



OECD DEVELOPMENT CENTRE

Working Paper No. 127

(Formerly Technical Paper No. 127)

TRADE STRATEGIES FOR THE SOUTHERN MEDITERRANEAN

by

Peter A. Petri

Research programme on:

Strengthening Links between Developing Countries: Regional Co-operation and Integration



TABLE OF CONTENTS

ACKNOWLEDGEMENTS.....	6
RÉSUMÉ	7
SUMMARY	9
PREFACE	11
I. INTRODUCTION	13
II. INTERNATIONAL TRADE OF THE SOUTHERN MEDITERRANEAN	17
III. COMPARATIVE STRUCTURE OF SOM TRADE	27
IV. A MENU OF STRATEGIC OPTIONS	39
V. CONCLUSIONS	53
NOTES	55
APPENDIX A: CROSS-SECTION REGRESSION MODELS OF INTERNATIONAL TRADE	57
APPENDIX B: GRAVITY MODELS OF REGIONAL TRADE	63
REFERENCES	67

ACKNOWLEDGEMENTS

The author, Dean of the Graduate School of International Economics and Finance, Brandeis University, is grateful to Messrs. Kiichiro Fukasaku and Ulrich Hiemenz, and to Ms. Azita Dastgheib-Kolster for her outstanding research support and her constructive comments on a previous draft.

RÉSUMÉ

Les résultats médiocres de la région Sud-méditerranéenne au cours de la dernière décennie sont souvent attribués à sa relative absence d'ouverture aux échanges internationaux. Néanmoins, l'analyse plus fine de la structure commerciale de la région menée dans ce document aboutit à des résultats plus nuancés. Ainsi, à l'exception de la Syrie et, dans une moindre mesure, du Maroc, les flux commerciaux totaux de la région sont au-dessus des normes internationales, à savoir des niveaux calculés en fonction des caractéristiques économiques des pays. En outre, les échanges intra-régionaux sont relativement importants compte tenu des caractéristiques économiques de la région. Il n'en demeure pas moins que le Bassin sud-méditerranéen n'a pas la vitalité de l'Asie de l'Est, ni même de l'Europe de l'Est, en matière d'échanges commerciaux. Ces derniers se développent avec lenteur ; les exportations sont concentrées dans des secteurs dont la croissance est atone ; et la région ne figure pas en bonne place dans les stratégies de production des firmes multinationales. Il semble donc qu'il y ait un « manque qualitatif » plutôt que « quantitatif » dans les échanges du Proche-Orient si on les compare avec des régions en développement plus dynamiques. Ce document analyse les causes possibles d'un tel manque et les mesures politiques qui permettraient d'y remédier.

Les pays du Bassin sud-méditerranéen abordent la globalisation dans un contexte interne et intra-régional difficile, mais la région a manifestement atteint un tournant. Les taux de croissance sont repartis à la hausse après les bas niveaux de la fin des années 80. Les politiques favorables aux règles du marché gagnent du terrain et plusieurs pays ont négocié, voire signé, des accords d'ouverture importants avec des partenaires étrangers. La période semble propice à l'approfondissement et à l'extension des réformes favorables aux échanges ; aussi le document propose-t-il un certain nombre de mesures susceptibles de corriger les faiblesses structurelles des échanges dans la région, et, ce faisant, de dynamiser son économie :

- des mesures de politique intérieure visant à accroître l'épargne et à transférer les ressources du secteur public aux entreprises privées pourraient dynamiser les petites entreprises à haute intensité de main-d'oeuvre qui constituent l'avantage comparatif de la région ;
- des politiques favorisant l'entrée des capitaux internationaux pourraient encourager la création de partenariats technologiques et commerciaux qui amélioreraient la structure des échanges de la région ;

- des accords internationaux qui permettent d'étendre les marchés et les systèmes de production régionaux grâce à l'abaissement des barrières douanières opposées aux pays voisins et aux partenaires commerciaux importants en Europe et ailleurs, peuvent stimuler la spécialisation des économies de la région et leur complémentarité, renforçant ainsi la crédibilité de leurs réformes.

L'Initiative Europe-Méditerranée est susceptible de jouer un rôle de catalyseur en impulsant de telles réformes. Des politiques complémentaires pourraient, en retour, améliorer de manière conséquente les perspectives de croissance et de développement du Bassin sud-méditerranéen.

SUMMARY

The lagging economic performance of the Southern Mediterranean (SOM) region over the past decade is often attributed to the region's relative lack of openness to international trade. The closer analysis of the region's trade patterns undertaken in this study suggest a more complex picture. These findings show that except for Syria and to a lesser extent Morocco, the region's overall trade flows are above international norms, that is, levels predicted given the country economic characteristics. Moreover, they also suggest that intra-regional trade, with some qualifications, is relatively high given the region's economic characteristics. Nevertheless, trade relationships in the Southern Mediterranean appear to lack the vitality of those in East Asia and even Eastern Europe. The Southern Mediterranean's trade is expanding relatively slowly, exports are concentrated in relatively slow-growing sectors, and the region does not figure prominently in the multinational production strategies of global firms. There appears to be a "quality gap", if not a "quantity gap", in the trade of the Middle East when compared to more dynamic developing regions. This paper examines possible causes of this gap and the policy options that might help to close it.

Although the SOM countries are confronting the demand of globalisation under difficult internal and intra-regional circumstances, the region is clearly turning the corner. Growth rates have recovered from the lows of the late 1980s; market-oriented policies are gaining ground; and several countries are negotiating or have signed major market-opening agreements with foreign partners. This is an opportune time to deepen and extend trade-oriented reforms, and this paper suggests a range of policy initiatives to address the weaknesses in the structure of the Southern Mediterranean's trade and, thus, help invigorate the region's economy:

- domestic policy measures that increase savings and shift resources from the public to private enterprise could help to invigorate smaller-scale, labour-intensive industries that fit the region's comparative advantage;
- policies that stimulate foreign capital inflows could help to create technological and marketing partnerships for upgrading the region's trade structure;

- International agreements that increase the scale of regional markets and regional production systems by lowering trade barriers facing neighbours and important trade partners in Europe and elsewhere could stimulate the specialised, co-operative development of SOM economies and enhance the credibility of SOM reforms.

The Europe-Mediterranean Initiative could play a catalytic role in motivating such a reform package. The combination of policies, in turn, could substantially improve the prospects for the Southern Mediterranean's growth and development.

PREFACE

During the 1990s many developing countries have embraced a regional approach to trade and investment liberalisation alongside their unilateral and multilateral efforts. This policy trend reflects the belief that regional policy initiatives can facilitate developing countries' domestic reforms. Whether these regional initiatives will indeed bring about such an outcome remains to be proved, however; the crucial factor is the scope and depth of such commitments. In this respect, the experience of several Southern Mediterranean countries, in the context of the European Union's New Mediterranean Policy, will provide useful lessons for policy-makers in both OECD and non-OECD countries.

Following the Europe-Mediterranean Conference held in Barcelona in 1995, three Europe-Mediterranean Agreements have already been signed — with Tunisia, Israel and Morocco. Negotiations are underway with several other countries in the region. The establishment of new agreements helps the partnership countries to enhance policy credibility and business confidence, though they still need to clear many hurdles to meet the goals set by these agreements. This is why the Development Centre has undertaken in-depth research on this region — under the theme of “Regional Co-operation and Integration” — as part of its 1996-98 work programme.

This paper is the first in a series with respect to the Southern Mediterranean region. It aims to identify a range of policy initiatives to tackle the weaknesses in the region's trade structure. This series will make an important contribution to the policy making of both the OECD and the non-OECD countries concerned.

Jean Bonvin
President
OECD Development Centre
December 1997

I. INTRODUCTION

The lagging economic performance of the Southern Mediterranean (SOM) region¹ over the past decade is often attributed to the region's relative lack of openness to international trade. A closer analysis of the region's trade patterns suggests a more complex picture. These findings show that except for Syria and to a lesser extent Morocco, the region's overall trade flows are above international norms, that is, levels predicted given the country economic characteristics. Nevertheless, trade relationships in the Southern Mediterranean appear to lack the vitality of those in East Asia and even Eastern Europe. The Southern Mediterranean's trade is expanding relatively slowly, exports are concentrated in relatively slow-growing sectors, and the region does not figure prominently in the multinational production strategies of global firms. There appears to be a "quality gap", if not a "quantity gap", in the trade of the Middle East when compared to more dynamic developing regions. This paper examines possible causes of this gap and the policy options that might help to close it.

The Southern Mediterranean is confronting the demands of globalisation under difficult circumstances. Oil prices, which affect the region's economy through various channels, are substantially below previous highs. International conflicts limit regional co-operation, domestic political tensions worry investors, and state-oriented economic traditions make major reforms necessary as well as difficult. At the same time, there is plenty of new competition in the region's main external markets from the transition economies of Eastern Europe as well as dynamic developing countries around the world.

Yet the Southern Mediterranean is clearly turning a corner. Growth rates, although still not sufficiently high, have recovered from the lows of the late 1980s and have reached a robust 5-7 per cent range in several countries (see Table 1). Market-oriented approaches are gaining ground in the region's policy decisions and some countries are making progress on privatisation and in attracting foreign capital. Several countries are negotiating or have signed major market-opening agreements with foreign partners. These trends do not apply in equal measure throughout the region, but they involve in each case at least a majority of SOM countries. This is an opportune time to deepen and extend trade-oriented reforms, building on the momentum of recent gains.

How could trade policies contribute to this effort? This paper examines the detailed structure of SOM trade in order to pinpoint distortions that might be most effectively addressed with policy. The analysis is partly based on econometric models that compare the region's trade patterns with

international norms. The picture that emerges contradicts some of the gloomy “conventional wisdom” about SOM trade. Despite frequent claims that the region is inward-oriented, the data show that the majority of SOM economies are relatively open to trade. Despite concerns that there is too little trade among SOM countries, the models suggest that intra-regional trade, with some qualifications, is relatively high given the region’s economic characteristics. These findings contrast with those of a parallel study of the region’s investment linkages (Petri, 1997), which finds that the region’s capital market linkages are generally lagging international norms.

At the same time, this study finds serious weaknesses in the structure of the Southern Mediterranean’s trade. Most SOM economies have lower manufactured exports than might be expected given their level of development, and the export bundle of several countries trails international norms on various measures of the intensity of economic interactions with the world economy. A range of policy initiatives could address these problems and help to invigorate the region’s trading economy:

- domestic policy measures that increase savings and shift resources from the public to private enterprise could help to invigorate smaller-scale, labour-intensive industries that fit the region’s comparative advantage;
- policies that stimulate foreign capital inflows (analysed also in the parallel study on investment) could help to create technological and marketing partnerships for upgrading the region’s trade structure;
- international agreements that increase the scale of regional markets and regional production systems by lowering trade barriers facing neighbours and important trade partners in Europe and elsewhere could stimulate the specialised, co-operative development of SOM economies and enhance the credibility of SOM reforms.

The Europe-Mediterranean Initiative could play a catalytic role in motivating such a reform package. The combination of policies, in turn, could substantially improve the prospects for the Southern Mediterranean’s growth and development.

Table 1. **Growth and Trade in the Southern Mediterranean**

	GDP (\$ billion)	GDP per capita (\$)	GDP growth (per cent per annum)			Exports of goods & NFS (per cent of GDP)		
	1995	1995	1975-85	1985-90	1990-95 *	1977	1985	1995
Algeria	41.4	1 600	5.8	0.2	0.4	33.6	23.5	26.7
Egypt, Arab Rep.	47.3	790	8.9	3.9	3.4	20.2	19.9	21.3
Israel	92.0	15 920	3.4	4.3	6.6	25.9	40.1	29.4
Jordan	6.6	1 510	..	-3.5	7.4	..	37.2	53.0
Lebanon	11.1	2 660	..	..	6.8	..	..	9.6
Morocco	32.4	1 110	4.8	4.4	1.0	22.5	25.5	27.3
Syrian Arab Republic	16.8	1 120	4.7	1.4	7.3	21.4	12.3	..
Tunisia	18.0	1 820	5.3	3.0	3.8	31.0	32.1	44.8
West Bank and Gaza	3.2	..	..	..	5.3	..	..	14.7
AVERAGE			5.5	1.9	4.7	26.3	25.3	25.4
Chile	67.3	4 160	4.0	6.5	7.4	20.6	28.1	29.3
Indonesia	198.1	980	6.8	7.1	7.8	24.0	22.2	25.5
Malaysia	85.3	3 890	6.9	6.7	8.7	48.1	54.9	95.5
Thailand	167.1	2 740	6.6	10.4	8.4	20.0	23.2	41.5
AVERAGE			6.1	7.7	8.1	26.2	28.9	42.7
East Asia & Pacific	1 341	800	7.0	7.5	10.0	9.7	16.0	29.5
Latin America & Caribbean	1 688	3 320	2.8	2.0	3.0	12.9	18.7	16.7
Developing countries	5 393	1 090	3.5	2.8	2.1	..	18.5	22.4

* Lebanon's GDP growth refers to 1992-95.

Source: World Bank (1997).

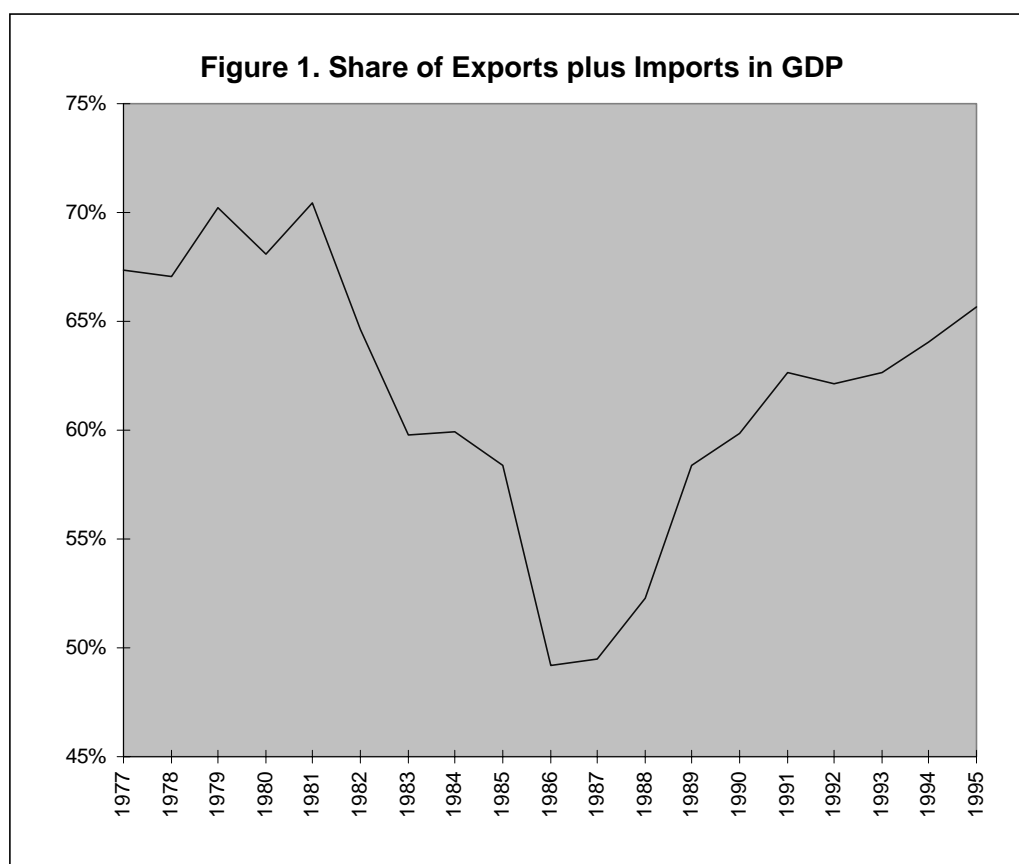
II. INTERNATIONAL TRADE OF THE SOUTHERN MEDITERRANEAN

The Southern Mediterranean was among the world's most rapidly growing regions before 1985, but its performance has deteriorated over the past decade (Page, 1995). Table 1 summarises a variety of indicators for the growth and trade performance of the Southern Mediterranean, along with four dynamic East Asian and Latin American economies: Chile, Indonesia, Malaysia and Thailand. Data on these "tiger" economies are used throughout this study to exemplify the potential for high performance. The four economies are not too different from those of the SOM region in terms of size, resource endowments and levels of development, and are among the most successful economic performers of recent decades.

In the 1975-85 period, the SOM region's average growth rate was 5.5, not far below the 6.1 per cent achieved by the four comparator economies, and well above the 3.5 per cent of all developing countries. Between 1985-90, the SOM economies sharply decelerated to 1.9 per cent, below developing country averages, and especially the 7.7 per cent growth achieved in the comparator economies. In 1990-95, growth recovered in the SOM region to 4.6 per cent, again exceeding developing country averages (which were depressed by sharp declines in the transition economies) but still far below the 8.1 per cent of the tigers.

Slow Development of Trade

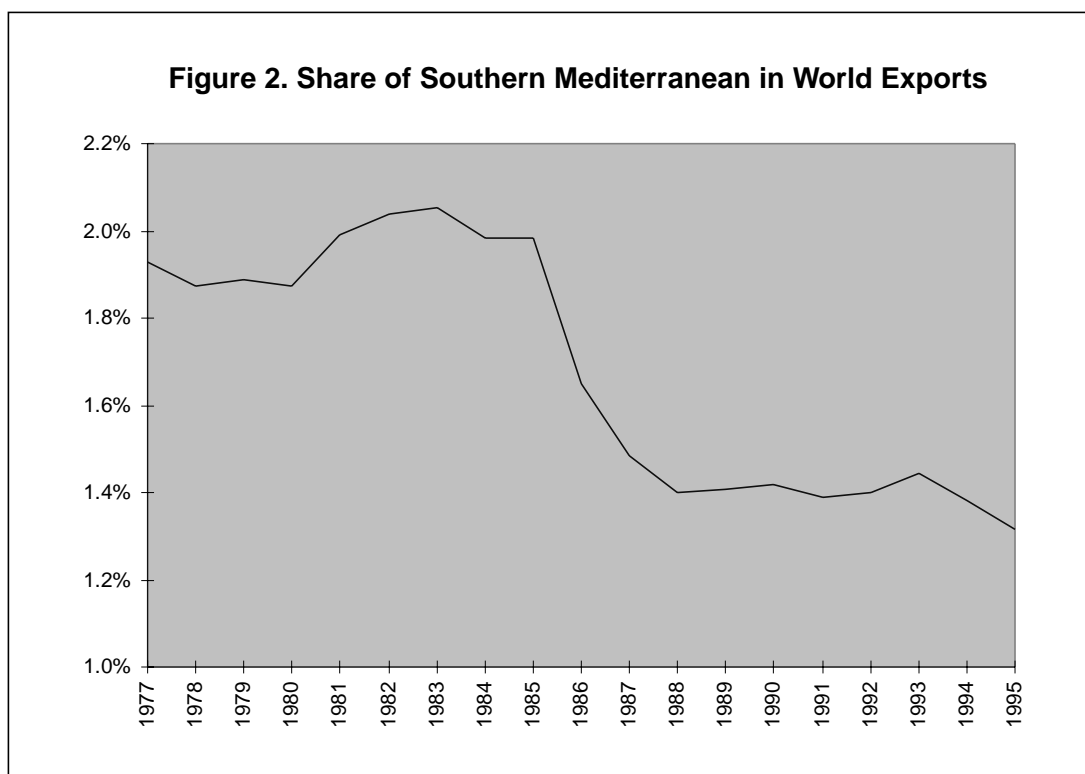
In the context of these fluctuating macroeconomic conditions, the Southern Mediterranean's trade and investment have grown haphazardly, despite the strong global trend towards intensifying international relationships. For example, Table 1 shows that only Jordan and Tunisia have substantially increased exports relative to GDP over the past two decades, as have many developing countries elsewhere. Over this period, the ratio of the region's exports to GDP increased from 26 per cent to 28 per cent, while those of the tigers nearly doubled, from 28 per cent to 48 per cent. The ratio of the region's total trade (sum of exports plus imports) to GDP is tracked in Figure 1, which shows a more detailed evolution of trade over time. The trade/GDP ratio dipped sharply in the mid-1980s, and is just now recovering to levels achieved two decades ago.



Note: Countries include Egypt, Israel, Syria, Algeria, Morocco and Tunisia.

Source: World Bank (1997).

As a consequence of these trends, the Southern Mediterranean's share of world trade has sharply diminished (Figure 2). The region's share was around 2 per cent in the early 1980s; it is approximately 1.4 per cent today and is still declining. According to an index constructed by the World Bank, only two of seven SOM economies (Israel and Tunisia) had reached world averages in terms of their level of integration into the global economy in the early 1980s. Since then, three of the five lagging economies (Algeria, Egypt and Jordan) continued to fall further behind (World Bank, 1996). Two other SOM economies, Lebanon and the West Bank and Gaza, excluded from the World Bank study due to data limitations, also have severely distorted trade patterns.



Note: Countries include Egypt, Israel, Jordan, Syria, Algeria, Morocco and Tunisia.

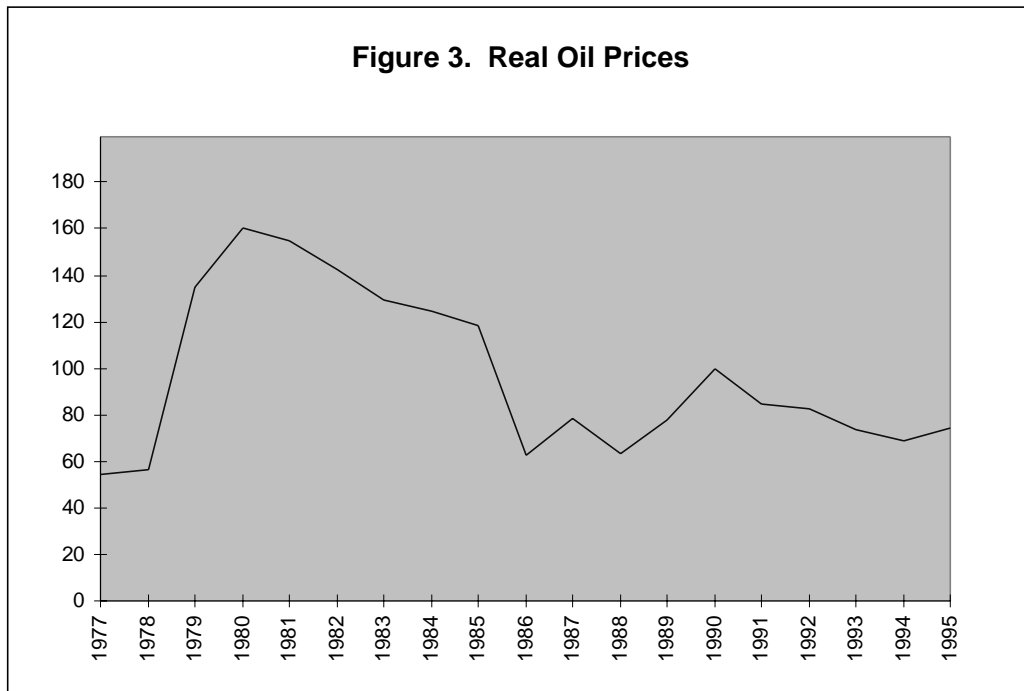
Source: World Bank (1997).

Of course, these adverse trends in SOM's international linkages are partly attributable to harsh changes in the region's external environment. Through various channels, the region's trade and investment levels are strongly correlated with oil prices. Algeria, Egypt, Syria and Tunisia are significant exporters of energy (Table 2). In addition, several SOM countries depend heavily on Gulf oil producers as export markets. Finally, SOM imports and exports are sensitive to remittances for labour services performed in oil-producing countries, and to grants and loans received from them. All this helps to explain why high oil prices contributed to raising trade relative to GDP in the 1970s, and why falling prices have coincided with declines in this measure of openness in the mid-1980s (see Figure 3)².

Table 2. Changing Composition of Exports

	Merchandise exports (\$ million)		Fuel, metals and mineral exports (\$ million)				Export Growth, 1985-95 (% per annum)	
	1985	1995	1985	1995	(% of exports)		Fuel	Non-fuel
Algeria	13 034	10 260	12 724	9 728	97.6	94.8	-2.6	5.5
Egypt, Arab Rep.	3 928	3 316	2 634	1 559	67.1	47.0	-5.1	3.1
Israel	6 820	18 994	..	..	..	..	..	10.8
Jordan	790	1 771	38	27	4.9	1.5	-3.3	8.8
Lebanon	..	982	..	8	..	0.8	..	..
Morocco	2 162	6 871	32	14	1.5	0.2	-7.8	12.4
Syrian Arab Republic	1 856	3 858	75	..	4.1	..	..	..
Tunisia	1 708	5 470	723	451	42.3	8.2	-4.6	17.7
West Bank and Gaza	..	..	..	..	..	..	..	..
AVERAGE					36.2	25.4	-4.7	9.7
Chile	3 800	16 039	1 789	6 487	47.1	40.4	13.7	16.9
Indonesia	18 600	45 417	12 804	9 749	68.8	21.5	-2.7	19.9
Malaysia	15 400	74 037	3 503	2 523	22.7	3.4	-3.2	19.6
Thailand	7 120	56 459	829	7 372	11.6	13.1	24.4	22.8
AVERAGE					37.6	19.6	8.1	19.8

Sources: World Bank (1997) and Economist Intelligence Unit (EIU) (1997) country reports in the case of missing data.



Source: World Bank (1997), *Commodity Markets and the Developing Countries*, several issues.

Dutch Disease and Trade Structure

Oil has affected not just the level of the region's trade, but also its structure. High foreign exchange earnings directly or indirectly related to oil have diminished the region's international competitiveness outside the oil sector. Exceptional foreign exchange income (such as revenues from oil exports, remittances, and foreign aid) tends to drive up the prices of non-traded goods and of local factors. The prices of labour and other factors thus rise beyond levels justified by their productivity in the tradables sector. Consequently the production costs of tradables in the SOM region tend to be high compared to those in other developing countries. As a result, factors have moved into non-traded sectors, such as services or housing construction, while traded goods demand has been largely shifted to imports.

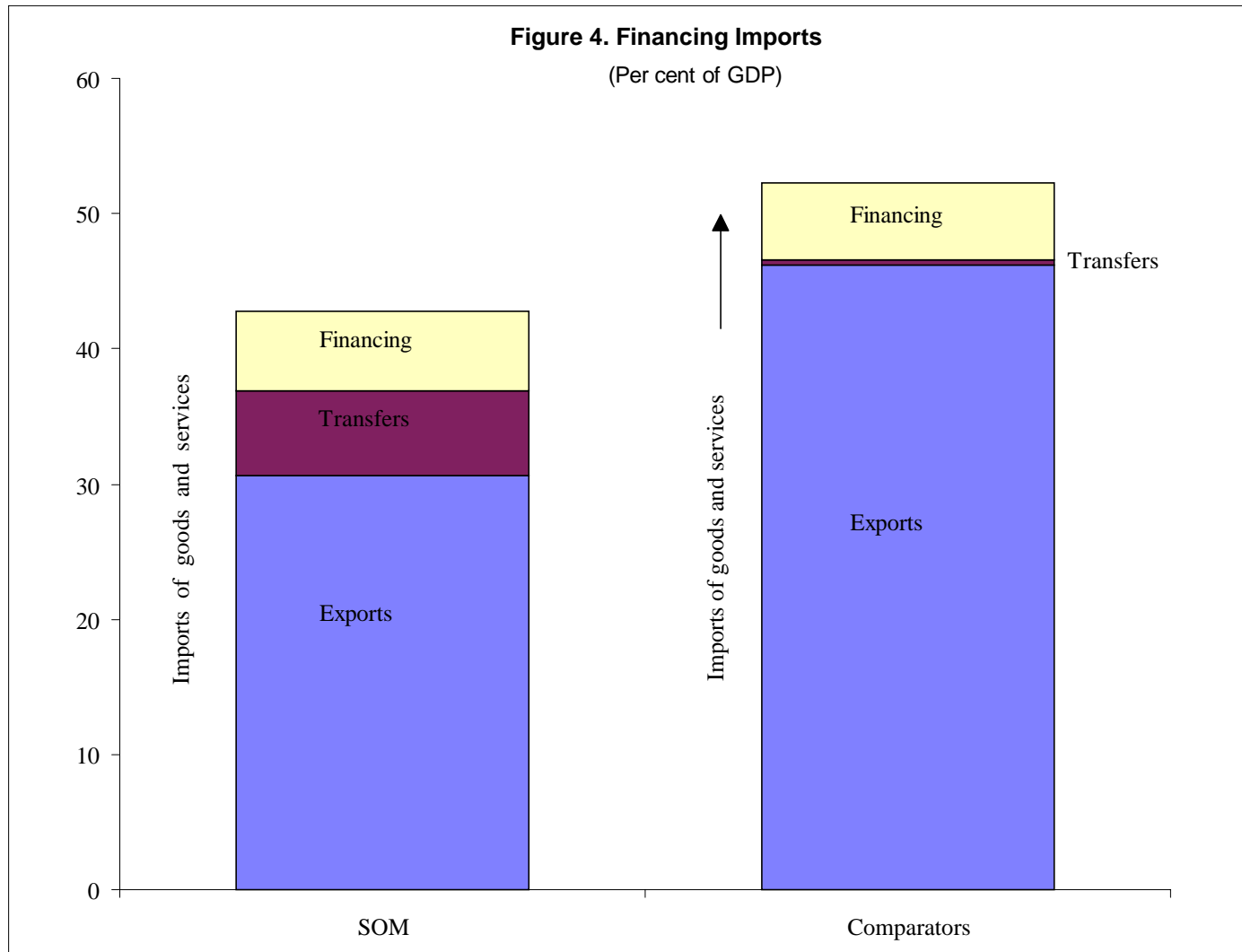
In the Southern Mediterranean in 1995, transfers (principally remittances and foreign aid) financed 15 per cent of imports, and capital inflows another 14 per cent (Table 3, Figure 4). In the tigers, transfers account for less than 1 per cent, and capital for 11 per cent. In other words, the portion of imports financed by revenues from sources other than exports is almost three times as high in the SOM region as in the tiger economies. Further, the role of industrial exports within SOM exports is also smaller, since oil and minerals make up a much larger part of the total exports than in the comparator countries.

Table 3. Sources and Uses of Foreign Exchange

(\$ million)	Imports of goods, services & income		Exports of goods, services & income		Net current transfers		Net capital account	
	1985	1995	1985	1995	1985	1995	1985	1995
Algeria	13 120	12 512	13 756	10 954	378	168	-1 015	1 390
Egypt	14 164	17 353	7 433	11 337	3 522	5 060	3 209	956
Israel	14 728	39 750	10 983	28 659	4 902	5 600	-1 157	5 491
Jordan	3 912	5 200	2 076	3 606	845	1 118	991	476
Lebanon	..	6 953	..	1 512	..	350	..	5 092
Morocco	5 125	12 900	3 160	9 118	1 074	2 261	891	1 521
Syria	5 059	6 406	2 540	5 929	1 561	917	957	-440
Tunisia	3 606	9 646	2 712	8 098	313	811	581	737
West Bank and Gaza	..	..	..	..	..	..	..	..
SUBTOTAL	59 714	110 720	42 660	79 213	12 596	16 284	4 458	15 222
Chile	6 257	20 214	4 697	20 014	147	357	1 413	-157
Indonesia	22 150	60 367	20 139	52 505	88	839	1 923	7 023
Malaysia	18 383	92 440	17 776	84 212	7	163	600	8 066
Thailand	11 925	88 134	10 222	74 093	165	487	1 537	13 554
SUBTOTAL	58 715	261 155	52 834	230 824	407	1 846	5 473	28 486
(% of GDP)								
Algeria	22.6	30.2	23.7	26.4	0.7	0.4	-1.7	3.4
Egypt, Arab Rep.	40.8	36.7	21.4	23.9	10.2	10.7	9.3	2.0
Israel	57.0	43.2	42.5	31.2	19.0	6.1	-4.5	6.0
Jordan	78.4	..	41.6	..	16.9	..	19.9	..
Lebanon	..	62.4	..	13.6	..	3.1	..	45.7
Morocco	39.8	39.8	24.6	28.1	8.3	7.0	6.9	4.7
Syrian Arab Republic	30.8	38.2	15.5	35.3	9.5	5.5	5.8	-2.6
Tunisia	42.9	53.5	32.2	44.9	3.7	4.5	6.9	4.1
West Bank and Gaza	..	..	..	..	..	..	..	..
AVERAGE	36.3	42.7	26.0	30.6	7.7	6.3	2.7	5.9
		43.4		29.1		5.3		
Chile	43.5	30.7	32.7	30.4	1.0	0.5	9.8	-0.2
Indonesia	26.8	31.9	32.7	27.7	0.1	0.4	2.3	3.7
Malaysia	63.4	114.4	24.3	104.2	0.0	0.2	2.1	10.0
Thailand	31.2	53.9	61.3	45.3	0.4	0.3	4.0	8.3
AVERAGE	35.7	52.3	32.1	46.2	0.2	0.4	3.3	5.7

.. not available.

Source: World Bank (1997).



Source: World Bank (1997).

Since the outlook for energy exports and transfer income are limited, the acceleration of non-oil/mineral exports is an important goal. As Table 2 shows, oil and minerals accounted for about the same share of the exports of the SOM and the tigers in 1985, somewhat over one-third. Since 1985, however, non-oil/mineral exports have grown at annual 20 per cent rate in the tigers, compared to a 10 per cent rate in the Southern Mediterranean. Nevertheless, the general decline of the share of oil and minerals in the region's exports and the particularly rapid growth of non-oil/mineral exports in Morocco, Tunisia and Israel are noteworthy. The growth rates of other exports in these three SOM economies are not far below those of the comparator tigers and, as shown below, can be traced to policy decisions that favour outward-oriented development. But progress has been slow in Algeria, Egypt, Jordan and Syria, countries that still depend extensively on oil, minerals and transfers for financing imports.

An especially dramatic example of the Dutch Disease at work is provided by the structure of the Palestinian economy in the early 1990s. Despite its very small economic size, the West Bank and Gaza (WBG) exported only 14 per cent of its output. These exports paid for only one-fifth of imports, with the remaining 80 per cent financed by wages earned in Israel. As a result, the WBG's productive resources at home were engaged mostly in non-traded sectors, with tradables accounting for only 8 per cent of output³. Nevertheless, wage rates were higher than those in neighbouring Jordan or Egypt. As the effects of Israeli border closures demonstrate, the shift to alternative foreign-exchange generating activities is difficult because the economy lacks a base for producing tradables. Such a base of know-how and physical infrastructure will almost certainly develop eventually given outward-oriented policies, but in the meantime the former wage levels cannot be sustained. To a greater or lesser extent, a similar challenge confronts most SOM countries that will now have to increase the share of non-oil exports in their foreign exchange earnings.

Mixed External Prospects

How will the region's foreign exchange revenues evolve in the future? A careful analysis of emerging trends suggests that the outlook is difficult not only for oil and mineral related exports and transfers, but also for non-oil/mineral exports (Riordan *et al.*, 1995). Some of the key concerns are:

- *modest growth in oil revenues.* Oil price forecasts suggest some long-term firming, but no dramatic gains in the revenues of oil exporters. SOM's oil revenues are projected to grow at around 2.5 per cent per annum, or much more slowly than GDP;

- *diminishing service and grant income.* Remittances from nationals employed abroad and grants and other official transfers are projected to grow slowly, if at all;
- *eroding preferences for exports.* The preferences enjoyed by SOM exports to Europe and other markets will be eroded by the eastward expansion of the European common market, by global liberalisation agreements under the Uruguay Round, and by new regional liberalisation initiatives elsewhere;
- *rising import prices.* Reductions in agricultural protection in Europe and the Far East could increase the prices of SOM's food imports, which account for as much as half of imports in some SOM countries. These price increases will be only partly offset by increased agricultural exports;
- *growing extra-regional competition.* SOM's proximity to major European markets becomes less of an advantage as communications and transport technologies improve. In this context, economies in the Far East and Eastern Europe have made major inroads into global markets and in establishing a physical and institutional environment conducive to global economic integration;
- *rapid population growth.* SOM's high population growth (2.2 per cent per year) poses a major employment problem and makes it difficult to achieve capital deepening that is needed to generate improvements in productivity.

Thus, SOM countries cannot depend on trends to further their globalisation efforts. Stronger international linkages will require new, domestic initiatives in policy reform and economic modernisation.

Responding to Adversity

Against this difficult background, several SOM countries are gradually adopting policies to shift responsibility to markets and to promote greater integration with the world economy. The first group of important recent reforms involved macroeconomic stabilisation. Egypt's macroeconomic reforms began in 1990 and had borne fruit by the mid-1990s; the economy is now growing at a 6 per cent rate, with the government budget deficit below 1.3 per cent of GDP. Stabilisation paved the way for rapid, technology led growth in Israel. Jordan's market-oriented reforms, begun in 1989, halved the country's debt/GDP ratio, increased exports, eliminated the budget deficit, and were paying off with solid growth. Morocco and Tunisia have undertaken both macroeconomic and structural reforms, and have achieved moderate, though rather volatile growth. The Lebanese economy is making rapid headway, fuelled by a major reconstruction effort, but the sustainability of these policies

is unclear. A broad-gauged recovery seems underway throughout the region, except for Algeria and Palestine, where non-economic factors have so far prevented recovery.

Reforms are gradually accelerating in the 1990s and shifting from macroeconomics to structural issues. In particular, there has been some encouraging progress in privatisation. In 1996, Egypt sold companies worth nearly \$1 billion; \$700 million in foreign investments were said to have flown into the Cairo stock exchange (MEED, 1997). Morocco, Israel and Tunisia also privatised companies, and Jordan and Lebanon also announced substantial future sales. These efforts are helping to deepen financial markets and often necessitate parallel reforms (e.g. foreign exchange convertibility) that generally improve the climate for international transactions.

Progress on the trade policy has been more limited. Morocco undertook the most dramatic changes starting in 1992 by replacing a range of imports with a short "negative list" system and by substantially cutting tariffs. Some gradual progress has been underway since the early 1990s. Egypt removed many quantitative restrictions on trade in the early 1990s, and in 1996 substantially reduced its highest duty rates, but, as a more detailed discussion below will indicate, except for Israel, tariffs in the region remain high relative to other, more dynamic developing economies.

III. COMPARATIVE STRUCTURE OF SOM TRADE

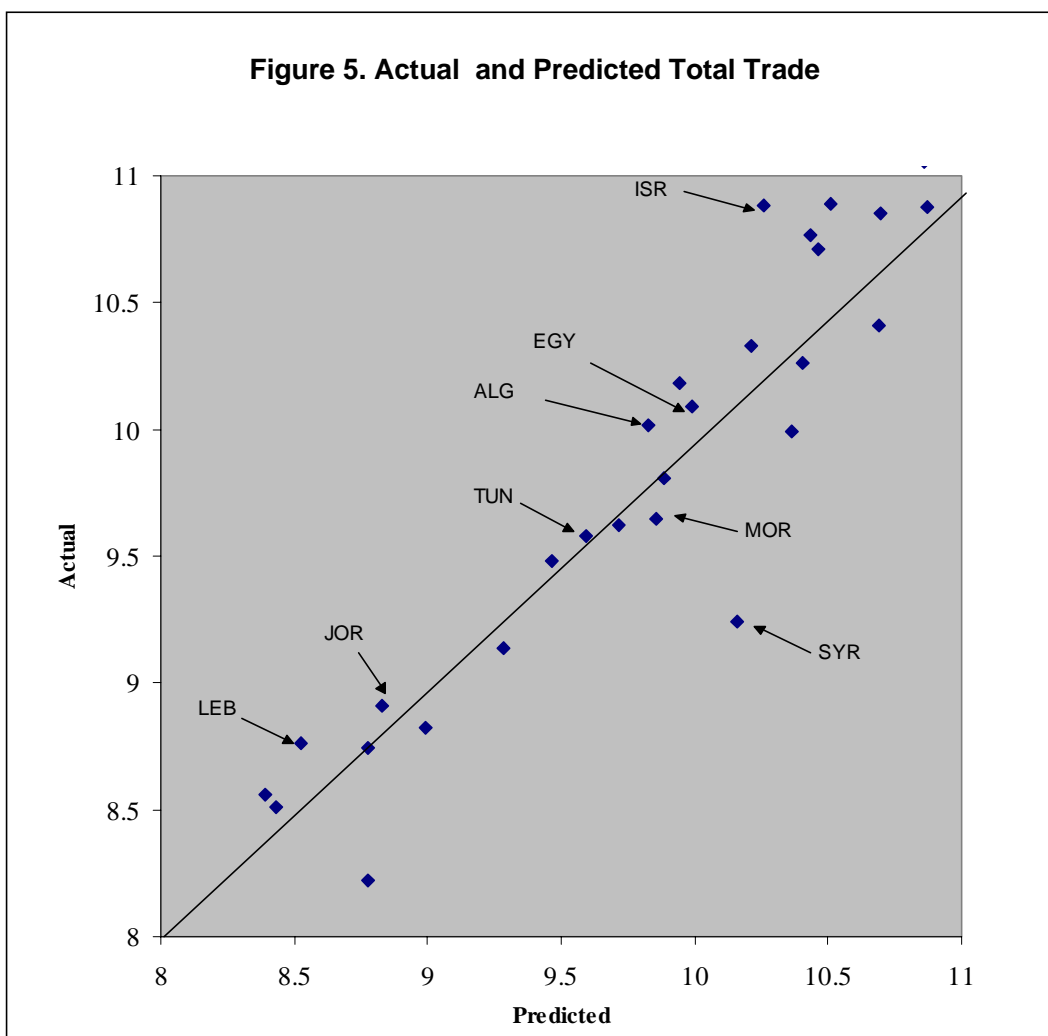
As previous studies have documented⁴, intrusive regulations and extensive state enterprise (nearly three times as high in the SOM economies as in the comparator countries) have adversely affected the structure and productivity in the Southern Mediterranean. Certainly, the region's trade relations were distorted in this context. But how? The effects could include too little trade overall, distortions in the structure of trade across trade partners, or distortions across economic sectors. These alternatives will be examined below using econometric models of international norms. A more precise topography of these distortions will help to understand shortfalls in the region's trading economy and to design appropriate policy responses.

Overall Trade: Mostly Normal

Are SOM economies sufficiently outward oriented, that is, exposed to international trade and competition overall? Government interventions are often biased against international linkages because they support domestic producers through barriers against foreign competitors, but this is not the only scenario of government intervention. Policies that discourage domestic and international transactions equally, or those that promote a domestic sector engaged in export, could lead to too much, instead of too little, international trade relative to domestic output. For example, a tax on traded and non-traded goods would tend to reduce overall output without changing the economy's sectoral mix or trade orientation. In the Southern Mediterranean, support to state enterprises that compete against private firms in domestic markets, as well as to those that produce for export, may have ultimately balanced high levels of protection against imports.

To examine the trade orientation of SOM economies, the region's trade was compared to international patterns using cross-section data on exports and imports in 1994 for 59 economies. The structural determinants of total trade (exports plus imports) were assumed to include: *i*) economic size, as measured by GDP; *ii*) population; *iii*) human capital, as measured as penetration of primary education, *iv*) resource endowment, as measured by the share of natural resources in exports, and *v*) macroeconomic stability, as measured by average inflation, political risk and indebtedness. Using an econometric model (reported in Appendix A), a normal trade level was then predicted for each economy given actual values for its export determinants. This presumes that each country is average in the determinants that are not explicitly modelled, including most importantly trade policies. Thus, the prediction indicates what trade would have been with policies that are no better or worse than in the average economy.

The results, presented in Figure 5, show that the SOM economies are relatively open with respect to total trade. The points in the Figure depict the relationship between actual and predicted trade in the full sample. The line in the Figure identifies the international norm, that is, a point on the line means that a country's trade is equal to the level predicted econometrically by taking into account the country's economic characteristics. The points of the SOM economies are specifically shown; these observations mostly lie above international norms. Only Syria and to a lesser extent Morocco lie below the line. The deviations from the line are largest for Jordan and Israel (in the positive direction) and for Syria (in the negative direction). Of course, the diagram does not indicate either the causes or the sustainability of the trade levels. In Lebanon's case, for example, the positive deviation in total trade is largely explained by imports, supported for now by substantial budget and current account deficits that are financing that country's ambitious reconstruction. Appendix A provides further information in this vein through separate scatter diagrams for exports and imports.



Note: Measured in natural logs.

Sources: World Bank (1997), Wei (1996) and author calculations.

Partner Composition: Too Little Intra-Regional Trade?

In light of the SOM region's tense political environment, many observers believe that intra-regional trade has been neglected at the expense of trade with more distant partners. Table 4 confirms that the bulk of the region's exports are destined for Europe (49 per cent), the United States (9 per cent), the Gulf countries (8 per cent) and the rest of the world (28 per cent). The share of intra-regional trade is only 5 per cent.

In this context, it is sometimes argued that substantial increases in regional trade could be generated by regional co-operative arrangements. In fact, more initiatives to increase intra-regional trade through regional trade agreements have been attempted in the Middle East than in any other region (Riordan *et al.*, 1995) and discussions were underway in 1997 for a Pan-Arab Free Trade Area.

The record of regional trade agreements is not encouraging. The internal trade of the Arab Common Market (established in 1964 by Iraq, Jordan, Syria, Yemen, Egypt and Libya) is 1.8 per cent and has shown little tendency to rise. The Arab Maghreb Union (established by Algeria, Libya, Morocco and Tunisia in 1989) has done better over time, but its internal trade share is still only 3.2 per cent (Riordan *et al.*, 1995). SOM's regional agreements are often very limited in scope, covering mostly agricultural goods and raw materials and imposing tough "rule of origin" requirements (Hoekman, 1995). But the disappointing outcomes cannot be entirely blamed on lack of co-operation. The region's economies are small by global standards, are specialised along similar industry lines, and are closely linked to the large, complementary economies of Europe. In this setting, there is little to gain, and perhaps much to lose, from extending preferences to neighbours at the expense of more efficient extra-regional partners.

Is the low rate of intra-regional trade due to failure of these arrangements, or more basic, economic determinants of trade? Trade intensity indexes, which control for the sizes of trading partners, offer a more meaningful picture. Suppose "A" is a country's share in a partner's trade, and "B" is the same country's share in world trade. The intensity index is then defined as the ratio A/B . An index value higher than one indicates a strong trading relationship, one in which a country gets a larger part of its partner's business than it gets of world trade. An index value less than one indicates a weak trading relationship, one in which the country fares less well in the partner's market than in world markets.

Table 4. Geographic Destination of Trade, 1994
(per cent of world exports)

Exporter	Importer													World	Subtotal SOM	World (\$ million)
	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Syria	Tunisia	C.I.S.	Gulf countries	European Union	USA	Rest of world			
Algeria	0.0	0.1	0.0	0.0	0.0	1.2	0.0	1.3	1.5	0.0	71.0	17.1	7.7	100.0	2.6	9 719
Egypt	1.1	0.0	3.3	0.8	0.6	0.2	1.0	0.4	2.8	4.8	59.0	10.5	15.4	100.0	7.5	5 655
Israel	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	4.4	0.0	30.0	31.0	34.5	100.0	0.1	17 212
Jordan	1.6	0.7	0.0	0.0	2.1	0.1	3.2	0.5	2.1	28.9	9.1	2.6	49.1	100.0	8.2	1 211
Lebanon	0.4	2.6	0.0	3.1	0.0	0.8	0.0	0.5	1.4	19.0	13.2	3.2	55.8	100.0	7.4	825
Morocco	2.0	0.1	0.0	0.1	0.1	0.0	0.1	0.8	1.0	1.1	73.9	3.5	17.2	100.0	3.1	5 992
Syria	0.8	0.5	0.0	2.1	0.0	0.5	0.0	0.7	0.3	5.9	57.5	2.2	29.4	100.0	4.6	3 329
Tunisia	2.9	0.3	0.0	0.3	0.1	0.6	0.3	0.0	0.7	0.6	79.4	1.2	13.3	100.0	4.7	4 729
AVERAGE	1.1	0.5	0.4	0.8	0.4	0.4	0.6	0.5	1.8	7.6	49.2	8.9	27.8	100.0	4.8	6 084.1
C.I.S.	0.2	0.8	0.3	0.2	0.1	0.3	0.2	0.2	21.0	0.2	65.8	7.5	3.3	100.0	2.3	132 903
Gulf countries	0.0	0.4	0.0	1.2	0.0	1.0	0.0	0.1	0.1	5.7	26.5	22.8	42.2	100.0	2.8	48 797
European Union	0.3	0.3	0.8	0.1	0.2	0.3	0.1	0.3	5.0	1.4	61.8	7.5	21.9	100.0	2.4	1 643 460
USA	0.3	0.6	0.9	0.1	0.1	0.1	0.0	0.1	1.7	1.9	24.2	0.0	70.2	100.0	2.1	502 579
Rest of world	0.1	0.2	0.4	0.1	0.1	0.1	0.2	0.0	0.2	0.8	22.5	31.4	43.9	100.0	1.1	1 707 150
World	0.2	0.3	0.6	0.1	0.1	0.2	0.1	0.2	3.0	1.2	40.3	16.9	36.7	100.0	1.9	4 083 561
Memo item: (\$ million)																
World as reported	9 599	9 587	23 779	3 382	5 541	7 194	5 467	6 485	59 084	35 865	1 589 389	689 030	-	2 444 402	42 910	
World, calculated	9 599	12 717	24 052	3 439	5 541	8 302	5 467	6 485	123 384	50 417	1 646 781	689 030	1 498 348	4 083 561	48 673	

Note: "World calculated" sets each bilateral trade flow's value equal to the higher of the values reported by the exporter and importer, respectively. ROW is calculated as the difference between "World reported" and the detail reported for the economies listed in the table.

Sources: Comtrade, UNCTAD database (1997) and World Bank (1997).

Table 5 presents intensity measures for individual SOM countries and various country groupings. It shows that SOM's intra-regional ties tend to be strong. For example, intensity measures are often in double digits, and always above two, for all combination of the Mashreq economies, Egypt, Jordan, Lebanon and Syria (Lebanon's trade with Syria is not measured, but is presumably relatively high). Intensity measures are typically in the 6-8 range for Maghreb economies, Algeria, Morocco and Tunisia, and there are also relatively high intensities across the Maghreb-Mashreq groupings. The principal exception to these high intra-regional trade patterns is trade with Israel, which is prohibited by several Arab economies. These index values are high relative to similar measures for East Asian economies (Petri, 1993).

Of course, the high intensity indexes observed in Table 5 could be due more to proximity rather than a propensity for regional economic contacts. Indeed, even with high index values it is theoretically possible for the region to have too little intra-regional trade relative to international norms. To evaluate this possibility, the region's bilateral trade patterns were compared to econometric predictions for regional trade based on the region's values for various economic determinants of trade. Such "gravity models" have been already applied in several studies of Middle East linkages⁵. In the present study, the econometric models of bilateral trade used the following explanatory variables: *i*) each partner's size, measured by GNP; *ii*) each partner's development level, measured by per capita GNP; *iii*) physical distance between the partners; and *iv*) special characteristics of the partners, such as a common border or a common language⁶. The approach is described in detail in Appendix B.

Once the models were estimated (results are reported in Appendix B), the actual intra-regional trade flows of the Southern Mediterranean were compared to the trade levels predicted by the model given the actual characteristics of the region's economies⁷. The results show that the trade flows linking Mashreq countries (Egypt, Jordan, Lebanon and Syria) are somewhat lower than predicted by the model, notwithstanding the high intensity index values calculated in Table 5. Trade between the Mashreq and Maghreb countries is somewhat higher than predicted econometrically. Since the prediction of bilateral trade flows is subject to relatively large errors, neither deviation is statistically distinguishable from zero. Only the trade linking the three Maghreb countries is substantially higher than predicted and is statistically significant. The gravity model benchmark suggests that the SOM's intra-regional trade is about "right" among the Mashreq economies, and is higher than expected among the Maghreb economies.

Table 5. Intensity Matrix for Middle East Trade, 1994

Exporter	Importer													
	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Syria	Tunisia	C.I.S.	Gulf countries	European Union	USA	Rest of world	Total Exports
Algeria	0.0	0.2	0.0	0.0	0.1	6.0	0.0	8.1	0.5	0.0	1.8	1.0	0.2	1.0
Egypt	4.7	0.0	5.6	9.0	4.6	1.1	7.6	2.8	0.9	3.9	1.5	0.6	0.4	1.0
Israel	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.7	1.8	0.9	1.0
Jordan	6.8	2.2	0.0	0.0	15.6	0.6	23.6	3.1	0.7	23.4	0.2	0.2	1.3	1.0
Lebanon	1.6	8.2	0.0	37.1	0.0	4.2	0.0	3.1	0.5	15.4	0.3	0.2	1.5	1.0
Morocco	8.6	0.2	0.0	1.0	0.5	0.0	1.0	4.9	0.3	0.9	1.8	0.2	0.5	1.0
Syria	3.5	1.6	0.0	24.6	0.0	2.6	0.0	4.6	0.1	4.8	1.4	0.1	0.8	1.0
Tunisia	12.5	1.1	0.0	3.8	1.0	3.0	2.5	0.0	0.2	0.5	2.0	0.1	0.4	1.0
C.I.S.	0.7	2.4	0.5	2.5	0.6	1.5	1.4	1.4	7.0	0.2	1.6	0.4	0.1	1.0
Gulf countries	0.1	1.4	0.0	13.7	0.2	4.9	0.2	0.5	0.0	4.6	0.7	1.4	1.1	1.0
European Union	1.5	1.1	1.3	0.9	1.2	1.5	0.9	1.8	1.6	1.1	1.5	0.4	0.6	1.0
USA	1.2	1.8	1.5	0.8	0.6	0.6	0.3	0.5	0.5	1.5	0.6	0.0	1.9	1.0
Rest of world	0.5	0.5	0.6	0.6	1.0	0.4	1.3	0.3	0.1	0.7	0.6	1.9	1.2	1.0
World	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Note: "World calculated" sets each bilateral trade flow's value equal to the higher of the values reported by the exporter and importer, respectively. ROW is calculated as the difference between "World reported" and the detail reported for the economies listed in the table.

Sources: Comtrade, UNCTAD database (1997) and World Bank (1997).

The trade biases of Israel and Palestine represent special cases which could not be evaluated in the foregoing econometric analysis⁸. Some results of several other studies that have specifically focused on the trade prospects of these economies are reported in Table 6. They generally find that Israel's present trade with Arab partners is low compared to what might be expected under normal economic circumstances, and that the PA trades much more intensively with Israel, and less intensively with Arab partners, than economic considerations would dictate⁹. Consequently, if present trading patterns were replaced by "normal" ones, Israel's trade with the West Bank and Gaza might be roughly halved, with much of this trade shifted to other Arab countries in the region. The absolute value of net trade increases under "normal" economic circumstances appears to be quite limited (Halevi, 1997). A recent article by Hirsch *et al.* (1997) argues, however, that such calculations may overlook a substantial range of new trade-creating possibilities.

Table 6. **Estimates of Actual Trade and Trade Potential Among Arab Countries, Israel and the West Bank and Gaza**
(\$ million)

TO:	Arab Countries		Israel		West Bank/Gaza	
FROM:						
Arab Countries			1991 WB	~ 0 661	1991 WB	10 ~ 128 313
Israel	1991 WB	~ 0 889			1991 WB ASW	961 444 ~ 659 101 ~ 455
West Bank/Gaza	1991 WB	38~43 151	1991 WB ASW	304 76 ~ 261 48 ~ 216		

Sources: Actual data from 1993 is from World Bank (1993). Estimates are calculated from: WB from World Bank (1993), Annex 3. ASW from Amon *et al.* (1996), Table 8.

In any case, there is little evidence of distortions of the SOM's trade patterns across different trade partners setting aside the special cases of Israel and Palestine. This not only explains why the current levels of intra-regional trade are small, but also suggests that the prospects for radically increasing intra-regional trade flows appear to be limited. The main opportunities for increasing trade therefore lie outside the region itself. This conclusion is not unique to the Southern Mediterranean; even in the successful context of the ASEAN Free Trade Area (AFTA), policy makers have carefully matched reductions in regional barriers with liberalization toward all trade partners. Focusing too much attention on regional integration initiatives may be also inappropriate in the SOM context. Regional integration is attractive from the viewpoint of attracting foreign investment (Petri, 1997) and presumably politics, but it should be considered only in the context of broader liberalisation.

Commodity Composition: The Quality Gap

While the level and partner composition of SOM trade appear to be “normal”, dynamic manufactured products appear to be under-represented in the region’s exports. As in the case of other trade measures, nominal comparisons with other countries are complicated by differences in economic structure. To isolate the effects of conventional determinants of export composition (including the economy’s overall level of development), the cross-section model previously applied to overall exports was re-estimated for major economic sectors. In each equation, a “country difference” variable was introduced for each SOM economy, alongside the structural determinants. This “dummy variable” essentially identifies the difference between the economy’s exports and the level predicted using international experience applied to the economy’s structural characteristics.

The results of this analysis are summarised in Table 7. Southern Mediterranean exports are under international norms in Food and Other Primary Products, except for Morocco. They mostly exceed norms in Fuel and Metals and Minerals. These results are consistent with the region’s resource endowments. The picture in manufacturing is mixed and more complex. Israel and Tunisia are above norms in all manufacturing sub-sectors. Morocco and Jordan show mixed patterns, while Algeria, Egypt and Syria are under norms in all or most of manufacturing. These results do not offer a causal explanation, but they confirm that the region’s economies, with few and limited exceptions, are over-represented in primary materials, and under-represented in manufacturing relative to economies with similar economic characteristics, including especially level of development.

These compositional patterns are confirmed by a closer look at the region’s “revealed comparative advantage”. RCA indexes essentially compare the region’s share in the world market of a particular commodity with to its share of world exports in general. An index greater than one indicates a relatively high share (strong competitive position) in a particular product, while an index value below one indicates a relatively weak competitive position. Table 8 shows the ten commodities with the highest RCA indexes for each of the six SOM economies for which data were available.

Primary products dominate the lists of products with high RCA values. Algeria’s list, for example, is dominated by only three energy-related commodities, the only commodities with RCA indexes of greater than one. Several other economies in the region also have high RCAs for petroleum and petroleum-derived chemicals, including fertiliser. Phosphate mining and its downstream chemical production activities are also important in Jordan, Tunisia and Morocco. Vegetables, fruit, fish, oil and other agricultural products appear relatively frequently on the list.

Table 7. Regression Models of Sectoral Trade, 1994

	Food	Fuel	Metals & minerals	Other primary	Machinery	Textiles	Other Manufacturing
Constant	-4.21 **	-4.11 *	-7.32 **	-2.16	-12.46 **	2.23	-2.30
GDP	0.33 *	-0.43 *	0.67 **	0.49 **	1.62 **	0.65 **	1.05 **
Population	-0.11	0.48 **	-0.28	-0.02	-0.46 **	0.36 **	-0.03 **
Primary enrolment to primary school age population ratio	0.03 *	0.01	-0.01	0.01	0.02	0.00	0.00
Consumer price index, average 1984-94	0.11	-0.22	0.18	-0.23	-0.32 *	-0.55 **	-0.35
Primary exports (sum of fuel and non-fuel primary exports)	0.65 **	1.59 **	0.83	0.25	0.18	-0.30	-0.06
Country Adjustors							
Algeria	-3.54 **	1.41	-2.12		-1.32		-2.02 **
Egypt	-0.73	1.72	0.95	-0.84	-1.56	-0.68	-0.64
Israel	-0.06	0.99	-0.05	0.17	1.47	0.59	1.00
Jordan			3.32 **	-2.24 *	-0.01	-1.86	0.37
Morocco	1.27	-0.30	1.76	-0.54	0.55	-0.29	-0.05
Syria	-1.21	2.35 *	-1.18	-0.27	-3.73 **	0.51	-1.96 **
Tunisia	-0.48	1.99	0.63	-2.09	0.99	0.83	0.85
Adjusted R2	0.66	0.66	0.58	0.55	0.81	0.62	0.80
Standard error of estimate	0.88	1.33	1.27	1.15	1.28	1.13	0.91

Note: Variables in logarithmic form except primary education.

* Significance at the 90 per cent level.

** Significance at the 95 per cent level.

Source: Author calculations.

Table 8. Revealed Comparative Advantage and Share of Total Exports, 1994

Algeria				Egypt				Israel			
SITC	Description	RCA	% of Exports	SITC	Description	RCA	% of Exports	SITC	Description	RCA	% of Exports
34	Gas, natural & manuf.	49.4	31.2	26	Textile fibres & waste	14.4	7.2	66	Non-metal mineral MFS	13.9	29.6
33	Petroleum & products	16.0	65.0	94	Zoo animals, pets	12.0	0.1	56	Fertilizers, manuf.	6.0	1.7
35	Electric current	5.8	0.9	33	Petroleum & products	9.3	38.0	29	Crude animal veg. Mat	3.5	1.4
27	Crude fertilizer	0.5	0.4	65	Textile yarn, fabrics, etc.	5.5	17.8	52	Inorganic chemicals	2.5	1.7
52	Inorganic chemicals	0.5	0.4	56	Fertilizers, manuf.	5.3	1.5	59	Chemical materials	2.5	2.9
51	Organic chemicals	0.2	0.2	68	Non-ferrous metals	2.8	4.8	72	Machines for special Inds	2.5	8.2
67	Iron & steel	0.2	0.6	05	Vegetables & fruits	2.3	3.5	05	Vegetables & fruits	2.0	3.1
53	Dyes, tanning, coloured prod.	0.2	0.1	32	Coal, coke & briquettes	2.2	1.0	09	Misc. edible products	1.8	0.7
05	Vegetables & fruits	0.2	0.3	04	Cereals & preparations	2.0	2.5	76	Telecom, sound equipment	1.8	7.1
55	Perfume, cleaning prdts.	0.1	0.1	84	Clothing & accessories	2.0	6.6	27	Crude fertilizer	1.7	0.6
Jordan				Morocco				Tunisia			
SITC	Description	RCA	% of Exports	SITC	Description	RCA	% of Exports	SITC	Description	RCA	% of Exports
43	Processed animal veg oil	93.7	7.8	56	Fertilizers, manuf.	23.7	6.7	56	Fertilizers, manuf.	17.6	5.0
27	Crude fertilizer	68.2	24.4	27	Crude fertilizer	22.3	8.0	42	Fixed vegetable oil	17.1	6.6
56	Fertilizers, manuf.	39.5	11.2	52	Inorganic chemicals	17.8	11.7	84	Clothing & Accessories	12.0	40.1
54	Medicinal, pharm prod.	7.6	11.5	03	Fish & preparations	15.3	15.4	52	Inorganic chemicals	7.4	4.9
00	Live animals	6.9	1.6	05	Vegetables & fruits	7.5	11.2	61	Leather & dressed fur	4.5	2.1
05	Vegetables & fruits	5.5	8.2	84	Clothing & accessories	5.5	18.3	57	Explosives, pyrotech prod.	4.3	0.1
55	Perfume, cleaning products	4.8	3.7	29	Crude animal veg. Mat	4.4	1.7	27	Crude fertilizer	2.5	0.9
21	Hides, skins, furs, undressed	3.4	0.5	28	Metalliferous ores	3.9	3.1	33	Petroleum & products	2.3	9.5
59	Chemical materials	2.9	3.3	57	Explosives, pyrotech products	3.6	0.1	85	Footwear	2.0	1.6
52	Inorganic chemicals	2.8	1.9	25	Pulp & waste paper	3.2	1.4	03	Fish & preparations	1.7	1.7

Sources: COMTRADE, UN (1997).

The RCA lists are short on manufactured products which are not closely tied to primary material processing. Algeria and Jordan have an emerging chemicals manufacturing complex, while Egypt, Morocco and Tunisia have relatively strong leather, textiles, clothing and footwear sectors. Only Israel's list includes more advanced products, such as special industry machinery and telecommunications equipment. Aside from these technology-intensive exports, the region's non-primary manufactures are relatively narrow, focused on down-stream processing of primary materials, on one hand, and some traditionally labour intensive products on the other.

This general picture is also confirmed in certain average characteristics of the region's export bundle. Various measures can be derived to test to what extent a particular export bundle consists of dynamic exports, and of exports which usually reflect more intensive collaborations between producers in a developing economy and partners in more advanced economies. Evidence based on these measures suggests that the SOM's trading capabilities are weak in those sectors that are most often associated with rapid progress in developing countries. Some of the measures include:

- DYNAMISM. An index of the dynamism of the export bundle can be constructed by calculating the weighted average market growth rate of the products exported by an economy. As reported in Table 9 Israel and Jordan had export bundles that consisted of commodities that grew faster than world trade in general. Egypt and Algeria, with heavy commitments to energy, had export bundles that were especially strongly concentrated in slow-growing (and even declining) export commodities;
- SOPHISTICATION. An index of export sophistication can be constructed to measure the similarity of an economy's exports to those of advanced countries. The sophistication level of each product was assumed to be given by the OECD's share in world exports of the product. An index was then calculated by averaging these shares, weighted by the export basket of a given economy (Table 9). For example, Israel's index is about equal to the world export basket's index, which is of course dominated by developed countries. Jordan's exports have an index value nearly as high, reflecting the country's strong chemicals sector. Algeria, Egypt, Morocco and Tunisia have low index values; in the export markets in which they compete, advanced economies have low shares;
- COMPOSITIONAL CHANGE. Hoekman (1995) calculates an index of how rapidly the commodity composition of exports is changing over time. He finds this index to be much lower for SOM than for other developing regions;

Table 9. **Indexes of Trade Quality, 1994**

	Export Dynamism index	Level of sophistication
Algeria	-6.4	55.5
Egypt	-1.9	60.9
Israel	5.7	76.2
Jordan	5.2	71.9
Morocco	4.0	62.4
Tunisia	4.6	56.7
World Average	5.3	76.6

Source: COMTRADE, UN (1997).

- INTRA-INDUSTRY TRADE. IIT indexes measure the extent to which an economy's exports and imports fall in the same sectoral categories¹⁰. The IIT index is generally related to the sophistication of an economy; in a country cross-section context it tends to increase with level of income, and in a time-series context it tends to grow in countries which successfully expand their market shares. Although there are examples of some successful trading economies with low IIT values, such as Australia and Japan, the index has been variously interpreted as an indicator of an economy's flexibility in choosing products that fit its comparative advantage, of the range of its technical capabilities, and even of its preparedness to undertake market-opening reforms (Grubel and Lloyd, 1975 and Havrylyshyn and Civan, 1985). Havrylyshyn and Kunzel (1996) show that the IIT indexes of SOM economies are low, in the range of 5 to 30 per cent, except for Israel, which has an IIT index of 58 per cent. The average for all Arab economies is 25 per cent. By comparison, the economies of the Andean Pact, APEC and Mercosur have average IITs of 29, 90 and 52 per cent, respectively, while industrial countries have an average IIT index of 88 per cent. Regression predictions of the level of IIT, derived using a modelling strategy that is similar to that used for various other variables analysed in this study, show that all but two of the SOM economies are below the IIT norms predicted by the regressions; the exceptions are Israel, a half standard deviation above the norm, and Tunisia, on the norm.

Except for Israel and to a lesser extent Jordan, the SOM region has limited export capabilities outside primary down-stream sectors and light, labour-intensive products.

In sum, SOM economies do not seem to lag other developing economies in overall exports, perhaps because parallel distortions affect domestic and foreign sales. Nor does the pattern of SOM trade appear to be significantly distorted for or against any particular group of partners, except for the special cases of Israeli and Palestinian trade. The main deviations from international norms occur in the sectoral composition of trade. It appears that the region is relatively weak in the more sophisticated manufacturing sectors that feature prominently in the exports of more dynamic competitors.

IV. A MENU OF STRATEGIC OPTIONS

The challenge facing the Southern Mediterranean is not simply to increase trade, but to upgrade trading capabilities through more intensive integration with partners abroad. This will require not merely liberalisation of imports, but also a range of complementary strategies. The menu of policy options has expanded in recent years with novel forms of trading arrangements at national, sub-regional, regional and global levels. The key is to design a coherent strategy of initiatives across these areas.

An effective strategy will require, first, a range of domestic policies that help to make the economy attractive to both foreign and domestic private investment. Such investment, especially from foreign partners with complementary technical and marketing experience, will be important for improving the “quality” of trade, that is, for intensifying the region’s role in international production systems. The characteristics of an investment-friendly environment have been widely studied in the context of the East Asian economic miracle (World Bank, 1993). They include: macroeconomic stability; low barriers to international trade; adequate physical infrastructure and human capital; and a trade policy that balances incentives for domestic and export sales. Specific dimensions of this policy regime of particular interest to foreign investors, such as exchange rate convertibility, rights of repatriation of capital and income, and rights of establishment and national treatment, are discussed in Petri (1997).

Second, the strategy will require international agreements and initiatives that help to create a favourable international context for trade growth. One objective for such agreements is to gain (or preserve) as much market access as possible in major markets such as Europe and the United States. A second objective is to enhance the credibility of domestic reform. This “lock in” effect has been highly valued by some experts (Hoekman, 1995), but is difficult to measure. It may be of special importance in the region, given the SOM’s political tensions and limited experience with market-oriented reform. A third objective is to offset the small scale of SOM economies by creating linkages across the region’s markets and production systems. This will include regional liberalisation as well as regional collaboration on transport and other infrastructure projects.

Third, the strategy will need to provide incentives for an efficient structure of trade relationships; in other words, it will need to avoid distortions associated with trade preferences for inefficient partners. A combination of international liberalisation initiatives will be needed to achieve this goal. In the contemporary global context, trade initiatives are not mutually exclusive, and networks of agreements can be more beneficial than single, narrow agreements. Israel's bilateral FTAs with both the United States and the EU are an example. More limited regional trading arrangements can help to expand regional markets, but they would risk serious trade diversion losses if they are not co-ordinated with parallel, multilateral liberalisation. The region's trade policy will have to move on many tracks, from the global WTO track down to regional and sub-regional opportunities.

In the East Asian experience, once trade reforms take hold and generate visible results, the reform process itself tends to accelerate. The Southern Mediterranean's economic recovery, its growing interest in market-oriented policies, and the positive results of ongoing reforms offer an unusual opportunity for accelerating the reform process. The Europe-Mediterranean agreements, by putting European clout behind reform, could play a catalytic role in this context. As argued below, the Europe-Mediterranean agreements are not likely to include all necessary measures, but they can create incentives for wider packages of reforms. Hopefully, the agreements will be designed to be sufficiently attractive to the signatory countries to be taken seriously on all sides.

Current Trade Barriers

While several of the region's economies have taken steps to liberalise trade, trade barriers are still high. As Table 10 shows, the tariff rates of SOM countries are relative high and variable. The maximum tariff rates in most sectors were 40 per cent in Morocco, 43 per cent for Tunisia, 60 per cent for Algeria, and 70 per cent for Egypt. Although Jordanian tariff rates are not reported in the usual UN databases, they are also relatively high and imports are sometimes also subject to import restrictions (Halevi, 1997). Perversely, the SOM's tariff rates are especially high on products in which the region may have comparative advantage — such as food products, basic industries and miscellaneous manufactures — thus discouraging the development of regional specialisation.

Table 10. Tariff Rates in the Middle East

	Food & live animals	Beverage & tobacco	Crude material excl. fuel	Mineral fuels	Animal, veg.oil, etc.	Chemicals	Basic manufactures	Machines & transport equipt	Misc. manufactured goods	Others
	SITC 0	SITC 1	SITC 2	SITC 3	SITC 4	SITC 5	SITC 6	SITC 7	SITC 8	SITC 9
Algeria (1993)										
Range	0 - 60	15 - 60	0 - 60	0 - 7	3 - 60	3 - 60	0 - 60	0 - 60	0 - 60	0 - 40
Average	32.6	54.3	10	3.3	17.7	13.5	28.8	16.7	38.1	13.9
Total charges	34.1	81.9	12.2	4.1	18.7	15.2	30.8	19.2	40	14.7
Egypt *										
Range	1 - 70	20 - 600	1 - 70	5 - 30	1 - 70	1 - 70	0 - 70	0 - 160	0 - 80	0 - 70
Average	33.8	45.4	12	11.9	15.2	14.4	34.9	18.7	43.7	21
Total charges	35.8	46.1	14	13.9	17.2	16.4	36.9	20.7	45.7	23
Morocco (1993)										
Range	0 - 45	3 - 45	0 - 40	3 - 40	3 - 40	0 - 40	0 - 40	0 - 40	0 - 105	3 - 40
Average	34.3	28.6	10.5	10.6	17.9	18.6	25.5	20.4	14.4	22.0
Total charges	34.3	28.6	10.5	10.6	17.9	18.6	25.5	20.4	22.2	22.0
Tunisia (1992)										
Range	15 - 43	17 - 43	0 - 43	0 - 36	15 - 43	15 - 43	10 - 43	0 - 43	0 - 43	15 - 43
Average	36.6	40.3	20.4	13.3	29.9	23.6	30.8	25.2	34.6	25.9
Total charges	40.2	47.3	23.0	15.2	32.8	26.3	34.0	28.0	38.4	29.1
Chile (1994)										
Range	11 - 11	11 - 11	11 - 11	11 - 11	11 - 11	11 - 11	11 - 11	0 - 11	0 - 11	0 - 11
Average	11.0	11.0	11.0	11.0	11.0	11.0	11.0	10.9	11.0	10.4
Total charges	11.0	11.0	11.0	11.0	11.0	11.0	11.0	10.9	11.0	10.4
Indonesia (1993)										
Range	0 - 40	0 - 40	0 - 40	0 - 10	5 - 30	0 - 40	0 - 40	0 - 60	0 - 60	0 - 50
Average	23.2	32.1	7.3	4.8	15.3	9.3	19.6	9.2	27.8	12.6
Total charges	25.8	35.7	9.8	7.3	17.8	12.2	22.4	15.2	30.3	15.1
Malaysia (1993)										
Range	0 - 55	5 - 40	0 - 35	0 - 30	0 - 30	0 - 55	0 - 60	0 - 60	0 - 105	2 - 55
Average	9.1	4.3	5.1	4.5	4.3	6.2	15.5	9.2	14.4	8.3
Total charges	10.7	5.7	5.8	4.5	6.0	7.9	22.0	15.2	22.2	16.1
Thailand (1993)										
Range	0 - 65	0 - 60	0 - 60	0 - 40	30 - 60	0 - 100	0 - 100	5 - 200	0 - 100	0 - 40
Average	49.7	55.6	24.5	19.6	21.8	33.8	43.3	36.1	63.7	32.7
Total charges	49.7	55.6	24.5	19.6	21.8	33.8	43.3	36.1	63.7	32.7
Average Total Charges:										
Southern Mediterranean	36.1	51.0	14.9	11.0	21.7	19.1	31.8	22.1	36.6	22.2
Four Comparator Countries	24.3	27.0	12.8	10.6	14.2	16.2	24.7	19.4	31.8	18.6

* Database does not indicate the year.

Source: TRAINS, UN database 1996.

Table 11 offers wider country coverage for a more limited set of tariff indicators. It shows that, on the whole, weighted average tariff rates in the SOM region are not dramatically higher than in other developing economies. This conclusion is not dramatically different from that which emerges from Table 10, which suggests that tariff rates are approximately one-third higher in the SOM countries for which detailed data are available than in the four tigers. But Table 11 also shows that much larger differences are observed for collected tariffs; by this measure the Southern Mediterranean's protection rates appear to be three times as high as those of the tigers. This difference is also confirmed by the importance of tariffs as a source of government revenue, as reported in the third column of Table 11. One possible explanation for these differences is that the tigers' extensive export- and producer-oriented incentive systems exempt a substantial part of imports from tariffs, making collected tariffs much lower than average published tariffs.

Table 11. **Average Tariff Rates**

	Weighted average tariff (1996)	Collected tariff (revenue/imports) (1993)	Share of duties in government revenue (1993)
Algeria	21.6	-	-
Egypt	28.0	14.9	10.0
Israel	7.2	1.2	1.0
Jordan	19.8	17.8	35.9
Lebanon	24.2	-	-
Morocco	20.3	17.5	17.7
Syria	17.2	16.4	10.0
Tunisia	31.7	18.7	28.3
AVERAGE	21.3	14.4	17.2
Chile	-	9.7	9.9
Indonesia	-	4.9	5.2
Malaysia	-	4.9	13.6
Thailand	-	-	-
AVERAGE	-	6.5	9.6
East Asia & Pacific	21.3	-	-
Latin America & Caribbean	14.1	-	-
Developing countries	21.4	-	-

Sources: Hoekman (1994) and Havrylshyn (1996).

Participation in the World Trade Organisation

Four SOM economies, Egypt, Israel, Morocco and Tunisia, are signatories of GATT, and Algeria and Jordan are in midst of accession discussions to the WTO. Membership in the WTO offers opportunities to adopt better trade policies, to enhance the credibility of reforms by committing to adhere to WTO standards, to subject the national policy regime to oversight

through the Trade Policy Review Mechanism, and to participate in the shaping of the world trading system. Membership in the WTO is sought by nearly all important trading nations, and should be an important objective for each SOM economy.

Accession to the WTO involves both requirements and options for deeper commitments. The required commitments include non-discrimination, no quantitative restrictions, export subsidies or trade-related investment measures, adherence to certain protocols governing customs valuation and standards, and rules governing the imposition of “contingent” protection measures such as safeguards and antidumping. The optional commitments include mainly commitments for market access and national treatment in specific service sectors. Hoekman (1995) shows that Middle Eastern countries have made approximately average commitments in the GATS sectoral categories, but that these commitments are very modest compared to the range of possible sectoral coverage. Since the WTO requirements are flexible, accession itself does not necessarily represent a major shift toward open economic policies. Additional incentives will be needed — from internal political processes that favour reform or from ambitious external agreements — to drive policy changes toward greater openness.

The Europe-Mediterranean Initiative

The Southern Mediterranean’s most important trade and investment partner is Europe. How could the region take better advantage of this important partnership? In one sense, the possibilities are limited, since Europe has treated much of the region’s exports preferentially since the 1960s, and the eastward extension of the Common Market and the liberalisation of European trade are likely, if anything, to erode this favourable position. But in another, more dynamic sense, the potential benefits are far from being exploited. Europe is a huge economy, and has the markets, technology and capital that could dramatically energise the economies of the SOM region. The challenge facing the Southern Mediterranean is to use collaboration with Europe as a tool for reorganising its economic strategy.

In the early 1990s, in the shadow of the Eastern European transition, the EC began to draft a new Mediterranean policy designed to support regional development through “decentralised co-operation”. The European Council continued to refine this policy over the next three years, eventually leading to the declaration of a “Partnership for Action” at the Barcelona Europe-Mediterranean Conference of 1995. The policy addressed three broad areas: political and security co-operation, economic co-operation, including trade and financial support, and social and cultural co-operation. In addition to the Southern Mediterranean countries of this study, the partners included three “Northern Mediterranean” countries: Cyprus, Malta and Turkey.

The Europe-Mediterranean Initiative has been widely welcomed as a mechanism for speeding the integration of the region into the international economy. In fact, it represents a complicated process with potential risks as well as benefits. Its centrepiece is a system of free trade areas to be created by 2010, consisting of free trade agreements (FTAs) between the EU and the 12 Mediterranean economies, along with similar FTAs among the Mediterranean partners themselves. A fund of ECU 4.7 billion, matched by loans from the European Investment Bank, has been established to facilitate the transitions required in the partner economies. Three Europe-Mediterranean Agreements (EMAs) have been signed (Tunisia in 1995, Israel in 1995 and Morocco in 1996) and in 1997 discussions were underway with Egypt, Jordan and Lebanon.

The principal elements of the EMAs are:

- progressive elimination of tariffs on industrial goods over 12 years. Since the EU already grants tariff-free access to SOM exports under GSP and other bilateral treaties, this provision mainly affects SOM barriers against EU products;
- gradual and limited liberalisation of agricultural products. Little new immediate access is provided by the agreements signed so far, and substantive discussions on agricultural liberalisation will not begin until 2000; and
- harmonisation of rules and regulations to facilitate trade. The partners would gradually adopt EU rules on competition policy and intellectual property rights.

The agreements so far have not included significant provisions for liberalising service trade or the foreign investment environment, but some provisions are currently under discussion with Lebanon (Alonso-Gamo *et al.*, 1997).

The first risk evident in the EMAs signed so far is that of short term losses — the adjustments required in the SOM economies (as they open markets to European products) will not be offset by improved access to European markets. Most SOM exports to Europe are already tariff-free, and since the agreements propose very limited adjustments in markets with quantitative restrictions, such as textiles and agricultural products (Hoekman and Djankov, 1996; Fontagné and Périody, 1996). Further agricultural liberalisation is intended to be included in the negotiations, but discussions are not scheduled to start until the year 2000. In the meantime, the agreements provide limited, narrow benefits in the agriculture sector.

A second risk is that the agreements will create a “hub-and-spoke” system of relationships with Europe. This will happen if the bilateral agreements with the EU are not accompanied by general liberalisation, or at least FTAs among the SOM economies themselves. If such broader steps are not taken, the

hub-and-spoke system would encourage companies serving several regional markets to locate in Europe instead of in the region itself, in order to take advantage of the bilateral EMAs.

The third risk is trade diversion. The problem is least serious for the Maghreb, which conducts 70 per cent of its trade with Europe; in this case the opportunities for creating more trade with Europe dominate those for diverting third countries' trade to Europe. Nor is diversion a major problem for Israel, which has signed a parallel FTA with its other major trade partner, the United States. But Egypt, Jordan and Lebanon have more diversified trade patterns and could be harmed by a diversion of trade from non-European partners toward Europe.

Against these risks, the EMAs offers substantial benefits. The most obvious is the nearly ECU 10 billion adjustment assistance offered by the EU. More important, however, is that the agreements can lend credibility to market-oriented reforms in the SOM economies. The benefits of "locking in" reforms through FTAs with Europe could include increased investment by both domestic and foreign firms, and more rapid adjustment to the comparative advantages of the SOM economies. Participation in the WTO offers similar, but more limited benefits; the WTO covers a more limited range of policies and, in the case of tariffs, requires only bindings which are often set at relatively high values.

But the most important potential benefit is that the agreements could catalyse broader market-oriented reforms, in both domestic and international transactions. Because of Europe's economic clout, the EMAs could tilt the political-economic balance towards reforms that most Southern Mediterranean countries have been unable to achieve by themselves. Once such a reform process begins to take hold, and assuming that the expected benefits obtain, the transformation of the SOM economies is likely to accelerate. The new status quo produced by the EMAs may make it easier and more desirable (both economically and politically) to extend reforms to additional partners and sectors.

As the ranks of competitive enterprises expand, the political economies of the region will shift toward a more outward-looking configuration. This will reinforce the success of outward looking policies and will strengthen the hands of reformers, as it has already in countries like Egypt. Efforts to manage the risks of the narrow FTAs are also likely to lead to general reductions in barriers and to greater efforts to introduce greater integration among the region's economies. If all goes well, these dynamic policy effects may prove to be the most lasting legacies of the Europe-Mediterranean Initiative.

The relative sizes of these risks and benefits can be roughly estimated using general equilibrium models of the FTAs concluded so far. Although only a limited number of such studies are available at this time, they suggest that the net impact of the FTAs is general positive, especially after the required

adjustments are completed. The benefit/cost ratios vary, however, across SOM economies; they are most favourable for the North African economies which already have very close relations with Europe. The benefits and risks balance more closely for the Middle Eastern economies, and the negotiations may be forced, in the end, to dilute the agreements, or to add “carrots” for Middle Eastern collaboration. The following points stand out:

- *EMAs generate significant benefits, although their value varies across economies.* The benefits range up to an approximately 5 per cent sustained increase in GDP, and are greatest for economies that depend most closely on Europe. The benefits for Morocco are around 2 per cent, and for Tunisia over 4 per cent (Winters, 1996). Egypt’s trade is more diversified, and its benefits therefore are only 0.25 per cent (assuming revenues lost from tariffs are shifted to existing tax systems). Egypt’s benefits can be increased substantially through tax reform and/or broader liberalisation;
- *the benefits of EMAs derive chiefly from liberalisation within the SOM countries.* The EMAs include the elimination of barriers facing European products in SOM and some improved access for SOM products in Europe. In the Moroccan case, these measures together yield a 1.52 per cent increase in real income, of which a 1.29 per cent increase (85 per cent of the total) is due to Moroccan liberalisation — lifting restrictions on imports from Europe. European liberalisation offers a gain of only 0.27 per cent of GDP for Morocco, or 18 per cent of the benefits of the full agreement;
- *benefits can be increased substantially by liberalising all (not just European) trade.* Removing barriers on imports from all partners and not just on those from Europe substantially increase the benefits derived from the EMAs. For Egypt, the benefits would grow from near zero to 3 per cent of GDP. For Morocco, they would grow from 1.52 per cent to 2.60 per cent of GDP, or by 71 per cent;
- *the cost of extending liberalisation beyond Europe is modest.* Morocco’s EMA, for example, requires 2.5 per cent of labour and 3.3 per cent of capital to move from one sector to another. While extending liberalisation globally substantially increases benefits by 71 per cent, it increases factor displacement to 3.0 and 3.9 per cent, respectively, or only by 20 per cent. Thus, the incremental benefit/cost ratio of extending liberalisation globally is three times as large as the benefit/cost ratio of the EMA itself.

These findings support the conclusion that EMAs can help to make the policy breakthroughs that SOM countries need to integrate more successfully in the global economy, but they also show that the benefits of this path can be substantially amplified if the SOM countries move beyond the EMAs towards broader international liberalisation. Indeed, the EMAs may help to pave the way for these changes by forcing the large, initial adjustments

required by external competition. Direct competition with firms from advanced economies will trigger adjustments in the SOM countries. Subsequent liberalisation may then mean primarily greater competition among foreign sources for imports, rather than additional large domestic adjustments. In other words, smaller, incremental adjustments that may be then sufficient to generalise the benefits. Broader liberalisations will become more acceptable.

Other Regional Partnerships

The Europe-Mediterranean Initiative is the largest and perhaps most prominent regional policy initiative underway in the SOM region, but some SOM economies are also discussing smaller, parallel regional integration efforts. A partial list of the regional integration initiatives is presented in Table 12. Several of the early initiatives, including the Arab Common Market are dormant at this time.

The *Arab Maghreb Union*, launched in 1989, aims in theory for an economic union among North African economies. Although some 30 agreements ranging from economic to social co-operation have been concluded, the AMU has not achieved a significant reduction in trade barriers within the region. While external barriers remain relatively high, it is not in the interest of AMU economies to lower intra-AMU barriers, since this could induce costly diversion of exports to regional partners. While the AMU would be an essential and valuable component of a broader liberalisation programme, it is far too small economically to become an FTA or common market.

An initiative to develop an *Pan-Arab Common Market* has received renewed attention in a recent meeting of the Arab League, primarily as a result of the collapse of the peace process. Since the initiative would cover a large number of countries with diverse interests, it would have to overcome barriers to economic co-operation that have not been solved in the past. In principle, the integration of the economies of Arab countries could go a long way toward creating incentives for efficient production and investment within the region, provided that external barriers were reduced rapidly enough to avoid trade diversion. In practice, it is not likely that the idea will progress much further than it has in the past.

In the period following the Oslo accords, many economic initiatives were proposed, including a *Free Trade Area* to connect the relatively small economies of Israel, Jordan and Palestine (Lawrence, 1995). This plan would create something close to, but larger than, a "sub-regional economic zone" (discussed below). The concept would have to overcome, aside from the obvious political problems, difficult practical challenges. Since Jordan maintains relatively high tariffs, it would have to avoid somehow that diversion of imports to less efficient regional partners. Each of the three economies

would be reluctant to liberalise some areas of economic activity such as agriculture, and some internal borders within the zone would have to be erected to prevent transshipment of imports due to differences in external tariffs.

Table 12. Regional Co-operation Agreements

Year	Name	Countries	Type
1963	African Common Market	Algeria, United Arab Republic, Ghana, Guinea, Mali, Morocco	Customs union
1965	Arab Common Market	Egypt, Iraq, Jordan, Syria	Interim agreement leading to FTA and customs union
1981	Agreement for facilitation and Promotion of Intra-Arab Trade	Arab League	Eventual elimination of tariffs and other barriers on trade in manufactured goods
1975-77	EC Co-operation Agreements	EC9 bilaterally with: Israel, Tunisia, Algeria, Morocco, Jordan, Syria, Egypt, Lebanon	FTA with Israel, preferential access to EEC market with others
1965	Arab Co-operation Council	Egypt, Iraq, Jordan, Yemen	Economic co-operation
1985	US-Israel FTA	US, Israel	Interim agreement leading to FTA
1989	Arab Maghreb Union	Algeria, Libya, Morocco, Tunisia, Mauritania	Preliminary agreement leading to FTA
1993	EFTA-Israel FTA	EFTA7, Israel	Interim agreement leading to FTA
1993-95	Triangle Economic Protocols	Bilateral agreements among Israel, Jordan, Palestine	Initial framework for economic co-operation
1995	Europe-Mediterranean Initiative Agreements	EU15 bilateral with: Tunisia, Morocco	FTA
1997	US-Jordan Agreement	US, Jordan	Economic co-operation

Source: WTO (1995) and news reports, Alonso- Gamo 1997.

Regional groupings offer limited prospects for resolving the challenges that the SOM region faces in integrating with the world economy. The region's economies (Israel aside) have similar comparative advantages and their scale is limited. Their current trade, although small, is already about as large as might be expected on the basis of economic considerations alone. While such groupings may help to provide regional political support for policy

measures in individual countries, they do not offer an alternative to more broadly based liberalisation with economies that have different sources of comparative advantage.

Sub-regional Economic Zones

Among the most innovative features of the recent international policy landscape have been “growth triangles” that facilitate sub-regional economic co-operation. These typically involve collaboration among complementary factors located close to each other, but in different countries. The role of policy is to exempt such collaborations from charges and restrictions that usually apply to border transactions. Prominent examples include the Hong Kong-Shenzen economic zone, the Chinese Taipei-Fujian axis, the Singapore-Batam-Riau growth triangle, the “maquilladora” industries on the U.S.-Mexican border, and activities along the borders separating Germany and Austria, on one hand, from Poland, the Czech Republic and Hungary on the other. The Tumen River delta, cutting across China, Russia and Korea represents a newly emerging zone with great promise.

At the core of successful growth triangles are relatively large disparities in factor endowments and patterns of comparative advantage (that is, in relative endowments of know-how, labour, land and energy) *within* small geographical areas. An opportunity for such collaboration in the Southern Mediterranean is provided by endowment differences between Israel (a relatively high technology, capital-rich economy) and its regional partners (which have relatively plentiful labour, energy, land and other resources). The income differential between Israel and its Arab neighbours is intermediate between the East Asian and Central European cases.

The concept of growth triangles in the Middle East faces, of course, severe political difficulties. The divisions appear to be very deep in the Middle East today, but the fact is that successful growth triangles have spanned countries with strongly conflicting political positions (China and Chinese Taipei) and peoples with diverse cultural backgrounds (e.g. Singaporean Chinese and native Malaysians and Indonesians). There are many examples of political conflicts that prevent commercial relations for long periods of time, but there are also examples of rapid increases in economic co-operation once critical political conflicts are addressed. The best that economic analysis can offer at this stage is to confirm that the economics of growth triangles is favourable in the Southern Mediterranean, provided that smooth co-operative relationships among participating governments and peoples can be achieved.

A step below “growth triangles” are free trade zones within countries that offer good communications with nearby foreign partners. Investors establishing facilities in such special commercial and industrial areas received various tax and production-related incentives, including for example the ability to import duty-free intermediate materials. If the material is incorporated into an exported product, its duty is usually completely waived.

Numerous free trade zones are currently under planning throughout the Southern Mediterranean region (see Petri, 1997, for details). Of great value would be several planned zones that would help to establish employment opportunities for Palestinian workers in Gaza and the West Bank as alternatives to commuting to Israel. Jordan’s proposed free trade zone in Aqaba is also very close to complementary economic activities in Israel, and will have a deep water harbour and an airport to facilitate international trade and communication. As is typical of many special zones, in addition to procedures that facilitate the movement of goods in and out of the zone, the government is planning to offer an exemption from taxes on investment in the zone (Elguindo, 1997). Keen region-wide interest in special economic zones presents good opportunities for collaboration through policies that streamline and co-ordinate the policy regimes offered by zones and help to establish transport and communication links among them and with world markets.

Parallel Progress

The alternatives examined so far are not mutually exclusive. Indeed, parallel progress on several initiatives can make others more attractive. For example, an Arab Common Market, which does not represent a desirable policy option by itself, becomes attractive when implemented alongside trade agreements with Europe. Sub-regional economic zones will emerge naturally if national barriers to trade are reduced. And subscribing to various WTO commitments will help to minimise the diversion costs implied by some of the regional initiatives.

From the viewpoint of the region’s decision-makers, the advantages of participating fully in the international economy are beginning to become clear. Reform programmes are underway in all of the economies and some progress is already evident in the protection regime. These programmes, in addition, receive continuing support from international organisations including the World Bank and the IMF. Nevertheless, the economic structure of the past has left a legacy of powerful interests that oppose the broad opening that the strategy outline would envisage. To speed the shift toward these policies, external support may be helpful.

What types of external support are likely to be most helpful in helping the SOM economies move along various parallel tracks of economic integration? The most difficult steps — those involving the greatest initial adjustment costs — will benefit from short-term incentives and political pressure from key economic partners. Europe can offer substantial benefits to and exert considerable political pressure on North Africa, but its economic role in the Middle East is more limited. A broader international effort, perhaps involving other major political interests in the region including the United States, Japan and their regional partners, may be needed to lend energy to this effort. The annual MENA summits, which have brought together top leaders and private sector representatives from the region and its major trade partners in the past, could eventually help to catalyse such a process, but for the time being their effectiveness has been undermined by setbacks in the peace process. Broader collaboration could be also supported by major international organisations, as well as emerging regional organisations such as the MENA Bank.

V. CONCLUSIONS

This analysis of the Southern Mediterranean's international linkages offers reasons for concern as well as optimism. The region's economy has turned a corner after two decades of difficult external and internal challenges. Its overall trade is at a relatively healthy level and its intra-regional linkages are about as intense as might be expected (aside from linkages involving Israel and Palestine). But the composition of SOM trade is not sufficiently weighted in products that depend on, and would help to build, more intensive linkages with foreign technology and markets.

While a solid base for international integration exists, much remains to be done in harnessing the contributions of international linkages to economic growth. By themselves, limited regional trade agreements, say within the Arab world, would not address major distortions and are not likely to produce a dramatic expansion of trade. By themselves, free trade agreements with Europe will also yield limited results, since no major market access concessions seem to be on the table. But in combination with each other and with appropriate domestic policies these and other international initiatives could add up to much more than the sum of their parts. Free trade agreements with the EU could catalyse a broad reform programme, provided that they are attractive enough to the SOM partners to elicit real commitments. The programme itself could ensure that the region's economic performance continues to improve. The time is right for such a broad, multi-track effort to deepen the Southern Mediterranean's linkages with the world economy.

NOTES

1. The Southern Mediterranean is defined to include the following economies: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria and Tunisia. This is a subgroup of the Europe-Mediterranean Initiative's 12 Mediterranean partners. The phrase "developing countries of the Southern Mediterranean" is sometimes used to refer to all of these countries except Israel. Southern Mediterranean countries are far from homogeneous in terms of international economic linkages, levels of development, or cultural backgrounds, but they also share some important commonalities in policy, endowments and trade structure. Because of such similarities and geographical contiguity, the region's countries often face similar policy challenges and options for regional and extra-regional partnerships.
2. Recently, movements in the region's trade intensity began to separate from movements in oil prices. Since the early 1990s, the region's trade/GDP ratio has been climbing without the aid of higher energy prices, suggesting some desynchronisation of economic activity from oil price trends.
3. Based on data for the Occupied Territories, 1991 (World Bank, 1993).
4. An excellent overview of the region's policy regimes is provided in World Bank (1995).
5. World Bank (1993), Arnon *et al.* (1996), Dkholm *et al.* (1996).
6. The principal database for this exercise is based on Wei (1996), thanks to the kind co-operation of Professor Shang-Jin Wei. The database was extended to include Lebanon, Jordan and Syria for the purposes of the present study.
7. Technically, "dummy variables" were introduced to test whether the categories of intra-regional trade flows shows in the Figure were systematically higher or lower than predicted by international experience. The distortions are calculated using the estimated coefficients of the dummy variables.
8. Since trade flows among Israel, the PA and Arab countries are often zero in the data, and since the model was estimated in logarithmic form, these observations could not be included in the estimation process. Consequently coefficients for dummy variables associated with these linkages could not be estimated.
9. Because of the extent of current distortions, the trade patterns of Israel and the Palestinian Authority could not be handled with this approach. Specifically, there are too many zeros in their bilateral trade vectors to allow estimation with double-logarithmic estimating equations.
10. The IIT index in sector i is usually defined as: $IIT_i = 1 - ABS(X_i - M_i)/(X_i + M_i)$, where X_i is exports of i , and M_i is imports of i .

APPENDIX A

Cross-Section Regression Models of International Trade

Several regression models were estimated to determine how the level of trade in the Southern Mediterranean compares with international norms. The principal use made of these equations in the paper is to show how the SOM countries deviate from the predictions of these regression models, calculated based on their economic structural characteristics.

Following an approach developed by Chenery (1975) and widely used since, the volume of a country's trade is related to a range of variables that describe the size and structure of a country's economy. Several types of explanatory variables are used. The first set addresses an economy's general characteristics (level of development, population), the second describes its factor structure (education, primary goods production), and the third its macroeconomic characteristics (inflation, debt, political risk). The rate of growth was also included as an indicator of the demand for investment goods, which many economies are not able to produce entirely domestically. Since the intent of this analysis was to estimate systematic, longer-term relationships rather than short-term relationships within the business cycle, some of these variables were measured as multi-year averages.

The regression models are estimated in double-logarithmic form, with log trade on the left hand side and log GDP, log population and other variables on the right hand side. The results are summarised in Table A.1. As discussed in more detail below, this double-logarithmic specification is consistent with several different transformations of the trade, GDP and population variables. As the table shows, separate regressions were run for 1) exports of goods and non-factor services, 2) imports and non-factor services, and 3) total trade (the sum of exports plus imports). The scatter diagram in the main text is derived from the results of total trade regression; scatter diagrams for exports and imports appear as Figures A.1 and A.2 in this appendix.

The sample included the 59 countries listed in Table A.2. The overall fit of the equations is strong, with adjusted R² values in the mid-90s and F statistics over 100. Nevertheless, the standard errors of the regression equations indicate considerable noise in the prediction of trade levels, on the order of 50 per cent. Although not all hypothesised explanatory variables yield significant coefficients in all regressions, all variables have been left in the final estimating equations to show which are effective and which are not, and to avoid the bias that "data mining" causes in the estimation of standard errors.

In general, the GDP variable is significant with a coefficient around two-thirds, reflecting the well-known tendency for smaller economies to trade more, relative to GDP, than larger economies. Population does not enter any of the equations significantly; this implies that scale economies that allow a larger economy to be more self-sufficient are associated with output rather than with population. The slightly positive population coefficient suggests that for an economy of a given dollar size, having more people (i.e. a lower average income) implies that more requirements have to be satisfied through trade.

The endowment variables suggest that trade is positively related to primary exports, indicating that economies with large resource endowments tend to trade more overall. This is consistent with theoretical expectations; a primary “windfall” allows an economy to obtain a larger share of tradable from abroad, shifting domestic resources to producing non-tradables. International variations in human capital (education) and physical capital (proxied here by population, which is negatively related to per capita income), however, do not appear to have a significant impact on the volume of trade. Theory has little to say about the effect of either human or physical capital on the volume overall trade.

Both low inflation and low political risk are significant explanatory factors for exports (note that a higher value of the variable used to measure risk means greater confidence), and low inflation is also significant explanatory factor for imports and total trade. This is roughly in line with expectations, since export linkages typically require more trust and co-ordination with foreign partners than import purchases. The coefficient of the debt variable has the expected negative sign, but it is statistically insignificant in all equations. As expected, the growth variable does enter significantly in the import equation but is not significant for overall trade.

Since the model is estimated in double-logarithmic form, its fit is the same as would be generated by various other, related specifications involving the trade, GDP and population variables. For example, the same prediction for trade levels would be generated by an equation that has the log of “trade/GDP” on the left hand side instead of the current log of “trade” variables. In that case, the coefficient of the GDP variable would be reduced by 1 (using the example of the export equation, the results would show that each 1 per cent increase in GDP would change the log of the export/GDP ratio by $.629 - 1 = -0.371$ per cent). Similarly, the same fit would be achieved if “GDP/population” and “population” were substituted for the current “GDP” and “population” variables on the right hand side of the export equation. In the case of the export equation, the coefficients of these variables would then become $.629$ and $.705 (= .629 + .076)$, respectively.

Table A.1. Regression Models of Exports, Imports and Total Trade, 1994

	Exports of goods & NFS	Imports of goods & NFS	Total Trade
Constant	-0.607	0.601	0.863
GDP	0.629 **	0.687 **	0.668 **
Population	0.076	0.010	0.026
Primary enrolment to primary school age population ratio	0.005	0.007	0.007 *
Consumer price index, average 1984-94	-0.187 **	-0.225 **	-0.214 **
Primary exports, (sum of fuel and non-fuel primary exports)	0.181 **	0.070	0.113 *
Political risk index, (100 = risk free)	0.022 **	0.011	0.015
Debt service ratio at present value	-0.001	-0.001	-0.002
Real GDP growth, 1990-94		0.031 *	0.016
Adjusted R2	0.946	0.932	0.951
Standard error of estimate	0.377	0.393	0.342

Note: GDP, population, CPI and export variables are in logarithmic form.

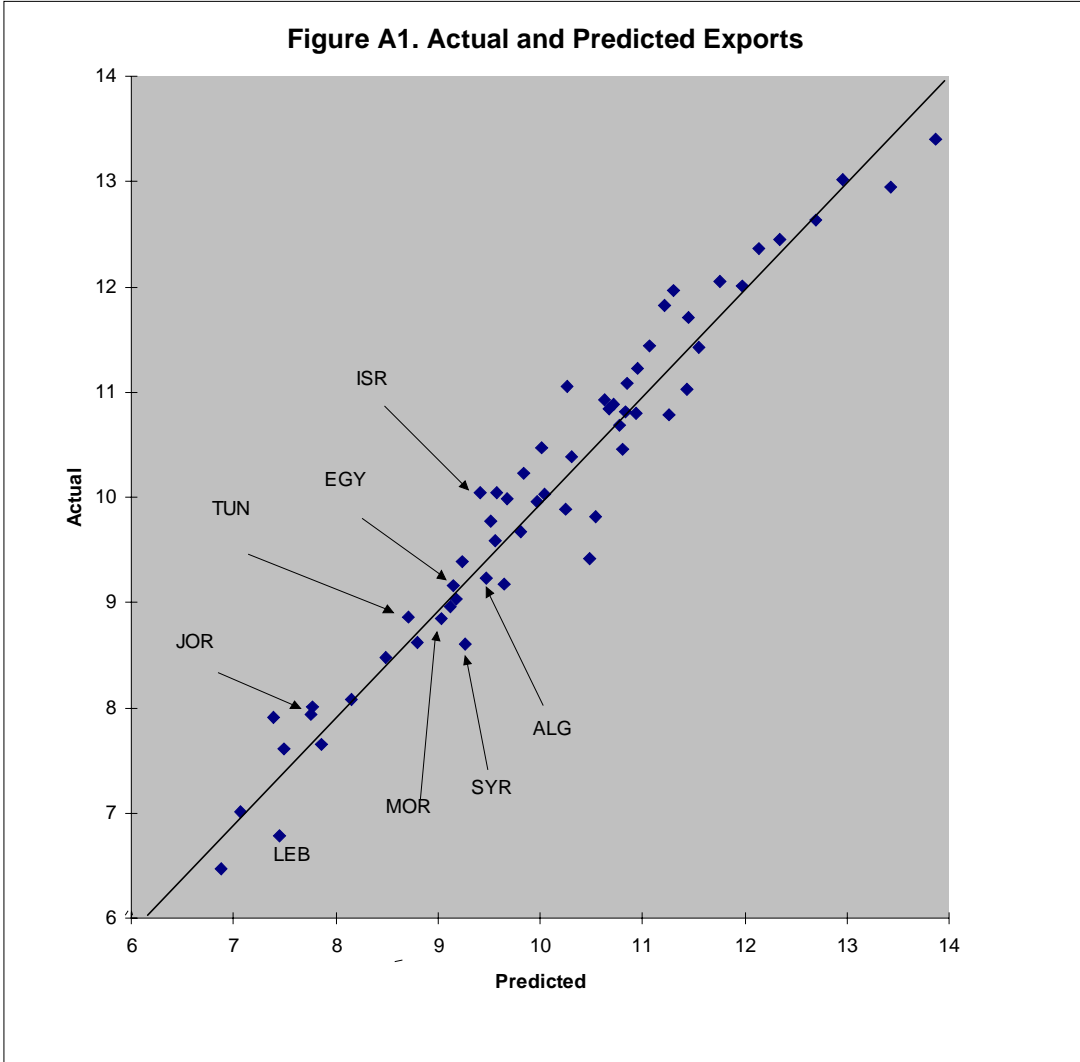
* Significance at the 90 per cent level.

** Significance at the 95 per cent level.

Source: Author calculations.

Table A.2. List of Countries in the Cross-section Model

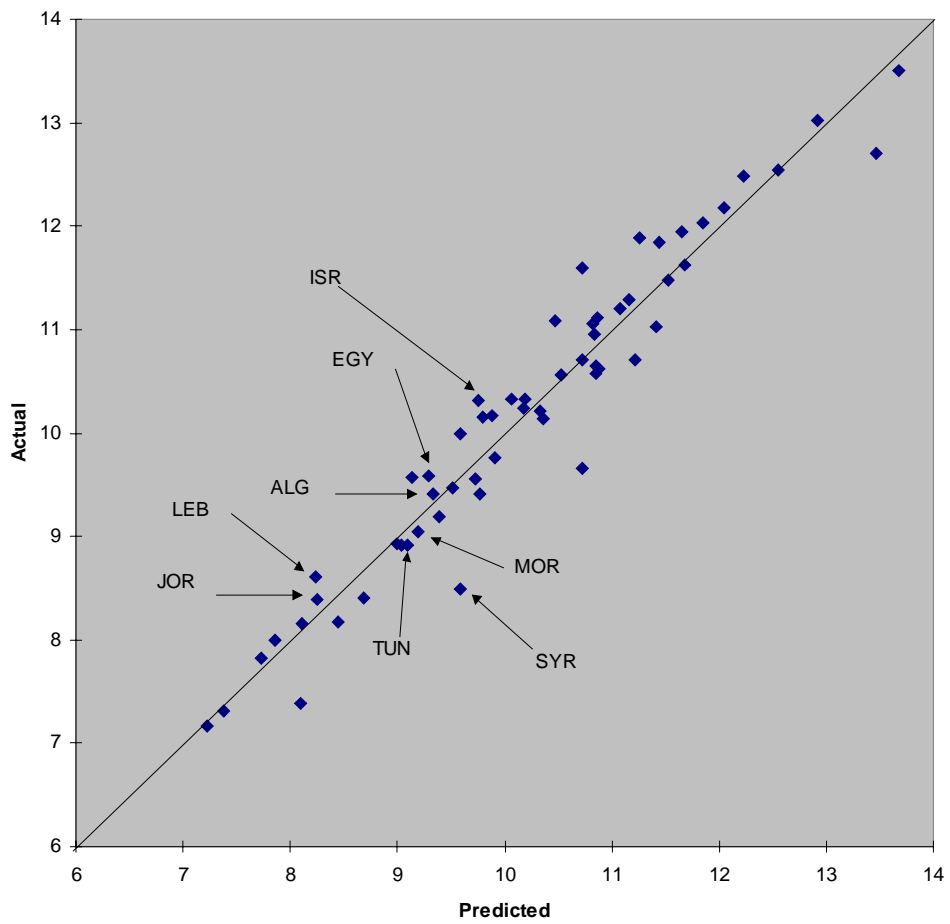
OECD:			
United States	Australia	Ireland	Switzerland
Japan	Austria	Netherlands	Turkey
Germany	Belgium	New Zealand	Mexico
France	Denmark	Norway	Korea
Italy	Finland	Portugal	
U.K.	Greece	Spain	
Canada	Iceland	Sweden	
Eastern Europe:			
Hungary			
Poland			
Asia:			
China	Malaysia	Thailand	
Hong Kong	Philippines		
Indonesia	Singapore		
Other Americas:			
Argentina	Colombia	Uruguay	
Bolivia	Ecuador	Venezuela	
Brazil	Paraguay		
Chile	Peru		
Africa and West Asia:			
Algeria	India	Lebanon	Saudi Arabia
Egypt	Israel	Morocco	Syria
Ethiopia	Jordan	Nigeria	Tunisia
Ghana	Kenya	Pakistan	



Note: Measured in natural logs.

Sources: World Bank (1997), Wei (1996) and author calculations.

Figure A2. Actual and Predicted Imports



Note: Measured in natural logs.

Sources: World Bank (1997), Wei (1996) and author calculations.

APPENDIX B

Gravity Models of Regional Trade

Gravity models of international trade were estimated to determine how the *bilateral* trade relationships in the Southern Mediterranean region compare with international norms. In the context of this paper, these models are used to test whether the region's trade is biased in favour of or against regional partners.

Following an approach developed by Linneman (1965) and widely used since, bilateral trade between two countries was related to variables that describe the size and structure of the partner economies and their geopolitical relationship with each other. One set of explanatory variables addressed the general characteristics of the exporting and importing economies (GDP, per capita income). Another set describes factors that affect the ease of trade between them, including distance, whether or not the partners share a border, and whether or not they share a common language. Finally, dummy variables were included for each Southern Mediterranean economy as an exporter and as an importer, and for trade relationships between Southern Mediterranean countries. The NA_{ij} variable is one when both trade partners are North African, MEN_{ij} is one when both are Middle Eastern (not including Israel), and $MENINA_{ij}$ when one is North African and the other Middle Eastern.

The regression models are estimated in double-logarithmic form, with log trade on the left hand side and log GDP and per capita income on the right hand side, as shown in Table B.1. The data were obtained from Professor Shang-Jin Wei and included 66 countries listed in Table B.2. The overall fit of the equations was relatively strong, with adjusted R² values in 70s. Nevertheless, the standard errors of the regression equations indicate considerable noise in the prediction of trade levels. All the standard explanatory variables yield significant coefficients in all regressions. The GDP variables are significant with coefficients near to one, and the distance variable is also significant with a negative coefficient of around 0.9. Both adjacency and a common language provide a substantial boost to bilateral trade flows.

In the results for the complete regression (column 1 in Table B.1), out of 16 coefficients for dummy variables associated with SOM economies, 9 turned out to be significantly different from zero, suggesting deviations from international norms. These results largely reinforce the cross-sectional analysis reported in Appendix A, although they differ in detail. In this analysis, the significant positive outliers include Jordan's exports and imports and Lebanese imports. The coefficient on Israel's trade is also positive, but not significantly so. Negative outliers include Egyptian and Moroccan exports, and Syrian exports and imports. Coefficients on Lebanese exports and all of

Moroccan and Tunisian trade are also negative, but not significantly. These results are more or less the same whether or not regional dummy variables are included in the equations (compare columns 1 and 2 in Table B.1).

The results do not show significant bias in the region's intra-regional trade. In column 3, which includes no country dummy variables, the regional dummy variables suggest more-than-expected intra-regional trade in North Africa (.679), but less-than-expected intra-regional trade within the Middle East (-.246), and between the Middle East and North Africa (-.250). However, none of these coefficients is significantly different from zero. When country dummies are included in the equation (column 1), the coefficient of intra-North African trade becomes significant. Intra-Middle-East trade remains insignificant and below zero, while the coefficient on Middle-East-North-Africa trade becomes positive, but still insignificant.

Table B.1. Gravity Model of Bilateral Trade, 1992

	(1)	(2)	(3)	(4)
Constant	-12.873 **	-12.927 **	-13.169 **	-13.230 **
GNP _i	1.041 **	1.041 **	1.040 **	1.041 **
GNP _j	0.919 **	0.919 **	0.879 **	0.879 **
GNP per Capita _i	0.175 **	0.176 **	0.208 **	0.208 **
GNP per Capita _j	0.068 **	0.069 **	0.081 **	0.082 **
Distance	-0.915 **	-0.911 **	-0.875 **	-0.870 **
Adjacent	0.410 **	0.452 **	0.529 **	0.552 **
Language	0.883 **	0.899 **	0.831 **	0.824 **
Algeria _i	-0.134 **	-1.231 **		
Algeria _j	-0.822 **	-0.713 **		
Egypt _i	-1.475 **	-1.474 **		
Egypt _j	0.019	0.018		
Israel _i	0.021	0.023		
Israel _j	-0.020	-0.002		
Jordan _i	0.606 **	0.605 **		
Jordan _j	1.441 **	1.440 **		
Lebanon _i	-0.370	-0.368		
Lebanon _j	1.092 **	1.090 **		
Morocco _i	-0.394 *	-0.323		
Morocco _j	-0.143	-0.071		
Syria _i	-1.461 **	-1.462 **		
Syria _j	-0.543 **	-0.545 **		
Tunisia _i	-0.305	-0.220		
Tunisia _j	-0.012	0.064		
NA _{ij}	1.608 **		0.679	
MEN _{ij}	-0.214		-0.246	
MENINA _{ij}	0.265		-0.250	
Adjusted R2	0.727	0.726	0.713	0.714
Standard error of estimate	1.520	1.521	1.557	1.556

Note: Variables in logarithmic form.

* Significance at the 90 per cent level.

** Significance at the 95 per cent level.

Source: Author calculations.

Table B.2. List of Variables and Countries in the Gravity Model

Variables			
NA_{ij}	North Africa: Algeria, Morocco and Tunisia		
ME_{ij}	Middle East: Egypt, Israel, Jordan, Lebanon and Syria		
$MENI_{ij}$	ME excluding Israel		
$MENINA_{ij}$	Intra-trade between MENI and NA		
i	Origin		
j	Destination		
ij	product of origin and destination		
Dependent variable	Exports, in log form between pairs of countries		
Number of countries	66		
Countries:			
OECD:			
United States	Australia	Ireland	Switzerland
Japan	Austria	Netherlands	Turkey
Germany	Belgium	New Zealand	Mexico
France	Denmark	Norway	Korea
Italy	Finland	Portugal	
U.K.	Greece	Spain	
Canada	Iceland	Sweden	
Eastern Europe:			
Hungary			
Poland			
Yugoslavia			
Asia:			
China	Malaysia	Chinese Taipei	
Hong Kong	Philippines	Thailand	
Indonesia	Singapore		
Other Americas:			
Argentina	Chile	Paraguay	Venezuela
Bolivia	Colombia	Peru	
Brazil	Ecuador	Uruguay	
Africa and West Asia:			
Algeria	Iran	Lebanon	Saudi Arabia
Egypt	Israel	Libya	South Africa
Ethiopia	Jordan	Morocco	Sudan
Ghana	Kenya	Nigeria	Syria
India	Kuwait	Pakistan	Tunisia

REFERENCES

- ALONSO-GAMO, P., S. FENNELL and K. SAKR (1997), "Adjusting to New Realities: MENA, The Uruguay Round, and the EU-Mediterranean Initiative", WP/97/5, Processed, IMF, Washington, D.C.
- ARNON, A. *et al.* (1996), "The Potential for Trade Between Israel, The Palestinians and Jordan", *World Economy*, Vol. 19, No. 1, January.
- CHENERY, H.B. and M. SYRQUIN (1975), *Patterns of Development, 1950-1970*, Oxford University Press, London.
- DIWAN, I. and M. WALTON (1994), "Palestine Between Israel and Jordan: The Economics of an Uneasy Triangle", *Beirut Review*, Fall, No. 8.
- DKHOLM, K. *et al.* (1996), "The Economics of the Middle East Peace Process: Are There Prospects for Trade and Growth?", *World Economy*, Vol. 19, No. 5, September.
- ELGUINDI, Y. (1997), "Jordan & US to Sign Bilateral Trade Agreement", Arab World Online, Internet, 2 May.
- FONTAGNÉ, L. and N. PÉRIDY (1996), "The European Union and the Maghreb: Towards a New Partnership", OECD Development Centre Studies, Paris.
- GALAL, A. and B. HOEKMAN (1997), *Regional Partners in Global Markets: Limits and Possibilities of the Euro-Med Agreements*, CEPR and ECES, London.
- GRUBEL, H. and P.J. LLOYD (1975), *Intra-Industry Trade*, Halstead Press, London.
- HAVRYLYSHYN, O. and E. CIVAN (1983), "Intra-Industry Trade and Stage of Development", in P.K.M. THARAKAN (ed.), *Intra-Industry Trade*, North Holland, Amsterdam.
- HAVRYLYSHYN, O. and P. KUNZEL (1996), "Intra-Industry Trade of Arab Countries: An Indicator of Potential Competitiveness", IMF Working Paper 97/47, Processed.
- HIRSCH, S., I. AYAL and G. FISHELSON (1997), "The Arab-Israeli Trade Potential: Methodological Considerations and Examples", Forthcoming in a volume edited by Max Kreinin.
- HOEKMAN, B. (1995), "The World Trade Organization, the European Union and the Arab World", Policy Research Paper No. 1513, Processed, World Bank, Washington, D.C.
- HOEKMAN, B. and S. DJANKOV (1996), "The European Union's Mediterranean Free Trade Initiative", *World Economy*, Vol. 19, No. 4, July.
- LAWRENCE, R.Z. (1995), *Towards Free Trade in the Middle East: The Triad and Beyond*, A Report by a team of Israeli, Jordanian and Palestinian Experts, Harvard University, Cambridge, MA.
- LINNEMAN, H. (1966), *An Econometric Study of International Trade Flows*, North Holland, Amsterdam.
- MIDDLE EAST ECONOMIC DIGEST (1997), *The Middle East in 1997*, EMAD Business International, London.
- PAGE, J. (1995), "From Boom to Bust – and Back? The Crisis of Economic Growth in the Middle East, 1960-1993", Processed, World Bank, Washington, D.C.

- PETRI, P.A. (1993), "The East Asian Trading Bloc: An Analytical History", in J. FRANKEL and M. KAHLER (eds.), *Regionalism and Rivalry: Japan and the U.S. in Pacific Asia*, University of Chicago Press, Chicago.
- PETRI, P.A. (1997), "The Case of Missing Foreign Investment in the Southern Mediterranean", *Technical Paper No. 128*, OECD Development Centre, Paris.
- RIORDAN, E.M. *et al.* (1995), "The World Economy and Implications for the Middle East and North Africa Region, 1995-2010", Processed, International Economics Department, World Bank, Washington, D.C.
- SHAFIK, N. (1997), "Public Policy and Private Initiative: Towards New Partnerships in the Middle East and North Africa", Processed, Middle East and North Africa Region, World Bank, Washington, D.C.
- WEI, S.-J. (1996), "How Reluctant are Nations in Global Integration?", Processed, Harvard University, Cambridge, MA.
- WINTERS, L.A. (1996), "A Background Note: The European Union's Mediterranean Agreements, A Comparative Analysis and Assessment", International Economics Department, World Bank, Washington, D.C.
- WORLD BANK (1993), *Developing the Occupied Territories, An Investment in Peace*, Vols. 1 and 2, Washington, D.C.
- WORLD BANK (1994), *The East Asian Miracle*, Washington, D.C.
- WORLD BANK (1995), *Claiming the Future: Choosing Prosperity in the Middle East and North Africa*, Washington, D.C.
- WORLD BANK (1996a), *Global Economic Prospects and the Developing Countries*, Washington, D.C.
- WORLD BANK (1996b), "Global Economic Prospects and the Developing Countries: Short-Term Update", International Economics Department, Washington, D.C.
- WORLD BANK (1997), *World Development Indicators*, Washington, D.C.a
- YEATS, A. (1996), "Export Prospects of Middle Eastern Countries: A Post-Uruguay Round Analysis", Policy Research Working Paper 1571, International Economics Department, World Bank, Washington, D.C.