

Free Trade Agreements:

The Quiet Economic Track of U.S. Middle East Policy

Feb 13, 2006



Brief Analysis

In January, the United States halted talks on free trade with Egypt to protest the Egyptian government's imprisonment of Ayman Nour, a leading opposition figure who challenged President Hosni Mubarak in September 2005 presidential elections. Washington made no formal announcement, perhaps hoping to avoid open confrontation with Cairo, and in doing so missed an opportunity to highlight its growing success in negotiating free trade agreements (FTAs) with U.S. allies in the region.

Background

Since the invasion of Iraq in 2003, the Bush administration has placed democratization and reform in the Middle East at the top of its agenda. While press reports have focused on political developments, another key component to the American strategy entails encouraging economic growth, modernization, and liberalization throughout the region. The reform agenda includes attempts to bolster regimes working to open their countries to expanded trade and fiscal relations with Western nations. Following the belief that increased economic freedom can cultivate a middle class and improve the lives of all of a nation's citizens, U.S. efforts to build free trade relationships in the Middle East could positively affect the drive to encourage democracy.

On May 9, 2003, President Bush proposed the establishment of a U.S.-Middle East free trade area by 2013. Building on existing free trade agreements with Israel and Jordan, the administration hoped to initiate a process that would reignite and stimulate economic growth and expand opportunity in the region. Since this announcement, the office of the U.S. Trade Representative has sought to help reform-minded countries gain accession to the World Trade Organization (WTO) and to negotiate bilateral investment treaties (BITs) and trade and investment framework agreements (TIFAs) with the United States -- major steps toward initiating FTA talks. The Bush administration has completed FTA negotiations with Morocco, Bahrain, and, on January 19, with Oman. An FTA is expected to be concluded with the United Arab Emirates in February.

Current Agreements

The United States has now signed FTAs with five Middle Eastern nations: Israel, Jordan, Morocco, Bahrain, and Oman. Each agreement lays groundwork for working toward the administration's goal of a U.S.-Middle East free trade area.

Israel. The U.S.-Israel FTA went into effect in 1985. It provided for the elimination of duties for Israeli merchandise entering the United States; as of 1995, the United States treats all eligible reduced-rate products from Israel as duty-free. Though these negotiations may be viewed as a logical step in the close U.S.-Israel relationship, it established a foothold for economic change in the region and represented a first step for FTAs in the Middle East.

Jordan. Signed on October 24, 2000, the U.S.-Jordan FTA was the first such accord with an Arab state and is considered a template for future agreements. It calls for the elimination of all tariff and nontariff barriers to bilateral trade for virtually all industrial goods and agricultural products within ten years. The agreement has had a

significant effect on economic exchange between the two countries: Jordan exports to the United States jumped from \$31 million in 1999 to \$674 million in 2003; U.S. investments in Jordan were up to more than \$80 million by December 2004 and are expected to exceed \$180 million next year; and American participation in Jordanian qualified industrial zones has encouraged Jordan's strongest engine of job growth, helping to create an estimated 35,000 jobs in these areas since their inception in 1999. The treaty was held up for some years by a dispute in the United States about what labor and environmental provisions were appropriate for a FTA; the treaty negotiated by the Clinton administration only called on Jordan to enforce its own labor and environmental laws, without requiring any change in those laws unless needed to meet international agreements Jordan had signed.

Morocco. Signed by President Bush in August 2004 and enforced starting in January 2006, the U.S.-Morocco FTA ends tariffs on 95 percent of bilateral trade in consumer and industrial goods, with all remaining barriers to be removed within nine years. While helping to expand the average of \$475 million in U.S. exports to Morocco per year and adding to products like aircraft, corn, and machinery already sold there, the more important aspects of this FTA are the agricultural and labor provisions included. The U.S.-Morocco agreement permits some continued levels of protection for American farmers, a major difference from the U.S.-Jordan deal. In addition, the accord led to significant labor reforms in Morocco, such as raising the minimum work age from twelve to fifteen, reducing the work week from forty-eight to forty-four hours, calling for periodic reviews of the minimum wage, and guaranteeing the rights of workers to form unions and protecting the members of those groups. The U.S. Department of Labor, meanwhile, has created an assistance program with a budget of nearly \$9.5 million to improve industrial relations and child labor standards in Morocco, and the Moroccan government has ratified seven of eight core International Labor Organization (ILO) conventions.

Bahrain. On September 14, 2004, the United States signed its first FTA with a Persian Gulf state; the U.S.-Bahrain agreement went into effect on January 11, 2006. It makes all consumer and industrial products and 81 percent of agricultural exports duty-free. Though Bahrain already sustains a significant trading partnership with the United States (two-way trade of \$887 million in 2003), this accord opens the services market wider than any previous FTA partner, streamlines digital trade, protects intellectual property, and provides for effective enforcement of labor and environmental laws. In addition, the U.S.-Bahrain FTA will expand opportunities for U.S. exports to Bahrain of aircraft, machinery, vehicles, pharmaceutical products, and a variety of agricultural goods.

Oman. On January 19, the United States concluded seven months of negotiations by signing its latest FTA, with Oman. The two nations already had strong business and investment relationships. Oman's gross domestic product (GDP) grew by 14.4 percent in 2004 and an estimated 19 percent in 2005, displaying both success and stability in the economic sphere. The U.S.-Oman trade agreement will open the Omani market to goods and services from the United States, bring knowledge-based industries to Oman, and create opportunities in banking, insurance, telecommunications, and construction for its fledgling middle class. It also empowers a moderate Gulf state and steadfast ally in the war on terrorism that appears, in the eyes of many, ripe for political reform in the near future. Finally, the United States is using the signing of the FTA to support recently enacted labor laws and improved labor standards in Oman, which has moved gradually to ratify key forced labor and child labor conventions of the ILO.

Conclusion

While the United States will continue to focus a great deal of time, energy, and attention on promoting political liberalization, it is also active in promoting freer trade in the Middle East. The region's economy can use all the help it can get. Today, 25 percent of all Arabs live on \$2 per day. Excluding oil, the Arab states' economies experience annual growth rates of less than 0.5 percent. The Arab states must create 80 million jobs in the next two decades in order to accommodate their enormous population of young people. As these negotiations proceed, there is good reason to hope that U.S. trade with the region will grow and that U.S. companies will invest more in Middle Eastern

countries.

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