INSTITUTIONS FOR REGIONALISM IN EAST ASIA AND THE MIDDLE EAST

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SUMMARY

This paper examines contrasting domestic sources of regionalization and regionalism in the Middle East and East Asia. It provides an overview of the two regions' evolution from comparable initial conditions to broad contemporary divergence. Similarities in initial conditions (1950s-1960s) included equivalent state-building challenges, economic crises, stagnation and collapse, low per-capita incomes, heavy-handed authoritarianism, widespread poverty, colonialism as formative experiences, human rights violations, vast gender inequities, high illiteracy and unemployment, ethnic clashes and civil wars, low intra and extra-regional economic interdependence, and weak or non-existing regional institutions. Contemporary divergence is evident from the characterization of East Asia's regionalism in the ADB's Emerging Asian Regionalism report, which begins with the following sentence: "Asia's economies are increasingly vital to each other--and to the world." That statement fits the reality of the MENA region much less tightly. MENA countries are not only weakly integrated with each other but also with the rest of the world. Section I provides an empirical overview of the sharp contrast in current levels of regionalization and internationalization between the two regions.

Why these differences? Section II explores the roots of those differences in the dominant ideal-typical models of domestic political survival in each region. Leaders and ruling coalitions in most East Asian states relied on economic performance and integration into the global economy to gain and retain power (internationalizing models). By contrast, leaders and ruling coalitions in most Middle East states relied on strategies of "self-sufficiency" pivoted on state and military-industrial entrepreneurship (inward-looking models). As analyzed in Section III, competing models of political survival had different implications for the evolving nature of three domestic institutions--states, military, and authoritarianism/democracy. Although states played central roles in both cases, the two models differed in the extent to which states replaced or enhanced private capital. East Asian states approximated ideal-typical *developmental* states, ushering in industrial transformation, whereas Middle East states approximated the *predatory* kind, undermining development. Although military institutions served initially as repressive mechanisms of political control in both regions, they also evolved along different lines--in tandem with prevailing political-economy models-- with respect to relative size, missions, rents, and the extent to which they replaced private enterprise beyond arms production. Finally, although both models relied on authoritarian institutions they had different long-term implications for the development of democratic institutions. East Asian models (often unintendedly) encouraged democratic institutions by fostering economic growth, stronger

private sectors, and professionalized militaries attuned to outward-oriented growth. Middle East models decimated private sectors and civil societies while entrenching military industrial complexes economically and politically, leading to resilient authoritarianism.

These domestic institutional features explain long-term trends in East Asian and Middle Eastern regionalization (analyzed in Section I) as well as the broader nature of regional relations along the conflict-cooperation spectrum (analyzed in Section IV) and the content and objectives of regionalism in each case (analyzed in Sections V and VI). Middle East models and domestic institutions led to low levels of regional economic interactions and high levels of externalization of conflict and militarized or political intrusions in the domestic affairs of neighboring states. East Asian models and domestic institutions introduced strong incentives to lubricate regional economic interactions, minimize regional instability (detrimental to foreign investment), and curb intervention in the domestic affairs of neighboring states. Regional institutions could not but reflect those broader features. Internationalizing models led to growing regionalization and a brand of relatively market-friendly, dynamic and outward-looking regionalism compatible with cooperation, stability, and openness to the global political economy.

By contrast, efforts at regionalism in the Middle East were stifled by reigning models that were, at heart, antinomies of market-friendly “open regionalism” and economic interdependence--regional or global.

The League of Arab States (LAS) embodied this brand of regionalism fostering closed, statist, and militarized economies. Unsurprisingly, intra-Arab trade remained at between 7 and 10 percent of total trade since the 1950s. Furthermore, since ethnicity was the basis for membership criteria, the politics of pan-Arab nationalism (*kawmiyah)* fueled both an embrace of Arab unity rhetoric and a determined avoidance of Arab unity in practice. The pan-Arab rhetoric purchased leaders some legitimacy without incurring high sovereignty costs. As a hallmark membership criterion, a shared ethnic identity thus, ironically, exacerbated collective action problems and unleashed centrifugal more than centripetal effects at the regional level. The weak LAS design was not an unintended outcome but a triumph of leaders’ preferences for individual states’ nationalism (*watanyia*) over “unity.” A dense bureaucratic network of LAS agencies served as a façade for--a fig leaf to--*kawmiyah*. Neither enhancing information and transparency about preferences nor the need to manage growing regional interdependence underpinned the emergence and operation of the LAS. There is little evidence that the LAS constrained state behavior, reduced transaction costs, enhanced information, or re-defined states identity. The obdurate legacy of old-style protectionism, state monopoly, and rentierism are crucially important in explaining the puzzle of arrested regionalization and regionalism among Arab states. The Arab Common Market and other similar efforts and integrative schemes existed largely in paper. GAFTA did not eliminate “behind the border” non-tariff barriers such as state monopolies, red tape, customs clearance, and weak enforcement of contracts, among others.

The Gulf Cooperation Council (GCC) may qualify as somewhat of a hybrid between the two ideal-typical regional forms. It is a top-down creation of ruling royal families with shared priorities and ideological pragmatism geared to enhance their regime’s survival. Economic prosperity is regarded as the cornerstone of these regimes’ legitimacy and viability--reminiscent of East Asian precursors--which indeed served as sources of emulation. This requires maximizing access to global markets, capital, investments, labor and technology as well as political and economic, domestic and regional stability. These converging incentives--and the region's ascent as a global financial center--have overwhelmed other competitive drives, for the most part. The GCC remains a loose framework; it is neither an alliance nor a mere gathering of rulers; it is far from a striking supra-regional shift in the international politics of the Gulf region but it arguably amounts to a significant departure from business-as-usual regionalism in the MENA region. This has been particularly the case in the aftermath of external political and economic shocks in the 2000s. Nonetheless most existing analyses point to the dramatic gap among rhetoric, rules and praxis, particularly in implementing a common market. Despite some progress in developing common norms in some regulatory/policy areas, customs and border controls still impede intra-regional flows. Such delays burden progress towards a monetary union and a single currency by 2010, although some convergence criteria have been met. Political considerations, no less than economic trends, are bound to determine the timing and outcome of this process. If ever implemented, the advent of the "Khaleeji" (a proposed name for the future single currency) would be the most formidable symbol of successful regionalism in the contemporary Arab Middle East.

In sum, the regional models outlined in this paper were instrumental in enabling and enhancing both *regionalization* and cooperative (if informal) *regionalism* in East Asia but neither one in the Middle East. The conclusions summarize those and other differences between East Asian and Middle East regionalism; highlight issues of timing and sequence in the inception of models and regional institutions; emphasize difficulties in teasing out institutional effects from underlying trends and individual states' incentives; ponder on the possibility of understating or over-stating institutional effects; and consider the complexity of estimating counterfactuals. Would regions have looked differently in institution-free environments? Would bilateral conflicts have resulted in anything different than the outcomes we observe in the absence of the GCC? Or would incentives stemming from the internationalization of the Arab Gulf countries have been enough to stem higher levels of militarized conflict?

Introduction

Among the questions raised by the organizing framework for the Asian Development Bank's *Institutions for Regionalism* study is the extent to which East Asian regional cooperation differs from that of other regions, and if so, why (Eichengreen 2009; Kahler 2009). This paper will examine the contrasting domestic sources of regionalization and regional institutions in the Middle East and East Asia.[1] Despite efforts to distinguish between the concepts of regionalization and regionalism, there is no consensus on a standardized use of these terms.[2] Nonetheless, this study will rely on the following definitions, which are quite compatible with (though not identical to) those adopted in the ADB's Emerging Asian Regionalism study.[3] I shall

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[1] I rely largely on World Bank regional definitions, with some modifications. For the purpose of this paper the Middle East and North Africa (MENA) region includes 21 states: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, UAE, and Yemen. East Asia includes 15 states (EA-15): Brunei, Cambodia, China, Hong Kong/China, Indonesia, Japan, Laos, Malaysia, Myanmar, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

[2] For an array of different uses of both terms, see Mansfield and Solingen (2009); Haggard (1993:48-9); Hurrell (1995); Mansfield and Milner (1997); Breslin and Higgott (2001); Okawara and Katzenstein (2001); Pempel (2005); Munakata (2006).

[3] Emerging Asian Regionalism: A Partnership for Shared Prosperity, Asian Development Bank (2008).

refer to "regionalization" as bottom-up, market-driven economic processes that broaden and deepen trade and investment ties among countries in a given region. By contrast, "regionalism" will be used to indicate top-down, politically-driven efforts to create and foster regional institutions to manage (economic) regionalization and to enhance other forms of regional cooperation, prominently in the area of security.

Section I provides a descriptive snapshot of the dramatically different scope of contemporary regionalization in the Middle East and East Asia, including intra and extra-regional trade patterns and FDI flows. This comparative mapping of regionalization brings to the fore an evolution from roughly similar initial conditions to remarkably different outcomes a few decades later. This section sets the stage for the rest of the paper in the effort to understand both the sources of such contrasting paths and their implications for regionalism. Subsequent sections thus provide the building blocks in a causal sequence of mechanisms linking domestic politics and institutions, regionalization, and regionalism in each of these two regions.

Section II explores the roots of regional differences observed today in the modal political-economy of ruling coalitions in each region. The basic argument in that section, building on Solingen (2007b), begins with the premise that leaders and ruling coalitions in most East Asian states relied on economic performance and integration into the global economy to secure their survival in power. By contrast, leaders and ruling coalitions in most Middle East states relied on inward-looking "self-sufficiency" and on state and military-industrial entrepreneurship. Section III examines the implications of these competing models of political survival for the evolving nature of three domestic institutions: states, military, and authoritarian/democratic institutions. Section IV relates these domestic institutions to the nature of regional relations (including regionalization) in East Asia and the Middle East respectively. Section V distills the implications of the argument developed in preceding sections for the nature, design, and effect of East Asian regional institutions. Section VI distills the argument's implications for the nature, design, and effect of Middle East institutions. The final Section VII offers some concluding thoughts.

The regional comparison under scrutiny in this background paper has been largely overlooked in comparative politics and international relations. The dearth of systematic comparisons across these two regions is baffling, and perhaps explained by a tendency toward "exceptionalism" in regional scholarship on the Middle East, East Asia, and other regions, which often stresses unique features, particularly when focused on culture. Even as unique contextual variables cannot be ignored, excessive concentration on regional specificity helps obscure useful cross-regional comparisons.[4] East Asia and the Middle East indeed look radically different today. The former is regarded as ground zero of the 21st century global economy; the latter as ground zero of the resistance to it. Yet the comparison between these two regions deserves greater attention precisely because the dramatically different regional circumstances that divide them today have their origins in surprisingly similar initial conditions in the post-World War II era.

First, the initial similarities in the 1950s and early 1960s may approximate some conditions relevant to Mill's method of difference; conditions that are quite difficult (most would rightfully say impossible) to ever meet in most social science research. This method assumes that the subjects of comparison share many common features, enabling some crucial

[4] As Huber (2003) argues, systematic cross-regional comparisons entail the identification of regional patterns, not merely comparing one or two cases from each region. See also Bellin (2004); Halliday (2005) and Anderson (2006).

explanatory variables to account for differential outcomes. In this case, both regions initially shared colonialism as formative experiences, comparable state-building challenges, economic crises, stagnation and collapse, low per-capita GNPs, heavy-handed authoritarianism, widespread poverty (perhaps excluding Japan), human rights violations, vast gender inequities, high illiteracy and unemployment, long coastal lines, ethnic clashes and civil wars, low intra and extra-regional economic interdependence, and weak or non-existing regional institutions.[5]

Second, both regions also shared a common emphasis on normative constructs such as emphasis on family, literacy and community. If these cultural variables could explain East Asia's rapid development and growing regionalism, as some had argued during the early stages of the East Asian miracle, why would the same variables not have comparable effects in the Middle East? Although some responses to this puzzle might retain cultural variables as explanations, this background paper will focus on political economy, which often gets less than adequate attention, particularly in constructivist analysis of East Asia's regionalism and in the general literature on Middle East regionalism.[6]

Third, both regions also exhibited high levels of intra-regional diversity. East Asia may have been even more internally diverse, however, if one takes into account language, ethnicity, religion, levels of development and regime type (democratic/authoritarian). Much of the Middle East shared Arabic language and culture and an overwhelmingly Islamic character, despite ethnic, tribal, and communal diversity. Counter intuitively, from this standpoint at least, the region with higher intra-regional diversity (East Asia) exhibits higher levels of both regionalism and regional cooperation. As Barnett and Solingen (2007) argue, a shared identity did not necessarily help Arab states overcome collective action problems; it may even have exacerbated them.

The regional institutions examined here include the Association of Southeast Asian Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC), ASEAN Regional Forum (ARF), the League of Arab States (LAS), and the GCC (Gulf Cooperation Council). This is not only a fairly inclusive repertoire but also one with several substantive and methodological advantages. First, these regional institutions aggregate largely industrializing states in both regions, in contrast with common comparisons of East Asia with the EU (the anomaly). Second, these institutions encompass efforts at regionalism in both economics and security. Although these two issue-areas are often studied in isolation, the main argument advanced in this paper assumes a synergy between economics and security that is often reflected in the nature of regional institutions.[7] Third, the cases offer significant variation in longevity, from the oldest regional institution of them all (the LAS, created in 1945), to middle-aged (ASEAN, 1967), to relatively younger ones (GCC, 1980s and APEC and the ARF, 1990s). Fourth, the cases include both macro-regional institutions (the ARF, APEC, and the LAS) as well as sub-regional ones (GCC and ASEAN). Finally, there is a measure of cross-regional variation in design, objectives, performance, and possibly in these institutions' capacity for re-generation (as opposed to de-generation or atrophy). East Asian institutions will only be discussed in brief since they are

[5] According to Elbadawi (2005:319), the Middle East has a much higher share of land dominated by temperate climate than that of East Asia, which would have predicted higher growth potential for the Middle East. The actual record, he argues, suggests that growth requires deliberate, strategic, country-specific interventions by states.
[6] For an overview of that literature, see Solingen (2008).
[7] On the synergies between economics and security in East Asia, see Harris (1993), Soesastro (1995) and Stubbs (1999).

amply analyzed in other IRF background papers as well as, from the vantage point of international relations theory, in Solingen (2008).

I. Comparative Regionalization in East Asia and the Middle East

This section provides a snapshot of the different scopes of regionalization in the Middle East and East Asia. The Emerging Asian Regionalism report begins with the following sentence: "Asia's economies are increasingly vital to each other--and to the world." It is much harder to make that statement for the economies of Middle Eastern countries. East Asian economies exported over 52 percent of their total exports to each other on average for the 2000-2008 period; Middle East economies less than 16 percent.[8]

East Asian economies collectively accounted for nearly 23 percent of world exports in goods and services; Middle Eastern ones for about 5 percent.[9] East Asia contributed nearly 30 percent of the world's manufacturing exports; the Middle East less than 2 percent. East Asia provides nearly 18 percent of the world's commercial services exports; the Middle East less than 4 percent. East Asia contributes over 37 percent of the world's high technology exports; the Middle East about ½ percent. The one exception is fuel exports, where the Middle East represents about 31 percent of the world's total, in contrast to Asia's 12 percent.

The ratio of intra-regional to total trade in East Asia has risen consistently from 35 percent in 1980 to over 45 percent in 1991, and between 50 and 53 percent since 2001.[10] Intra-regional trade among MENA countries has been dramatically lower, though it doubled between 1980 and 1990, from about 5 to 10 percent, averaging about 11 percent since 2004.[11] Trends in trade among LAS members have been roughly comparable to MENA's (the latter is composed of the 22 LAS members plus Turkey, Israel, and Iran). According to some studies, overall intra-Arab (LAS) trade should be 10-15 percent higher than what is observed (Al-Atrash and Yousef 2000:18). GCC countries increased their intra-regional trade shares from about 4 percent in 1980 to about 7 percent through the 1990s, declining to less than 6 percent average in the 2000s. About 3/4 of GCC intra-Arab trade is with other GCC countries (Romagnoli and Mengoni 2009:72-75). Trade within the Maghreb and the GCC is lower than expected but it is higher than expected within the Mashreq.[12] Excluding the GCC, intra-regional trade shares for MENA states have risen from less than 2 percent in 1980 to over 8 percent since 2004.

Trade intensity in East Asia has declined from 2.52 in 1980 to 2.0 in 2008, and increased for MENA countries from about 1.4 in the early 1980s to 2.38 in 1990 and higher in the 2000s,

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[8] International Monetary Fund, Direction of Trade Statistics, at www.imf.org (accessed July 2009, Taiwan is excluded, Australia and New Zealand included). Inter-Arab trade has accounted for between 7 and 10 percent of total trade since the 1950s (AHDR 2002:126).

[9] Data for the rest of this paragraph reflect averages for the period 2000-2009; World Bank, World Development Indicators, at http://econ.worldbank.org (accessed October 2009), data in current US$ (Taiwan is excluded, Australia and New Zealand included). See also the UNDP's *Arab Human Development Report* (2002) and Hoekman and Sekkat (2009).

[10] I acknowledge Dr. Giovanni Capannelli for data gathered by the Asian Development Bank comparing intra-regional trade patterns across regions (see Figures 1a and 1b, and Tables 1a,b, and c). I also acknowledge Wilfred Wan for collecting data on exports, military expenditures, government consumption, and regional conflict for both regions.

[11] Jordan, Lebanon, Oman and Syria were the only Arab countries whose exports within the region accounted for more than 10 percent of their total (Hoekman and Meserlin 2002:16-17).

[12] The Maghreb includes Algeria, Libya, Mauritania, Morocco and Tunisia. The Mashreq includes Egypt, Jordan, Lebanon and Syria.

declining to 2.14 in 2008. Trade intensity among LAS members has risen from below unity until 1984 to above 3 in the late 1990s, declining to 2.19 in 2008. This suggests that trade intensity had been lower than would be expected only prior to 1984, although it remained low for some members even subsequently (Hoekman and Meserlin 2002:17). Excluding the GCC, trade intensity for the rest of MENA rose from below unity in the early 1980s to an average of over 4 in the 1990s to about 5.4 averages in the 2000s. Trade intensity among GCC members has, on the whole, not been lower than expected since the early 1980s. However, gravity models for MENA countries suggest that intra-regional trade has been lower than expected given GDP, population and geography, certainly until the 1990s, and especially for the Maghreb and GCC countries (Hoekman and Meserlin 2002:18). Furthermore, only three countries (Saudi Arabia, Oman and the UAE) account for about 60 percent of all intra-Arab (merchandise) trade. Finally, in another measure of how vital or unimportant the regional economy is in each case, intra-regional investment in East Asia was 64 percent of FDI flows in 2003 (Capanelli, Lee and Petri 2009) but only 34 percent in the Arab region, mostly in services and real estate (Labas and Abdmoulah 2008?). Intra-Arab FDI, however, has stepped up faster than intra-Arab trade and is transcending sub-regions in a way that trade was not able to do.

With respect to degrees of integration in the global economy, East Asia is now considered the most globally integrated region in the world (Capanelli, Lee and Petri 2009). By contrast, there is broad consensus regarding the very low level of Arab states' integration with the rest of the world, which remains below levels of foreign trade for countries with similar levels of development and per capita income (Romagnoli and Mengoni 2009:72). Al-Atrash and Yousef (2000) found Arab exports to the rest of the world to be lower than predicted by gravity models. MENA accounts for about 3 percent of world exports excluding oil, and 8 percent including oil (Romagnoli and Mengoni 2009:72). An index (0 to 100) going back to 1960 and adjusting for size and oil exports, estimates average trade openness in the Arab world (across four different sub-groups) for the period 1960-1985 to be 29, declining to 26.5 for the period 1985-2000 (Elbadawi 2005:300-3-2). The same index shows average trade openness values for East Asia to have risen from 19 in the 1965–84 period (lower than the Arab world at that time) to 46 in the 1985-2000 period (close to double that of the Arab world). Strong anti-export biases remained for most of the MENA region into the 2000s (Hoekman and Messerlin 2002:31).

Taking WTO membership as another indicator, every single one of the Asia-15 group except for Laos (which has observer status) is a WTO member. Most Asia-15 countries joined in 1995. Of the 22 LAS members only 12 are WTO members, six of which are GCC countries (see Table 2).[13] Less than half of all LAS countries (9 of 22) were WTO members by the late 1990s, and the latter included four GCC states. Hoekman and Sekkar (2009:10) also note MENA's distinct feature of very limited commitments in the WTO.

Another gauge for a region's level of exchange with the global economy is FDI inflows as a percentage of the world's total. In the early 1980s MENA countries and the EA-15 accounted for comparable shares of FDI inflows, averaging about 10 percent of the world's total (except for 1982, when the MENA region received about 20 percent).[14] Since 1985, however, the EA-15 oscillated between 10 and 20 percent of FDI inflows as a percentage of the world's total, reaching 25 percent in the mid-1990s. MENA countries, by contrast, attracted between 1-

[13] Iran, Iraq, Lebanon, Libya, Syria, and Yemen remain non-members.
[14] For data on FDI flows, see Figures 2a and b, Tables 3a-c.

2 percent of the world's total since 1985, reaching about 5 percent in 2003-2004. The six GCC countries have accounted for over half of all FDI inflows into the 22 LAS countries, and for virtually all FDI flowing out of LAS countries since 2004.The regional contrast in FDI outflows is no less dramatic, with MENA countries accounting for between 1 and 2 percent of the world's total throughout the 1980s, virtually nil between 1990 and 2003, rising to about 2 percent on average between 2003 and 2007. In comparison, the EA-16 accounted for at least 10 percent of world FDI outflows each year between 1981 and 1997, for over 15 percent for all but one year (1981), and for over 20 percent in four of those years, stabilizing at about 12 percent of the world's total on average during the 2000s.[15]

II. Domestic Models of Political Survival in East Asia and the Middle East

The roots of these regional differences are in the modal political-economy of leaders and ruling coalitions in each region. At critical junctures over the second half of the twentieth century, ruling coalitions embraced different models of political survival in each case.[16] The typical model in East Asia hinged on economic performance and growth, which entailed an emphasis on export-led manufacturing and promotion of private entrepreneurship. By contrast, the reigning model in the Middle East hinged on inward-looking self-sufficiency, nationalism, and state and military entrepreneurship, buttressed by oil rents, where available. Once adopted, both models became self-reinforcing (Beblawi and Luciani 1987; Chatelus 1987). The critical junctures, often triggered by political-economy crises (Solingen 2007b), began in East Asia with postwar Japan and its so-called economic miracle, followed by crucial shifts in Taiwan and South Korea, and progressively other countries in the region. Critical junctures in the Middle East included the Free Officers' 1952 revolution in Egypt and analogous transformations throughout that region. Those defining years of institutional inception and change entailed enormous implications for the two regions' subsequent, diverging, evolution.

It is beyond the scope of this paper to explore the (backward) permissive and catalytic conditions that led to different models in each region.[17] In brief, however, early and effective land reform, a relatively brief period of import-substitution, and natural resource scarcity weakened domestic political opposition to export-led growth in East Asia. Regional effects reinforced export-led strategies (see below). By contrast, late, inefficient or nonexistent land reform; longer exposure to import-substitution underpinned by extensive state and military entrepreneurship; and abundant oil resources (in oil economies) or second-order rentierism (in neighboring non-oil economies) empowered opponents of export-led growth throughout much of the Middle East. Put differently, politically stronger beneficiaries of relative closure, import-substitution, state entrepreneurship, and natural resource monopolies--mostly within the state itself--constituted powerful veto points against alternative models in the Middle East for many years.[18] Alternative models would have also entailed appealing to different sources of

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[15] For other measures of relatively low MENA integration in international capital markets, compared to other regions, see World Development Indicators (2009).

[16] On models of political survival used by leaders--and their ruling coalitions--to gain, maintain, and enhance their power, see *inter alia* Bueno de Mesquita (2003).

[17] These conditions are analyzed in Solingen (2007b and 2009).

[18] Abed and Davoodi (2003) note the possible understatement of the state sector in the Middle East due to data limitations, lack of transparency regarding extra-budgetary operations, contingent or hidden liabilities, implicit subsidies, unclear demarcation between private and public sectors, and "political economy considerations" that preclude more precise data. They report central government expenditures/GDP for MENA countries as averaging about 42 percent in the 1970s, about 12 percentage points higher than the average for developing countries

legitimacy--based on new relations with international markets and institutions--than those typical of 1950s-1960s-style pan-Arab politics. Some trace this profound suspicion of external influences to colonial domination and exploitation. Yet the latter was very much present in East Asia as well, and did not preclude the region's profound transformation. China's yoke under colonial arrangements, Japan's colonial violence and subsequent occupation by the US, and Vietnam's victimization by various external powers (including the US), among others, warn against excessive concentration on colonialism as the main barrier to change.

But domestic political forces unleashed by Nasserism, statism, rentierism, and extensive militarization did constituted formidable barriers to change. Beblawi and Luciani (1987:16) explain such barriers as a function of the "perception of a lack of any politically accepted alternative, or sheer shortsightedness." Chatelus (1987:111) emphasizes overwhelming incentives by dominant groups to retain rents and disincentives to shift to productive activities. Path-dependent models of politics (Thelen 1999; Krasner 1999; Pierson 2000) point to lasting legacies that reproduce political forces invested in extant institutional arrangements and to self-reinforcing feedback loops or "increasing returns" whereby actors reinforce the model's logic, alternatives are dismissed, and institutions magnify existing patterns of power distribution. Middle Eastern leaders' rejection of export-led growth in the 1960s may not have been unusual for the times. Yet subsequent opportunities introduced by the 1970s oil windfalls, the 1980s crises, the widespread global economic transformations of the 1990s, and the ensuing dramatic expansion of capital flows were also willfully missed, except for, more recently, GCC countries (Owen and Pamuk 1998; Halliday 2005:264,295; Henry and Springborg 2001:44-5). The Middle East's share of FDI to all developing countries (excluding Turkey) declined from 11.6 percent in 1990 to 2.1 percent in the mid-1990s and 1 percent by 2001 (Hakimian 2001:89; AHDR 2002:87). Even more recent efforts to liberalize trade have not been able to reverse a deep seated anti-export bias, with some exceptions (Galal and Hoekman 2003).

The regional context reinforced each region's respective models via different mechanisms: (1) Hegemonic coercion (Nasserism, Ba'athism, and their equivalents in the Middle East, acting through coups and external interventions); (2) Diffusion (second-order "Dutch disease" effects in the Middle East flowing from oil producers to clients in the region; "flying geese" and bandwagon effects in East Asia); and (3) Emulation (Japan in East Asia; competitive outbidding among pan-Arab, and later pan-Islamic visions in the Middle East). In time, the regional agglomeration of specific models imposed neighborhood effects or network externalities--reinforcing prevailing models. Yet it is important to recognize significant differences within each of these regions; neither model characterizes the universe of cases in its region.[19] Yet each model captures Weberian ideal-types, providing useful heuristic constructs even if they may not fit any particular case wholesale (Weber 1949: 93; Eckstein 1975; Ruggie 1998: 31–32). While clearly not laissez-faire, since the 1960s and 1970s most East Asian states became market-friendly and emphasized performance in international markets as yardsticks for

(excluding MENA). Though declining, by the end of the 1990s they remained relatively high by international standards, whereas privatization lagged after every other region except sub-Saharan Africa.

[19] The level of heterogeneity can vary according to the level of aggregation within which the analyst works. A focused comparison between two countries in the same region can yield very significant differences that may be diluted as one proceeds toward macro-regional (more telescopic) comparisons. Heterogeneity is always relative to, contingent on, the particular comparative benchmark and level of analysis chosen for a particular analytical purpose. On how the economic structures and institutions of the MENA countries do tend to exhibit common features and why there is a strong case for treating the region as a unit of analysis, see, *inter alia,* Abed and Davoodi (2003).

success.[20] The contrast with Middle East patterns is clear (Hakimian 2001; AHDR 2002-9). Even here, however, there were differences between the oil-rich economies and the rest (Morocco, Tunisia, Jordan, Israel, and Turkey, for instance); and between praetorian models (in Iraq, Syria, Egypt, Algeria, Libya, South Yemen and others) on the one hand, and the Gulf monarchies, Jordan, and Morocco on the other.[21] But in broad terms, import-substitution, high tariffs, extensive state and military entrepreneurship, and a weakened private sector transcended those differences.

III. Implications for States, Military, and Authoritarian/Democratic Institutions.

Despite the broad divergence described in the previous section, the two competing models shared three important features. First, both relied on state institutions. Yet differences in the character of that reliance would have diverging effects on the respective evolution of states over time. Second, both models relied on authoritarian institutions. Yet each would foreshadow differential paths regarding the possibility of democratization. Third, military institutions played important roles in both models. Yet the military itself evolved along different lines in tandem with prevailing political-economy models.

States

Even if states played central roles in both cases, models of political survival differed in the extent to which states replaced or enhanced private capital. East Asian states were active lenders and regulators but significantly less active entrepreneurs than were Middle East states. East Asian leaders watchfully steered states to macroeconomic stability and proper conditions for sustained export-led growth. States thus evolved into relatively adaptable institutions linking across the domestic, regional, and global economies. Though buffeted by a very severe crisis in 1997-98, East Asian states were able to rebound (and do much better than others in the 2008-2009 crisis). Middle East models led willy-nilly to the evolution of more rigid, exhausted, and depleted state institutions presiding over current account and budget deficits; high inflation and unemployment; and scarce foreign exchange. Ultimately, these states became too weak to exert control over society except through force.

Despite significant differences among them (and outliers like North Korea and Burma), East Asian states approximated ideal-typical *developmental* states. By contrast, despite wide variation across the Middle East, *predatory* states largely dominated this region (Arab Human Development Report 2009). Developmental states are so labeled when they usher in industrial transformation whereas predatory states are considered to undercut development even in the narrow sense of capital accumulation (Evans 1995).[22] Whereas the former rely on Weberian-

[20] Stiglitz (1996); Haggard (2004); McIntyre and Naughton (2005); Noland and Pack (2005). States also differed widely with respect to mixes of import-competing and export-oriented sectors.

[21] Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia are considered more diversified economies. Comoros, Djibouti, Mauritania, Sudan, and Yemen are primary-export economies (Elbadawi 2005:295).

[22] According to the Arab Human Development Report (2009:103), Arab countries were less industrialized in 2007 than in 1970, almost four decades ago. The report (Table 11) also documents a whopping gap in adult literacy between East Asia and the Middle East. Furthermore, the Middle East features the lowest employment to population ratio among all regions (World Development Indicators 2009), with unemployment identified as the greatest threat facing virtually *all* states in the region (Elbadawi 2005). Whereas Egypt and South Korea had comparable levels of per capita income in 1950, today's Egypt represents less than a fifth of South Korea's. Erstwhile comparable income levels between Saudi Arabia and Taiwan gave way to a huge gap, where Taiwan's became double that of Saudi Arabia's in 2000 despite (because of?) the latter's enormous natural resources (Galal and Hoekman 2003).

style meritocratic bureaucracies able to extract resources from society and convert them into public goods, the latter are overwhelmingly patronage-based bureaucracies primarily supplying private goods to predatory ruling coalitions.

Rents, cronyism and corruption afflicted both types of states although to different degrees. Both types were also vulnerable, albeit to different challenges. East Asian states became more susceptible to global economic trends (particularly declines in global demand) and to the evolving risks of capital liberalization of the sort that led to the 2008-2009 global crisis. Middle East states, though not completely immune to the same vulnerabilities (including lower demand for oil), were also buffeted by the exhaustion of import-substitution in earlier times, and subsequent balance-of-payments, high inflation and unemployment, inefficient industries, and weak private enterprise. Middle East states have consistently ranked highest in government consumption/GDP in the industrializing South, usually associated with bloated bureaucracies and exorbitant taxes hindering private sector activities.[23]

Military institutions

On the one hand, military institutions served as repressive mechanisms of political control in both regions, with a few exceptions and to a diminishing extent in East Asia over time. On the other hand, the requirements of internationalizing versus inward-looking models imposed different constraints on: (1) the relative size and missions of military-industrial complexes; and (2) the extent to which these complexes replaced private enterprise beyond arms production.

In the Middle East, despite dismal economies, arms races typical of inward-looking models consistently attracted the highest levels of military expenditures/GNP worldwide. Average military expenditures/GNP in the 1960s for the two regions as a whole was not dramatically different (reinforcing an earlier point about similar initial conditions).[24] By the 1970s and 1980s, with the onset of economic reforms, East Asian averages (Milex/GNP) were nearly half those of the Middle East. Only under the pressure of globalization and economic reform in the 2000s did Middle East averages decline somewhat.[25] Differences were much less sharp with respect to military expenditures as a percentage of central government expenditures historically (both regions were arenas of Cold War sensitivity). Yet in the 1990s, military expenditures in the Middle East accounted for 20 percent of total government expenditures, in contrast to 12 percent average for developing countries (Abed and Davoodi 2003). Middle East averages for the 2000s are still about 50 percent higher than East Asia's, revealing some

[23] Arab Human Development Report (2009:72-3). On much higher government consumption rates among Arab states than East Asian ones, see also Elbadawi (2005:301, 316), who finds the quality of institutions-- rule of law and excessive government burden--to be the most important factors explaining differences in growth between East Asia and diversified (non-oil) Arab economies. Other macroeconomic indicators differ dramatically as well, with much lower inflation rates in East Asia.

[24] Stockholm International Peace Research Institute (SIPRI), http://first.sipri.org; US Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers 1963-1973, 1967-1976, 1986, 1996, 1999-2000, 2005. Regional differences might be significantly higher considering that data for some Middle East countries is understated because military expenditures are not part of regular budgets. Furthermore, the absence of democratic institutions in the Arab world aggravates the problem of data reporting. Middle East averages were, in any event, appreciably much higher than world averages, whereas East Asian ones declined relative to world averages over time.

[25] Though we lack systematic data on military expenditures/*GDP* from the 1960s through the 1980s, the average for the 1990s and 2000s for the Middle East remains well above double that of East Asia.

inelastic features of Middle East models, and the crucial role of militarization in them.[26] These were veritable instances of a *Wehrwirtschaft* (war economy) even after internal repression (*mukhabarat* regimes) had largely replaced external wars as their core "mission."

Beyond these gauges, and the problem of hidden military expenses, the typical Middle East state had militarized *economies* of the kind that was not allowed to thrive in most East Asian cases following the onset of economic reform.[27] Most Middle East models entailed gargantuan military-industrial complexes that produced items either remotely or wholly unrelated to military demand; owned vast portions of the land, natural resources, and sprawling networks of state enterprises; and employed the largest proportions of population relative to other regions (ACDA 1996; Bill and Springborg 2001: 171–172; Richards and Waterbury 1990: 354, 362; Solingen 2007b). Most importantly, this model replaced and often decimated the private sector (Waterbury 1993). Unsurprisingly, military elites appropriating such rents were major opponents of privatization and key veto points for economic transformation more broadly (Halliday 2005: 55; Henry and Springborg 2001). By contrast, East Asian growth models sought to develop private sectors; required stable macroeconomic policies and predictable environments; and minimized the potential for inflationary military allocations that might endanger those core objectives (Chan 1992; Cheng 1993). The result was, on average, strong but increasingly more professional militaries, with progressively less political control over the economy and polity.

Authoritarian and democratic institutions

Both internationalizing and inward-looking models relied on authoritarian institutions in many cases. However, the models had different long-term implications for the development of democratic institutions. These differences are related to variations in the nature and role of military institutions and private entrepreneurship in each case. Export-led models incepted by authoritarian leaders and ruling coalitions in East Asia were not precisely designed to advance democracy, but to curb it. Yet, they unintendedly encouraged democratic institutions via several mechanisms: by fostering economic growth, stronger private sectors and civil societies, and more professionalized militaries attuned to outward-oriented growth. By contrast, the nature of Middle East models engendered higher barriers to the development of democratic institutions. Weaker private sectors and weakened civil societies were less able to demand political reform (Arab Human Development Report 2009:73). Furthermore, as argued, more entrenched military industrial complexes, spread throughout vast segments of the economy, were better able to resist demands for political reform. Over time, a shared dominance of authoritarian institutions in both regions gave way to increased differentiation across them. Lebanon is the single democracy among the 22 members of the Arab League (one should, however, note clear differences between more open polities like Jordan and very closed ones like Syria's). Various authoritarian regimes in East Asia, including South Korea, Taiwan, Indonesia, Thailand, Malaysia and Phillipines evolved into full-fledged democracies.

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[26] A quantitative study found support for significant differences between internationalizers and inward-looking models within, across, and beyond these two regions, as well as within states that replaced one model with another (Solingen 2001). According to Halliday (2005:337), the Middle East still accounts for 6 of the highest 8 military expenditures/GNP spenders worldwide.

[27] North Korea and inward-looking models in Southeast Asia had comparable military-industrial complexes historically, before reforming their economy, and North Korea not only retains that model but is self-described as a military-first economy.

IV. Domestic Institutions and Regional Relations

These institutional features of domestic models in each region had implications for the nature of regional relations. In an effort to divert attention from failed domestic models, and unable to deliver resources and services to constituencies previously mobilized through revolutionary or nationalist fervor, economically depleted, entropic, crisis-prone, and de-legitimized Middle East regimes with large military-industrial were prone to: (a) Emphasize nationalism and military prowess; (b) Externalize conflict; (c) Exacerbate arms races; and (d) Engage in competitive outbidding among inward-looking models at the regional level. As the international relations literature suggests, each of these vectors individually enhanced the prospects for intended or unintended war, militarized incidents, and militarized or political intrusions in the domestic affairs of neighboring states.[28] Collectively they made those even more likely, creating a structural tendency toward conflict even though war itself might not have been these regimes' preference. Mobilizations, overt subversions, and cross-border invasions were certainly intended, but not always controllable. Lacking institutional power and legitimacy domestically and regionally, Middle East leaders deployed violence at home and abroad (Dodge 2002: 177; Bill and Springborg 2000; Dawisha 2003). This domestic fragility – hidden behind pan-Arab rhetoric – fueled mutual assaults on sovereignty. As Halliday (2005: 291) contends, "in terms of the historical sociology of Charles Tilly . . . Middle Eastern states are in essence . . . based on the use and threat of force." This brand of authoritarianism reinforced reliance on externalization of conflict as a tool to stifle domestic dissent, with attendant implications for the prospects of advancing regionalism.

By contrast, East Asia's developmental states required: (a) Contained military-industrial complexes and limited military competition; (b) Regional stability; (c) Domestic stability, predictability, and attractiveness to foreign investors; and (d) Taming arms races that might affect (a) through (c). Each of these requirements individually dampened the prospects for war and militarized conflict. Collectively they made them even less likely. A brief overview illuminates these differences. Although both regions were in turmoil in the two decades following World War II--when their models converged--the incidence of interstate wars and militarized conflicts remained much higher in the Middle East over time, as their models began diverging. An earlier background of deadly wars (Korea and Indochina, in particular), enduring resentment over aggression and colonial domination, and persistent historical, ethnic, religious, and territorial cleavages gave way to several decades with no major wars in East Asia. There has been peace in continental Southeast Asia for nearly three decades; over four decades in maritime Southeast Asia, and over five decades in Northeast Asia. Tensions over Taiwan and the Korean peninsula, as well as other interstate disputes (Spratly Islands and others), remain but have been restrained as never before in recent history. States (including major powers) have normalized diplomatic relations. Military modernization remains a genuine source of concern but it has not, at least thus far, undermined regional stability (except for North Korea).

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[28] As Glaser (2000) argues, when domestic interests rather than external threats lead states to build up military resources, ensuing arms races are more likely to lead to war. The same mechanisms – delegitimized *mukhabarat* authoritarian states with mammoth military-industrial complexes – afflicted both inter-Arab and Arab–Israeli relations (Kerr 1971). Yet, Israel provided a more legitimate target from a pan-Arab perspective, and its own military-industrial complex, prowess, and excesses enabled continued investments in neighboring military complexes. This is different from arguing that Arab military-industrial complexes were mere by-products of this factor. As the Arab Human Development Report (2002: 2) states, Israel "provides both a cause and an excuse for distorting the development agenda," serving "to solidify the public against an outside aggressor." Most Arab states never faced war with Israel, and since the 1970s, Arab armies faced mostly each other (*Kahwaji 2003).*

Whereas some international relations scholarship conceived of East Asia as a region pregnant with militarized conflict, others observe a "*Pax Asiatica*" (Friedberg 1993-4; Solingen 2007b).

In sharp contrast to an evolving cooperative East Asia, the highly conflictive 1940s and 1950s in the Middle East were superseded by more interstate wars, militarized interventions and mobilizations, invasions, shows of force, border clashes, and covert (violent) cross-border subversion.[29] As Halliday (2005) argued, "the international relations of the Middle East have long been dominated by uncertainty and conflict. External intervention, interstate war, political upheaval and interethnic violence are compounded by the vagaries of oil prices and the claims of military, nationalist and religious movements." Arms races, as we have seen, continued to attract the highest levels of military expenditures/GNP wpagorldwide. With 7 percent of the global population, the region accounted for 35 percent of armed violence in the last 55 years (Military Balance 2001-2002). There were five major wars with at least 10,000 casualties since 1965 in the Middle East, as opposed to two in East Asia.[30] Four major wars were waged between/among local actors in the Middle East as opposed to only one in East Asia. Between 1973 and 1994 ballistic missiles were used in battle 10 times, with Middle East states accounting for 8 instances; East Asia for none (Karp 1995:45). Egypt, Iraq, Iran and Libya used chemical weapons in war; no states have done so in East Asia since World War II.[31] The numerous assassination attempts on neighboring leaders in the Middle East contrast with their virtual absence in East Asia (except for North Korea). Cross-border efforts to undermine neighboring regimes have been legion in the Middle East but rare in East Asia. The Middle East has also exported terrorism in scales unmatched by other regions.

Regional institutions are not well suited to explain these differences, which can be more readily traced to domestic models and institutions as outlined in preceding sections.[32] However, the respective tenor of regional relations described in this section--an outcome of those models--had implications for regionalism. Regional institutions in each case could not but be affected by those background conditions. The models described thus far were instrumental in enabling and enhancing both *regionalization* and cooperative (if informal) *regionalism* in East Asia but neither one in the Middle East.

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[29] For a full list of militarized conflicts in these two regions, see Solingen (2007b). Comparisons are even more striking when we disaggregate region-wide indicators and examine those differences at the level of individual states in each region. Five East Asian states accounted for most militarized conflicts whereas every single Middle East state was involved in at least one of them.

[30] Gleditsch (2004) lists 1.35 million casualties for the 1980s Iran-Iraq war alone; 26,000 for the 1991 Gulf War (Iraqi and Kuwaitis); and nearly 50,000 casualties for all wars since 1945 involving major Arab states and Israel. Of the latter, the Palestine/Israel 1948 war accounted for 8,000 casualties; the Six Day war for 19,000; the 1969-1970 Egyptian-Israeli war of attrition for 8,000; the 1973 October war for 13,500; and the Israel-Lebanon/Syria war for 1,235 (Gleditsch 2004). Civil wars since 1945 *within* LAS members have resulted in nearly 1.9 million casualties.

[31] James Martin Center for Nonproliferation Studies, Weapons of Mass Destruction in the Middle East

Missiles, NBC Weapons, and Conflict in the Middle East, An Annotated Chronology <http://cns.miis.edu/wmdme/chrono.htm>

[32] Complementary as well as potentially alternative explanations, and their limits, are discussed in Solingen (2007b).

V. The Nature, Design, and Effect of East Asian Institutions

This section provides a very brief overview of the relationship between domestic models and institutions in East Asia on the one hand, and the nature of its regional institutions on the other. Paradoxically, accounts of East Asian institutions have often overlooked these underlying domestic dynamics (Ravenhill 2007). The scope of regionalization described earlier in section I enabled--some might even say compelled--the emergence of a breed of regionalism compatible with internationalizing models advancing regional cooperation, stability, and above all, openness to the global economy and associated institutions. Market-friendly, dynamic and outward-looking (relatively open) regionalism--as depicted in the EAR study--have been defining characteristics of East Asian regionalism that sets it apart from its Middle East counterpart. A commitment to a relatively open (nondiscriminatory) regionalism was particularly well-suited for ruling coalitions aiming at deepening their global ties while strengthening regional cooperation and stability. The perceived synergies among economic growth; regional cooperation and stability; and dependable access to global markets, capital, investments, and technology are also imprinted in the many declarations agreed upon after frequent meetings and consultations.

East Asian regional institutions are also known for their informality, emphasizing consensus, process over substance, incrementalism, personal and political relations, and avoiding third-party adjudication. They favor dialogue, meetings, and consultations--in terms of process--and general principles and codes of conduct--in terms of outcomes.[33] Informality arguably helps side-step confrontational or contentious issues although, as we shall see, it does not have similar effects in the Middle East, as one might expect from the broader context (models) described in earlier sections. Informality also enabled domestic ruling coalitions to advance regional cooperation as a vital component of internationalizing strategies despite their different stages and platforms of engagement with the global political economy and its institutions. Informality helped them transcend differences in regime type (democratic, authoritarian) and to involve supportive constituencies (ABAC and CEO in APEC, for instance). There have been very incipient, tentative steps suggesting possible movement towards greater formality.[34]

The emphasis on consensus allowed members that benefit the least from an agreement to influence its nature, a principle that ASEAN, for instance, wielded as a barrier against “hegemony” by more powerful states. The consensus rule does not require unanimity, only that the non-supporting party is prepared to allow decisions to move forward. Thus, the institution’s evolutionary pace can be held back by the lowest common denominator. The consensus rule also allowed members to rise above their disparate domestic institutions and to bind their political opponents and successors to institutional commitments of a broad nature, in the direction of internationalization, while progressing at different speeds. Both consensus and informality have helped integrate newcomers, including those seeking to transcend inward-looking models.

[33] For reasons of space I cannot cite a vast international relations literature on East Asian institutions here, but for an overview see Solingen (2008).

[34] On some differences in the evolving levels of legalization of ASEAN on the one hand, and the ARF and APEC on the other, see Kahler (2000). There is also some measure of variation across these institutions regarding “open regionalism.”

Many of these features are common to ASEAN, APEC, and the ARF, though there is also some variation. ASEAN's emergence in 1967 can hardly be traced to efforts to reduce transaction costs, barriers to trade, or overcoming dilemmas of interdependence but rather to efforts to promote peace and stability (Foot 1995:234; Ravenhill 1998; Stubbs 2000; Solingen 1999, 2008; Severino 2009). ASEAN evolved against the background of dominant leaders or ruling coalitions in the original ASEAN Five who sought to spearhead economic growth through engagement in the global economy, while variously compensating import-substituting and rural interests (MacIntyre 1994; Bowie and Unger 1997; Stubbs 2005). Their converging interest in collaborating regionally aimed at protecting this strategy from interrelated domestic insurgencies and regional threats to their own political survival, including Communist takeovers in Cambodia, Laos, and Vietnam in the 1970s. ASEAN entailed a very different conception of regional order than the one advanced, for instance, by Indonesia's Sukarno, who had rejected the global economy and institutions while inciting conflict with neighbors (*konfrontasi*). With ASEAN, regional stability was expected to enable "national resilience" (*ketahanan nasional*), fueled by domestic stability, foreign investment, and growing exports. The original framework hinged on informal, gradual and selective internationalization rather than on regional integration. AFTA acquired greater centrality only later, when leaders' incentives became more compatible with it (Kahler 1995). ASEAN's progressive inclusion of new states was a natural corollary of the maturation of internationalizing models seeking to help neighbors discard old models and maintain regional stability, foreign investment flows, and common growth. These models led to expanding middle classes and democratic institutions in most cases; however, ASEAN itself had little impact on the progressive democratization of the region.

ASEAN's informal design was primarily geared to "conflict-avoidance" rather than "conflict-resolution" or "dispute settlement." This is not a collective security arrangement though some consider it a security community (Khong 1998; Acharya 2001). Whatever the label, successions of ASEAN leaders and ruling coalitions have established their exclusive reliance on peaceful means to settle their differences, and their commitments to sovereignty and non-intervention. Those means have primarily emphasized consultation, accommodation, reciprocity, informal diplomacy, pushing provocative issues aside, incrementalism, personalistic networks, and process over substance, all coordinated by a small central secretariat. This institutional design was compatible with domestic models, although alternative ones might have been compatible as well. Other important variables, including international power distribution and norms, could perhaps explain the preference for informality but none necessarily compelled it (Solingen 2008). The ASEAN Charter entered into force in December 2008 and a roadmap for an ASEAN Community was designed to guide the establishment of an ASEAN Community by 2015 (Severino 2009).

Efforts to provide a secure regional trade environment for internationally-oriented development strategies, and a more open alternative to inward-looking subregional arrangements, led to APEC's creation (Garnaut 2000; Yamazawa 2000). ASEAN resisted APEC initially but domestic realignments (1980s-1990s) with an eye on improved access to US markets weakened that opposition.[35] Members shared significantly converging interests oriented to the global economy despite heterogeneity in state size, power, regime type, norms, culture, and histories. This heterogeneity also favored APEC's design as an informal mechanism of economic growth that would not coerce more trade liberalization than was politically feasible

[35] On fears of institutional alternatives to ASEAN, see Ravenhill (1998) and Soesastro (1994).

domestically. The agents behind the expansion of regional trade and investment (1980s) included private corporations backed by government officials and informal networks of business representatives, economists, and public officials in private capacities--notably PECC--which pressed governments to liberalize. As Ravenhill (2006) argued, maintaining regional stability and cooperation was a crucial though latent objective of APEC, and furthermore, “if successfully managed…enhanced economic integration ultimately would *change the balance of interests in the political systems of member states*” [my emphasis]. Regional stability and cooperation would foster domestic economic growth and diffuse internal threats to reigning models. The synergies between economics and security were evident in APEC’s progressive inclusion of issues such as the Korean Peninsula and terrorism, the latter defined as “a direct challenge to APEC's vision of free, open and prosperous economies, and to the fundamental values that APEC members hold.”[36]

APEC’s informal institutional design was fit for bridging across members’ different stages of internationalization, with a common denominator emphasizing “open regionalism” but also “concerted unilateralism” (Drysdale 1991; Garnaut 2000). The design was also partially derivative of ASEAN's, with a thin Secretariat providing advisory, operational and logistic/technical services, and annual summits. The consensus rule defined APEC as a horizontal organization, only minimally hierarchical, enabling models at different stages of internationalization to follow their own timetable and to resist binding codes. APEC thus served as a mechanism for diffusion of, and support for, market-driven liberalization, which public and private beneficiaries could wield to influence domestic decisions (Bergsten 1997; Garnaut 2000). However, the literature is divided over the magnitude of its actual effects, which some consider to have been relative insignificant and others perhaps restricted to tactical learning and confidence-building (Higgott 1995:74; Aggarwal and Lin 2001:180; Ravenhill 2000).

The ARF is a grouping of highly heterogeneous states in military and power capabilities. Middle powers played critical roles in its genesis whereas larger powers were initially rather lukewarm.[37] Its extreme informality enabled a general agreement to create the institution in the first place, in order to facilitate communication, increase transparency, and reduce uncertainty. For many of the reasons underpinning the creation of ASEAN and APEC, the ARF was also rooted in shared interests in economic prosperity, regional stability, foreign investment, and avoiding costly arms races. Conflict and military competition had the potential of impairing rapid economic growth, which constituted the overriding objective of reigning domestic models throughout the region. Buttressing synergies between domestic and regional stability, so central to internationalizing models, the ARF seeks to promote regional conditions necessary for endowing those models with “resilience,” a term dear to ASEAN leaders. The ARF’s 1998 communiqué, for instance, noted the adverse repercussions of the Asian financial crisis for peace and security. The 2000 meeting reaffirmed the links between globalization and regional peace and stability.

Clearly, the ARF’s conception is inextricably linked to the domestic models that have underpinned the region's transformation. Its format is another ASEAN derivative, with an even less formal structure than ASEAN or APEC, lacking a secretariat. Once again, the consensus rule served variation in domestic arrangements well, but other, more formal arrangements might be compatible with those objectives as well. The ARF has no enforcement powers and is not a

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[36] <http://www.apecsec.org.sg>

[37] On China’s evolution vis-à-vis the ARF, see Johnston (2008).

security community, collective defense, or collective security mechanism, but has served as a venue for dialogue on the Spratly islands, Korean denuclearization, and confidence-building; and some coordination on terrorism and piracy. The 2009 communiqué addressed all those issues, reaffirmed the importance of the 2002 Declaration on the Conduct of Parties in the South China Sea between ASEAN members and China committing all to the peaceful resolution of disputes, and encouraged the conclusion of Guidelines for its implementation and an eventual Regional Code of Conduct in the South China Sea.

Kahler (2000) has noted the compatibilities between internationalizing coalitions (but not their counterparts) and legalized institutional forms.[38] Such coalitions can indeed lock their preferences in through formal institutions but they can also cooperate through a wider range of institutional options that facilitate synergies between economics and security, and between domestic growth, "resilience" and regional stability. The domestic political logic described earlier leaves leaders and ruling coalitions with a wide range of institutional options, given a more or less fundamental agreement on the regional cooperative corollaries of that logic. As Ravenhill (1998) notes, APEC and the ARF rely on economic growth to soften tensions. The recent spate of bilateral and sub-regional free trade areas are complementary institutional forms designed to advanced compatible objectives.

VI. The Nature, Design, and Effect of Middle East Regional Institutions

The literature on Middle East regionalism is rather negligible and may indeed reflect the same reality that led Aarts (1999) to entitle an article on the topic: "The Middle East: a region without regionalism or the end of exceptionalism?" Aarts also found Middle East regionalism to be "eternally out of step with history and immune to the trends affecting other parts of the world." Similarly, Sayigh (1991) argued that Arab states have not formed a "community of nations" with shared values and norms. Such outcome may seem counterintuitive, given significant linguistic, cultural, and religious homogeneity among Arab states (certainly in comparison with East Asia) that might be high predictors of regionalism. Barnett and Solingen (2007) addressed this apparent paradox of a shared identity erecting barriers rather than building blocks toward regional cooperation and regionalism. Pan-Arabism as an important source of domestic legitimacy compelled leaders to embrace Arab unity *rhetoric* but also challenged individual priorities of ruling coalitions. Competing pressures from pan-Arabism thus led leaders to mold the LAS in ways inimical to advancing effective regionalism.

The League of Arab States (LAS): Designed to Fail?

Background

Common language, nationality, history, and culture make normative convergence a plausible motive for the LAS's creation *prima facie.* The UN Arab Human Development Report (AHDR 2002), written by leading Arab scholars, suggests that "perhaps no other group of states in the world has been endowed with the same potential for cooperation, even integration, as have the Arab countries. Nevertheless…Arab countries continue to face the outside world and the challenges posed by the region itself, individually and alone." The fact that Arab states established one of the very first regional institutions worldwide--the LAS--in 1945, adds to this

[38] According to Lutz and Sikkink (2000), legalization does not necessarily contribute to higher compliance. On more formally encoded institutionalism as potentially detrimental to regional cooperation in East Asia, see Inoguchi (1997).

paradox of stunted institutional development. However, the preceding analysis of dominant models and incentives of leaders and ruling coalitions reduces this sense of paradox. The LAS was the product of a shared fundamental preference for a weak regional institution that could not undermine those models.

Relatedly--and unlike any East Asian institution--membership in the LAS was restricted at the outset on the basis of (Arab) identity, linking across geographically remote members such as Somalia, Mauritania, Djibouti, Syria, Morocco and Lebanon. Efforts to define *specific* collective Arab norms regarding unity, the West, and Israel created tensions among them. Clear norms (such as proscribing alliances with the West) would intensify pressures from both domestic constituencies and neighboring states to comply with those norms, thus restricting rulers' ability to pursue their preferred strategies. Tensions between *kawmiyah (*pan-Arab) and *watanyia* (state) nationalism also influenced the LAS design. Leaders could neither live with pan-Arab *kawmiyah* nor without it, since it represented an important source of domestic legitimacy. The politics of pan-Arab nationalism led them to embrace the rhetoric of Arab unity in order to legitimize their models on the one hand, and to fear Arab unity imposing higher sovereignty costs in practice. These push-pull pressures of Arab unity thus fueled competitive outbidding among leaders, which unintendedly led to more extreme (rhetorical) versions of regionalism than any of them could bear. As a hallmark membership criterion, a shared ethnic identity thus ironically exacerbated collective action problems, and the invocation of Arab unity unleashed more centrifugal than centripetal effects at the regional level. Consequently, the LAS design should not be seen as an unintended outcome but rather as the result of a clear preference for an institution that would *not* achieve "unity," an ideal strongly proclaimed only in public. Enhancing information and transparency about such preference through formal mechanisms was certainly not the objective of principals who designed the LAS.

Nor was the need to manage growing regional interdependence a force behind the emergence of the LAS. As earlier sections suggest, interdependence was very low in the 1940s and remained at between 7 and 10 percent of total trade since the 1950s. Capital movements were small as well until rather recently.[39] Given all this, and the dilemmas mentioned above, why and how *did* the LAS emerge and evolve? Its actual origins are in a 1942 initiative by British Foreign Minister Anthony Eden, followed by a proposal by Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, Syria, and Yemen.[40] Because the LAS was conceived to substitute for, not as a conduit to, Arab unification, its emergence mobilized two competing domestic camps: those who balked at a regionalism that would limit independence, and those who balked at one that did *not* advance Arab unity. The latter camp was particularly extreme among pan-Arabists in Syria and Iraq. Saudi Arabia and Egypt had opposed pre-1945 unification schemes ("Greater Syria," "Fertile Crescent") by Jordanian and Iraqi Hashemites. Following the 1944 Alexandria Protocol establishing the LAS, Egypt's King and his allied critics of the LAS immediately ousted Prime Minister Nahhas Pasha--a LAS supporter--as a traitor.[41] Jordanian and Syrian prime ministers followed suit. Lebanese Christian Maronite leaders denounced the protocol as violating sovereignty, though some Lebanese Muslims favored unity (Gomaa 1977). Saudi-Arabia's King

[39] UNDP (2002:126); IMF Direction of Trade Statistics (1998 Yearbook).

[40] By the 1970s the LAS had 22 members, with the addition of Libya, Algeria, Kuwait, Morocco, Tunisia, Sudan, Bahrain, Palestine, South Yemen, Oman, Qatar, the United Arab Emirates, Somalia, Mauritania, and Djibouti. For a more extensive account of the evolution of the LAS since its inception, see Solingen 2008 and Barnett and Solingen (2007).

[41] Egyptian supporters of a pan-Arab agenda were few but important at the time (Macdonald 1965).

Sa'ud worked to derail the Alexandria meetings. Yet this early domestic mobilization and public awakening throughout the region made it harder to reverse support for the concept of a pan-Arab regional institution.

The resulting LAS Pact's final version, ratified by mid-1945, specifically proscribed intrusion in domestic arrangements. Article 8 stipulated that members should "respect the form of government obtaining in the other States of the League, and shall recognize the form of government obtaining as one of the rights of those States, and shall pledge itself not to take any action tending to change that form."[42] Protecting domestic models was so crucial that activities were initially restricted to economic, cultural, and social but not political cooperation. The Alexandria Protocol had specifically eliminated joint defense and foreign policy from proposed committees. The 1945 Pact itself made no mention of common defense against external attack, common foreign policy, or coordinating military resources (Macdonald 1965). Concerns with security emerged only later, particularly after Arab armies' defeat in Palestine/Israel's 1948 war. The 1950 Joint Defense and Economic Cooperation Treaty (known as Arab Collective Security Pact) aimed at external threats but not at resolving inter-Arab conflicts. The latter were famously characterized by Kerr (1971) as amounting to a veritable "Arab Cold War." Egypt, particularly under Nasser, as well as Iraq and Saudi Arabia, vied for hegemony (Haas 1983; Hasou 1985). A formal institution was thus also looked upon with suspicion for its potential to become an instrument of "hegemonic" aspirations.

The issue of alliances with the West led to deep cleavages among Arab states, with implications for their domestic models. The 1955 Baghdad Pact, in particular, pitted Nasser's model against the Hashemite kingdoms of Jordan and Iraq, as well as against Lebanon and Syria. [43] Nasser strongly endorsed the Arab Collective Security Pact and a unified Arab army; threatened to publicize the "duplicity" of Arab states favorable to the Baghdad Pact and to suspend Egypt's relations with them; proposed a counter-pact with Syria and Saudi Arabia (the "Tripartite Alliance"); and directly intervened in the domestic affairs of neighboring states, mobilizing public protests and forcing the replacement of two prime ministers in Jordan and the confinement of King Hussein. Threatened by domestic unrest, regimes privately sympathetic to alliances with the West abandoned such designs and aligned themselves with Nasser's model in their domestic and regional dimensions, emphasizing economic and political "self-reliance," state dominance of the economy, and rejection of ties with the West.

This episode illuminates the reality that, despite Article 8's codification of nonintervention in domestic systems of government, Arab states continuously violated it. As Noble (1991) argued, persuasion, diplomacy, or economic inducements were not a favored strategy in regional interactions, in a pattern perhaps reminiscent of an earlier era in Southeast Asia, under Sukarno, preceding ASEAN. Noble notes (p.75) that "Arab governments relied primarily on unconventional coercive techniques," including "strong attacks on the leadership of other states, propaganda campaigns to mobilize opposition, and intense subversive pressures, including cross-frontier alliances with dissatisfied individuals and groups. The aim was to destabilize and ultimately overthrow opposing governments." The LAS not only failed to tame competitive outbidding efforts of this sort but indeed provided a stage for that competition.

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[42] League of Arab States Charter, available at <http://www.mideastweb.org/arableague.htm>

[43] On the domestic reverberations of the Baghdad Pact proposal, see Seal (1986) and Podeh (1995). Some Syrian constituencies were favorable to the Pact for its potential to generate economic aid and professionalize the military, so as to keep it out of politics. Torrey, *Syrian Politics and the Military*, p. 270.

The corollaries of this pattern for economic regionalism were clear. Nasser's model was akin to Hirschman's (1945) imperial commercial strategies, serving his own domestic and regional goals at once. He used trade to induce maximum dependence by neighbors, turning them into raw materials suppliers, diverting Egypt's trade to weaker partners for whom trade utility was higher, and de-industrializing weaker competitors for export markets. Backed by his bureaucratic and military allies, Nasser maximized economic profit, military power, and regional influence, all of which sustained and reproduced their own power.[44] In 1958 Nasser proposed a union with Syria (and later with Iraq), in another effort to impose his domestic model throughout the region. Under the United Arab Republic (UAR) unity scheme, Egypt required Syria to import industrial goods exclusively from Egypt, paralyzing Syrian-Lebanese trade and restricting Lebanese exports to Egypt. This plan was initially resisted by adversely affected Syrian constituencies, mainly in agriculture and commerce, but also within the Syrian military (Hasou 1985; Macdonald 1965). Lebanon's model, an open trading *entrepôt* connecting Europe and the Arab world and based on extensive extra-regional trade, commercial and banking interests, was particularly threatened by a shift to protectionism, state entrepreneurship, import-substitution and highly militarized economies. In 1961 Syria seceded from the UAR and resisted a subsequent a Syria-Iraq-Egypt unification scheme in 1963.

Competitive outbidding among inward-looking models dominated by state monopolies throughout the region led to declines in intraregional trade. Article 2 of the 1953 formal treaty entitled Convention for Facilitating Trade Exchange and the Regulation of Transit Trade between States of the Arab League specified that "the provisions of this convention shall not be applicable to articles subject to government monopoly" (Macdonald 1965:198). Government monopolies constituted the bulk of most Middle East economies. Article 3 of the Trade Exchange Convention specifically excluded all imports prohibited by member countries from the Convention's purview. Given the autarkic tendencies of member states it is hard to come up with items of any relevance to this Convention. The Arab Common Market (1965, Egypt, Iraq, Jordan, and Syria) and many other similar efforts and agencies under the LAS existed largely in paper, without much effective impact. Integrative political schemes among Egypt, Syria, Iraq, Libya, Algeria, Sudan, and Tunisia never lasted far beyond the declaratory stage.

Some leaders sought to transcend the weakness of old models through incipient economic liberalization (*infitah*), economic growth and export promotion, particularly in Egypt, Tunisia, and Morocco. *Infitah* required new domestic coalitions and modified relations with the global political economy, which triggered significant opposition from domestic beneficiaries of the old strategy. It also undermined the utility of the LAS as it had evolved up to that point. Sadat's 1970s initiatives (unilateral, regional, and global) must be seen in that light, orienting Egypt toward *wataniya* (state, rather than pan-Arab nationalism), foreign investment, partnerships with the West, and the Camp David peace accords with Israel, which led to its banishment from the LAS. Egypt resumed its influence when the LAS main offices returned to Cairo and Egypt's "treachery" was forgiven. By the 1980s a competing pattern of "subregionalism" began to emerge, beginning with the GCC (1981) and followed by the Arab Maghreb Union (1989, Algeria, Libya, Mauritania, Morocco, and Tunisia) and the Arab Cooperation Council (1989, Egypt, Jordan, North Yemen, and Iraq). Except for the GCC, these were short-lived and no more effective than the LAS.

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[44] The textbook case of an imperial strategy was Hitler's Germany, and Arab nationalists considered European fascism "a virile politico-economic system superior to other Western models" (Macdonald 1965). The military became an instrument of control by ethnic minorities or tribes throughout the region.

The winding down of the Cold War, expanding globalization, a stale LAS, deepening inter-Arab cleavages unleashed by the 1991 Gulf War, and incipient changes in domestic alignments forced by mounting economic and political crisis provided some political cover for alternative regional institutional arrangements, transcending identity-based criteria. The Oslo agreements and the Multilateral Middle East Peace Process (MMEPP) emerged in this context as an unprecedented effort to tackle core sources of conflict in arms control, economics, refugee, water, and environmental issues.[45] With the participation of Turkey, Israel, Europe, Japan, the US, Canada, and others, this was a framework far more akin to open regionalism. The MMEPP economic summits and proposals for a regional bank were efforts to nurture transitions away from bloated bureaucracies, economic mismanagement, overpopulation, and militarized economies. The Euro-Med process (Barcelona Declaration) was designed as a region-to-region effort to underpin those transitions. Supporters of old political-economy models (in Iran and Syria, in particular, but also among some domestic constituencies everywhere else in the region), opposed all these efforts while advancing pan-Arab, Islamist, or pan-Islamist regional frameworks.

Considering the MMEPP's brief duration, and the inelastic nature of the region's dominant model of political survival, the MMEPP's embryonic achievements should not be underestimated. They included a "vision paper," a draft "Declaration of Principles" on regional peace and security, an environmental code of conduct, a Monitoring Committee and permanent secretariat for the Regional Economic Development Working Group (REDWG), a proposed "vision chapter" on refugee issues, a regional desalination center, and other substantive and procedural focal points. This episode came close to sowing the seeds of an eventual East Asia-style regionalism. Notably, no Arab head of state (except for the host, President Mubarak) participated in the 1995 celebrations for the LAS's 50th anniversary, a fact lamented by a former LAS Secretary General, Clovis Maksoud (1994).[46] But the promise and expectations from those alternative efforts at regionalism were truncated by the resilience of decades-old models in most states in the region.

Institutional Design and Effects

As argued, the LAS reflected the principals' preferred design. The original Pact established the Council as the key organ overseeing a permanent secretariat and six functional committees. All authoritative council decisions required unanimity and were binding only on states that accepted them (Macdonald 1965). This was a regionalism to "be seen but not heard" specifically disarmed of any monitoring or formal sanctioning mechanisms.[47] To be seen, the LAS historically devoted between 25 and 30 percent of its budget to "information" (Macdonald 1965:144). It had also passed over 4,000 resolutions by the 1980s of which 80 percent were never implemented, and developed a baroque bureaucracy. The Secretary General was always Egyptian and sited in Cairo, where Egyptians dominated the bureaucracy (except for the interlude following Sadat's 1979 Camp David accords). Although designed to execute Council policies, the Secretariat (235 employees by 1970) expanded and initiated numerous activities

[45] For a more detailed analysis of the MMEPP and the Euro-med initiatives, see Solingen (2000) and Solingen and Ozyurt (2006) respectively.

[46] My research on the LAS benefited from a personal interview with Mr. Maksoud (New York March 6, 2000, following a meeting on regionalism hosted by NYU's Center for International Cooperation and the United Nations Development Program).

[47] Barnett and Solingen (2007). Some of the evaluative material on the LAS operation in this section builds on the authoritative Arab Human Development Reports, particularly the 2002 edition.

through 15 specialized organizations, 14 committees, four defense bodies, five economic and monetary funds, and other agencies employing thousands of employees. This was not a light bureaucratic machinery, in contrast with East Asian institutions. It encompassed internal and affiliated agencies such as an Economic and Social Council, the Council for Arab Economic Unity, a permanent military command, specialized ministerial councils, an Arab Development Bank, an Arab union for communications, an Arab Postal Union, a Union of Arab radio stations, an Arab Labor Organization and Arab Labor Bureau, Arab Fund for Economic and Social Development, and an Arab Monetary Fund.

The bureaucratic density of specialized organizations operating within the LAS framework led in 1974 to the creation of a committee entrusted with coordinating among specialized organizations, but these remained, as the 2002 AHDR suggests, weak and ineffective. Another committee formed in the mid-1980s proposed improvements and restructuring, including the appropriation of a yearly budget and establishment of a common account in the Arab Monetary Fund. But these were never effectively implemented either. Nor were member states consistent in paying dues to those organizations. Sources for development funds included the Arab Fund for Social and Economic Development (1967), the Arab Monetary Fund (1976), the Kuwait Fund for Arab Economic Development (1961), the Abu Dhabi Fund for Development (1971), the Saudi Development Fund (1974), the Islamic Development Bank (1975), and the OPEC Development Fund (1976). The LAS also sponsored a non-governmental network of trade and professional associations, with membership limited to Arab companies, businessmen, investors, and professionals.

The 2002 AHDR (p.126) stipulates that the end result of these and other regional institutional efforts "has been far from commensurate with the massive institutional superstructure that has been erected and the expectations and aspirations …over five decades of field work." The specialized ministerial councils were highly weakened by fluctuating relations among member states and their inability to adopt unified positions on issues of international concern. The role of the LAS and Council for Arab Economic Unity was confined to mediation and weak coordination, with members frequently failing to honor commitments. This also handicapped, in the eyes of the report, relations with the outside world, as did the fact that inter-Arab trade remained at between 7-10 percent of total Arab trade, virtually unchanged since the 1950s. Further, the report suggests, economic growth, jobs, and social development were adversely affected by reliance on limited domestic markets and by limited integration with foreign markets. The weakness of LAS agencies also contributed to the digital divide among Arab states; the absence of a pan-Arab regional information policy; and the diminished LAS role in conflict resolution among members and between members and other states. The AHDR cites some potential achievements such as the Arab Fund for Economic and Social Development, the Arab Monetary Fund, and other Arab development funds, the connection of electricity networks, the growing role of civil society organizations, and many LAS agencies which, despite unfulfilled expectations, could still provide the foundation for future cooperation.

In an effort to untangle the obstacles to Arab regionalism, the 2002 AHDR (pp.128-129) lists first the fallacy of imitating EU patterns without considering their suitability to Arab conditions. This was particularly the case with the introduction of free trade which failed to take into account Arab countries' production capacity and similarity rather than complementarity of production patterns (though there are countervailing complementarities in factor endowments between capital rich and labor-rich economies). In addition, Arab states, taken together, have a limited market size; often compete for the same export markets; have relatively concentrated exports; low levels of intra-industry trade, and a high ratio of imports to exports of components (Hoekman and Meserlin 2002). Large differences in per capita income may also encourage trade with extra-regional actors (Al-Atrash and Yousef 2000). In the final analysis, as Hoekman and Sekkat (2009) and the 2002 AHDR suggest, the *political* economy background (*qui bono*?), and the obdurate legacy of 1960s-style protectionism, state monopoly, and rentierism are crucially important in explaining the puzzle of arrested regionalization and regionalism among Arab states. Concerns over the distribution of gains from integration--within and across states--as well as the legacy of inward-looking "national sovereignty" and the absence of mechanisms to compensate losers delayed implementation of intra-MENA PTAs (Fawzy 2003, At-Atrash and Yousef 2000). Furthermore, some of the larger economies have lower shares of intra-regional trade, dampening their political incentives to steer regional integrative frameworks.

Plans for an Arab Common Market (1950s-1970s) had negligible achievements. A 1981 agreement proposed full exemption from tariffs and non-tariffs for manufactures and semi-manufactured goods but had little effect. The 1995 LAS resolution to liberalize inter-Arab trade led to the 1997 Greater Arab Free Trade Area (GAFTA), which introduced unprecedented schedules for across-the-board elimination of tariffs, tariff-like charges, and non-tariff barriers on industrial goods. By 2005 custom duties among 13 members had been eliminated, but this progress lagged after the broader worldwide adoption of multilateral rules. Merchandise exports within GAFTA increased at significantly lower rates than MERCOSUR, ASEAN or CARICOM (Romagnoli and Mengoni 2009:72). Many other obstacles and "behind the border" non-tariff barriers remained, ranging from state monopolies to intellectual property rights, red tape, customs clearance procedures, and weak enforcement of contracts.[48] Corruption and weak rule of law hindered the expansion of manufactured exports and FDI inflows (Méon and Sekkat 2004). Hopes that privately-driven services (transportation, telecommunication, and backbone activities) would generate more merchandise trade and attract FDI, or deeper integration, were foiled by political resistance from adversely affected sectors (Hoekman and Meserlin 2002). The MENA region remains among the most restrictive in the world, at 24 percent if non-tariff measures are included.[49] Despite significant lingering barriers, however, MENA countries have increased their intra-regional shares of FDI in the 2000s, particularly in real estate (though the latter has suffered severely under the global 2008 crisis).

As argued in the introduction to this background paper, LAS members were not only weakly integrated with each other but also with the rest of the world. The LAS share of global exports (mostly to the EU, Japan, and the US) remained extremely low, at about 3 percent (excluding oil). For most Arab states, particularly North African ones, exchanges with the EU have been overwhelmingly more important than with GAFTA. For the LAS region as a whole, advanced Western economies and Asia account for 80 percent of their exports (Al-Atrash and Yousef 2000). Egypt, Jordan, Morocco and Tunisia negotiated bilateral agreements with the EU under the Euro-Med process in the 1990s as well as bilateral agreements freeing trade amongst themselves. They also entered into the Agadir agreement (2004), which coordinated Euro-Med and within-group liberalization. The Agadir process signaled a potentially more effective--though sub-regional--framework than any of its predecessors. But economic studies find it to be no

[48] For the ranking of MENA countries in these categories, see the 2008 World Bank's "ease of doing business" index.

[49] Hoekman and Sekkat (2009:10, 22-23) also lament the patchy or non existent data on production, trade, investment, and employment, and even on policy and implementation, for some countries in the region, including large ones like Saudi Arabia.

more than a loosely knit economic grouping with little integration of any sort (Bacha 2008). At the macro-regional level, the Mediterranean Free Trade Area formed under Euro-med sponsorship, which would have covered most goods by 2010, had to be extended well beyond this deadline. The 2007 French initiative for a Union of the Mediterranean became yet another framework--redundant from the standpoint of some EU members--and a very long-term aspiration. Finally, the European Neighborhood Policy (2003) was designed to aid MENA and other countries navigate through the many standards that often hinder exports to the EU.

Some may consider the absence of effective regional economic integration one background factor explaining the high incidence of intra-regional militarized conflict, intervention in neighbors' domestic affairs and the broader absence of regional cooperation in the Middle East. However, initially limited economic complementarity or integration did not preclude other regions (ASEAN, MERCOSUR) from promoting a form of cooperative regionalism that, even without a formidable deepening of intra-regional interdependence, nonetheless promoted common "resilience," regional stability, foreign investment, and mutual strengthening of internationalizing models. Given the framework informing this study, domestic models can explain low regional economic interactions, high levels of regional conflict, and the inability of regional institutions to extricate the region from both patterns.

Just as other regional institutions, Article 5 of the LAS Pact prohibited the use of force to resolve disputes and proposed mediation. However, even unanimous decisions against aggressors could not be binding on disputes over states' "independence, sovereignty or territorial integrity." The Pact thus foreclosed even the mildest forms of intervention in a crucial category of conflict. The LAS abstained from intervening at all in many conflicts between 1946 and 1977, including Lebanon's plight against UAR subversion in 1958; Jordan's call for LAS action to prevent Syria's military intervention in 1970; Iraq's 1973 attack on Kuwait; the 1976–77 conflict between Algeria, Morocco, and Mauritania; and the brief war between Egypt and Libya in 1977 (Zacher 1979). Aggrieved parties often discounted the LAS altogether. As Salame (1988) argued, there was "no need to establish majority rules, since even when unanimity is possible it remains ineffective." Mediation succeeded in only 6 of 77 inter-Arab conflicts between 1945 and 1981 (Hassouna 1975; Awad 1994:153). Comparative studies by Zacher (1979) and Nye (1987) rank the LAS success in abating conflict considerably lower than the OAU and the OAS.

Although cited as uncommonly successful, the Lebanon-UAR 1958 crisis allowed Nasser to effectively paralyze the LAS. Only after Lebanon's appeal to the UN Security Council and intervention by US and British forces to protect Lebanese and Jordanian "territorial integrity" was the LAS's secretary rushed to draft a resolution agreeable to all (Hasou 1985). LAS activities following Syria's complaints against Nasser (1961) were particularly hostile and unsuccessful. Nasser never hid his blueprint for the LAS, differentiating between "Egypt as a state" and "Egypt as a revolution." According to Nasser's spokesman Hassanein Heikal, the former could seat at LAS events and conclude agreements. But as a revolution, Nasser's model dealt with Arabs as a single nation, never hesitating to "halt at frontiers…If the Arab League were to be used to paralyze our movement, we must be prepared to freeze [its] operations" (Hasou 1985:115-116). And so Nasser did, threatening to withdraw from the LAS when cornered by Syria's complaint. Two important reported exceptions to this broader pattern of inefficacy were the LAS effective intervention during Iraq's threat to Kuwait in 1961 and Algeria's invasion of Morocco in 1963. A subsequent arguable achievement, following Lebanon's devastating civil war, was the LAS sponsorship of the Ta'if accord, which also legitimized Syria's extended control over Lebanon.

International pressures stemming from 9/11 and the ensuing war in Iraq led Secretary-General Amr Moussa to declare that weakness and disunity precluded the LAS from playing a meaningful role in preventing that war, and that the LAS could be replaced by a new system, just as the UN had replaced the League of Nations. In Moussa's own words: "Arab states wanted the war and I do not care if the Arab League remains or goes. I excuse the strong bitterness in Kuwait, but I believe they should not help invade Iraq."[50] An initiative by Shaykh Zayid Bin-Sultan al-Nuhayyan, Crown Prince of Abu Dhabi, that allegedly won acceptance from Saddam Hussein, was reportedly ignored by the LAS.[51] As Moussa put it, "brother Taha Yasin Ramadan" (Saddam's Vice-President) would not be satisfied with mere "words" of support from League members. When asked whether the LAS was "dead," Moussa replied that the LAS could not work as long as the Arab body remained weak, that the entire Arab order had to be reconsidered, and that some "Arab forces" were interested in activating the League only slightly but never as a major voice in the Arab world.

Moussa's analysis highlights the long half-life of a vestigial approach to the LAS, from its origins and through successive crises. While the foreign ministers' Council labeled the 2003 Iraq war an aggression against an Arab state, some members also provided facilities for coalition forces (Kuwait, the UAE, Qatar, Bahrain, and Oman) and others extended indirect assistance (Egypt, Jordan, and Saudi Arabia). Subsequently, the LAS denied the new Iraqi Governing Council (IGC) the right to represent Iraq at their meetings pointing to its presumed lack of sovereign legitimacy, a particularly poignant argument for an institution that lacked a single democratically elected member. The new Iraq had brought the Sunni-Shi'a cleavage squarely into the LAS chambers. Moussa denounced Iraq's new constitution, particularly provisions for regional autonomy and the description of Iraq as a Muslim but not an Arab state (the absence of a Constitution under Saddam Hussein, however, never triggered such criticism).[52] Some Arab leaders used their own state-controlled media to inflame pan-Arab sentiment against the US and Iraq's (Shi'a) leadership, often from within Iraq itself, which was now the Arab state with the region's freest media.

Although such intrusions into domestic affairs were legendary, abstention from intervention on behalf of human rights has been one of few truly consensual practices, making the LAS record in this area the subject of extensive criticism. The LAS failed to condemn, among many others, genocidal human rights abuses by Saddam Hussein (including the use of chemical weapons against Kurds, the extermination of 400,000 Shi'a, and the torture and killing of many others); massive killings of Islamists in Syria (al-Hama, estimated at nearly 20,000); and the genocidal massacre of at least 400,000 innocent civilians and displacement of at least one million others by the Sudanese regime, in what the UN labeled "the world's worst

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[50] Al-Sharq al-Awsat, London, in Arabic, 1 April 2003; cited in Global News Wire – Asia Africa Intelligence Wire. Copyright 2003 BBC Monitoring/BBC. BBC Monitoring International Reports. Iraqi leader Izzat Ibrahim al-Douri was more direct, interrupting Kuwait's foreign minister at a meeting while urging him "to shut up you little man, you stooge, you monkey! . . .You are facing Iraq, may God curse you," John F. Burns and Edward Wong, "Death of Hussein Aide is Confirmed," *The New York Times*, 13 November 2005, p. A8.

[51] Al-Sharq al-Awsat, London, in Arabic, 3 May 2003; cited in Global News Wire – Asia Africa Intelligence Wire, p. 6. Copyright 2003 BBC Monitoring/BBC. BBC Monitoring International Reports.

[52] Robert F. Worth, "Leader Says Other Arabs Are Insensitive to Iraq's Plight," *The New York Times* 6 September 2005, p. A9.

humanitarian crisis" at the time. The LAS also opposed UN sanctions and disarming the Sudanese-supported Arab militias (janjaweed) in Darfur. The entire LAS membership pledged less aid for Darfur than Canada alone.[53] Nor did it contribute relief workers. In fact, it scheduled the 2006 Summit in Khartoum to support Sudan's leadership. It refrained from condemning massacres of Shi'a by Sunni terrorists in Iraq.

Following the alleged assassination of Prime Minister Rafiq Hariri by Syrian agents, the LAS proclaimed its "solidarity" with Syria and rejected "foreign intervention," including UN Security Council Resolution 1559 calling on Syria to end its occupation of Lebanon. Syria's eventual withdrawal had far more to do with international pressure than with any LAS role. In the words of Lebanon's Daily Star editor Rami Khouri, "as the gravity of the crises continues to rise, so does the irrelevance of the Arab League response – or the lack of it . . . It's an institution of the 1960s and hasn't changed, even though the world and the region has."[54] Not a single Arab country has integrated the Arab Charter for Human Rights issued by the Arab League in 2004 into domestic law, even though the charter is a much diluted version of international human rights treaties and conventions (Rishmawi 2009). Over half of the LAS members have yet to ratify it. The 2009 Arab Human Development Report, in another round of comprehensive data collection and analysis on the 22 member states of the LAS, mentions the LAS itself only once (p.57), in connection with its partial—not absolute--ban of the juvenile death penalty.

The Greater Middle East Initiative announced by the US in early 2004, which emphasized political reform, exacerbated other cleavages in advance of the Tunis Summit. The initiative was opposed most forcefully by Egypt, Saudi Arabia, and Syria, which rejected words like "democracy," "parliament," and "civil society" in any Summit declaration, or support for the idea of NGOs as building blocks of civil society.[55] Members further along on the process of political reform including some Gulf states, Tunisia, and Morocco, were more receptive. Beyond cleavages on human and women's rights, political participation, and judicial reforms there was also divergence over internal reform of the LAS itself, proposed by Saudi Arabia, including the possible creation of an Arab Investment and Development Bank, an Arab parliament, an Arab security council, and an Arab court of justice. Threatened boycotts of the Summit, a regular occurrence, moved Tunisia to postpone it. Only about half of Arab leaders attended it two months later, but there were only four left before the Summit ended. Muammar Qaddafi repeatedly called for dismantling the LAS, calling the entire agenda flawed.[56] Others suggested that the Tunis summit had succeeded without the need to hold it, insofar as it had tackled, for the first time, political reform of the Arab order and correction of the LAS itself. The "new Iraq" and growing influence of Iran in the region (through Hezbollah, Hamas, and others within GCC countries, Egypt and elsewhere) raised common concerns among LAS members, but also

[53] Lebanon's *Daily Star* , "Symptomatic Arab Silence on Darfur," reproduced in the *International Herald Tribune*, 13 August 2004, p. 6.

[54] Hassan M. Fattah, "Conference of Arab Leaders Yields Little of Significance," *The New York Times*, 24 March 2005, p. A3.

[55] Neil MacFarquhar, "Arab Summit Meeting Collapses Over Reforms." *The New York Times*, 28 March 2004, p. 10.

[56] For Qadhafi's view of the LAS, see his web page: "The so-called Arab World or Arab Homeland is . . . based on very dangerous probabilities of countless ethnic and sectarian divisions because of the nature o the present age, the age of major spaces, the age of minority fever. . . . Any attempt to talk about mutual Arab work, league structure, or practical measures will fail in the face of reality. . . . Clinging to the Arab League is mere negligence or ignorance of reality" (at http://www.algathafi.org/en/arab_en.htm).

exacerbated internal divisions about how to cope with them. I discuss the role of Iran in greater detail in the context of the GCC.

There are other important exceptions in what otherwise most studies of the LAS consider a limited list of accomplishments. First, the LAS maintained a record of highly coordinated voting against Israel in UN fora. As Awad (1994:150) argued, the League "lived by and for the Arab-Israeli conflict." Gomaa (1977:267) suggests that this preoccupation also "accentuated the negative aspect of Arab nationalism and sapped it much of its strength." Yet, beyond formal voting in UN and other institutional contexts, the Israel factor was only intermittently conducive to unity. Disagreements among competing domestic models also led to fierce encounters on this issue; the contemporary conflict between Hamas and Fatah provides a current example. Second, and precisely against the background of a long history of recurrent inter-Arab contestation on this issue, the Saudi peace proposal, unveiled and approved at the 2002 Arab Summit, can certainly be considered a brilliant diplomatic stroke. This initiative called for a joint Arab declaration to "normalize" relations with Israel in exchange for full Israeli withdrawal and return of all refugees according to the 1948 UN General Assembly resolution 194. This proposal has since presented Israel with a difficult diplomatic dilemma that successive ruling coalitions in recent years have failed to address effectively.[57]

In sum, given its origins, design, and the domestic models that underpinned the LAS, its limited effects should hardly be surprising. There is little evidence that it constrained state behavior, reduced transaction costs, enhanced information, or re-defined states identity. Expectations that the institution would reduce transaction costs were not high, particularly as summits led to low attendance and high contestation. The LAS had a measure of influence in socializing some Arab elites in earlier times, but certainly fell short of changing state preferences. The 2002 AHDR (p.121) is explicit regarding the relevance of domestic politics, tracing the fragility and ineffectiveness of Arab regional institutions to members' primary concerns with domestic pressures; the absence of substantive convergence in light of dominant models inimical to private entrepreneurship, trade interdependence or open regionalism; the limited effectiveness of ratified agreements and of bodies charged with their implementation; and, fundamentally, to "too many regimes [that] cater to powerful entrenched interest groups." As prominent Arab scholar Shafeeq Ghabra suggests, concerns with domestic political survival remained "the core of the weakness of the Arab League."[58]

Gulf Co-operation Council (GCC)

Background

The very limited region-wide progress in regionalism described thus far coexisted with sub-regional efforts such as the GCC, established in 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. Regime homogeneity is a defining characteristic of the GCC, which groups exclusively monarchies sharing family, religious, tribal ties, and socio-economic features (Abdulla 1999). The GCC is thus a top-down creation of ruling royal families (a particular form

[57] The Saudi initiative was cast as a "take it or leave it" proposal that, from an Israeli standpoint, implied the end of Israel with the return of 1948 refugees. Though no Israeli ruling coalition could survive the acceptance of an equivalent of state suicide, neither did successive coalitions--presiding over an unwieldy electoral and parliamentary system--respond with counterproposals and concrete steps to end the West Bank's occupation.

[58] Quoted in Susan Sachs, "Internal Rift Dooms Arab League Plan to Help Avert a War by Pressing Iraq," *The New York Times*, 14 March 2003, p. A11.

of ruling coalition) with shared priorities and ideological pragmatism geared to enhance their own regime's survival. Pragmatism and reliance on economic prosperity as the cornerstone of regime's legitimacy and survival are reminiscent of ASEAN's creation, though other aspects are not. GCC members also share a political-economy highly dependent on oil exports, revenues, and rents. They collectively command 40 percent of global oil reserves (Saudi Arabia alone accounts for 21 percent) and 23 percent of global gas reserves (Qatar alone accounts for nearly 14 per cent).[59] The royal families preside over distributive states that offered citizens largesse (free health care and education; subsidized housing, goods and services; state employment) in exchange for their political rights (Crystal 1989). A vast literature explains the connection between regime survival and dependence on oil (and other) rents, between rentier states and the resilience of authoritarianism (no taxation, no representation), as well as between rentier economies and industrialization.[60] The GCC has provided support for some of these hypotheses but has also, in recent times, challenged them to some extent. Efforts at economic diversification and incipient political liberalization among some GCC states, for instance, question arguments that made oil sheikhdoms less amenable to such transformations than heirs to revolutionary "republican" regimes elsewhere in the LAS region (Anderson 1991).

An acknowledged Achilles heel of GCC models--from the vantage point of regime survival--has been their high dependence on foreign labor. In the 1990s, foreign workers accounted for 50 percent of the national workforce in Bahrain, 70 percent in Oman, and 80 and 92 percent in Saudi Arabia and Qatar respectively (Romagnoli and Mengoni 2009:78). This remains the source of gargantuan dilemmas for GCC leaders regarding human and labor rights, citizenship and legitimacy. Beyond that, the inability to mobilize effective indigenous military forces from a very small base of citizens has also been a double-edged sword. On the one hand, it imposed a fundamental strategic weakness on these regimes. On the other hand, it also precluded the vast militarization of the economy and society (size of population in uniform, military replacement of private entrepreneurship, etc.) typical of other Arab states. Indeed, given the fate of other monarchies in the LAS region, GCC leaders were highly distrustful of building up their own military as economic and politically powerful domestic competitors (Quinlivan 1999). The sheikhdoms were no less reluctant to see military forces of other Arab states, including fellow GCC ones, within their own countries, as additional potential vectors of intervention in domestic affairs.

At the same time, military expenditures in recent decades have been generally high among GCC members though there is significant variance; the UAE spends less than 1/3 third than Oman as a proportion of GDP.[61] Riad Kahwaji cites the strategic vulnerabilities of GCC countries as lacking strategic depth, sharing a sizable shoreline on the Gulf waters facing Iran, harboring on and off-shore oil facilities, relatively small indigenous populations but hosting significant Western business and American military assets.[62] There have been three major wars

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[59] Jasim Ali, "GCC Focus: Gulf's oil and gas sector is globally significant." Gulf News.com, November 1, 2009. The GCC accounted for 1.4 of world GDP in 2005 and is expected to account for 1.7 of world GDP in 2020 (Economist Intelligence Unit 2009:4).

[60] See, inter alia, Beblawi and Luciani (1988) and Ross (2001).

[61] U.S. Arms Control and Disarmament Agency; SIPRI. Saudi Arabia's average military expenditures relative to GNP in the 1960s were 7 percent but rose to 18 percent in the 1980s (during the Iran-Iraq war) and 1990s, declining to about 9 percent in the 2000s. Military expenditures as a percentage of central government expenditures reflect a similar trend. Other GCC countries had generally lower levels of expenditures but follow Saudi trends decade over decade.

[62] Riad Kahwaji, INEGMA, 9 Sep 2009.

in the Gulf in the last three decades (pitting Arabs against Iranians, and Arabs against Arabs), leading to dramatically higher casualties than Arab-Israeli encounters. Any blockage of the Strait of Hormuz, either by Iran or in a war context, would be catastrophic for oil and gas exports as well as for other crucial commercial activities between GCC countries and important centers in Europe, the US and Asia. Furthermore, some regional think tanks argue, sophisticated defense and deterrent capabilities are also required to enhance foreign investor confidence in the GCC.[63] Despite all these threats and their relative abundant oil resources, GCC states (particularly Saudi Arabia) have refrained from promoting as massive military forces as those of other Arab states, minimizing the likelihood of military coups, a high occurrence event in this region. Though GCC members' military expenditures have been high in absolute terms, they have also been less of a *relative* burden than for other LAS countries given their economic endowments. They have also avoided certain heavy military expenditures such as submarines, despite (because of?) the presence of submarines from regional rivals and friends in the Indian Ocean vicinity. Their military purchases have been more of an instrument to attract external support from the US, Russia, the UK, France, and others.

Despite a rough neighborhood, GCC countries share an interest in maintaining regional stability, which is intertwined with domestic political and macroeconomic stability. Sustaining high levels of FDI to fuel internationalizing models features prominently among GCC incentives to prevent regional conflict and instability. Furthermore, the physical presence of sizeable expatriate communities from literally around the world in business, finance, services, and tourism is regarded as an important deterrent vis-à-vis Iran and other potential threats, including intra-GCC ones. Internationalizing models promoted largely as regime survival devices have thus had the bonus effect of creating common incentives to preserve domestic and regional stability, overwhelming other competitive drives discussed below. From this vantage point the GCC as an institution was intended to serve as a collective mechanism to guard ruling coalitions from intricately related internal and external threats.

As with the LAS, the remote origins of the GCC are in a British proposal, in this case conceived in the early 1960s, prior to independence, and designed to fend off challenges from Nasser and Nasserite sympathizers within and beyond the GCC region, which threatened the sheikhdoms' external and internal instability. The British also encouraged collaboration between Iran and Saudi-Arabia.[64] However by the early 1980s the Shi'a Islamic Republic of Iran had replaced the Shah; was now at war with Sunni Iraq; and intervened in the domestic affairs of smaller Gulf states by exacerbating Shi'a unrest and potential uprisings throughout the Arab Gulf. Shi'a populations had traditionally much higher rates of unemployment, under-employment, and relative poverty, and much lower rates of literacy than other citizens, and felt particularly repressed and excluded throughout the Sunni sheikhdoms. Above all, revolutionary Iran represented a *domestic* threat, particularly to those with extensive Shi'a shares of the total citizenry such as Qatar, Bahrain, UAE (particularly Dubai), Kuwait and Saudi Arabia's province of Hasa.[65] Saddam Hussein's Iraq and the Ba'ath revolutionary doctrine, though Sunni, were

[63] Riad Kahwaji, op.cit.

[64] Iran, which had some claims on Bahrain, opposed the idea of the latter joining the fledging UAE federation, in an effort to prevent its own longstanding feud with Bahrain from spilling over into an adversarial relationship with the entire emerging federation.

[65] A crucial meeting in October 1979 leading to the establishment of the GCC focused quite specifically on the domestic threats emanating from Iran's efforts to export its revolution into the Arab Gulf. Among other things, a group with alleged links to Iranian Shi'a stormed Saudi-Arabia' Grand Mosque of Mecca in 1979 and held it for two weeks, gravely shaking the kingdom's legitimacy. For details on this early evolution of the GCC, particularly on the

another threat with potential to intensify domestic subversion. The Iran-Iraq war provided a convenient justification for excluding Iraq from a GCC blueprint. The war also threatened shipping lanes, the economic lifeline of these sheikhdoms. The Soviet invasion of Afghanistan presented an additional threat to these regimes, with domestic reverberations among emboldened Islamist fundamentalists.

Notably, cooperation in internal and external security was never explicitly mentioned in the GCC Charter for pragmatic reasons, particularly to avoid sharp reactions from powerful neighbors. Furthermore, beyond a shared concern with regime survival, members differed with respect to the precise public (as opposed to hidden) strategy that the new regional mechanism should pursue. Oman was interested in protecting the Straits of Hormuz through military alliance with the US, à la NATO; the exclusion of Iraq; and GCC cooperation in internal security. Kuwait was interested in minimizing the *visibility* of internal and external security as an objective; maintaining neutrality in the US-Soviet competition; advancing a loose, nonbinding Gulf common market; and exchanging information. Saudi Arabia, highly concerned with internal security, sought a collective security mechanism against Iran and Iraq as well. Hence, although internal and external security was undoubtedly a key driver of the GCC's creation and became the subject of discussion at all meetings of the Supreme and Ministerial Councils, there were different conceptions regarding its precise architecture.[66] Members began cooperating on security and intelligence matters early on, behind a façade of economic cooperation designed to portray the latter as the main driver of the new entity. There were some joint military exercises in the 1980s (Peninsula Shield) and in 1986 a rapid deployment force of little military significance was constituted, dispersed by 2006. The wealthier GCC members provided military aid to Oman (which faces Iran at the other end of the Strait of Hormuz) and Bahrain. In 1991 the GCC, Egypt and Syria endorsed the 'Damascus Declaration' establishing a join military force for peace-keeping operations. Egypt and Syria withdrew only a few months later in response to GCC resistance to allow too many foreign (Arab) troops on their soil and disagreement over the economic terms of such arrangement. Foreign (US, British) troops, however, appeared more palatable (except for Saudi Arabia in more recent times), which have fueled challenges by radical Islamists and others over the years.

Institutional Design and Effects

With respect to membership, the GCC Charter made specific reference to the sheikhdoms' "similar systems founded on the creed of Islam," cooperating to "serve the sublime objectives of the Arab nation."[67] It also restricted membership to the six participants at the 1981 founding meeting in Riyadh. The absence of accession procedures was a clear signal to preempt additional applicants, such as Iraq, Yemen or any others for that matter. The Charter also spoke to a common desire for unity, integration, cooperation, and coordination but lacked operative steps to achieve them. Unity and an "eventual confederal union of the GCC states" were distinctively enunciated as the ultimate goal, unlike any East Asian institution. Cooperation on economic, commercial, legislative, administrative and technological matters are mentioned, but

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role of domestic threats in the GCC's creation, see Chubin (1982), Ramazani (1988), Priess (1996), Cooper (2003), and Legrenzi (2008).

[66] As some argued, the GCC is "purely a security institution; the rest is window-dressing" (cited in Aarts 1999:912). See also Christie (1987), Nakhle (1986) and Kupchan (2010). Abdulla (1999:153-154) argues that the intentions of GCC founders remain opaque.

[67] The GCC Charter is available at <http://www.gccsg.org/eng/index.php>

cooperation on defense or security were conspicuously absent as a function of the need to compromise among competing agendas described earlier, including a concerted effort to avoid irritating Saddam Hussein and the Islamic Republic of Iran.

The GCC's highest authority is a Supreme Council that gathers heads of state annually. Unlike LAS Summits, the Supreme Council has met more or less regularly every year, and in 1998 added an additional informal meeting in between. A Ministerial Council composed of foreign ministers meets four times a year and functions as the executive branch, making decisions that are later ratified by the Supreme Council. All decisions taken by the Supreme Council and the Ministerial Council require unanimity, as in the LAS, except for procedural issues relying on majority vote. The Ministerial Council's committees on Financial and Economic Cooperation, Education, Health, Labor and Social Affairs are entrusted with preparing studies and providing recommendations to the Supreme Council. Other ministers and director generals meet routinely as well. The Secretariat, sited in Saudi Arabia, lacks any autonomy; it facilitates the preparation of meetings and reports, and is, in principle, responsible for monitoring implementation. Abdullah Bishara, formerly Kuwait's permanent representative to the UN, became the first Secretary General. The Secretariat includes about 300 employees of which about 200 are Saudis (all but 2 employees are men). According to Legrenzi (2008:66) as long as members have equal rights and contribute equally to the budget they are unlikely to vest the Secretariat with supranational authority to implement decisions. More specialized agencies have their own permanent technical staff. As Hoekman and Sekkat (2009:22) note, economists have not conducted systematic studies of the actual operation and impact of these agencies, so the attribution problem remains hard to resolve.[68]

Most published studies point to the dramatic gap between the Charter and the actual operation of the GCC, and to the meetings' grandiose rhetoric unmatched by operational content. The GCC's approach to rules may be best described by first Secretary General Bishara's response to a question on why he had served a third term--beyond what the Charter allows--to which he reportedly answered: *"Rules are there to serve a purpose. If a particular purpose is better served by ignoring the rules [of the GCC] they will be ignored."*[69] The GCC requires equal, not proportional contributions from all members, which by definition limits contributions to levels affordable by the least wealthy. This contrasts with the internal design of the UAE and its proportional contributions, where wealth differentials among constituent sheikhdoms are known to matter.[70] To avoid perennial resentment from other Arab states (seen as fueled by envy), GCC leaders and declarations emphasize that their brand of regionalism serves the cause of Arab "unification" and indeed fulfills the LAS charter encouraging such sub-regional cooperation.

Beyond the gap among rhetoric, rules and praxis, what has the actual impact of the GCC been? Various experts--though not all--consider its effects to have been negligible, particularly in the early years (Cordesman 1988; Crystal 1990, Tripp 1995, but also Sandwick 1987; Peterson 1988). Others (Legrenzi 2008) describe a more ambiguous record, neither a mere council of rulers (talking shop?) nor a striking supra-regional shift in the international politics of the Gulf region. Members' shared interest in internal stability, as argued, has been paramount.

[68] Some raw data on the number of meetings can be found on Abdulla p. 165.
[69] Cited in Legrenzi (2008:50).
[70] The UAE is composed of seven emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm al-Quwain, Ras al-Khaimah and Fujairah.

Unsurprisingly, intelligence sharing among national security services on threats from domestic subversion, border-crossing and terrorism, and extradition is said to have gone furthest initially, particularly with respect to radical Islamists (Peterson 1988; Ramazani 1988).[71] A unified passport control system enabled greater labor mobility and enhanced collective control while common regulatory frameworks in shipping and ports, among others, improved coordination (Cooper 2003). In 2008 the Supreme Council approved the Articles of Association of a Criminal Information Center for Combating Drugs for GCC Countries, to be established in Qatar.

Unlike ASEAN, the GCC does have an unquestionable hegemon with far greater economic and military power than that of other members. Saudi Arabia accounts for nearly half the GCC's combined GDP, over half of all GCC imports and exports, nearly 90 percent of GCC territory, and 70 percent of the population (Darrat and Al-Shamsi 2005:1055). It also behaves as a hegemon, as will be clear from our discussion on monetary integration below. Even so, GCC countries have made progress towards internal conflict resolution though much of it does not seem to be the exclusive product of Saudi hegemonic efforts. To begin with, internationalizing models have transformed smaller sheikhdoms into important economic and strategic centers in their own right, with heightened international visibility and significant ties to Western powers. This may have leveled intra-GCC power differentials in some respects but it would be misleading to conceive of these changes as mere efforts at power balancing. Rather, internationalization--and the region's ascent as a global financial center--has strengthened the collective incentive of *all* GCC members to value regional stability, including that of their fellow GCC members.

Nonetheless, despite frequent pledges to come to each others' defense in case of external attack (a policy labeled "self-reliance," in another instance of the gap between rhetoric and reality), the GCC remains a loose framework rather than an alliance, and intra-regional tensions persist. Saudi Arabia had territorial claims on over half of Abu Dhabi and portions of Oman but relented in the 1980s, and did not challenge the GCC's consensus rule (Peterson 1988). The GCC may have played a substantive role in the dispute between Oman and South Yemen in the 1980s, which it helped resolve through diplomacy and financial support. There are long-standing territorial disputes and family rivalries between Qatar and Bahrain, which flared up in 1986 when both countries mobilized their military. Saudi mediation dissipated tensions and four GCC states symbolically oversaw Qatar's withdrawal from the disputed island of Hawar (Ramazani, 1988:127; Peterson 1987:194). Qatar and Bahrain also agreed to turn to the ICJ if mediation failed. With renewed tensions in 1991 Qatar turned unilaterally to the ICJ, which issued a final judgment. A border dispute between Saudi-Arabia and Qatar broke out in 1992, followed by a meeting between King Fahd and Qatar's foreign minister. Although held at the GCC secretariat it's unclear whether this meeting amounted to more than a bilateral agreement (with the Saudis relenting) mediated by Egypt's president Mubarak. The 1995 Summit of Heads of State tackled border disputes between Oman and Saudi-Arabia and Oman and the UAE but its concrete outcomes were far from transparent.

Evaluating the effect of these meetings and presumed GCC mediation runs into the same methodological problems raised by efforts to evaluate the effects of other institutions, namely how to assess the counterfactual. Would bilateral tensions in this sub-region have resulted in anything different than the outcomes we observe in the absence of the GCC as a

[71] Although a former head of Saudi intelligence for over twenty years reportedly expressed that he knew very little about the GCC (Legrenzi 2008:149).

regional institution? Or would incentives stemming from the internationalization of the Arab Gulf countries have been enough to prevent escalations? All in all, it appears that bilateralism and occasional referrals to international fora have been more the norm than GCC mediation in internal GCC disputes. Indeed Barnett and Gause (1998:184), writing over a decade ago, argued that GCC residents could, at the time, envisage the possibility of border wars. This, however, preceded the dramatic expansion and deepening of internationalization in the Arab Gulf region. Thus far GCC members have exhibited considerable self-restraint in avoiding militarized border disputes fueled by competing territorial claims. This self-restraint appears to have been driven more by the shared interest in regional stability described earlier than by GCC instruments, with some exceptions. A Commission for the Settlement of Disputes, originally designed to address disputes among members, was never constituted. There have been cases of intervention in the domestic affairs of neighboring GCC states and members have once in a while threatened to shun meetings, though conspicuous boycotts appear far more atypical than in the LAS context.[72]

The GCC holds regular annual meetings between the armed forces' chiefs of staff and defense ministers and pan-GCC military exercises were conducted in 1983, 1984, and 1987, declining after 1990. There has been some progress in coordinating intra-regional naval and air defenses but neither regular military exercises nor steps toward a unified command. Indeed the integration of military forces has been consistently rejected at least partially out of concern with Saudi dominance (Cooper 2003). The magnitude of the threats emanating from Iraq's invasion of Kuwait, the Gulf Wars, inter-Arab rivalries, Iran's sustained political assertion, and Saudi Arabia's hegemony, have all been regarded as compelling greater reliance on bilateral agreements with the US.

Divisions among GCC members, evident during the 1st and 2nd Gulf wars, remain over important external security issues as well.[73] Approaches to Iran may be symptomatic of other differences. The UAE has a long standing dispute with Iran over the latter's occupation of three islands (Abu Musa and the Tonbs) claimed by the Emirates of Sharjah and Ra's al Khaimah. GCC Supreme Council statements expressed support for the UAE's right to regain the islands, including their continental shelves, territorial waters and exclusive economic zones.[74] However, members never made relations with Iran contingent on the islands return. Rather, they pursued their own interests, with some sharpening their diplomatic skills by equally befriending Iran and its declared adversaries. Nevertheless, 2003 revelations of Iran's proscribed and unreported nuclear activities since the mid-1980s have sharpened a geostrategic dilemma with domestic reverberations for GCC members. Some domestic constituencies demand the development of (Sunni Arab) nuclear programs in response to Iran's (Shia' bomb) whereas others support Iran's nuclear defiance (including, for instance, some opponents of Kuwait's royal family). Former GCC Secretary General Bishara urged a firmer, united, and clear GCC response to a program that will

[72] When Qatar's Emir Shaikh Khalifa Bin Hamad Al-Thani was deposed by his son Shaikh Hamad (1995), he found refuge in Saudi Arabia and Abu Dhabi, from where he sought to organize a counter-coup.

[73] GCC positions in international fora are aligned with the rest of the Arab world on matters relating to the Arab-Israeli conflict but some GCC members (Qatar, Bahrain, Oman and UAE) established low-level, largely commercial relations with Israel in the aftermath of Oslo and the MMEPP, partially following Egypt and Jordan, which established full diplomatic relations with Israel. All GCC members endorsed the Saudi initiative that resulted in the Arab League's peace proposal. As a group, GCC members regard the Gulf as the new regional center of gravity with sources of volatility that have little to do with the Arab-Israeli conflict (Legrenzi 2008:223). The GCC, as the LAS, has supported the Sudanese government on Darfur and disparaged the International Criminal Court.

[74] GCC website <http://www.gccsg.org/eng/index.php?action=Sec-Show&ID=290>

make Iran "the master of the region" directly and, according to many others, indirectly through its allies in Gulf countries, Yemen, Lebanon and Gaza (Hezbollah and Hamas).[75] Abd Al-Rahman Al-Rashed, director of Al-Arabiyya TV expressed a more forceful position: "If you want to be foolish, you have to believe that Iran is producing its nuclear bomb in order to attack Israel; you'll turn into a complete idiot if you believe it's producing it in order to confront the United States. The Iranians are enriching uranium to produce nuclear weapons aimed, essentially, at its neighbors, mainly Pakistan. However, the danger encompasses the other neighboring countries as well, such as Saudi Arabia, Oman, Iraq, Afghanistan, Turkmenistan, and Azerbaijan."[76] While several GCC members (UAE, Qatar, and Oman) maintain vigorous economic relations with Iran, the UAE also launched new programs on border security and early warning systems against (Iranian) missiles, and upgraded its air force with F-16 fighter jets.

GCC experts floated an informal initiative for a Gulf nuclear-free-zone (including the GCC, Iran and Iraq), a clear departure from the LAS (particularly Egypt's) persistent demands for a nuclear-weapons free-zone in the entire Middle East (including Israel).[77] Following complaints from non-GCC Arab partners, the GCC's Supreme Council endorsed a Middle East region free from weapons-of-mass-destruction.[78] This position was closer in some ways to Israel's than to Egypt's, which has often demanded a regional *nuclear*-weapons-free-zone but not necessarily one including all weapons of mass destruction. This difference is far from semantic. Though some states in the region are not known to have nuclear weapons now, several have tried and would like to retain other non-conventional capabilities even within a nuclear-weapons-free-zone.[79] No less sensitive is a reportedly shared GCC demand for security guarantees under the US nuclear umbrella despite some domestic and regional criticism particularly from pro-Iranian constituencies . Occasional private endorsements of military action to prevent Iran's nuclearization appear to be offset by the need to maintain regional and economic stability as foremost conditions for domestic political survival. All these developments and constraints suggest some convergence within the GCC on the Iran nuclear file even though coordination efforts are harder in high-security, a most difficult arena for regionalism. Tactical differences about how to deal with Iran's rising nuclear capabilities remain. The GCC intends to establish a center for nuclear research training in cooperation with the IAEA. If the GCC ever implements its 2006 Supreme Council's endorsement of an IAEA-compliant *multilateral* civilian program, that might just be an exhibit A in GCC regionalism that surpasses anything the LAS (or East Asia) have ever achieved. Meanwhile the UAE, with lowest oil reserves in the region, has already approved a law on peaceful uses of nuclear energy in 2009 and renounced sensitive technologies suitable for nuclear weapons as it prepares to begin operating nuclear plants by 2017.

In the economic realm, the absence of complementarity was mentioned as a potential barrier to economic integration in the previous discussion of the LAS. Following this logic, the

[75] Gulfnews.com April 3, 2006 >http://gulfnews.com/news/region/iran/region-could-be-first-victim-of-iran-s-nuke-programme-1.231501>
[76] MEMRI, Special Dispatch 586, October 10, 2003. http://memri.org
[77] Egypt accompanies those demands with veiled threats to develop its own nuclear weapons if others don't give them up. Notably these threats emerged largely in recent years, as Iran's program became more visible, rather than during preceding decades of Israeli nuclear activities.
[78] BBC Monitoring: Proliferation Digest 21 Oct 09.
[79] Several states in the region retain chemical weapons (used in war by Egypt, Iraq, Iran and Libya), as well as bacteriological capabilities <http://cns.miis.edu/wmdme/chrono.htm>

similar economic structure, low commodity diversification, and overall competitive profile of GCC members would have doomed such efforts perhaps to an even greater extent (Abu-Qarn and Bader 2008). Yet the GCC has arguably done better relative to the rest of the LAS region.[80] An early non-binding agreement in 1981 (Unified Economic Agreement) called for the elimination of custom duties; coordination of import and export policies; free movement of labor and capital; joint oil, industrial, and technological policies; construction of a common economic infrastructure; unified investment strategy; and coordination of financial and monetary policies. Once again, confirming the gap between text, rhetoric, and praxis, many of this agreement's provisions have not been effectively fulfilled. As with the LAS, the legacy of inward-looking models cast a shadow on the implementation of some commitments here as well.

Before the advent of oil economies, merchants were a crucial component of ruling families' supportive coalitions. Rulers sought to maintain the loyalty of this class under the oil economy through distributive policies and mechanisms that preserved their interests if not their unity (Crystal 1989). In addition to direct transfers, rulers protected this private sector enclave by granting them land and trade monopoly concessions, and through nationality and commercial laws that restricted ownership and property to nationals. As beneficiaries of economic nationalism, these companies also received preferential treatment in government contracts and could regulate entry of external competitors. Furthermore the heirs of merchant families and associated private sector firms came to dominate segments of the expanded state bureaucracy, and were not always prone to benefit royal interests but their own. Lowering custom duties was thus a source of potential friction, even if the small size of domestic markets and the scarcity of local labor made these economies unsuited for import-substitution. As reported in Section I, GCC countries showed lower than expected shares of intra-regional trade since the 1980s, despite its Charter's declared objectives (Al-Atrash and Yousef 2000).

A 2001 Economic Agreement established a common external tariff by 2003, and in 2008 the GCC established a common market removing all barriers to goods, capital, and labor. However, according to Hoekman and Sekkat (2009:32) there is not yet an effective full customs union with free circulation of goods. Rules of origin continue to be imposed on intra-GCC trade flows. There has been some progress in developing a system to redistribute tariff revenues from goods covered under the common external tariff (5 percent) but customs and border controls still impede free intra-regional flows of goods. The GCC is considered to have made progress in promoting common norms in some regulatory/policy areas, in integrating factor and product markets, freeing labor mobility, waiving visa requirements for some foreign workers, and relaxing FDI activities and property ownership for GCC citizens (Alabdulrazzaq and Srinivasan, 2006; Hoekman and Sekkat 2009:5). It has also promoted joint investment projects through the Gulf Investment Corporation geared to diversify economies, finance Small- and Medium-Sized Enterprises (SMEs), and create complementarities. Job creation, particularly to offset pressure from Shi'a populations, has been an important political objective. There has also been some progress in unifying standards and conformity assessment/certification systems (with 2,700 standards already approved by the GCC Standardization Organization) although enforcement remains on a country-by-country basis. Members have also invested significantly in improving educational infrastructure. OPEC and OAPEC (Organization of Arab Petroleum Exporting Countries) have substituted for the GCC in the area of coordination on oil prices and production.

[80] Nominal GDP per capita (2002) ranged from $7,515 in Oman to $28,362 in Qatar (Fasano and Iqbal 2003).

It is hard to tease out the independent influence of the GCC as an institution from the individual incentives of each GCC member to upgrade, modernize the economy and avoid the mistakes of earlier boom-and-bust experiences. Domestic reforms have improved the share of non-oil exports and the private sector's share in economic activities. It is scarcely a coincidence that Bahrain and Dubai (a UAE emirate), lesser endowed in oil resources, have led the way in diversification and implementation of economic reforms. In 2009 the UAE ranked first among all MENA countries in the World Economic Forum's enabling-trade index, and 18th in the global rankings, with Bahrain trailing not far behind.[81] Limited oil endowments had led Dubai's ruling family to diversify away from oil in the 1970s. Singapore and Hong-Kong provided models for Crown-prince Sheikh Mohammed bin-Rashid al-Maktoum and his three main business advisors. Dubai today is a regional financial, shipping, and media center with an open stock exchange and high appeal to foreign companies (800 from the US alone by 2006), as well as a leading trade hub and attractive tourist destination, particularly for Europeans and Asians. It has developed 13 free-trade-zones and reduced oil dependence to 6 percent of state income (Fattah 2006; Dore 2006). However, nearly 85 percent of its population is foreign, largely unskilled, sometimes indentured, and denied citizenship, although this proportion was reduced with the 2008-2009 economic crisis. Qatar, Bahrain and Kuwait have sought to emulate Dubai's appeal to foreign investors. Even Saudi Arabia, with 90 percent of government revenue derived from oil, has intensified efforts at diversifying and privatizing its economy after joining the WTO while building "economic cities" and relaxing foreign ownership rules. The 2008 World Bank's "ease of doing business" index places Saudi Arabia 23rd in the overall ranking, and 33rd in the category "trading across borders" (but 136th in enforcing contracts).[82] However, following the 2008-09 crisis, some expect Kuwait to marshal its vast foreign assets reserves, once again, to avoid painful and politically unpopular structural reforms, which might thwart sustained diversification and privatization. On the one hand the ruling family's political legitimacy remains pivoted on widespread state control of the economy to enable continued provision of rents. On the other hand many in Kuwait's parliamentary opposition oppose economic liberalization as well.[83]

External shocks may have been more consequential for economic trends within the region than institutional GCC intervention. An external shock in the form of September 11, 2001 increased intra-GCC regionalization in financial, trade and tourist flows, largely in tandem with some decline in GCC investments in US long-term securities and in banking and commercial flows with the US.[84] The subsequent rise in oil prices brought about another shock, which (unlike previous ones) allowed greater scope for private sector activities. There was also significant FDI influx into the Arabian Peninsula, growing from virtually nil (as a percentage of global FDI inflows) in the decade before 2004 to over 2 percent average since.[85] As a result, the GCC has become an important international financial center. Unlike earlier eras of oil windfalls,

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[81] This reflected high rankings in efficient and transparent border administration, lowest import costs, least burdensome customs procedures, transportation infrastructure and regulatory environment conducive to trade, strong institutional framework, and openness to foreign participation ("Global Enabling Trade Report 2009" http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm)

[82] Kuwait ranked 40th in the overall ranking, Oman 49th and the UAE 68th (World Bank, *Doing Business 2008*).

[83] The Economist Intelligence Unit Outlook for 2010-11, November 5, 2009 (open source)

[84] From 1999-2002, the share of intra-regional tourism relative to the total number of tourists rose from 22.4 to 40.8 percent, possibly as a result of greater travel restrictions to the US and Europe (Hakim, 2008:73).

[85] Net FDI Flows (in billion US$) were between -1.2 billion and 2.4 for the 1997-2002 period, and between 7.7 billion and and 16.6 for the 2003-2006 period (see Figures 2a and b, Tables 3a-c).

this time GCC members invested within their region primarily as well as in other Arab countries, advanced economies, and the emerging economies of China, India, and others (GCC's foreign assets even after the crisis are estimated to be at least $1.2 trillion). Intra-GCC investments have gone into infrastructure and free-trade zones.

Yet overall slow progress in diversification and other policy barriers continued to beget slow progress in trade integration. Meanwhile Kuwait, Bahrain, Qatar and Oman concluded bilateral FTAs with the US between 2004 and 2007, complicating negotiations for a GCC-EU FTA which were discontinued partially in response to the EU's inclusion of human rights and good governance clauses.[86] The GCC also concluded an FTA with Singapore (GSFTA) in 2008, including trade in goods, services, investments, rules of origin, customs procedures, government procurement, electronic commerce, and economic cooperation. FTAs are also under negotiation between the GCC and China, India, Pakistan, Japan, Malaysia and South Korea, among others. Plans for rail links to enhance GCC trade are also under way.

Whereas intra-GCC trade integration is deemed rather low, monetary integration is arguably stronger though the 2005 deadline for a Monetary Union was missed as well (Bacha 2007). The proposed Monetary Union was expected to encourage FDI, facilitate intra-GCC trade, enhance the group's international competitiveness and bargaining power vis-à-vis external actors, align GCC banks with international standards, and improve GCC countries' ability to respond to oil shocks (Ibrahim 2007). In 2005 the GCC adopted EU convergence criteria for budget deficits, public debt, currency reserves, interest rates and inflation, many of which have been met, except for inflation (Abu-Qarn and Abu-Bader 2009). Most members have their currencies pegged to the US dollar except for Kuwait, which relies on a basket heavily weighted towards the dollar. No convincing alternatives to the dollar are deemed evident in the short term (despite rising inflation and recent divergences with US economic cycles), although in the medium term the GCC is expected to peg the common currency to a trade-weighted basket that can maintain stability and reassure investors and trading partners.[87]

Article 22 of the 1982 Council's Unified Economic Agreement proposed the establishment of a GCC common currency and the revised 2001 treaty approved the introduction of a single currency by 2010.

There are at least three perspectives on the prospects for a single currency. First, some studies suggest that the GCC's openness to trade and imported labor, complete intra-group factor mobility, and full convertibility of currencies fulfill many of the preconditions for a currency union, and that the commonly accepted criteria for a single currency--proximity, size, fluctuations of output, trade structure, and inflation performance--seem already in place (Khan 2009:2). A second, more skeptical outlook, dwells on estimates of slow convergence in macroeconomic fundamentals, low synchronization of business cycles, and low intra-regional trade intensity, FDI, product diversification, and privatization, suggesting that the requirements of a viable currency union are not in place (Abu-Qarn and Suleiman 2008).[88] A third viewpoint--

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[86] GCC exports to the EU had been about twice the size of exports to the US since the 1980s.

[87] The Economist Intelligence Unit, Kuwait/Middle East: Currency pickle, October 12th 2009 (open source); Khan (2009). "

[88] Others counter this argument with the contention that failure to meet prior conditions should not necessarily preclude a monetary union, since eligibility criteria are generally fulfilled *ex post* rather than *ex ante,* even in the EU (Abu-Qarn and Bader 2008:615).

not necessarily mutually exclusive with the preceding ones--traces the lack of progress less to economic and financial incompatibility than to sociopolitical factors (Darrat and Al-Shamsi 2005). As Abu-Qarn and Suleiman (2008:629) argue, political and institutional factors influence symmetry of trends, business cycles and shocks, which, in turn, affect the prospects of a currency union. Aligning monetary, fiscal, and exchange rate regimes, among others, are no less the product of political considerations than of economic trends.

Oman withdrew from monetary union plans in 2006 expressing its inability to meet preconditions. In June 2009 heads of state of Qatar, Saudi Arabia, Bahrain, and Kuwait signed an agreement to create a joint Monetary Union Council as the architect of monetary union and eventually its central bank. The four approved Riyadh, which already hosts the GCC Secretariat and most other GCC organs, as the Council headquarters.[89] This choice led to the UAE's decision not to be represented by its president (and ruler of Abu Dhabi) Sheikh Khalifa bin Zayed al-Nahyan at a 2009 meeting, but by its Prime Minister Sheikh Mohammed bin Rashid al-Maktoum, the ruler of Dubai. Subsequently the UAE announced its reservations regarding monetary union arguing that no GCC bodies were headquartered in the UAE, that the UAE had the largest number of banks, assets and deposits in the region and greater competitive advantages, that it accounts for 50 percent of the GCC's international money transfer and nearly a quarter of the GCC's combined GDP, and that it had been first in requesting to host the Council in 2004.[90] Custom delays at the UAE-Saudi border reportedly ensued shortly thereafter. The May 2009 agreement requires ratification by a minimum of three countries before coming into effect. Saudi Arabia, which has already ratified it, commands significant influence in Bahrain and Qatar (after a thawing in Saudi-Qatari relations), which may help facilitate ratification. Although there were reports of Kuwait's Ministry of Finance rethinking the date for the inception of a single currency date, a subsequent statement reiterated full support for the plan without addressing the issue of timetable.[91] Saudi Arabia's central bank governor as well as Bahrain, Qatar, and Kuwait expressed hope that Oman and the UAE would still join but UAE officials considered that unlikely.[92]

These disagreements could well derail the process and burden GCC political cooperation in other areas. Politics can be counted on to trump economics, at least some of the time. The GCC single currency is unlikely to be in place by 2010 or 2011; some expect it by 2013, others much later. [93] The launching of the monetary council by 2010 appears more feasible. Member states could adjust their exchange rates to determine the parity at which they new currency would be established but this too is estimated to be unlikely in the short term. A vote on these and other important issues is expected at the upcoming December 2009 meeting of GCC heads of state. If these plans ever becomes reality, the GCC would house the world's second most

[89] Saudi Arabia's economy accounts for nearly half the combined economies of the GCC but is also far more inward looking economically than the others.

[90] Francis Matthew: "Do a Rethink on Currency Union**,"** Dubai *Gulf News Online* 27 May 09 <http://www.gulf-news.co.ae>

[91] Country Report Kuwait November 2009, Economic policy: Government reverses a call for delaying single currency plans Nov. 5, 2009 (open source).

[92] UAE Central Bank Governor Sultan al Suwaidi expressed that this was "not a matter of compromise…It is just a brother who decides to stay behind and let his other brothers go ahead and achieve the union as fast as possible." See UAE 'Unlikely' To Return to GCC Monetary Union Plan Abu Dhabi *The National Online* 28 Sep 2009 (open source).

[93] Interviews with economists, academics, and leading experts suggest monetary union might be feasible by 2020 ("The Economist Intelligence Unit Outlook for 2010-11, November 5, 2009 and Business Middle East Select, Nov 1 2009 (open source).

important supranational monetary union (in GDP terms) after the European Monetary Union (Khan 2009), featuring the "Khaleeji" (a proposed name for the future single currency) as the most formidable symbol of successful regionalism in the contemporary Arab world.

VII. Conclusions

Hoekman and Sekkat (2009:23) point out that the analysis of MENA regional trade has been largely generated by IMF, AMF, API and World Bank studies, and that too little attention has been devoted to political economy questions such as who gains, how large are the associated rents, who pays them, and what is the role of elites and the military, among others. The first part of this paper addressed that broader political background to explain why and how different models of political survival cast their shadow on domestic and regional institutions. An overview of competing dominant models in East Asia and the Middle East illuminates how comparable initial conditions in both regions gave way to dramatic differences in regionalization in recent decades. Competing models and differential patterns of regionalization, in turn, had implications for the relative emphasis on open regionalism, the role of the private sector, and other features of regionalism in each case. Different domestic models shaped different priorities with respect to the *content* and objectives of regionalism in both regions. In East Asia, maintaining peace and stability, sound macroeconomics, and a highly educated workforce were crucial for attracting foreign investment. Though this may seem a minimalist agenda from the vantage point of much formalized regions like the European Union, it was one that separated East Asian from Middle East regionalism. While the EAR (2008:vi) study suggests that "emerging Asian regionalism is good for individual economies, good for the region, and good for the world," much less convergence appears to have underpinned the evolution of the LAS.

The timing of regionalization/regionalism may be important in explaining at least some of these differences. As Eichengreen's (2007) comparison between Europe and East Asia suggests, timing can shape different scopes, speed, sequencing, and styles of regionalism. Middle East regionalism emerged with the LAS, the oldest regional institution in the postwar era, under a world-time characterized by sharp North-South and Cold War divides, when the norm for developing countries--particularly in the 1960s and 1970s--was import-substitution, nationalism, self-reliance, state and military entrepreneurship (Díaz Alejandro 1983:35; Krasner 1985). The New International Economic Order favored authoritative statist mechanisms over market-oriented ones; the former Soviet Union provided powerful practical and ideological support for such models in its own sphere of influence and beyond; the United Nations General Assembly and other agencies offered a convenient site for the coordination, elaboration, and diffusion of such platforms; and superpowers' regional competitions privileged--sometimes gave life to--many a statist military-industrial complex. By contrast, East Asian regionalism emerged under global conditions of accelerating internationalization, privatization, financial integration, and declining superpower rivalries. Open regionalism was a natural feature of political-economy models nurturing tight connections with global partners. In addition, Middle East institutions emerged, for the most part, in the absence of preceding regionalization, whereas East Asia's regionalization paved the way for regionalism, particularly in the aftermath of the 1997-1998 financial crisis. The GCC (a latecomer relative to the LAS) emerged against a global background that provided more favorable inducements for open economies and open regionalism. Yet the rentier economies underlying its traditional politics militated against rapid economic transformations until rather recently.

Internationalizing models in East Asia led to extensive regionalization which, in turn, lubricated a brand of regionalism compatible with regional cooperation, stability, private entrepreneurship and openness to the global economy and associated institutions. By contrast, efforts at regionalism in the broader Middle East were stifled by reigning domestic models that were, at heart, antinomies of "open regionalism" and economic interdependence--regional or global. The logic of inward-looking protectionism, nationalist state entrepreneurship, and military-industrial complexes militated against such objectives (Hoekman and Meserlin 2002). Regional institutions pivoted on market-friendly, open regionalism could not be further removed from these models' political essence. Private sector interests with potential incentives for regional or global integration--which had been decimated throughout the region--could hardly provide an engine for integrative efforts. This was particularly the case for the LAS, which for decades could not but promote regional arrangements subordinated to state and military entrepreneurship, and import-substitution. Higher levels of restrictions and transaction costs also produced an inhospitable environment for intra and extra-regional FDI (Hoekman and Sekkat 2009:41). Trade *policy*, in sum, was a major barrier to intra-regional Arab trade, placing Middle East economies in the ranks of the most closed worldwide. Even Egypt, Jordan, Morocco, Sudan, Tunisia and Yemen, let alone Syria and pre-2003 Iraq, had more closed economies than countries of similar size and level of development (At-Atrash and Yousef 2000:9).

Another difference, perhaps traceable at least in part to inward-looking models of domestic political survival, is the related choice of membership rules, clearly defined by Arab ethnicity for the LAS and "regime kinship" and religious (Islamic) affiliation for the GCC. Open regionalism could not easily emerge as an organizing principle out of such membership criteria. Instead, rigid principles of shared ethnicity and religion would impose, counterintuitively, a very particular burden: pressures for convergence that fueled both forceful calls for "unity" and sharp opposition to it. Calls for "unity" (as different from "community") were far rarer in the East Asian context, and membership rules far more pragmatic and flexible, as dictated by a reality of enormous diversity. As the EAR study (p. 242) suggests, Asia's underlying diversity and economic and political realities shaped an approach to regionalism that was first and foremost market-friendly, based on principles of "variable speed geometry" (timetable for implementation) and willingness to accommodate heterogeneity in levels of development and regime types. East Asian institutional frameworks helped members transcend inward-looking models via inclusion.[94]

Competitive outbidding among inward-looking models in the Middle East also exacerbated regional conflict and intervention in the domestic affairs of member states. Presiding over ossified and militarized states, Middle East leaders sought to enhance their power and legitimacy through nationalism and, hiding their fragility behind pan-Arab rhetoric, fueled mutual assaults on sovereignty. Given the very different incentives stemming from internationalizing models, East Asian leaders took institutional principles of respect for state sovereignty, non-intervention, and renunciation of the threat or use of force far more seriously. The much lower substantive common purpose in the Middle East explains additional contrasts with East Asian institutions. Leaders frequently boycotted Arab summits or used them as a stage for undermining and publicly vituperating rivals. Unsurprisingly, LAS summits were irregular, poorly attended, lacked substantive convergence, and doomed resolutions to oblivion.

[94] Vietnam's total trade (exports plus imports) soared from 24 percent of GDP in 1985 (before its accession to ASEAN) to 142 percent in 2006 (EAR, 2008:59).

Summits were held since 1964 as required by circumstances and need, and only relatively recently at more or less fixed dates. With a few exceptions, systematic boycotts were not a dominant feature of East Asian institutions, where meetings have been regular, plentiful, well attended, and generally civil and consensual--certainly in comparison with Middle East counterparts.

If "showing up" is a minimalist accouterment of formality, then East Asian institutions are surely more formal than Middle Eastern counterparts though the GCC seems a significant improvement over the LAS. Beyond these differences, informality defined as relying heavily on personal relations, avoiding third-party adjudication, and emphasizing process over substance is common to both regions, and to many others (the EU is, after all, the exception). However, the common assumption that informal settings make it easier to agree not to raise confrontational or contentious issues may be misleading, as suggested by the LAS experience. Furthermore, other differences can be discerned over and beyond informality, including greater convergence on codes of conduct in East Asia (prominently the Treaty of Amity and Cooperation) than in the Middle East. Converging domestic models can account for such substantive focal points and explain compliance with such codes.

The GCC qualifies as somewhat of a hybrid between the two ideal-typical regional forms. In particular, ASEAN and the GCC share some converging attributes, including similar initial concerns with domestic stability and internal security, related external threats, limited economic integration, and homogeneous ruling coalitions with comparable political designs. Though relatively younger, the GCC has been labeled "one of the most vibrant and multifaceted experiments in regional organizations" (Barnett and Gause 1998:179) akin to some--though not universal--assessments of ASEAN itself. The GCC and ASEAN also share extensive reliance on bilateralism and occasional referrals to the ICJ.[95] The two also differ in several ways. First, the GCC's power architecture involves the presence of a hegemon. Different theories of international relations might disagree over whether or not the shadow of a hegemonic Saudi Arabia constitutes a stumbling or building block to GCC regionalism. Either way, as tensions over the Monetary Union Council suggest, this is not precisely reminiscent of ASEAN's "primus inter pares" principle. Second, (bilateral) respect for sovereignty and non-intervention in the domestic affairs of member states seems to be a more robust principle among ASEAN states than within the GCC.[96] Third, at the multilateral level ASEAN is not entirely inimical to legalizing verification and compliance mechanisms, as is evident from the Southeast Asian Nuclear Weapon Free Zone Treaty (Bangkok Treaty), which allows fact-finding missions and referrals of potential violations to the IAEA or the UN Security Council. ASEAN has also established an Intergovernmental Commission on Human Rights (AICHR) and an ASEAN Task Force on Burma. Though critics argue that these are ineffectual, they nonetheless have moved institutional horizons in a different direction, one certainly not in the offing for the Middle East.[97]

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[95] Ganesan, 2010 ISEAS (Singapore) forthcoming volume.

[96] There have been some exceptions, most recently in Cambodia's Hun Sen offer of political asylum to Thailand's fugitive Prime Minister Thakhsin Shinawatra. The list of interventions in Middle East international relations is extensive. Most recently (November 2009) Saudi Arabia's air force attacked Shi'a Houthi rebel camps in North Yemen claiming it was in retaliation for this group's violation of Saudi sovereignty. Elsewhere, Iraq recalled its ambassador from Syria for the latter's refusal to surrender presumed terrorists responsible for terrorist massacres of civilians in Baghdad In August 2009.

[97] Charles McDermid and Jakkapun Kaewsangthong, "Asian Summit off to shaky start," Los Angeles Times October 25, 2009:A24. The AICHR will not rely on international human rights conventions because only two of them have

The GCC, for reasons discussed earlier, seems quite distant from a WMD-free zone but has put in place some incipient building blocks for monetary integration. The GCC's evolution toward open regionalism, private markets, and regional cooperation could, in time, provide an anchor for a broader, more vibrant, and peaceful Middle East regionalism. Different constituencies throughout the Arab Middle East follow the GCC experience with either resentment or hope (and in some cases, both). In early 2009 the governor of Lebanon's central bank called for a future "uniform Arab currency." Although the trajectory of broader Middle East regionalism does not bode well for the fulfillment of that promise anytime soon, the GCC has certainly introduced a new regional dynamic. The impoverished *republic* of Yemen, which has requested GCC membership since the mid-1990s, might seem an unlikely partner of wealthy GCC oil monarchies. At the same time, as Yemen appears to be sliding into "failed state" status, incentives to prevent it from spreading instability in the Gulf region may grow stronger. Those incentives are inextricably linked with the internationalizing models that are taking root among GCC members. Although Yemen's inclusion in some GCC agencies could detract from ongoing integration processes it may also signal potential (if marginal) changes in membership criteria in the future.

To recapitulate, given unilateral policies and exogenous shocks, the extent to which the GCC as an institution played more than a marginal role in transforming the Arabian Peninsula into the center of the Arab world in the early 21st century surely remains subject to further evaluation. The degree to which the GCC itself--rather than the shared interests of individual Arab Gulf rulers--is responsible for an attenuation of discord and a deepening of cooperation also remains unclear. The impact of the institution itself might have been rather subsidiary though one cannot discount the possibility that intra-GCC tensions might have been higher in the absence of progress on economic integration. Beyond that, some have noted the rise of business, academic, and intellectual groups that amount to a nascent transnational civil society lobbying to advance efficiency, transparency and economic and political liberalization at the GCC level (Legrenzi 2008). These chambers of commerce and professional organizations, whose activities sometimes preceded the establishment of the GCC itself, appear to be far more robust than they are in the broader, less cohesive LAS context. Yet this amounts to either a by-product or a measure of regionalization more than an intended design of GCC principals.

Both ASEAN and the GCC remain works in progress at different stages in an internationalizing trajectory, and following different sequences on that path. Various external developments are bound to influence that institutional trajectory, from oil prices and the potential rise of protectionism worldwide to the behavior of relevant regional and global hegemons. As of late 2009, many in South and East Asia--no less than the Arab Gulf--regard the United States' economic and political decline as an impending threat to their economic, political, and security objectives. This could compel some to hedge their strategic bets in ways that are likely to shape, among other things, the future direction of regionalism in each case.

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been ratified by all ten members. On this and other shortcomings, see *Dominic J. Nardi, Jr.* Can ASEAN Learn about Human Rights from Africa? PacNet #70A – Wednesday, Oct. 28, 2009.

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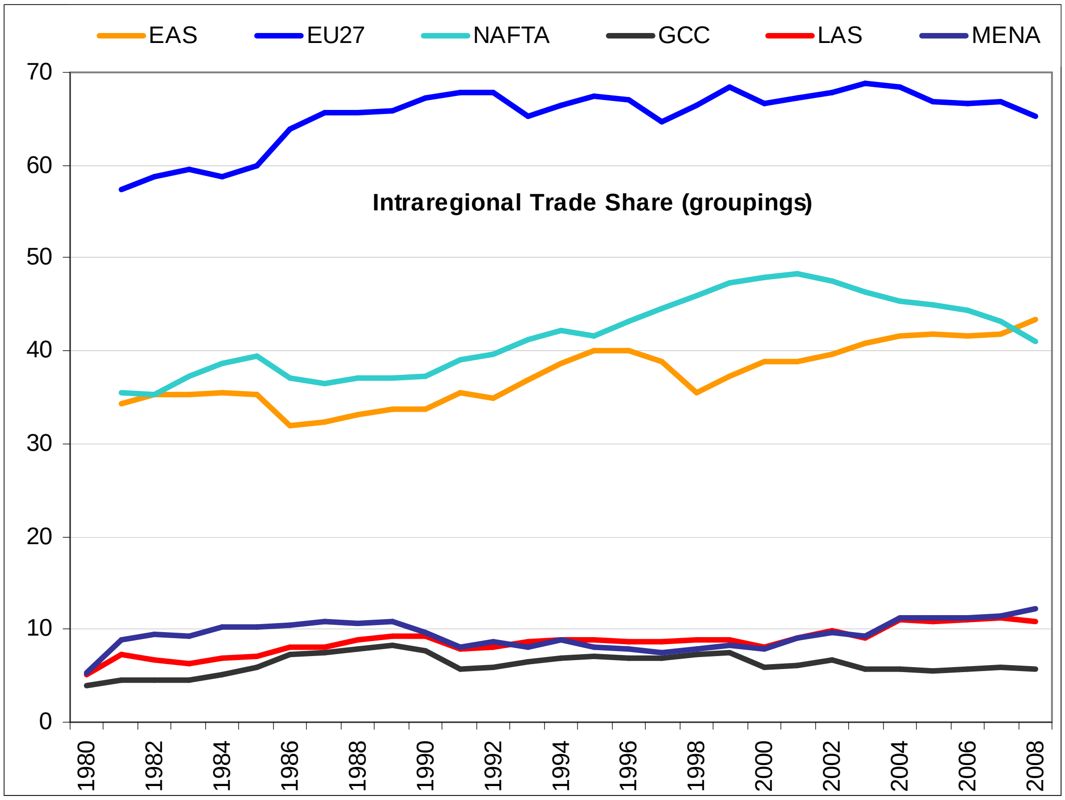
Figure 1a: Intra-regional trade patterns



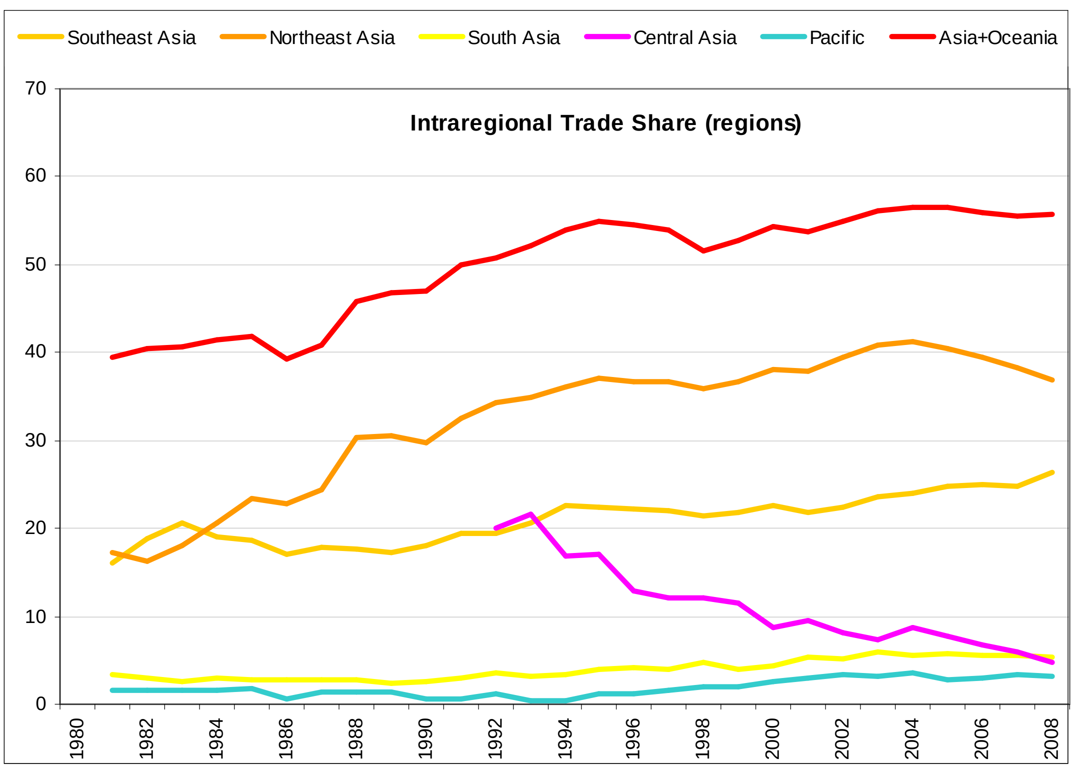
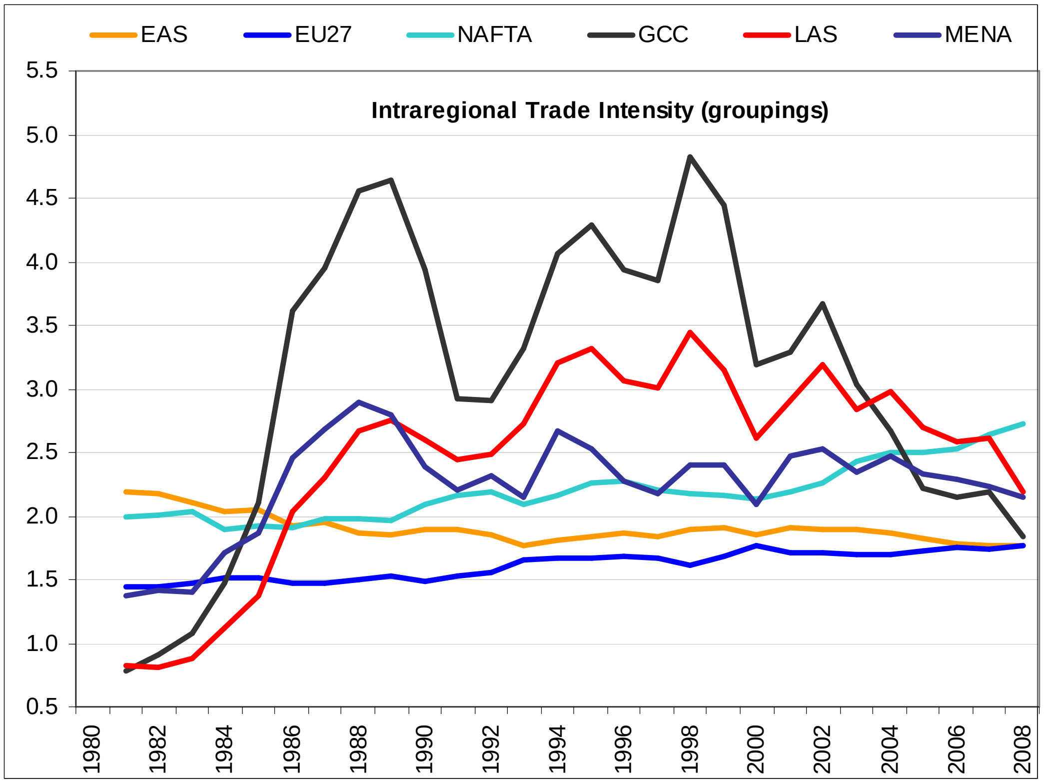


Figure 1b: Intra-regional trade intensity



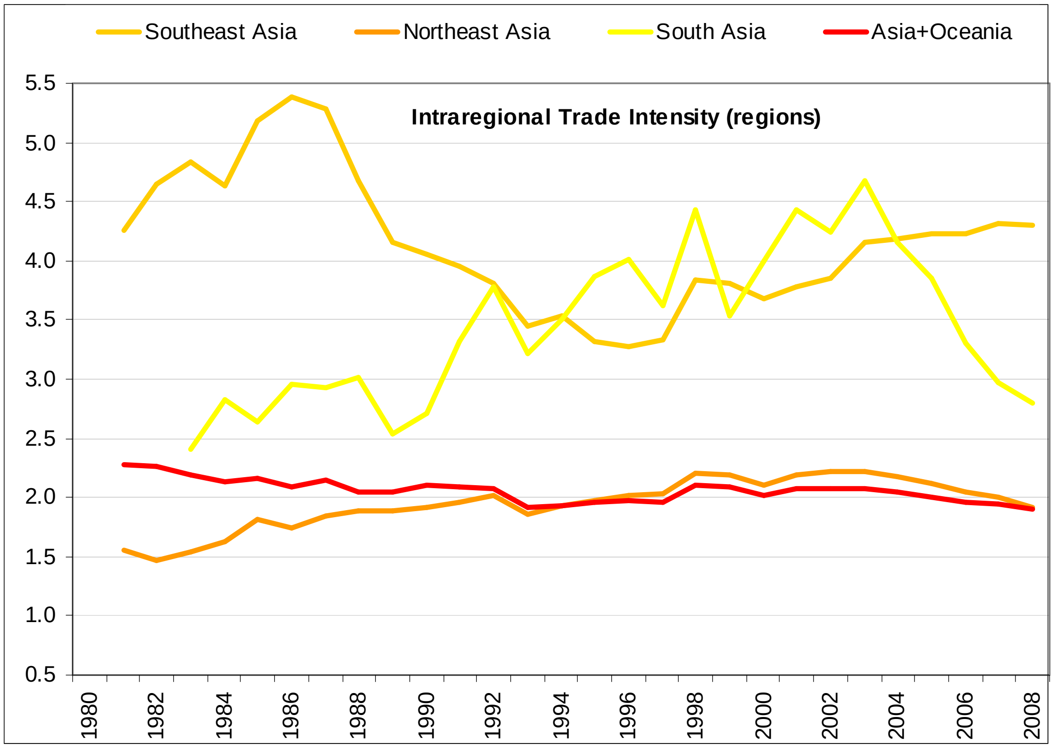
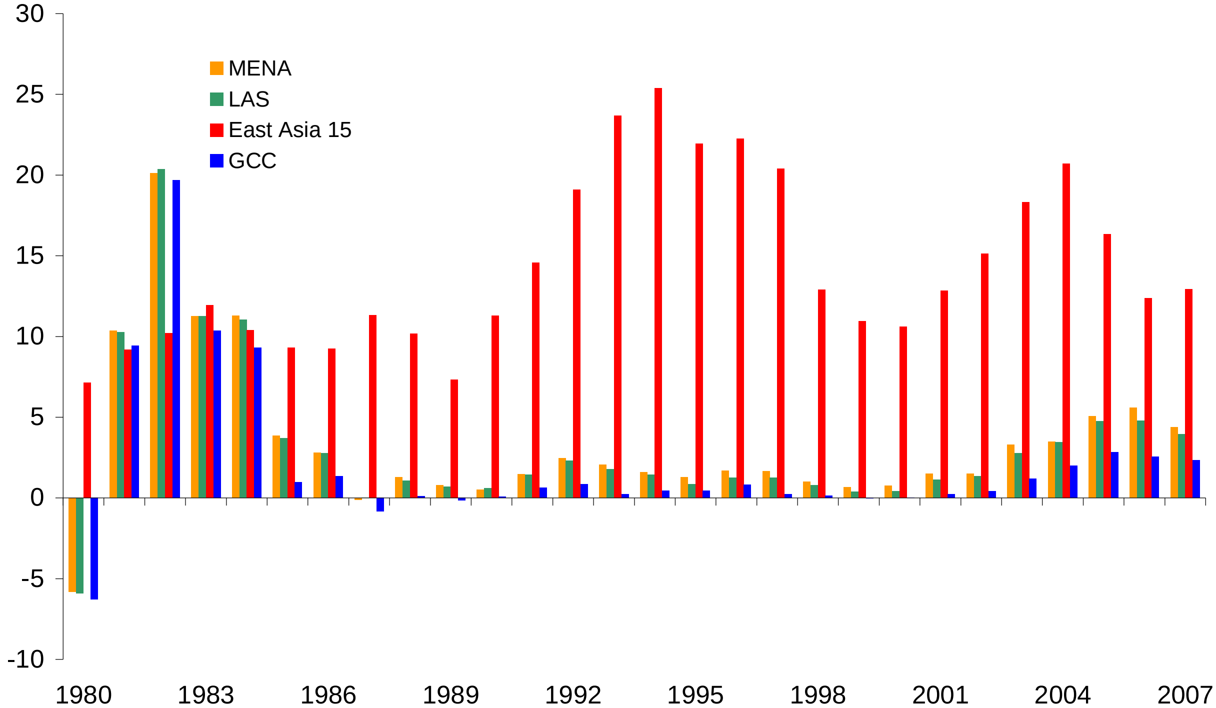
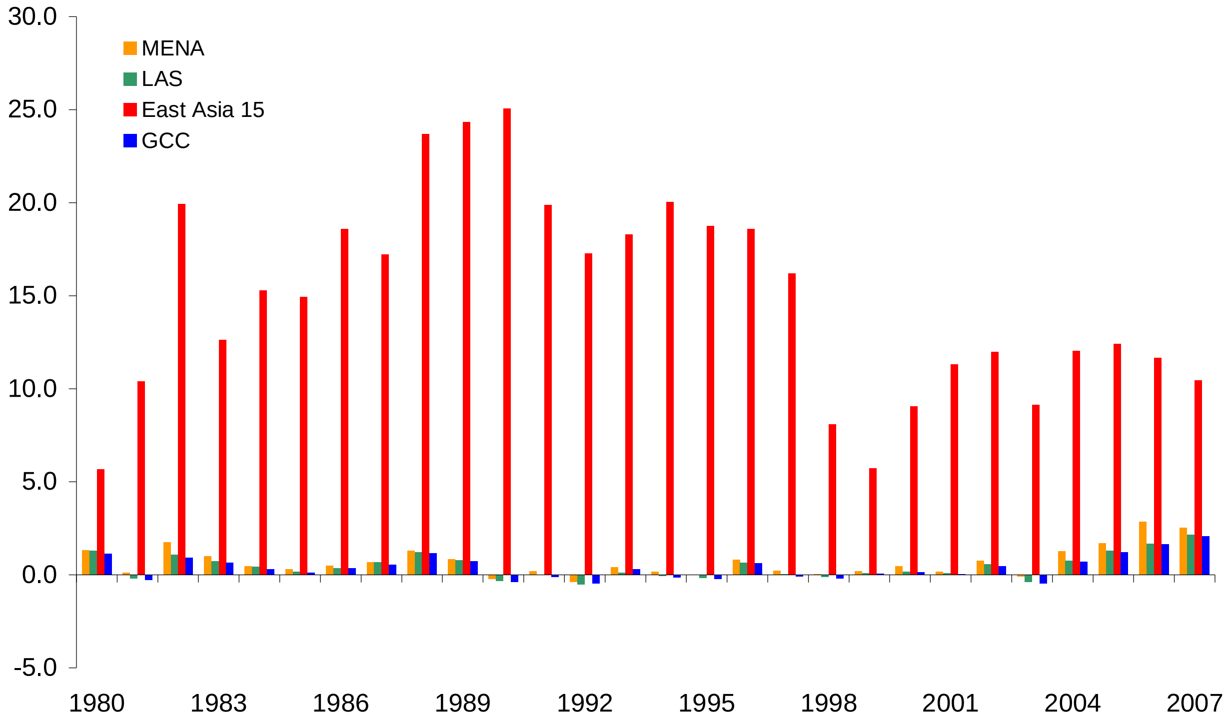


Figure 2a:Foreign Direct Investment Inflows (% of World Total)



Source: UNCTAD .

Figure 2b:Foreign Direct Investment Outflows (% of World Total)



Source: UNCTAD.

Table 1a: Intra-regional Trade Shares

Intraregional Trade Shares	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
ASEAN	21.81	22.55	21.89	22.37	23.66	24.07	24.73	24.97	24.79	26.42
ASEAN+3	33.71	35.61	35.16	36.17	37.38	37.86	37.59	37.00	36.69	37.75
East Asia 15	49.56	51.68	50.65	52.25	53.30	53.62	53.06	52.15	51.36	50.86
Integrating Asia 16	49.45	51.59	50.79	52.21	53.33	53.67	53.24	52.66	52.14	51.90
East Asia Summit	37.36	38.88	38.82	39.68	40.91	41.62	41.82	41.65	41.71	43.35
Northeast Asia	36.76	38.07	37.82	39.52	40.91	41.23	40.41	39.43	38.34	36.79
South Asia	3.97	4.41	5.40	5.13	5.90	5.47	5.81	5.62	5.49	5.40
Central Asia	11.51	8.74	9.42	8.04	7.34	8.81	7.81	6.68	5.93	4.83
The Pacific	2.03	2.51	3.05	3.33	3.25	3.65	2.87	3.05	3.31	3.20
Asia-Pacific	49.73	51.70	50.93	52.30	53.45	53.72	53.38	52.83	52.40	52.23
Asia+Oceania	52.74	54.38	53.70	55.00	56.09	56.47	56.43	55.88	55.59	55.77
EA15 + South Asia	49.80	51.87	51.10	52.50	53.63	53.89	53.53	53.01	52.51	52.28
EA15 + Central Asia	50.46	52.35	51.53	53.00	54.12	54.40	53.97	53.34	52.82	52.44
EA15 + The Pacific	49.60	51.71	50.68	52.28	53.33	53.65	53.09	52.19	51.40	50.91
IA16 + Central Asia	49.32	51.36	50.55	51.96	53.09	53.42	53.02	52.38	51.92	51.74
IA16 + The Pacific	49.49	51.62	50.82	52.24	53.37	53.70	53.28	52.71	52.18	51.96
European Union 15	63.45	61.53	61.46	61.90	62.62	61.77	59.87	59.14	58.58	56.83
European Union 27	68.38	66.63	67.15	67.89	68.91	68.47	66.88	66.60	66.79	65.28
NAFTA	47.28	47.84	48.24	47.52	46.42	45.27	44.97	44.33	43.17	41.08
MERCOSUR	23.05	24.01	22.97	20.68	20.51	20.43	20.96	21.86	22.02	22.12
GCC	7.42	5.89	6.20	6.63	5.79	5.72	5.61	5.70	5.90	5.71
Africa	9.81	9.08	9.12	9.76	9.49	9.48	9.28	9.26	9.96	10.16

Table 1b: Intra-regional Trade Intensities

Intraregional Trade Intensities	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
ASEAN	3.81	3.68	3.78	3.85	4.16	4.18	4.22	4.24	4.31	4.30
ASEAN+3	1.92	1.88	1.93	1.93	1.93	1.89	1.84	1.78	1.77	1.74
East Asia 15	2.21	2.13	2.20	2.21	2.21	2.18	2.13	2.08	2.06	2.00
Integrating Asia 16	2.13	2.07	2.13	2.13	2.14	2.10	2.04	2.00	1.98	1.93
East Asia Summit	1.91	1.86	1.91	1.90	1.90	1.87	1.83	1.78	1.77	1.77
Northeast Asia	2.19	2.10	2.19	2.21	2.22	2.18	2.12	2.05	2.00	1.91
South Asia	3.53	4.00	4.43	4.24	4.68	4.16	3.85	3.31	2.97	2.80
Central Asia	57.33	36.46	35.72	31.02	25.77	26.95	21.25	16.19	13.09	8.42
The Pacific	34.63	51.09	63.19	71.13	63.52	72.92	52.41	57.19	61.96	59.38
Asia-Pacific	2.08	2.02	2.07	2.08	2.08	2.04	1.99	1.94	1.92	1.87
Asia+Oceania	2.09	2.02	2.08	2.08	2.08	2.04	2.00	1.95	1.95	1.90
EA15 + South Asia	2.11	2.05	2.11	2.11	2.12	2.08	2.02	1.98	1.96	1.91
EA15 + Central Asia	2.23	2.14	2.21	2.22	2.22	2.18	2.13	2.09	2.08	2.02
EA15 + The Pacific	2.20	2.13	2.19	2.21	2.21	2.17	2.12	2.07	2.06	2.00
IA16 + Central Asia	2.11	2.04	2.09	2.10	2.10	2.06	2.01	1.95	1.94	1.88
IA16 + The Pacific	2.13	2.07	2.12	2.13	2.13	2.09	2.04	1.99	1.98	1.93
European Union 15	1.67	1.74	1.69	1.69	1.67	1.68	1.71	1.73	1.71	1.75
European Union 27	1.69	1.77	1.72	1.72	1.69	1.70	1.73	1.75	1.73	1.77
NAFTA	2.17	2.13	2.19	2.26	2.43	2.50	2.50	2.53	2.65	2.72
MERCOSUR	9.59	9.64	9.18	9.44	9.91	8.96	8.36	8.18	7.79	6.79
GCC	4.45	3.19	3.29	3.67	3.03	2.66	2.22	2.15	2.19	1.84
Africa	5.43	4.88	4.94	5.25	4.83	4.58	4.15	3.98	4.08	3.76

Table 1c: Intra-regional Shares and Intensity

Total Trade (Exports+Imports)										
Intra-regional Trade Share	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
ASEAN	21.81	22.55	21.89	22.37	23.66	24.07	24.73	24.97	24.79	26.42
ASEAN+3	33.71	35.61	35.16	36.17	37.38	37.86	37.59	37.00	36.69	37.75
East Asia 15	49.56	51.68	50.65	52.25	53.30	53.62	53.06	52.15	51.36	50.86
Integrating Asia 16	49.45	51.59	50.79	52.21	53.33	53.67	53.24	52.66	52.14	51.90
East Asia Summit	37.36	38.88	38.82	39.68	40.91	41.62	41.82	41.65	41.71	43.35
Northeast Asia	36.76	38.07	37.82	39.52	40.91	41.23	40.41	39.43	38.34	36.79
South Asia	3.97	4.41	5.40	5.13	5.90	5.47	5.81	5.62	5.49	5.40
Central Asia	11.51	8.74	9.42	8.04	7.34	8.81	7.81	6.68	5.93	4.83
The Pacific	2.03	2.51	3.05	3.33	3.25	3.65	2.87	3.05	3.31	3.20
Asia-Pacific	49.73	51.70	50.93	52.30	53.45	53.72	53.38	52.83	52.40	52.23
Asia-Pacific+AUNZ	52.74	54.38	53.70	55.00	56.09	56.47	56.43	55.88	55.59	55.77
EastAsia15 + SouthAsia	49.80	51.87	51.10	52.50	53.63	53.89	53.53	53.01	52.51	52.28
EastAsia15 + CentralAsia	50.46	52.35	51.53	53.00	54.12	54.40	53.97	53.34	52.82	52.44
EastAsia15 + ThePacific	49.60	51.71	50.68	52.28	53.33	53.65	53.09	52.19	51.40	50.91
Integrating Asia16 + CentralAsia	49.32	51.36	50.55	51.96	53.09	53.42	53.02	52.38	51.92	51.74
Integrating Asia16 + ThePacific	49.49	51.62	50.82	52.24	53.37	53.70	53.28	52.71	52.18	51.96
European Union 15 (EU15)	63.45	61.53	61.46	61.90	62.62	61.77	59.87	59.14	58.58	56.83
European Union 27 (EU27)	68.38	66.63	67.15	67.89	68.91	68.47	66.88	66.60	66.79	65.28
NAFTA	47.28	47.84	48.24	47.52	46.42	45.27	44.97	44.33	43.17	41.08
MERCOSUR	23.05	24.01	22.97	20.68	20.51	20.43	20.96	21.86	22.02	22.12
GCC	7.42	5.89	6.20	6.63	5.79	5.72	5.61	5.70	5.90	5.71
LAS	8.83	8.07	8.98	9.83	9.02	11.01	10.89	10.97	11.32	10.84
MENA	8.38	7.85	9.14	9.58	9.26	11.26	11.18	11.33	11.48	12.17
Non-GCC Members	4.26	5.13	5.89	6.41	5.54	8.70	8.48	8.48	8.88	8.31
Africa	9.81	9.08	9.12	9.76	9.49	9.48	9.28	9.26	9.96	10.16
Intra-regional Trade Intensity										
ASEAN	3.81	3.68	3.78	3.85	4.16	4.18	4.22	4.24	4.31	4.30
ASEAN+3	1.92	1.88	1.93	1.93	1.93	1.89	1.84	1.78	1.77	1.74
East Asia 15	2.21	2.13	2.20	2.21	2.21	2.18	2.13	2.08	2.06	2.00
Integrating Asia 16	2.13	2.07	2.13	2.13	2.14	2.10	2.04	2.00	1.98	1.93
East Asia Summit	1.91	1.86	1.91	1.90	1.90	1.87	1.83	1.78	1.77	1.77
Northeast Asia	2.19	2.10	2.19	2.21	2.22	2.18	2.12	2.05	2.00	1.91
South Asia	3.53	4.00	4.43	4.24	4.68	4.16	3.85	3.31	2.97	2.80
Central Asia	57.33	36.46	35.72	31.02	25.77	26.95	21.25	16.19	13.09	8.42
The Pacific	34.63	51.09	63.19	71.13	63.52	72.92	52.41	57.19	61.96	59.38
Asia-Pacific	2.08	2.02	2.07	2.08	2.08	2.04	1.99	1.94	1.92	1.87
Asia-Pacific+AUNZ	2.09	2.02	2.08	2.08	2.08	2.04	2.00	1.95	1.95	1.90
EastAsia15 + SouthAsia	2.11	2.05	2.11	2.11	2.12	2.08	2.02	1.98	1.96	1.91
EastAsia15 + CentralAsia	2.23	2.14	2.21	2.22	2.22	2.18	2.13	2.09	2.08	2.02
EastAsia15 + ThePacific	2.20	2.13	2.19	2.21	2.21	2.17	2.12	2.07	2.06	2.00
Integrating Asia16 + CentralAsia	2.11	2.04	2.09	2.10	2.10	2.06	2.01	1.95	1.94	1.88
Integrating Asia16 + ThePacific	2.13	2.07	2.12	2.13	2.13	2.09	2.04	1.99	1.98	1.93
European Union 15 (EU15)	1.67	1.74	1.69	1.69	1.67	1.68	1.71	1.73	1.71	1.75
European Union 27 (EU27)	1.69	1.77	1.72	1.72	1.69	1.70	1.73	1.75	1.73	1.77
NAFTA	2.17	2.13	2.19	2.26	2.43	2.50	2.50	2.53	2.65	2.72
MERCOSUR	9.59	9.64	9.18	9.44	9.91	8.96	8.36	8.18	7.79	6.79
GCC	4.45	3.19	3.29	3.67	3.03	2.66	2.22	2.15	2.19	1.84
LAS	3.15	2.61	2.90	3.20	2.84	2.98	2.70	2.59	2.62	2.19
MENA	2.40	2.09	2.48	2.52	2.35	2.47	2.34	2.29	2.23	2.14
Non-GCC Members	3.74	4.10	4.88	5.06	4.39	5.60	5.64	5.37	5.45	4.50
Africa	5.43	4.88	4.94	5.25	4.83	4.58	4.15	3.98	4.08	3.76

Table 2: WTO membership and status

Economy	Date of Membership	Status
League of Arab States		
Gulf Cooperation Council (GCC)		
Bahrain	January 1, 1995	Member
Kuwait	January 1, 1995	Member
Oman	November 9, 2000	Member
Qatar	January 13, 1996	Member
Saudi Arabia	December 11, 2005	Member
United Arab Emirates	April 10, 1996	Member
Non-GCC Members		
Algeria	—	Observer
Comoros	—	Observer
Djibouti	May 13, 1995	Member
Egypt	June 30, 1995	Member
Iraq	—	Observer
Jordan	April 11, 2000	Member
Lebanon	—	Observer
Libya	—	Observer
Mauritania	May 31, 1995	Member
Morocco	January 1, 1995	Member
Sudan	—	Observer
Syrian Arab Republic	—	—
Tunisia	March 26, 1995	Member
Yemen, Republic of	—	Observer
Middle East and North Africa (MENA)		
Algeria	—	Observer
Bahrain	January 1, 1995	Member
Djibouti	May 13, 1995	Member
Egypt	June 30, 1995	Member
Iran, Islamic Republic of	—	Observer
Iraq	—	Observer
Israel	April 21, 1995	Member
Jordan	April 11, 2000	Member
Kuwait	January 1, 1995	Member
Lebanon	—	Observer
Libya	—	Observer
Morocco	January 1, 1995	Member
Oman	November 9, 2000	Member
Qatar	January 13, 1996	Member
Saudi Arabia	December 11, 2005	Member
Syrian Arab Republic	—	—
Tunisia	March 26, 1995	Member
United Arab Emirates	April 10, 1996	Member
Yemen, Republic of	—	Observer

Economy	Date of Membership	Status
East Asia 16		
India	January 1, 1995	Member
East Asia 15		
Hong Kong, China	January 1, 1995	Member
Taipei,China	January 1, 2002	Member
ASEAN+3		
China, People's Republic of	December 11, 2001	Member
Japan	January 1, 1995	Member
Korea, Republic of	January 1, 1995	Member
ASEAN		
Brunei Darussalam	January 1, 1995	Member
Cambodia	October 13, 2004	Member
Indonesia	January 1, 1995	Member
Lao People's Democratic Republic	—	Observer
Malaysia	January 1, 1995	Member
Myanmar	January 1, 1995	Member
Philippines	January 1, 1995	Member
Singapore	January 1, 1995	Member
Thailand	January 1, 1995	Member
Viet Nam	January 11, 2007	Member

Source: World Trade Organization. Accessed: http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (September 12, 2009)

Table 3a Net Direct Investment Flows - at current US$ millions

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007
Middle East and North Africa (MENA)	**5,042**	**5,193**	**10,982**	**5,253**	**18,922**	**13,457**	**33,424**	**40,953**	**29,832**
Algeria	245	420	1,187	965	620	624	1,059	1,761	1,375
Bahrain	290	354	-136	27	-225	-170	-87	1,935	87
Djibouti	4	3	3	4	14	39	59	164	195
Egypt	1,028	1,184	498	619	217	1,999	5,284	9,894	10,913
Iran, Islamic Republic of	-188	7	78	52	741	239	466	-68	453
Iraq	-7	-3	-6	-2	0	300	427	78	301
Israel	2,463	1,953	2,885	691	1,777	-2,545	1,913	-349	2,951
Jordan	154	806	148	108	447	798	1,611	3,357	1,787
Kuwait	49	319	67	82	4,948	-2,557	-4,908	-8,085	-14,080
Lebanon	740	856	1,450	1,336	2,937	1,780	2,669	2,669	2,612
Libya	-354	43	62	281	80	643	910	2,547	3,020
Morocco	1,346	364	2,711	453	2,302	864	1,580	2,005	1,925
Oman	36	85	-50	122	341	-21	1,454	1,295	1,808
Palestine	102	-156	-344	-337	-31	60	6	-121	-35
Qatar	106	234	278	645	537	761	946	32	-4,125
Saudi Arabia	26	-1,367	465	-1,567	305	1,864	12,044	17,036	11,179
Syrian Arab Republic	243	227	101	-4	123	227	439	545	830
Tunisia	365	778	481	815	579	635	770	3,279	1,598
United Arab Emirates	-1,302	-930	970	902	3,265	7,796	7,150	1,914	6,628
Yemen, Republic of	-304	15	135	62	-56	122	-367	1,065	410
League of Arab States	**3,152**	**3,665**	**8,671**	**5,291**	**17,855**	**17,657**	**34,186**	**45,150**	**29,145**
Gulf Cooperation Council (GCC)	**-796**	**-1,305**	**1,595**	**210**	**9,171**	**7,672**	**16,599**	**14,126**	**1,497**
Bahrain	290	354	-136	27	-225	-170	-87	1,935	87
Kuwait	49	319	67	82	4,948	-2,557	-4,908	-8,085	-14,080
Oman	36	85	-50	122	341	-21	1,454	1,295	1,808
Qatar	106	234	278	645	537	761	946	32	-4,125
Saudi Arabia	26	-1,367	465	-1,567	305	1,864	12,044	17,036	11,179
United Arab Emirates	-1,302	-930	970	902	3,265	7,796	7,150	1,914	6,628
Non-GCC Members	**3,948**	**4,970**	**7,076**	**5,081**	**8,684**	**9,986**	**17,587**	**31,024**	**27,648**
Algeria	245	420	1,187	965	620	624	1,059	1,761	1,375
Comoros	0	0	1	0	1	1	1	1	1
Djibouti	4	3	3	4	14	39	59	164	195
Egypt	1,028	1,184	498	619	217	1,999	5,284	9,894	10,913
Iraq	-7	-3	-6	-2	0	300	427	78	301
Jordan	154	806	148	108	447	798	1,611	3,357	1,787
Lebanon	740	856	1,450	1,336	2,937	1,780	2,669	2,669	2,612
Libya	-354	43	62	281	80	643	910	2,547	3,020
Mauritania	15	40	77	67	103	388	812	149	149
Morocco	1,346	364	2,711	453	2,302	864	1,580	2,005	1,925
Palestine	102	-156	-344	-337	-31	60	6	-121	-35
Somalia	-1	0	0	0	-1	-5	24	96	141
Sudan	371	392	574	713	1,349	1,511	2,305	3,534	2,426
Syrian Arab Republic	243	227	101	-4	123	227	439	545	830
Tunisia	365	778	481	815	579	635	770	3,279	1,598
Yemen, Republic of	-304	15	135	62	-56	122	-367	1,065	410
East Asia 16	**58,822**	**39,813**	**24,736**	**34,119**	**53,770**	**41,261**	**51,839**	**27,468**	**37,519**
India	2,088	3,076	4,075	3,948	2,444	3,592	4,628	6,820	9,301
East Asia 15	**56,734**	**36,737**	**20,661**	**30,171**	**51,326**	**37,669**	**47,211**	**20,648**	**28,218**
Hong Kong, China	5,209	2,572	12,432	-7,781	8,132	-11,684	6,417	75	6,712
Taipei,China	-1,494	-1,773	-1,371	-3,441	-5,229	-5,247	-4,403	25	-2,946
ASEAN+3	**53,019**	**35,938**	**9,601**	**41,393**	**48,423**	**54,600**	**45,198**	**20,548**	**24,452**
China, People's Rep. of	38,544	39,799	39,992	50,224	50,650	55,132	60,145	51,555	61,052
Japan	-10,002	-23,235	-32,092	-23,041	-22,476	-23,136	-43,006	-56,772	-51,000
Korea, Rep. of	5,685	4,005	1,665	782	959	4,339	2,757	-3,246	-12,647
ASEAN	**18,791**	**15,370**	**35**	**13,428**	**19,290**	**18,264**	**25,301**	**29,011**	**27,047**
Brunei Darussalam	735	529	518	1,011	3,299	294	242	416	146
Cambodia	223	142	142	139	74	121	375	475	866
Indonesia	-1,910	-4,645	-3,051	50	-720	-1,512	5,272	2,211	2,138
Lao PDR	51	30	25	25	19	17	28	187	324
Malaysia	2,473	1,762	287	1,299	1,104	2,563	996	6	-2,586
Myanmar	304	208	192	191	291	251	236	143	428
Philippines	1,114	2,115	335	1,477	188	109	1,665	2,818	-514
Singapore	8,575	10,569	-4,344	4,871	8,969	9,026	6,987	12,502	11,837
Thailand	5,742	3,371	4,631	3,164	4,614	5,786	7,545	7,978	7,819
Viet Nam	1,484	1,289	1,300	1,200	1,450	1,610	1,956	2,275	6,589

Net FDI Flows (in billion US$)	1999	2000	2001	2002	2003	2004	2005	2006	2007
Middle East and North Africa (MENA)	5.0	5.2	11.0	5.3	18.9	13.5	33.4	41.0	29.8
League of Arab States	3.2	3.7	8.7	5.3	17.9	17.7	34.2	45.2	29.1
Gulf Cooperation Council (GCC)	-0.8	-1.3	1.6	0.2	9.2	7.7	16.6	14.1	1.5
East Asia 16 (ASEAN+3, Hong Kong, Taipei, I	58.8	39.8	24.7	34.1	53.8	41.3	51.8	27.5	37.5
East Asia 15 (ASEAN+3, Hong Kong, Taipei)	56.7	36.7	20.7	30.2	51.3	37.7	47.2	20.6	28.2

Table 3b: Direct investment in reporting economy (FDI Inward) - at current US$ millions

Direct investment in reporting economy (FDI Inward) - at current US$ millions

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007
Middle East and North Africa (MENA)	**7,173**	**10,823**	**12,295**	**9,338**	**18,453**	**25,116**	**48,379**	**78,822**	**80,390**
Algeria	292	438	1,196	1,065	634	882	1,081	1,795	1,665
Bahrain	454	364	80	217	517	865	1,049	2,915	1,756
Djibouti	4	3	3	4	14	39	59	164	195
Egypt	1,065	1,235	510	647	237	2,157	5,376	10,043	11,578
Iran, Islamic Republic of	16	29	58	108	400	306	918	317	754
Iraq	-7	-3	-6	-2	0	300	515	383	448
Israel	3,211	5,270	3,562	1,651	3,901	2,002	4,881	14,729	9,998
Jordan	156	815	180	122	443	816	1,774	3,219	1,835
Kuwait	72	16	-175	4	-68	24	234	122	123
Lebanon	872	964	1,451	1,336	2,977	1,993	2,791	2,739	2,845
Libya	-128	141	-113	145	143	357	1,038	2,013	2,541
Morocco	1,364	422	2,808	481	2,314	895	1,653	2,450	2,577
Oman	39	83	5	122	494	229	1,688	1,623	2,377
Palestine	189	62	19	9	18	49	47	19	21
Qatar	113	252	296	624	625	1,199	1,298	159	1,138
Saudi Arabia	123	183	504	453	778	1,942	12,097	18,293	24,318
Syrian Arab Republic	263	270	110	115	180	275	500	600	885
Tunisia	368	779	486	821	584	639	782	3,312	1,618
United Arab Emirates	-985	-506	1,184	1,314	4,256	10,004	10,900	12,806	13,253
Yemen, Republic of	-308	6	136	102	6	144	-302	1,121	464
League of Arab States	**4,331**	**5,957**	**9,326**	**8,360**	**15,604**	**24,706**	**45,724**	**67,568**	**72,369**
Gulf Cooperation Council (GCC)	**-184**	**391**	**1,894**	**2,734**	**6,602**	**14,262**	**27,266**	**35,918**	**42,966**
Bahrain	454	364	80	217	517	865	1,049	2,915	1,756
Kuwait	72	16	-175	4	-68	24	234	122	123
Oman	39	83	5	122	494	229	1,688	1,623	2,377
Qatar	113	252	296	624	625	1,199	1,298	159	1,138
Saudi Arabia	123	183	504	453	778	1,942	12,097	18,293	24,318
United Arab Emirates	-985	-506	1,184	1,314	4,256	10,004	10,900	12,806	13,253
Non-GCC Members	**4,516**	**5,566**	**7,432**	**5,626**	**9,001**	**10,444**	**18,458**	**31,651**	**29,403**
Algeria	292	438	1,196	1,065	634	882	1,081	1,795	1,665
Comoros	0	0	1	0	1	1	1	1	1
Djibouti	4	3	3	4	14	39	59	164	195
Egypt	1,065	1,235	510	647	237	2,157	5,376	10,043	11,578
Iraq	-7	-3	-6	-2	0	300	515	383	448
Jordan	156	815	180	122	443	816	1,774	3,219	1,835
Lebanon	872	964	1,451	1,336	2,977	1,993	2,791	2,739	2,845
Libya	-128	141	-113	145	143	357	1,038	2,013	2,541
Mauritania	15	40	77	67	102	392	814	155	153
Morocco	1,364	422	2,808	481	2,314	895	1,653	2,450	2,577
Palestine	189	62	19	9	18	49	47	19	21
Somalia	-1	0	0	0	-1	-5	24	96	141
Sudan	371	392	574	713	1,349	1,511	2,305	3,541	2,436
Syrian Arab Republic	263	270	110	115	180	275	500	600	885
Tunisia	368	779	486	821	584	639	782	3,312	1,618
Yemen, Republic of	-308	6	136	102	6	144	-302	1,121	464
East Asia 16	**121,407**	**152,073**	**111,259**	**100,244**	**107,189**	**154,386**	**164,176**	**194,474**	**260,221**
India	2,168	3,585	5,472	5,627	4,323	5,771	7,606	19,662	22,950
East Asia 15	**119,239**	**148,488**	**105,787**	**94,617**	**102,866**	**148,615**	**156,570**	**174,812**	**237,271**
Hong Kong, China	24,578	61,924	23,777	9,682	13,624	34,032	33,618	45,054	59,899
Taipei,China	2,926	4,928	4,109	1,445	453	1,898	1,625	7,424	8,161
ASEAN+3	**91,735**	**81,636**	**77,901**	**83,490**	**88,789**	**112,685**	**121,327**	**122,333**	**169,211**
China, People's Rep. of	40,319	40,715	46,878	52,743	53,505	60,630	72,406	72,715	83,521
Japan	12,741	8,323	6,241	9,239	6,324	7,816	2,775	-6,506	22,549
Korea, Rep. of	9,883	9,004	4,086	3,399	4,384	8,997	7,055	4,881	2,628
ASEAN	**28,793**	**23,595**	**20,697**	**18,109**	**24,576**	**35,242**	**39,091**	**51,243**	**60,513**
Brunei Darussalam	748	549	526	1,035	3,375	334	289	434	184
Cambodia	232	149	149	145	84	131	381	483	867
Indonesia	-1,838	-4,495	-2,926	232	-507	1,896	8,337	4,914	6,928
Lao PDR	52	34	24	25	19	17	28	187	324
Malaysia	3,895	3,788	554	3,203	2,473	4,624	3,967	6,048	8,403
Myanmar	304	208	192	191	291	251	236	143	428
Philippines	1,247	2,240	195	1,542	491	688	1,854	2,921	2,928
Singapore	16,578	16,484	15,621	7,200	11,664	19,828	13,930	24,743	24,137
Thailand	6,091	3,349	5,061	3,335	5,235	5,862	8,048	9,010	9,575
Viet Nam	1,484	1,289	1,300	1,200	1,450	1,610	2,021	2,360	6,739
World	**1,088,508**	**1,398,183**	**824,445**	**625,168**	**561,056**	**717,695**	**958,697**	**1,411,018**	**1,833,324**

Percent of Total World FDI Flows	1999	2000	2001	2002	2003	2004	2005	2006	2007
Middle East and North Africa (MENA)	0.7	0.8	1.5	1.5	3.3	3.5	5.0	5.6	4.4
League of Arab States	0.4	0.4	1.1	1.3	2.8	3.4	4.8	4.8	3.9
Gulf Cooperation Council (GCC)	0.0	0.0	0.2	0.4	1.2	2.0	2.8	2.5	2.3
East Asia 16 (ASEAN+3, Hong Kong, Taipe	11.2	10.9	13.5	16.0	19.1	21.5	17.1	13.8	14.2
East Asia 15 (ASEAN+3, Hong Kong, Taipe	11.0	10.6	12.8	15.1	18.3	20.7	16.3	12.4	12.9

Table 3c: Direct investment abroad (FDI Outward) - at current US$ millions

Direct investment abroad (FDI Outward) - at current US$ millions

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007
Middle East and North Africa (MENA)	**2,131**	**5,630**	**1,313**	**4,085**	**-468**	**11,659**	**14,956**	**37,870**	**50,557**
Algeria	47	18	9	100	14	258	23	35	290
Bahrain	163	10	216	190	741	1,036	1,135	980	1,669
Djibouti									
Egypt	38	51	12	28	21	159	92	148	665
Iran, Islamic Republic of	203	22	-19	55	-342	68	452	386	302
Iraq							89	305	147
Israel	748	3,317	677	960	2,124	4,547	2,968	15,078	7,047
Jordan	3	9	32	14	-4	18	163	-138	48
Kuwait	23	-303	-242	-78	-5,016	2,581	5,142	8,207	14,203
Lebanon	132	108	1	0	40	213	122	70	233
Libya	226	98	-175	-136	63	-286	128	-534	-479
Morocco	18	59	97	28	12	31	74	445	652
Oman	3	-2	55	0	153	250	234	328	570
Palestine	87	218	364	346	49	-11	40	139	56
Qatar	7	18	17	-21	88	438	352	127	5,263
Saudi Arabia	97	1,550	39	2,020	473	78	53	1,257	13,139
Syrian Arab Republic	20	43	9	119	57	48	61	55	55
Tunisia	3	0	6	7	5	4	13	33	20
United Arab Emirates	317	424	214	413	991	2,208	3,750	10,892	6,625
Yemen, Republic of	-4	-9	1	39	61	21	65	56	54
League of Arab States	**1,179**	**2,291**	**655**	**3,069**	**-2,251**	**7,049**	**11,538**	**22,418**	**43,223**
Gulf Cooperation Council (GCC)	**611**	**1,696**	**299**	**2,524**	**-2,569**	**6,591**	**10,667**	**21,791**	**41,468**
Bahrain	163	10	216	190	741	1,036	1,135	980	1,669
Kuwait	23	-303	-242	-78	-5,016	2,581	5,142	8,207	14,203
Oman	3	-2	55	0	153	250	234	328	570
Qatar	7	18	17	-21	88	438	352	127	5,263
Saudi Arabia	97	1,550	39	2,020	473	78	53	1,257	13,139
United Arab Emirates	317	424	214	413	991	2,208	3,750	10,892	6,625
Non-GCC Members	**568**	**596**	**356**	**545**	**317**	**458**	**871**	**627**	**1,755**
Algeria	47	18	9	100	14	258	23	35	290
Comoros									
Djibouti									
Egypt	38	51	12	28	21	159	92	148	665
Iraq							89	305	147
Jordan	3	9	32	14	-4	18	163	-138	48
Lebanon	132	108	1	0	40	213	122	70	233
Libya	226	98	-175	-136	63	-286	128	-534	-479
Mauritania					-1	4	2	5	4
Morocco	18	59	97	28	12	31	74	445	652
Palestine	87	218	364	346	49	-11	40	139	56
Somalia									
Sudan								7	11
Syrian Arab Republic	20	43	9	119	57	48	61	55	55
Tunisia	3	0	6	7	5	4	13	33	20
Yemen, Republic of	-4	-9	1	39	61	21	65	56	54
East Asia 16	**62,585**	**112,260**	**86,522**	**66,125**	**53,419**	**113,125**	**112,337**	**167,005**	**222,702**
India	80	509	1,397	1,679	1,879	2,179	2,978	12,842	13,649
East Asia 15	**62,505**	**111,751**	**85,125**	**64,446**	**51,540**	**110,946**	**109,359**	**154,163**	**209,053**
Hong Kong, China	19,369	59,352	11,345	17,463	5,492	45,716	27,201	44,979	53,187
Taipei,China	4,420	6,701	5,480	4,886	5,682	7,145	6,028	7,399	11,107
ASEAN+3	**38,716**	**45,697**	**68,300**	**42,097**	**40,367**	**58,085**	**76,130**	**101,785**	**144,759**
China, People's Rep. of	1,774	916	6,885	2,518	2,855	5,498	12,261	21,160	22,469
Japan	22,743	31,558	38,333	32,281	28,800	30,951	45,781	50,266	73,549
Korea, Rep. of	4,198	4,999	2,420	2,617	3,426	4,658	4,298	8,127	15,276
ASEAN	**10,001**	**8,225**	**20,662**	**4,681**	**5,286**	**16,978**	**13,790**	**22,232**	**33,466**
Brunei Darussalam	12	20	9	24	76	41	47	18	38
Cambodia	9	7	7	6	10	10	6	8	1
Indonesia	72	150	125	182	213	3,408	3,065	2,703	4,790
Lao PDR	1	4	-1		0				
Malaysia	1,422	2,026	267	1,905	1,369	2,061	2,971	6,041	10,989
Myanmar									
Philippines	133	125	-140	65	303	579	189	103	3,442
Singapore	8,002	5,915	19,965	2,329	2,695	10,803	6,943	12,241	12,300
Thailand	349	-22	430	171	621	76	503	1,032	1,756
Viet Nam							65	85	150
World	**1,088,065**	**1,231,639**	**751,297**	**537,424**	**562,760**	**920,151**	**880,808**	**1,323,150**	**1,996,514**

Percent of Total World FDI Flows	1999	2000	2001	2002	2003	2004	2005	2006	2007
Middle East and North Africa (MENA)	0.2	0.5	0.2	0.8	-0.1	1.3	1.7	2.9	2.5
League of Arab States	0.1	0.2	0.1	0.6	-0.4	0.8	1.3	1.7	2.2
Gulf Cooperation Council (GCC)	0.1	0.1	0.0	0.5	-0.5	0.7	1.2	1.6	2.1
East Asia 16 (ASEAN+3, Hong Kong, Taipei, India)	5.8	9.1	11.5	12.3	9.5	12.3	12.8	12.6	11.2
East Asia 15 (ASEAN+3, Hong Kong, Taipei)	5.7	9.1	11.3	12.0	9.2	12.1	12.4	11.7	10.5