadir Agreement's membership structure already recognised political tensions in the region.⁵⁴ Cooperative tendencies are visible among the current members concerning the reduction of competitive structures (e.g. in the automobile sector).⁵⁵ There are no signs of political cooperation beyond concrete sectors yet. As regards the supranational level, the first potential political effect of practicing the delegation of sovereignty has been partly realised as the ATU has been successfully established. While the Agadir process is still dominantly intergovernmental and conflicts are, if at all, dealt with in the Foreign Trade Ministers' Committee, the ATU achieved concrete progress in the form of studies and the organisation of events such as the Agadir Investment Forum. As to local commitment and ownership, indicated by an adequate regional budget, Agadir countries so far complied with their funding commitments to the ATU but there are fears that they might not continue to do so.⁵⁶

4.2.2 Assessment of the EU's Success in Promoting CEFTA 2006

While the EU position is that economic integration precedes political cooperation, Mediterranean representatives stated that political conditions should ameliorate first. As this implies that there would be no progress in the short- to medium-term, the EU rejects this view.⁵⁷ The often-faced dilemma between democratisation/political reforms and stability also applies in the case of the Agadir Agreement: on the one hand, regional economic integration is expected to lead to economic development, thereby increasing the pressure for political domestic reforms. On the other hand, economic (and following political) reforms could in the short term lead to

⁵³ A. Maazouz, 'L'image du Maroc à l'épreuve des faits', *Jeune Afrique*, 11 January 2009, retrieved 10 March 2009, http://www.jeuneafrique.com/Articleimp_ARTJAJA2504p084-085.xml0_.

⁵⁴ E.g. Algeria is not a member, also due to conflicts with Morocco.

⁵⁵ A. Maazouz, *op.cit.*

⁵⁶ Commission, Action Fiche for the ENPI Southern Region, *op.cit.*, p. 7.

⁵⁷ Interview #1

social instability due to increased competition among companies and restructuring of economies and thereby to regime instability, which is at least a short-term threat to EU security. At this first stage of economic integration, we do, however, not expect negative impact on the stability of governments in the region. The Agadir Agreement could rather be seen “as an avant-garde initiative bringing together the Arab world states that introduced economic reforms relatively early and with a comparative degree of earnestness”.⁵⁸ Since “the Agadir countries are also regarded as an ‘example’ of economic co-operation to other Arab countries”,⁵⁹ the EU’s efforts to promote a form of regional economic integration based upon its own model seem to be successful at least in this first stage. Although the EU cannot offer the ‘carrot’ of membership, the prospects of increased market access, inter alia through the application of the Pan-Euro-Med RoOs, seem to render regional economic integration in the Southern neighbourhood possible. Again, the EU refers to its own integration history when locating its role in this process: “The important principle is that reforms must be owned by the countries in the region themselves, even if helped by others. In the same manner that when the EU embarked on the process of reforms years ago we did so under our own ownership, even if helped by others.”⁶⁰

The EU’s broader objective of exporting its model for regionalisation is in a very first stage of focusing on technical cooperation. This focus is adequate as illustrated firstly by the failure of several political regional cooperation projects in the region and secondly by concrete, if still limited, results. In the words of then Commissioner Mandelson, “[t]he EU’s financial and technical support for the Technical Unit is important, but the political ownership has to belong to the Agadir member States [sic]. I am very pleased to see that such a sense of ownership is growing.”⁶¹

With a view to the EU’s economic objectives, it is yet too early to draw conclusions about the overall growth and development benefits of the Agadir Agreement (development objective). Yet, the formal condition of having RTAs in

⁵⁸ S. Wippel, *op.cit.*, p. 19.

⁵⁹ *Ibid.*, p. 24.

⁶⁰ C. Patten, *op.cit.*, p. 3.

⁶¹ P. Mandelson, *op.cit.*, p. 3.

place before the Euro-Med FTA will be established starts to be fulfilled.⁶² Currently, a Euro-Med Trade Roadmap until 2010 and beyond is prepared for presentation at the December 2009 Euro-Med Trade Ministerial.⁶³ It can be expected that regulatory harmonisation will take a prominent place in this document.⁶⁴ However, as in the case of the Western Balkans, harmonisation of rules and standards is however mainly pursued under the bilateral association agreements.⁶⁵ Currently, bilateral Agreements on Conformity Assessment and Accreditation are negotiated on the Euro-Med level. Also, negotiations on liberalisation of services have been launched with Egypt, Morocco and Tunisia.⁶⁶ On the inter-regional level, the EU successfully promotes the Pan-Euro-Med scheme of cumulation through technical support to the ATU. Still, differing schemes in the region might backfire in terms of lost trade benefits and negative consequences for growth and, eventually, the EU's security. The easiest way to achieve the application of Pan-Euro-Med RoOs would be to conclude a single regional convention.⁶⁷ The 'carrot' of increased market access is particularly relevant for agricultural products. As illustrated above, the EU successfully pursues regulatory expansion in the field of sanitary and phytosanitary standards as MPCs must comply with EU standards if they want to increase their exports. The achievements in the field of market access are promising and include concrete initiatives to establish business-to-business contacts such as the First Agadir Investment Forum.⁶⁸ As increased knowledge in the business community about the Agadir countries and awareness rising are objectives pursued through ENPI support to the ATU, this part of EU support is quite successful. It is expected that the ATU will produce information about the investment climate in the Agadir countries (in cooperation with other Community programmes such as Invest in Med etc.). The assistance under ENPI is adequate to that end. Support to the ATU is also successful as concrete studies were produced with EU assistance that may serve as basis for the coordination of economic policies in specific sectors. ENPI programmes are in

⁶² Even if the target date of 2010 is very unlikely to be reached. However, the date has been kept to maintain pressure for reforms in the MPCs.

⁶³ Partenariat EuroMed, *op.cit.*, p. 5.

⁶⁴ Commission, *Euromed Ministers strengthen Euro-Mediterranean trade and investment relations beyond 2010*, Press Release, IP/09/1890, 8 December 2009.

⁶⁵ E. Lannon, 'Towards a Union for the Mediterranean: Progress and Challenges in Economic and Trade Relations', *Briefing Paper*, Policy Department External Policies, Committee on International Trade, European Parliament, September 2008, p. 3.

⁶⁶ *Ibid.*, p. 9.

⁶⁷ Interview #1

⁶⁸ J. Smith, 'First Agadir Member States Investment Forum a Major Step for Euro-Med Integration', *Business Intelligence Middle East*, 26 March 2008, retrieved 28 April 2009, <http://www.bi-me.com/main.php?id=18547&t=1&c=33&cg=4>.

general not as detailed as IPA provisions because non-candidates do not have to implement the *acquis* which enables a higher degree of local ownership in the projects and avoids the impression that the EU imposes its will on its neighbours.

Through its pronounced support for the Agadir Agreement, the EU has established itself successfully as influential actor concerning competition for regulatory standard-setting and market access. Its distinct inter-regional approach distinguishes it from the rather bilateral approach pursued by the US, and its concentration on technical features of economic cooperation is more promising than political regional integration initiatives in the Southern Mediterranean.

5. Comparison and Conditions for Success

There are similarities and differences regarding the respective contexts of the creation of the two RTAs. Both are located in the EU's neighbourhood, but in different geographic regions. Also, while CEFTA 2006 is a 'regional' grouping in that it includes all the countries from the Western Balkans, the Agadir Agreement includes only four of the MPCs which do not even share common borders. The main difference is, however, the EU membership perspective for most of the CEFTA 2006 parties. Although this has implications for almost every aspect of the relation between the EU and the RTAs, it does not determine the EU's success as the objectives are different.

Regarding the content of the agreements, the Agadir Agreement is less specific and does not include target dates for revision or further negotiations on liberalisation. This makes the Agadir Agreement's implementation more dependent on political will to deepen integration and also complicates its assessment. Our findings indicate that intergovernmental cooperation is more effective in terms of concrete working plans, negotiations on further liberalisation and overall progress in integration in CEFTA 2006 than in the Agadir Agreement.

Concerning inter-regional relations, the relevant meetings between EU and Agadir officials and ministers are those in the EMP framework (e.g. Euro-Mediterranean Trade Ministerials) as the Agadir Agreement is just a step on the way to an overall Arab Mediterranean FTA and then a Euro-Mediterranean FTA. By contrast, there are no regular institutionalised EU-Western Balkans trade ministers' meetings. Here, the accession perspective probably plays a role, as the creation of a

regional 'counterpart' to EU trade ministers might not be suitable for future relations within an enlarged EU. Inter-regional relations are in both cases accompanied by bilateral relations that are, at least by the third countries, perceived as more important. For the Agadir countries, this is illustrated by efforts to reach more favourable and far-reaching bilateral relations with the EU such as through Morocco's *statut avancé*. An opinion poll in Morocco came to the conclusion that, while Morocco wishes to have friendly and cooperative relations to its neighbours in the region, a 'partnership' is reserved for the EU.⁶⁹ Also CEFTA 2006 participants know that their individual accession prospects depend on their progress in meeting the accession criteria – of which regional integration is only one.

The accession perspective also impacts on the export of norms and values by the EU. This aspect of support to RTAs seems to be less acute in the Western Balkans as these countries are already committed to adopt EU values through accession. On the contrary, the MPCs are in general not as committed to further peace, liberty, democracy, rule of law and human rights – although the Agadir group do consist of the most advanced reformers in the region. EU support to the Agadir Agreement here also serves to illustrate that reforms are rewarded and thereby may convince other MPCs to join this path. In addition, the EU is the sole external donor to the Agadir Agreement and indirect co-initiator, while CEFTA 2006 has been established out of a much broader international context even though the EU has a dominant role. This implies that the stakes are higher for the EU in the Agadir Agreement. The membership perspective of the Western Balkan countries also impacts on the issue of market access for EU companies and competition with other external actors. Again, the MPCs are not future 'EU territory' and competition is still going on, as illustrated by the increasing number of bilateral FTAs (e.g. with the US). This is reflected in more visible concrete investment promotion activities in the Mediterranean supported by the EU (e.g. the Agadir Investment Forum) and an emphasis on business contacts with EU companies. The EU's support programmes are also managed differently: in the case of CEFTA 2006, Commission officials in Brussels centrally manage EU support and also the secretariat is located there. This is more appropriate as preparation for EU accession is the ultimate goal, so closeness to EU structures in Brussels is crucial. In contrast, the Commission Delegation in the region carries out support to the Agadir

⁶⁹ L. Martinez et al., *Le Maroc, l'Union du Maghreb Arabe et l'intégration régionale*, EuroMeSCo Paper, no. 67, Lisbon, May 2008, p. 6.

Agreement. For the Southern Mediterranean context, this is more appropriate as the impression must be avoided that the Agadir Agreement has been imposed upon the participants by an external actor. Concerning the secretariats of the RTAs, there is already a difference in the names. The CEFTA 2006 Secretariat is called 'secretariat', while 'Agadir Technical Unit' emphasises the limited role it has. This is to be explained by general reservations towards supranational structures in the MPCs, whereas the Western Balkans will have to submit their trade policy to Community rules eventually. The strong de facto influence of the EU on the Agadir Agreement is illustrated by two EU technical experts working in the ATU, while there is only 'regional' staff in the CEFTA 2006 Secretariat. In the concrete support programmes, the provisions on IPA projects are in general more specific than those on ENPI projects (for example in terms of expected results and measurable indicators). This can again be explained by the membership perspective since candidate countries will have to implement the very detailed provisions of the *acquis* and will undergo thorough monitoring processes.

From these findings we can derive a condition for the successful exportation of the EU model of regionalisation (to be complemented with case-specific aspects): there must be political willingness and commitment on the part of third countries to accept EU norms and values, be it due to material benefits (benefits of regional economic integration outweigh costs) or normative considerations. Also, political tensions must not be too high to prevent any form of cooperation which illustrates the importance of the membership structure of an RTA.

6. Concluding Remarks

This paper analysed the promotion of regional economic integration by the EU. The findings of our two case studies indicate that the EU pursues different political objectives through its support for RTAs, providing support on a more general political level and through concrete financial and technical assistance programme. Having a membership perspective influences the EU's objectives and their relative importance as well as the choice of the concrete external assistance programmes. However, the EU is not necessarily more successful in promoting regional economic integration among (potential) candidate countries as illustrated above.

Overall, it is not yet clear whether regional economic integration in the form of the two RTAs will yield the expected economic benefits and thus contribute to political cooperation. To what extent regional integration in the EU's neighbourhood can be a panacea for the prevailing problems will have to be assessed once the full effects of the RTAs can be observed. As regards the Southern neighbourhood, the creation of strong bonds requires also the participation of all MPCs in the RTA.

Hence, does the EU possess the 'magic formula' for promoting regional integration? Our findings suggest that the EU is at least quite convinced of its own model of regional integration that started with economic cooperation in limited sectors and spilled over to political integration. The EU promotes this model rather actively, also through a focus on support for regional institutions set up by RTAs to demonstrate the value of supranational bodies. As our analysis of EU support to the Agadir Agreement indicates, the EU can also successfully promote regional economic integration without offering membership if it offers strong incentives and if political tensions in the region concerned are not too high, that is if the RTA in question has an adequate membership structure. Here, it should be kept in mind that RTAs may be artificially constructed entities and not 'regions' in the sense of broader political cooperation or even the appearance of a regional identity (that is, forms of second or even third generation regionalism).

The EU ultimately aims at exporting its core norms of peace, liberty, democracy, rule of law and human rights. As illustrated by our case studies, support to RTAs can contribute to this aim, however, it is not a guarantee for success as tangible benefits from regional economic integration are needed for spill-over effects into political cooperation. Eventually, geographical neighbours cannot be integrated through the EU but must have the political will for regional integration.

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