Defensive Integration and Late Developers: The Gulf Cooperation Council and the Arab Maghreb Union

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In the late twentieth century, the world economy is experiencing a trend toward regional integration of national economies. This phenomenon may be intimately related to the internationalization of trade and financial flows and concurrent pressures for liberalization. In the developing world in particular, integration can be viewed as a direct policy response to mounting pressures from the international economy and the ascendance of neoliberal thinking since the 1980s. Both the internationalization of capital flows and the adoption of liberalization policies threaten to diminish state authority over national development strategies. Conceivably, regional cooperation can mitigate the uncertainties created by global economic pressures, allowing states to reclaim some control over compromised aspects of economic sovereignty. This essay focuses on the underlying reasons for the formation of two cooperative arrangements among late developers: the Gulf Cooperation Council (GCC) and the Arab Maghreb Union (AMU). My hope is that examining these cases will shed light on the principal bases of the trend toward regionalization in the developing world.

An analysis of these two cases suggests that external economic forces, such as global price fluctuations or the specter of lost international trading opportunities, are important catalysts for regionalization in late developers. Reacting in part to changes in the international economy that threaten their economic viability, participants aimed to collaborate on limited objectives. Rather than an internally motivated drive toward cooperation, these countries turned toward this option reluctantly. Within the GCC and AMU nations, domestic interests lobbied vigorously against closer economic coordination with neighboring countries. Governments were loath to cede economic sovereignty to engage in partnerships with neighbors, many of which were long-standing rivals.

The article begins with an exploration of the relationship between regionalization and internationalization, drawing on analytical approaches
linking the two phenomena, and reviews several theoretical understandings of regional integration. Positing that integration among late developers is a distinct process, the first part concludes with a discussion of economic theories that support the idea of regional integration as a reaction to narrowed opportunities in the global economy for developing economies. The second and third sections examine the influence of specific international economic forces in spurring the two groupings. The article concludes with a brief discussion of the two cases, analyzing the reasons for a similar outcome—the decision to pursue institutionalized regional cooperation—in two relatively different sets of countries. The study does not offer predictions about the viability of these cooperative arrangements and, indeed, the AMU is all but dormant. Rather, the purpose is to explore the underlying reasons for two cooperative schemes among late developers, a goal that might illuminate other moves toward regionalization in the developing world.

Reexamining Regionalization in the Age of Internationalization

Regionalization and Internationalization

The relationship between internationalization and the formation of regional blocs is contested, in part due to the broad array of definitions of these two processes. Andrew Hurrell’s discussion of “regionalism” outlines several interpretations, ranging from state-led “regional integration” efforts, which exhibit varying degrees of policy harmonization and institutionalization; to “regionalization,” or the process by which “autonomous economic processes . . . lead to higher levels of regional interdependence within a given geographical area”; to loose notions of “regional awareness” or “identity.” Integration among developing countries is not purely state centric, as the reactions of Gulf and Maghreb social groups to the formations of the GCC and AMU attest. But given the prominent roles of the member governments in forging these unity schemes, the two cases correspond most closely to Hurrell’s “regional economic integration.” Diverse understandings of both the definition and effects of “internationalization” have also caused confusion. In this essay, I accept Robert Keohane and Helen Milner’s basic proposition that internationalization refers to the “processes generated by underlying shifts in transaction costs that produce observable flows of goods, services, and capital,” emphasizing that specific states and societies do not experience the impact of these flows uniformly. Moreover, the discussion below stresses the importance of isolating specific external economic pressures in analyzing the effects of internationalization.

Although they provide numerous useful insights, many discussions of cooperative arrangements among industrialized nations do not explain the
integration schemes in these two sets of late developers. For example, a common explanation for the rise of regional blocs—that intrabloc concentration of trade and financial interaction drives regionalization—clearly does not account for institutionalized cooperation in the Gulf and Maghreb, where trade is biased externally to an overwhelming degree.4

Based on an assessment of European unification, Wayne Sandholtz and John Zysman’s assertion that the responses of political elites to geopolitical challenges drove integration also neglects the principal bases for Maghreb and Gulf cooperation.5 In both cases, long histories of regional tensions and persistent obstacles to cooperation demonstrate that these integration projects did not arise out of a shared vision of unity but in response to new common concerns of the member states. Although it is generally accepted that the GCC initially arose in response to perceived regional security threats, the organization increasingly emphasized shared economic concerns in the 1980s. The Maghreb states, plagued by long-standing political conflicts that undermined the rhetoric of regional unity, pursued cooperation only when the prospect of increased European trade barriers posed severe economic threats to the region. Similarly, the Gulf and Maghreb integration experiences contradict another elite-focused explanation for regionalization—the neofunctionalist “spillover” model—which holds that elite actors unwittingly construct integration projects as they work together to address seemingly unrelated challenges.6 These regional groupings arose more from domestic political economic reactions to international economic constraints than from elite-level interactions evolving from limited cooperation into larger projects.

The conception of “coercive isomorphism” also fails to adequately reflect the dynamics that underpin Gulf and Maghreb decisions to participate in supranational economic organizations.7 According to this approach, organizations arise or change as a response to the existence of other organizations, rendering them more alike although not necessarily more efficient. Such explanations may apply in arrangements among advanced industrial nations, where trade relations among member states are extensive and elites effectively pursued long-standing visions of integration, but these approaches underplay the motivations behind the formation of the GCC and AMU.8 Recent work on federalism as well as sectoral approaches, despite their tendency to rely on sparse deductive foundations, provide more useful starting points for analyzing Gulf and Maghreb cooperation.

Federalism traditionally refers to governing arrangements between central and subnational governments, but some interpretations highlight analogies to relationships between national and supranational bodies. Reviewing these approaches, Richard Simeon and Katherine Swinton note that “global forces—economic and social—are necessitating a rethinking of the role of the central state, with power and authority diffusing both downwards to local and state institutions and within countries, as well as relationships between countries.9 International economic shifts affect state
capacity by altering governmental abilities to respond to constituents and rearranging domestic incentive structures, calling for new economic policymaking approaches. Similarly, in his discussion of East Asian regional integration, James Mittelman suggests that international economic changes have contributed to the rise of regional integration as a state-led effort to "shield domestic society from and integrate it into the global division of labor." 10

An examination of the effects of internationalization on domestic politics requires a disaggregated treatment of the global forces in question. In recent decades, internationalization has appeared in different phases, each with distinct ramifications for state capacity and domestic coalition formation. In the 1960s, multinational companies (MNCs) and foreign direct investment (FDI) were the dominant forces in international economic activity, potentially subjecting the host state to pressures from foreign companies. 11 A second phase of internationalization in the 1970s, with the oil boom and the funneling of petrodollars to non-oil-producing less developed countries (LDCs) via the Euromarkets, had important consequences for both oil-producing and oil-consuming states. The Gulf Arab countries benefited greatly from these flows until the 1980s, when oil prices plummeted. 12

The current stage of internationalization is characterized by national trade and financial liberalization, a strategy adopted by many developing countries to attract capital during the 1980s and comply with the conditions of adjustment packages. 13 Analysts cite highly mobile trade and capital flows, facilitated by technological change and economic liberalization, as the key features of an internationalized economy where the nation-state is increasingly jeopardized; yet they emphasize different features of these phenomena. 14 Furthermore, the actual degree of international capital mobility and its impact on the scope of national policymaking are subjects of debate. 15 It is important to note that the effects of internationalization vary according to specific domestic contexts. In stylized terms, however, international economic changes reconfigure the array of resources available to the state, potentially limiting domestic macroeconomic control and eroding national economic sovereignty.

Jeffry Frieden and Ronald Rogowski present a framework for analyzing the effects of exogenous economic variables on domestic politics. 16 Relying on international trade theories, they contend that changes in the international economy, translated into national contexts through shifts in relative prices, elicit varying responses from different sectors. According to their deductive model, improving terms of trade lead to pressure for greater participation in the international economy, and declining terms of trade increase pressure for protection against global economic trends. Because global financial integration can delimit the scope of national macroeconomic policies, insulation against price shocks is increasingly
difficult and alternative strategies are in order. Cooperation with economic “neighbors” is one approach. The decision to pursue supranational policy coordination depends largely on its distributional effects. Frieden predicts that externally oriented groups are more inclined toward cooperation as a strategy to promote reduced domestic barriers to international trade.\textsuperscript{17} These propositions are a starting point for examining how international economic stimuli filter through specific domestic contexts.

Internationalization engenders a tension between simultaneous tendencies toward centralization and decentralization. One line of the federalist literature contends that national authority is increasingly transferred to both the local and supranational domains, implying that federalism is an institutionalized attempt to deal with changes wrought by global economic pressures. Federalism is an intermediate way to address problems that are now beyond the scope of national governments yet are crucial to their continued existence. In this sense, governments and certain externally oriented actors may share an interest in participating in supranational organizations.

**Regionalization in the Developing World**

The international economic context, I argue, plays a crucial role in compelling LDCs to pursue regional arrangements. Exposure to global price fluctuations and rising protectionist tendencies among important trading partners in the advanced countries, notably the European Community (EC), induce LDCs to seek opportunities elsewhere, particularly within their own regions.

Focusing on the potential for trade creation and diversion arising from integration, orthodox economic theory yields a grim prognosis for most LDC cooperative efforts.\textsuperscript{18} Unions of countries that share little volume of trade and instead orient their trading arrangements toward industrial countries seem doomed to failure. More contemporary approaches, however, emphasize the dynamic effects of reducing transactions and administrative costs. Attempts at integrated structural change, unorthodox theory maintains, improve the prospects for successful LDC economic blocs.\textsuperscript{19} Peter Robson observes that

at low levels of development, not only are the benefits of classical integration on the basis of trade liberalization limited, but also, because of widespread distortions, trade liberalization itself gives rise to major problems. Successful economic integration among less developed countries therefore seems likely to call for a more deliberate approach than has been found necessary in advanced economies. Moreover, since it finds its rationale largely in the gains from coordinating and stimulating investment, it must be accompanied by measures to create or strengthen the production structures.\textsuperscript{20}
In many LDCs, integration therefore entails a greater focus on planning and does not arise automatically through regulatory competition.

Emphasizing coordination of investment and industrial policies, integration among late developers becomes an instrument of development policy. In contradistinction to neoliberal prescriptions for deregulation and minimal government, LDC integration schemes seek to reclaim some scope for centralized control over development strategies. Primary goals in LDC integration include coordinating projects to capitalize on potential economies of scale and preventing industrial duplication. Nonetheless, although dynamic theories of integration demonstrate that there are more advantages to LDC cooperation than neoclassical theory presupposes, as long as trade relationships are geared largely toward industrial countries the potential for development through integration is limited.

The crucial nexus for examining the link between internationalization and supranational cooperation is the interplay of global stimuli and their effects on domestic incentive structures. These stimuli, including increased capital mobility, fluctuations in world prices of goods and commodities, and the commercial practices and policies of important trading partners or blocs, have immediate and direct effects on national economies. External changes influence trading opportunities and hence foreign exchange earnings, which fuel budgets and allow states to maintain support bases. Increased uncertainty regarding capital flows is particularly troublesome for developing countries, which often have limited manufacturing bases and instead may depend heavily on more volatile commodity exports.

The following discussion elucidates the effects of specific international economic stimuli on two distinct sets of countries. The GCC case examines the reasons for cooperation among a unique set of countries—petroleum exporters with limited domestic absorptive capacities and relatively undiversified export bases. The dangers of relying on volatile oil revenues and Euromarket investments, products of the second phase of internationalization in the 1970s, provided the rationale for the council’s shift in focus beyond security issues. More recent efforts to deal with issues related to capital mobility and cross-border investments reflect this evolution. The AMU, a less homogeneous grouping, includes densely populated petroleum producers and consumers with somewhat broader export bases. For the Maghreb states, cooperation was a response to features of the third phase of internationalization, specifically liberalization and increasing global trade competition. In both cases, despite these important differences, shifts in external incentives provided motivations to pursue regional cooperation schemes.

The Gulf Cooperation Council

At first glance, it seems unlikely that the oil-rich Gulf countries would require significant protection from global economic forces, yet exposure to
unstable international markets is particularly threatening to these states. Fluctuations in world prices of petroleum, the mainstay of the Gulf economies, coupled with external and internal limitations on regional industrial development schemes rendered the GCC states highly vulnerable to external economic forces and propelled them toward cooperation on economic issues, thus expanding the focus of the organization beyond mutual security concerns.

Military considerations provided the initial impetus for the formation of the council in 1981. Against the backdrop of the Iranian revolution (1979), the takeover of the Grand Mosque at Mecca by Shiite pilgrims (1979), and the Iran-Iraq war (1980–1987), the Gulf states developed close links on security issues to address their collective military unpreparedness. Although conventional wisdom holds that the GCC is a security alliance, it is important to highlight the impact of international economic pressures on its evolution. Throughout the 1980s, the organization moved beyond its almost exclusive military focus, adopting a more comprehensive agenda that emphasized mutual economic concerns.

The GCC Economic Agreement, passed in June 1981, specifies the economic objectives of the organization. Although many of these goals have been modified or sidelined because they impinge on national economic

Figure 1 Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudia Arabia, and the United Arab Emirates
society, they remain major points of discussion in GCC forums. These objectives include implementing a free trade area with no barriers on regional products and common tariffs on foreign imports; consolidating bargaining power in negotiations with external trading partners; establishing a common market that granting citizens the right to travel, work, own, and inherit in all member states; harmonizing development plans to promote integration; adopting a common oil policy; coordinating industrial policy, particularly with respect to petroleum-based products; promoting joint projects to coordinate chains of production; adopting a common legal framework for regional trade and investment; and linking transportation networks.21

Continued GCC development must be examined in the context of the unique relationship between its members and the international economy. Overwhelmingly reliant on a single commodity—oil—which is highly susceptible to external fluctuations, the Gulf economies are particularly open to variability in international markets. Furthermore, oil is traded in dollars, rendering it especially vulnerable to international currency fluctuations. The impact on oil producers of windfall gains from soaring oil prices in the early 1970s is well known.22 Almost overnight these economies faced massive capital inflows, and limited absorptive capacities posed unique challenges for the Gulf economies. Investing oil surpluses in international financial markets rendered the Gulf economies even more exposed to the uncertainties of international finance, and relying on foreign sources of tax revenue combined with limited state extractive capabilities rendered adjustment to external macroeconomic shocks extremely difficult. The "bust" of the oil market in the 1980s revealed the extent of Gulf susceptibility to the international economy.23

As an antidote to excessive reliance on a single commodity and its upstream and downstream industries, industrial diversification has become a primary goal for the GCC states. Regional integration was increasingly attractive as a response to external vulnerability.24 Industrial redundancy was a serious obstacle to regional development, and coordination of manufacturing efforts was an important goal of the council. Increasing international competition in many product markets targeted by the Gulf states as well as their limited domestic absorptive capacities highlighted the need for coordinated investment and development strategies. Although it is clear that military considerations played an important role in the organization's initial formation, awareness of acute exposure to the vagaries of the international economy has provided the cement for the continued existence of the council.

Thus, coordinating economic development plans and avoiding industrial duplication were important GCC concerns as the member states sought enhanced domestic manufacturing capabilities. Downstream petroleum industries, such as petrochemicals and plastics production, dominate their
industrial sectors. The net result is a high concentration of capital-intensive, energy-related industries in the Gulf region. Al-Moajil observes,

The actual growth of industry in each state has not been related to a regional strategy aimed at maximum exploitation of regional resources and markets. In the absence of a coordinated regional strategy, excessive capacity was installed in some sectors of industry, while none was installed in others. This imbalance, coupled with the limited size of markets available within any single state, meant that there was no possibility for the growth of integrated industries, so long as development took place at the state level rather than in a regional context.25

Duplicating petroleum-based industries has not only contributed to world overproduction of these products but also placed Gulf producers in direct competition with each other.

Considerable obstacles plague Gulf industrial diversification, rendering a coordinated regional development strategy crucial. Small internal markets and limited domestic labor forces inhibit Gulf industrial development and largely preclude regional import-substitution strategies. All intermediate goods except oil, gas, and sand must be imported. For that reason, domestic industrial ventures inevitably rely on international markets. High demand for imported consumer goods further exposes the Gulf economies to external pressures and constrains the budgetary flexibility of the GCC governments. GCC institutions such as joint committees to coordinate industrial development and the Gulf Investment Corporation were designed to address Gulf concerns over industrial duplication and promote joint ventures.

To encourage integrated development and boost intraregional trade, a primary GCC goal was the establishment of a free trade area.26 Soon after the council was established, the Saudi finance minister commented, “Pooling economic and social resources is the only way to ... guard against the social upheaval caused by the sudden influx of oil wealth.”27 Officially established in March 1983, the free trade area arguably has been the most successful feature of the council. Agreements undertaken in 1982 already permitted GCC nationals to undertake economic activity in industry, agriculture, and trade in all six member states and officially abolished intra-GCC transit restrictions and customs duties on GCC products.28 Furthermore, the fact that the Gulf currencies are freely convertible has facilitated intra-GCC capital mobility. The December 1994 decision to allow GCC nationals to own and trade shares in all stock markets in the member states reinforced financial linkages among the Gulf states.29 These efforts reflect the growing importance of economic concerns in the council, particularly after the oil shocks of the 1970s and the recession of the 1980s in the Gulf.

Advances in Gulf unity have not masked the considerable reluctance of the GCC states to compromise national sovereignty. The creation of the GCC reflects the mutual recognition of the need for cooperation. Yet steps
toward integration have come incrementally, and the participants guard their economic sovereignty jealously. The free trade area has proceeded in fits and starts, and the economic bust of the early 1980s, while demonstrating the urgent need to reduce external exposure through integration, also caused members to postpone the sacrifices needed for regional cooperation. Tariffs to protect local industries and reduce dependence on imports, for example, have persistently threatened regional trade. The debate over domestic subsidies exemplifies the reluctance to cede control over issues of national jurisdiction to a regional authority. The implementation of an effective free trade area requires the harmonization of national subsidies on important industrial inputs, such as water and electricity, yet national subsidization policies vary widely in the Gulf. Loath to incite protests from domestic constituencies, states are reluctant to cut subsidies.

Even if the council successfully instituted a complete free trade area, the small amount of intra-GCC trade limits the significance of the arrangement. The bulk of GCC trade occurs with the industrial nations, which receive approximately 70 percent of the region’s exports and provide more than 70 percent of its imports. Structural similarities among the Arab Gulf economies further limit the usefulness of free trade arrangements. The real utility of the GCC lies in its ability to coordinate industrial activity, avoid duplication, and foster an integrated development scheme that will create complementarities and forge effective trade and financial linkages among its members. Ultimately, the arrangement’s success depends on its ability to diversify the region’s industrial base.

Establishing a customs union, another GCC goal, has more immediate implications for its member states. With a mandatory common external tariff on imports from the rest of the world, a customs union would infringe on national sovereignty over economic policy. The arrangement, however, would give the GCC more bargaining power as a bloc in international trade negotiations. An integral part of a regional development strategy, a union would also ensure that no Gulf state has an advantage over its partners in foreign trade of competing goods. Officially, a customs union was established in March 1983, setting a unified customs levy ranging from 4 to 20 percent on foreign imports and exempting certain GCC products entirely; but the GCC states have yet to implement the agreement. Domestic opposition to the stipulated tariff level is a significant obstacle. The required adjustment to the tariff rate, which was raised from 6 to 8 percent in 1995, has evoked strong opposition from some GCC members. Pressured by its powerful trading community, the United Arab Emirates federal government has protested most vociferously.

International economic shocks have had a contradictory effect on the Gulf integration process. Although external economic pressures provided a crucial impetus for cooperation, the downturn also hardened reluctance to forfeit control over national economic and trade policy. With the onset
of recession in the 1980s, the GCC states were increasingly ambivalent about participating in a customs union. Hesitant to relinquish any competitive edge in transactions with foreign trading partners, the participants consistently delayed implementation of the 1983 agreement.

Another impetus for the formation of a customs union has come from the EC. As part of its policy to encourage the formation of regional trade blocs in the developing world, the EC has urged the Gulf states to implement a unified external tariff, making a comprehensive trade agreement with the Gulf states contingent on this action. Indirectly, its problematic relationship with the EC, which highlights the threat of Fortress Europe, further impelled the Gulf states toward regional cooperation. Protective of domestic markets, the Europeans consistently deny preferential access to downstream petroleum products from the Gulf. Although there are no restrictions on oil or gas imports, the EC levies tariffs against oil and petrochemical products. Reluctant to fight for market share and thereby risk plummeting prices, the GCC opted for a negotiated agreement with the EC. Yet more than a decade of talks has failed to produce a deal. Succumbing to pressure from EC petrochemicals producers, Europe consistently rejects Gulf proposals for interbloc trade liberalization. Moreover, the EC strengthened its barriers against Middle Eastern petrochemicals in 1986, imposing tariffs of 12.5 to 14 percent above existing quotas.

Formulating a coordinated oil strategy is an additional item on the GCC agenda. The GCC member states have tried repeatedly to forge joint pricing and production policies to mitigate the effects of oil shocks on their economies. At a meeting in early 1982, the ministers pledged to unify their pricing positions in the Organization of Petroleum Exporting Countries (OPEC) and the Organization of Arab Petroleum Exporting Countries (OAPEC). Other proposed joint commitments include constructing an Omani pipeline to circumvent shipping routes through the Strait of Hormuz and cutting domestic subsidies on energy products. Although the GCC lacks sufficient bargaining strength to act as a cartel, it represents an important coalition within OPEC. The recession, however, exposed weaknesses in Gulf unity on oil policy, and GCC members were unable to form a successful bloc within OPEC. As oil prices declined, the GCC countries vied for greater individual shares of the world oil market.

In sum, three issues have dominated the GCC agenda in the quest for enhanced economic security through regional integration. First, to reduce oil dependence and excessive exposure to international economic shocks, the Gulf states emphasized coordinated industrial development. To this end, the GCC pursued the establishment of a free trade area, although disputes over varying subsidy levels in the member states stalemated this effort. Second, the council sought the long-term goal of a regional customs union. Debates over external tariff levels postponed this endeavor as well. Finally, the GCC states attempted to coordinate oil pricing and production
policies to compensate for the lack of unity in OPEC. Although the organization has not realized these objectives, the nature of these goals demonstrates that challenges from the international economy—specifically, the economic contraction that followed the oil boom of the 1970s—provided the crucial rationale for the council’s continued existence and evolution beyond military cooperation.

The Arab Maghreb Union

A different set of international economic pressures contributed to the establishment of the Arab Maghreb Union. Formed almost a decade after its Gulf counterpart, the AMU was largely a response to the expansion and consolidation of the European Community in the 1980s. The prospect of increasing protectionism in Europe, the dominant trading partner of the AMU members, had a profound effect on these states. Thus, increasing exposure to international export markets in the 1980s facilitated by trade and financial liberalization measures were important catalysts for the union.

Established in February 1989, the agreement included two main stipulations to promote cooperation. First, it called for the gradual realization of the free movement of people, goods, services, and capital throughout the region. Second, it sought the adoption of common diplomatic, military,

Figure 2  Arab Maghreb Union (AMU): Algeria, Libya, Mauritania, Morocco, and Tunisia
economic, and cultural policies. The contracting parties declared their intentions to establish a customs union in incremental stages: by 1991, the AMU would adopt unified tariffs on imports and would achieve a full customs union by 1995. Significantly, the administrative structure of the union explicitly safeguards national sovereignty. Refusing to surrender autonomy to a supranational body, the members assigned all decisionmaking powers to the Conseil Présidentiel, which adopts resolutions only unanimously. The participants established the AMU reluctantly, only in response to external impetuses.

The treaty had obvious utility for political relations among its members. The North African states share a long history of tense relations, particularly between Morocco and Algeria. When examined in this context, the AMU can be viewed as merely another attempt to secure a regional balance of power through an ephemeral political arrangement. The union, however, was unique in its joining of all the states in a single body. The passage of the Single European Act (SEA) in 1986 and the enlargement of the European Union to include Spain, Portugal, and Greece were its primary catalysts. Changing external economic conditions, particularly in Europe, had profound implications for the Maghreb domestic economies, producing an environment conducive to a new chapter in relations among the AMU nations.

A discussion of the recent history of Maghreb relations contextualizes the formation of the AMU. Until the passage of the SEA, intense political rivalries characterized relations among the members, producing a series of short-lived political alignments among shifting combinations of the North African states. Mary-Jane Deeb views this history as an effort to “protect the independence of each state within a system ensuring that no one state becomes too strong and thus threatens the other.” As Deeb concedes, her analysis falters when applied to the mergers of the late 1980s, after the signing of the SEA.

Two alliances occurred in early 1988 that foreshadowed the formation of the AMU and shifted the basis of Maghreb alliance formation from geopolitical to economic terms. The first, signed in February 1988, restored diplomatic relations between Tunisia and Libya. Emphasizing the need for economic integration, the two states agreed to remove all restrictions on the free movement of people and pledged to undertake joint oil exploration projects. Highlighting complementarities among the contracting parties, the Tunisian foreign minister noted that Libya could act as an outlet for surplus Tunisian labor and exports while benefiting from Tunisian skilled workers.

The second major treaty, signed in May 1988, declared a reconciliation between Morocco and Algeria. This document, too, stressed the importance of economic cooperation. Morocco could export goods and labor to Algeria and in return would obtain hard currency, oil, and gas. Furthermore,
Algeria would gain access to the Atlantic via Moroccan territory. One month later, the five heads of state of the Maghreb countries met in Algiers during the Arab summit, marking the first time since the early days of independence that the states formally sought firm economic and political ties. Prominent concerns included establishing a convertible currency and investigating regional joint ventures, such as constructing an oil pipeline with access to the Mediterranean through Tunisia and a second to the Atlantic via Morocco.45

The most salient lesson from the union’s formation is that it constitutes a distinct break from the previous pattern of North African bloc formation. Geopolitical explanations, therefore, are no longer sufficient. Cooperation by all five Maghreb states, coupled with the decision to focus on mutual economic concerns rather than divisive political issues, marked a new phase in the history of attempts at regional reconciliation.

The Maghreb case clearly depicts the reactive nature of regional integration in developing countries. In the face of dire economic prospects for the future, the participants temporarily disregarded tensions over issues such as the Western Sahara, which soured Algerian-Moroccan relations for more than three decades.46 As Deeb observes, the perception of mutual threats and the potential for joint gain through cooperation are prerequisites for integration. A close analysis of the AMU, however, takes this assertion one step further: specifically, a common external threat emanating from the liberalizing pressures of the 1980s motivated this cooperative effort among competing states. The AMU member states paid homage to proposals for mutual defense, but even a cursory examination of the union’s official goals as well as the underlying motivations for its creation demonstrate that economic considerations were paramount. The vulnerability of this group of developing countries to the vagaries of an international economy characterized by highly mobile trade and financial flows induced a reassessment of regional relations. At a time when the North African states were under intense pressure to liberalize their economies, which could only increase external economic exposure, cooperation rather than competition stood to reason.

The particular vulnerabilities of the AMU states are almost endemic to many LDCs, supporting the notion that economic cooperation among developing countries is a distinct process. Oriented toward the advanced industrial nations, the Maghreb states have a one-sided reliance on trade with Europe and face intense competition to secure these markets. Dependence on one predominant trading partner exposes the AMU states to the repercussions of economic conditions and labor policies of that partner and, accordingly, the continuing project of European integration has profound implications for the viability of the AMU economies. Algeria and Libya face the added complication of excessive dependence on oil exports. Throughout the region, underdevelopment of local industrial capabilities, food deficits, and unemployment—exacerbated by considerable overlap in
production structures—have posed obstacles in the context of increasing global competition.47

The incorporation of Greece in 1981 and Spain and Portugal in 1986 into the EC was particularly threatening to Maghreb export markets. Specializing in similar products, notably fruits, wine, and olive oil, the southern European nations are direct competitors of the North African states and have the advantage of preferential treatment as EC members. The competitiveness of Maghreb exports to their main markets has already eroded, and the enlarged EC may eliminate European demand for certain Maghreb agricultural products entirely. Ahmed Aghrout and Keith Sutton report, “In agricultural products, the ‘Europe of the Ten’ had deficits of between 6 and 20 percent for tomatoes, ‘small fruit’ and vegetables, wine, and olive oil, and a 55 percent deficit for citrus fruit. In comparison, the post-1986 Community will only have a 10 percent deficit for citrus fruit, and will be self-sufficient or in surplus for the rest.”48 The potentiality of lost revenues from labor remittances also fueled Maghreb anxieties about an enlarged EC. With more than three million North African guest workers in Europe, the Maghreb states worried that Spain, Portugal, and Greece would replace them as a source of inexpensive labor throughout the community, particularly after the removal of European labor mobility restrictions under the SEA.49

By the early 1980s, the Maghreb states already feared that the benefits of their “associated” status with the EC would erode. Tunisia, Morocco, and Algeria initially sought to renegotiate their preferential agreements with the EC separately.50 Morocco went so far as to apply for membership in the community. Table 1 demonstrates the extent of Maghreb dependence on Europe as a trading partner. Like many other developing countries, the AMU states are worried by the prospect of a global landscape of trading blocs, particularly involving their main trading partners. This fear has galvanized the formation of cooperative arrangements among developing countries in order to increase bargaining power and prevent damaging competition among member states in industrial and agricultural production.

Lack of intraregional trade and financial relationships often hampers the short-term utility of integration among developing countries. The

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<tr>
<th>AMU Countries</th>
<th>Exports to EEC (percent of total)</th>
<th>Imports from EEC (percent of total)</th>
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<tbody>
<tr>
<td>Algeria</td>
<td>62</td>
<td>59</td>
</tr>
<tr>
<td>Libya</td>
<td>81</td>
<td>56</td>
</tr>
<tr>
<td>Mauritania</td>
<td>44</td>
<td>65</td>
</tr>
<tr>
<td>Morocco</td>
<td>56</td>
<td>52</td>
</tr>
<tr>
<td>Tunisia</td>
<td>74</td>
<td>67</td>
</tr>
</tbody>
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AMU is no exception to this observation, as Table 2 attests. Similar resource endowments in the Maghreb countries, both in agriculture and industry, coupled with substantial quantitative and nontariff barriers to protect domestic industries against competition have curtailed the development of regional trade.\textsuperscript{51} Furthermore, each state has consistently ignored the policies of its neighbors in launching industrial projects, leading to oversaturation in a few export-oriented markets.

Contemporary “unorthodox” trade theory demonstrates, however, that focusing on the one-time effects of integration reveals only a partial picture. Abderrahman Robana observes, “The gains for a Maghreb Union are not static gains (i.e., trade creation/diversion) as measured for integration among industrial countries. The focus is more on dynamic effects such as structural transformation.”\textsuperscript{52} Important dynamic effects of regional cooperation include the generation of intrabloc linkages and structural changes in the participating economies. This could pave the way for significant intra-Maghreb trade relations in the future, an important consideration for Maghreb policymakers, businesspeople, and workers in launching the union.

In the AMU, as with the GCC, the opportunity for coordinated industrial development to prevent duplication was a stronger impetus for cooperation than the possibility of increased regional trade. Limited trade among the Maghreb states suggested that, at least in the short term, restructuring regional production operations to limit competition in their external trading relationships was a priority.\textsuperscript{53} Promoting compensatory intraregional trade was a longer-term goal. The AMU treaty established five committees to promote a cooperative development strategy.\textsuperscript{54} A series of ministerial meetings proposed joint industrial ventures and coordinated oil exploration as well as cross-border financing operations through regional banks.\textsuperscript{55} As rival trading partners with the EC, the Maghreb states had little incentive to coordinate production. Yet with the implications of an expanded EC as their rallying cry, the AMU states banded together in the hope of capitalizing on their extensive natural resource bases and combined

### Table 2 Intra-Maghreb Trade Relations

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<tr>
<th>AMU Countries</th>
<th>Exports to AMU states (percent of total exports)</th>
<th>Imports from AMU states (percent of total imports)</th>
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<tbody>
<tr>
<td>Algeria</td>
<td>1</td>
<td>1</td>
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<td>Libya</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Mauritania</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Morocco</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Tunisia</td>
<td>4</td>
<td>4</td>
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*Note: Although official statistics indicate that intra-Maghreb trade constitutes about 3 percent of the region’s total trade, vibrant underground economic relations suggest that this figure should be higher (Economist, 19 May 1990, p. 48).*
populations of more than sixty million. The liberalization of national trade and financial regimes throughout the Maghreb would expose these national economies to volatile international markets, further prompting the states to reassess prior relations.

To summarize, the AMU states set aside a legacy of deep regional tensions to cooperate on mutual economic concerns. The renewed drive toward European integration in the 1980s posed a direct threat to Maghreb export markets, providing an area of common interest for North African cooperation. In particular, the inclusion of Spain, Portugal, and Greece in the EU threatened the AMU states, which specialize in products similar to those of these new EC members. The Maghreb states, like the Gulf countries, pledged to launch regional development schemes to limit industrial duplication, minimize intraregional competition, and harness the dynamic gains from cooperation. New external challenges in the 1980s compelled the reluctant participants to launch this regional experiment.

Regionalization and the Neoliberal Agenda: Comparing Regional Integration in Industrialized Countries and Late Developers

Neoliberal doctrines, advocating decentralization and reliance on the market, arguably have had a profound influence on coordination efforts in both the advanced industrial states and developing countries. Analyzing the changing conception of European integration, for example, Jacques Pelkmans emphasizes the importance of “subsidiarity” (the principle that central governments cannot produce desirable outcomes wherever regional differences prevail) in the evolution of the EC during the 1980s. It is no accident that subsidiarity was first championed in the 1980s—the decade that witnessed the global triumph of liberalism—because it fit neatly into the neoliberal conception of minimalist government. The emphasis was no longer on complete harmonization, which entailed a stronger central authority, but was now on “greater autonomy to compete.” Tommaso Padoa-Schioppa explicitly links the concept of federalism with the neoliberal ideal of “minimum government” on the basis that subsidiarity, the federalist leitmotif, takes limited government as its touchstone.56

Diverse national responses to liberalization, such as the drive toward a more efficient EC or the formation of cooperative groupings among developing countries, have engendered significant domestic opposition. Resistance to these changes parallels the transition to a society governed by the “market mechanism” treated in Karl Polanyi’s work.57 Although Polanyi examines the creation of the national market in Europe prior to the Industrial Revolution, his lessons are applicable to the present era. Just as the guilds and local economies of seventeenth-century Europe resisted
encroachment by the market, national governments have resisted the drive
toward greater efficiency.

Neoliberal prescriptions had a profound influence on the process of
European integration, despite continued national control over social pol-
icy.58 My analysis of the GCC and AMU indicates that this formula also
influenced blocs among developing countries, albeit in a very different
manner. Although a changing international context may have propelled the
EC toward greater "efficiency," the same pressures influenced groups of
developing countries to seek ways to survive in the context of enhanced
competition and increasingly porous national borders. Leaders in the GCC
and AMU states have sought regional integration more as a defensive
strategy—notably, to shield their domestic economies from the ramifica-
tions of international price fluctuations and declining trading opportuni-
ties. These efforts found support from certain social constituents and there-
fore were not purely state-led projects. Anticipating a flood of work
opportunities in neighboring Libya, for example, the Tunisian labor union
actively supported the prospect of reduced regional barriers to labor mo-
bility. Moroccan and Tunisian industrialists continue to express hopes that
regional economic integration will materialize, citing plans to tap into the
lucrative Algerian market. Nonetheless, the architects of these integration
schemes are primarily government officials who have faced deep opposition
from other key social interests, in part explaining the lack of progress
toward Gulf and Maghreb unity.

Conclusion

The Middle East and North Africa have produced a number of unity
schemes. Closer examination requires analytical differentiation between
those efforts motivated by economic as opposed to political or security
considerations. Most scholars contend that the merging of Egypt and Syria
into the United Arab Republic (1958–1961) and the various initiatives
among the North African states prior to the formation of the AMU repre-
sent politically driven efforts toward unity. The preceding analysis argues
that economic rather than political forces played a key role in the evolu-
tion, if not the formation, of the GCC and AMU. Although both are lo-
cated in the Arab world, these unions involved two contrasting sets of
countries that arrived at the same outcome—institutionalized cooperation
schemes—in response to different types of international economic pres-
sures. These distinct cases illuminate the potential links between interna-
tionalization and regionalization.

Many analysts acknowledge that international trade and financial
flows have blurred national boundaries but do not necessarily locate the
primary impetus for regionalization in this trend. Instead, they argue, re-
gional integration is ultimately motivated by internal processes, such as
high levels of intraregional trade leading to de facto integration, elite-level
reactions to geopolitical shifts, problem-solving efforts by politicians re-
sulting in institutionalized cooperation through a "spillover" dynamic, or
attempts to emulate other blocs through "mimetic" processes.

Highlighting the useful contributions of sectoral models and certain
theoretical approaches to federalism, this summary of the principal reasons
behind Gulf and Maghreb integration illustrates the salience of explanations
that privilege the interaction between international economic pressures and
domestic political economic variables. The GCC began as a military al-
liance among the oil-rich, vulnerable Arab sheikhdoms but evolved into an
institutionalized response to increasingly momentous challenges. The im-
lications of the economic contraction following the oil surpluses of the
1970s, a major feature of the second phase of internationalization, came to
dominate the GCC agenda and provided the cement for the continued exis-
tence of the organization. On one level, the homogeneity of the GCC states
renders them more probable candidates for regional integration. On another
level, the wealthy Gulf countries appear to be the least likely participants in
a defensive economic scheme. In reality, however, these economies are
uniquely vulnerable to international pressures. Oil is singular in its inextric-
able links with the global economy, translating shocks in world markets
instantly to the Gulf economies. Awareness of this susceptibility propelled
the GCC states toward enhanced economic cooperation.

The prospect of reduced domestic subsidies or modified trade regimes
under the planned customs union nonetheless threatens domestic groups
that form the mainstay of support for Gulf rulers. For example, the coun-
cil encountered vociferous opposition from the powerful United Arab Emi-
rates trading community, which objects to the potential imposition of
higher external tariff barriers than presently exist in the duty-free emirates.
Gulf governments too have been reluctant to cede economic sovereignty,
demonstrating that the union does not reflect a genuine desire to reorient
relations on a regional basis.

The case of the AMU illustrates the motivations for regional integra-
tion among a different set of late developers. On the one hand, the Magh-
reb states seem more likely to participate in defensive regional arrange-
ments than the GCC members. Immediate economic exigency, exacerbated
by declining export markets in Europe, made the Maghreb states prime
candidates for protective regional economic strategies. The union incorpo-
rates densely populated oil exporters and importers, all of which initiated
structural adjustment programs by the late 1980s and early 1990s. Fur-
thermore, none of the AMU states, with the exception of Libya, enjoyed
the massive oil surpluses experienced in the Gulf countries. On the other
hand, a regional grouping in North Africa, an area characterized by intense political rivalries, was most unexpected. The record of Maghreb tensions since independence has carried through to the economic sphere, and the North African states are direct competitors in many export markets. The prospect of lost trading opportunities and outlets for North African labor in Europe compelled the rivals to envision cooperation on limited economic objectives, notably reducing industrial duplication and promoting regional goods and factor exchanges.

Regional imperatives also were not paramount in the Maghreb, and domestic opposition to the union has limited its effectiveness. Although benefiting from increased access to the Libyan market, where labor is relatively scarce, many workers in the densely populated countries of Tunisia, Algeria, and, to some degree, Morocco ultimately are threatened by the potential elimination of national barriers to foreign labor. The specter of reduced access to European labor markets further exacerbates this concern. The Algerian crisis and persistent Moroccan-Algerian tensions nonetheless inhibit cooperation.

Internationalization has generated conflicting processes in the GCC and AMU countries. In different guises, the international economy has constrained national economic sovereignty and incited efforts to form protective regional arrangements among these countries. At the same time, compromised national sovereignty, characteristic of many LDCs in the age of increasing economic integration, has rendered member states particularly reluctant to cede further autonomy to a supranational authority. Thus, internationalization simultaneously encourages regional cooperation and undercuts its utility.

Notes

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1. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates constitute the GCC. The AMU is composed of Algeria, Libya, Mauritania, Morocco, and Tunisia.


8. This discussion addresses several explanations for regionalization, largely based on evidence from industrialized country blocs. For a more comprehensive review, see Hurrell, “Regionalism in Theoretical Perspective,” pp. 37–73. In the same volume, Andrew Wyatt-Walter explicitly examines the linkages between regionalization and “globalization” in the contemporary era, arguing that these processes are “more symbiotic than contradictory,” as this research suggests below (Andrew Wyatt-Walter, in Fawcett and Hurrell, Regionalism in World Politics, p. 77). For another review of this literature, see Edward D. Mansfield and Helen V. Milner, “The Political Economy of Regionalism: An Overview,” in Mansfield and Milner, eds., The Political Economy of Regionalism (New York: Columbia University Press, 1997), pp. 1–19.


10. Mittelman, Globalization, p. 11.


17. In reality, the prediction that outward-oriented groups will favor coordination should be qualified by attention to specific domestic distributional effects. For example, outwardly oriented domestic groups can be ambivalent about regional integration schemes. The trading community in the United Arab Emirates has opposed harmonization of external tariffs on the grounds that this would undercut its advantages from operating in a duty-free center.

18. For a presentation of the neoclassical theory of integration, see Bela A. Balassa, The Theory of Economic Integration (Homewood, Ill.: R.D. Irwin, 1961).


20. Robson, The Economics of International Integration, p. 213.


22. In 1973, the combined earnings of Arab oil producers in OPEC was $20 billion. By 1980, this figure soared to $220 billion (Economist, 12 May 1990, p. 17).


26. In a free trade area, participating countries retain the right to set separate tariff rates on imports from nonmember countries (Robson, The Economics of International Integration, p. 23).

32. MEED, 15 October 1982, p. 68.
34. Robson, The Economics of International Integration, p. 13.
36. Ibid., 9 September 1983, p. 2; 8 December 1995, p. 16.
37. Ibid., 8 December 1995, p. 16; 6 October 1989, p. 16.
38. Ibid., 2 September 1994, p. 20.
41. Ibid., 28 October 1983, pp. 16–17.
42. Ibid., 3 August 1990, p. 12.
44. For a detailed account of these political alignments, see Mary-Jane Deeb, “Inter-Maghribi Relations Since 1969: A Study of the Modalities of Unions and Mergers,” Middle East Journal 43, no. 1 (1989): 20–34.
45. Ibid., p. 32; MEED, 24 June 1988, p. 4.
53. Ibid., p. 46.
54. These committees address the following issues: customs and budget coordination, economic cooperation, institutional development, social and internal security, and education and social affairs (MEED, 3 February 1989, p. 2).
