FEMISE 2003

FEMISE REPORT ON THE EURO-MEDITERRANEAN PARNERSHIP 2003

Analysis and Proposals of the Euro-Mediterranean Forum of Economic Institutes

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Coordinators

September 2003

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Institut de la Méditerranée

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September 2003

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EXECUTIVE SUMMARY

Development in Mediterranean societies in the coming years should be focused on two major requirements: The imperative requirement is to satisfy the already significant job needs of the fifteen coming years; and the active requirement, set - with great effort - into place throughout the nineties, is macro-economic stabilization, so that MPC performance becomes on a par with the best developing countries. However, stabilization efforts have so far failed to revitalize Mediterranean economies. But no construction is possible without stabilization. Without it, one wonders how the Mediterranean Partners Countries (MPCs) resisted the numerous external shocks undergone during the past three years.

FEMISE assumes that the requirements of development can be met if six broad guidelines are followed:

√ satisfying the demand for jobs,
√ consolidating macro-economic stabilization,
√ improving the vigour of growth,
√ reinforcing trade competitiveness and attracting capital,
√ modifying the labour market approach, constrained by job structure, poor and inadequate training, and legislation,
√ addressing the issue of poverty.

The problem of the demand for jobs is no longer a theoretical exercise in demographics. It is a fact that can be well illustrated: in 2000, the below 15 years population bracket, those who will be soon in search for jobs, will amount to more than 80 million persons and will actually be larger than the active population which amounts presently to nearly 74 million persons.

The MP are unquestionably going through a phase of demographic transition. The fertility rates have dropped, and so has the population growth rate. However, the transition has not been completed yet, so that the active population is not stable and its growth rate is still rising.

The existence of a numerous active population, coupled with a speedy demographic transition, might well be transformed into a powerful economic advantage, especially through the saving-investment cycle. This, in fact, accounts in part for the "Asian miracle" that took place in the seventies-eighties. It is indispensable, however, that the economies be sufficiently dynamic to provide the jobs required for the transformation of the "youth" segment of the population into an "active" one, and such jobs must be sufficiently productive so that this increase in jobs does not take place to the detriment of real wages and competitiveness.

For the MP, it is easy to evaluate the challenge represented by the jobs demand. In the fifteen coming years, given the present population and labour markets structure, **34 million new jobs will be needed to avoid a degradation of the present situation**, which is already alarming. The necessary improvement of activity rates, which is relatively low in most of the MP, will increase the effort since **reaching the average activity rate of the Union will require 50.3 million additional jobs.**

This objective cannot be reached without pursuing **macroeconomic stabilisation**. The MP have largely been successful in controlling inflation

and the budget deficit. (except for Lebanon and Turkey). The austere monetary policies adopted have proved to be sound and are allowing them to avoid seigniorage. Despite significant unemployment rates and GDP growth rates which, while positive, are nevertheless insufficient vis-à-vis the demand for jobs, **the region has a real asset there, which must be preserved** to build a sustainable development strategy. Macroeconomic stability has been integrated into government practices thereby allowing the MP to preserve social cohesion despite the successive internal (droughts) and external (reduction of tourism, upswing in oil prices) shocks that they have faced in a short time span.

The consolidation of this asset will require in the first place a re-examination of government approaches to the budget structure and their public sector employment strategies.

Taxation is a point with regard to which the MP can restore some margins of manoeuvre without threatening macro-economic stabilization, because the main rigidities they will have to face can rapidly be resolved. As regards the revenues, the loss resulting from tax reduction seems to be sustainable with regard to Jordan and Tunisia, where the increase of trade linked to openness is generating revenues that offset the initial losses. However, the tax system should combine direct and indirect taxation in an optimizing manner. As regards expenditure, we cannot overlook the weight of the political predicament, which involves an amount of defence spending equal to the foreign investment poured into the region. The external debt, whose servicing withdraws significant financial resources from the economic circuits, adds to this problem. However, the greatest constraint, which is entirely the responsibility of the MP, is the burden represented by the public sector wage bill.

In the MP civil public employment has almost reached 17% of total employment (against an 11% average in the world) and wages absorb about 27% of the total public expenses. However, in addition to the burden that this lays on the budget, it is **ultimately the strategy of State as "employer of last ressort" set into place that poses more problems than it solves,** especially because it sidesteps the issue of real labour markets. On the one hand, the wages and/or conditions offered to the public sector are often higher than in the private sector, which leads the higher qualified to the administration, depriving the private sector of the human resources required for competitiveness. On the other hand, should an economic slowdown occur, such an irreducible level of current expenses will lead to a reduction of investments and/or the recourse to a public debt.

In the second place, there still are **two negative macro-economic areas** that must be rapidly remedied: the **structural fragility of the external accounts** balancing method and the **low growth rate.**

At the level of external accounts, the MP are still experiencing an imbalance in trade. The problem is not related to the deficit. This is often the case with countries in transition and it corresponds to a saving deficit that reflects, in particular, the fact that the population is young and the development gap significant. However, it is counterbalanced in the MP by highly volatile revenues: tourism and emigrant remittances, while foreign investment is low. It is clear that, in case of shocks, this way of balancing the external account requires a dramatic choice between a real adjustment through a reduction of internal demand and unemployment, and nominal adjustment through inflation, which would stand in contradiction with dearly acquired macroeconomic discipline.

At the growth level, the problem is that the MP have no margin of manoeuvre at their disposal to improve employment and productivity at the same time, since the actual average rates are only slightly higher than the active population growth rate. Within this context, it is almost fatal to oppose employment and labour productivity, which means

that labour productivity must practically be stagnant if an employment increase is to be avoided. There are three main reasons for this weakness, and each of these requires a set of developments: (i) a still insufficient accumulation of capital that might be countered by developing savings and improving their transformation into investments, (ii) an allocation of capital that is presently not invested in the more productive jobs, and which would require an improvement in the institutional framework and practices to slow down the substitution of capital by labour, (iii) very low technical know-how and progress, which calls for the development of a "knowledge-based economy", capable of influencing productivity by mixing innovation and education.

Improving the vigour of growth is therefore indispensable. Taking the job needs into account, the stake is to increase growth to about 6%-7%. At this level, the substitution of capital to labour experienced by the industrialized and open economies is possible, since the vitality of the system allows the absorption of the effects of any adjustments without requiring any interventions to limit their impact on employment. Undoubtedly, it is the effects on employment that are most feared, and rightly so, by the MP. And this is why it is **necessary to prioritise action based on global productivity**, since this is a way of increasing per capita production without substituting capital to labour in an imprudent fashion. Four ways of intensifying capital accumulation, directing it towards the most productive jobs and raising the global productivity of the factors (that is, the contribution of technical progress) are identified: (i) innovation and the improvement of the quality of commodities; (ii) improving the internal organisation of enterprises; (iii) developing externalities in given domains with the encouragement of the public authorities, (iv) continuous improvement of factors, especially labour, through lifelong education and training.

At the same time, **the implementation of reform must be accelerated** in all those domains in which the elements required for revitalisation of growth are hampered; that is, property rights especially for real estate, efficiency and transparency of various administrations especially customs, the competition framework and the establishment of specialized tribunals. Acceleration is now essential because the process of reform was launched many years ago, but is much slower and less visible than in other regions. This places the MP in a difficult situation, in as much as the adjustment efforts deployed are not appreciated at their real value and the result is that the relative attractiveness (to FDI) of the MP is low, even though they are playing the card of growth through openness, which is probably the only strategy that can help them reach their development goals.

In fact, the fourth broad guideline for the development of the MP is **the improvement both of their competitively** in trade in goods and services and **their attraction of capital**. Since 1990, the MP have generally increased their openness and have focused their trade on the EU. This geographic commitment has resulted in low development of intra-Mediterranean trade and the use of their comparative advantages. The trade position is constantly in deficit, vis-à-vis the EU and the rest of the world.

The MP still have a cost advantage, essentially thanks to the lower cost of labour. But this advantage is threatened at two levels. On the one hand, it is at the mercy of growing competition from other countries whose costs are even lower. On the other hand, in the absence of a step up in labour productivity, every increase has a direct negative impact on competitiveness. The non-cost advantages are, on the other hand, scarcely developed and the trade structure is too specialized and nonadapted to world demand. However, the examples of Jordan and Tunisia are particularly encouraging: they show that diversification is possible and is a source of success. It is clear that the virtuous path of growth through openness requires the passage from **competitiveness based on low labour costs to competitive-**

ness based on the quality and differentiation of products, which also requires a significant increase in productivity.

With regard **foreign direct investment** (FDI), various reforms were undertaken during the last ten years to improve the attractiveness of the region. From the point of view of legislation now in place, the climate of investment has clearly improved. But this has not been accompanied by a similar increase in flows, which continue to fluctuate, reflecting the attention paid by investors to special opportunities, and not to the region as such. Figures show that the flows follow a rising trend, but which is well below the level of general growth, which has led to a reduction in the relative share of the region: its **attractiveness is diminishing**, not intrinsically but **in relation to that of the other developing regions**.

The external anchorage constituted by the **Partnership Agreements did not succeed in making the region more attractive to European investors**. Despite the geographical proximity, the latter still prefer to invest in EU candidate countries or in South America. It appears that the region is more attractive in the eyes of American investors whose share of investments in the MP is twice as high as that of the Europeans. For the FEMISE, a strategy aimed at reinforcing the capacity of the region to attract capital must link macro-economic stabilization with several elements such as a common approach to unify local markets, diversifiying production, rationalizating and simplificating procedures, and the creation of promotion centers in Europe.

For the external strategy and the invigoration of growth to have maximum impact on job supply, it will be necessary to **modify the actual labour market approach** underlying the structure of employment, inadequate training and some legislation. To begin with, the agricultural sector still provides more than 17% of the jobs. Opening up the MP will favour an increasing similarity of sectoral structures with those of the European countries, which will result in a significant reduction of agricultural jobs. This will increase the strong tensions affecting the labour markets.

In order to curb unemployment, a focus on **training** is required, and its conformity with the needs of a private sector on which the MP will increasingly rely. Although the number of schooling years has very conspicuously increased during the twenty last years, although high level training has a good record, and although public expenditure in education is significant, illiteracy rates are often still high and the youth, including graduates, are proportionately more affected by the lack of jobs. This indicates a lack of those mechanisms that would allow the whole population - including adults - to acquire basic knowledge, professional training, mechanisms allowing for the organisation of information in order to confront the short term problems in the most appropriate manner.

Finally, at legislation level, the main problem resides in the duality of economies, between the formal and the informal sectors, a dual nature that weakens a number of social provisions because it makes it easier to get around them and ultimately accentuates the distortions.

Employment, growth, openness, all lie at the heart of development because their successful outcome can be placed at the service of the sixth broad guideline: **the struggle against poverty**. The MP are far from being the most affected region, since "only" 2% of the population is below the symbolic line of a dollar a day. This is however an illusion in as much as it is nearly 30% of the population that is 72 million persons, who live on less than two dollars per day. The greatest source of concern is that this rate is identical to the rate that prevailed in 1987. Fifteen years of economic stabilization and reform managed to pin down the problem, but did not provide any satisfactory solution to it. Further, the apathy that affects these societies and the income gaps aggravate the pro-

blem: the percentage of those who are considered poor is stable, but to rise above this status is an extended process. Another source of concern is that the average situation poorly conveys another divide between the rural and the urban areas, the former being most affected, which constitutes a growing imbalance.

Three priority fields of action emerge to deal with this problem. First, programmes must be transformed to take into account the multi-dimensional aspects - which go way beyond the mere transfer of revenues, so as to better reach the target populations at the local level, and to better analyse their impact.

Second, the question of emigration and its relationship to poverty must be reintegrated in the discussions, particularly those within the Partnership. Present conditions promote illegal immigration (followed by a clandestine life); this is harmful to both sides of the Mediterranean basin, but the complementarity of the two demographic situations would - objectively - argue in favour of an approach targeting regulated migratory flows.

Lastly, the MP should ponder the consequences of the low activity rate of women in their socio-economic dynamics. On the one hand, the example of South-East Asia indicates that this is a valuable source of growth at the macro-economic level. On the other hand, it is a source of income that is also lacking at the level of the households. One cannot help linking the underutilization of women to the preoccupying dynamics of poverty.

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September, 2003

This survey puts forward the FEMISE Executive Committee position on the economic conditions of the Mediterranean countries and the challenge represented by the massive influx of thousands of young people into the labor market.

The focus is on this challenge because of its magnitude. As shown in the first part of the report, the creation of no less than 34 million jobs is required between now and 2020, if only to avoid the worsening of an already highly worrying situation. In fact, more than 50 million new jobs need to be created to reach the average job rate of the countries of the Union. In order to succeed, growth patterns have to demonstrate a vitality that none of the partners has yet shown. The question now is whether it is possible to modify the MC growth regime to achieve a dual objective which, at the moment, appears contradictory: this is to create the necessary jobs on the one hand, and, on the other, to improve competitiveness, especially through factor productivity, whilst at the same time generating and sharing out more income.

A parallel comparison of growth needs and regimes carried out by the Mediterranean Partners (MPs), has demonstrated that unless the accumulation of capital or of labor is coupled with systematic work on research and technological development and other external elements (property management, supplying quality public goods, education, etc.), the new labour requirements will not be met, which will lead to higher unemployment rates and to greater instability in the MC.

This report therefore has focused on the best means to enhance the already considerable efforts deployed by the MC in such questions as macroeconomic stability, which is a pre-requisite to strong and sustainable growth. These measures are of two kinds: (i) doing away with the budgetary rigidities which prevent governments from introducing effective counter-cyclical action, and to set into place the conditions that would favor growth in the long term; (ii) reviewing government policies of intervention in the labour market, which are often counter-productive because not focused on a long term growth strategy.

Subsequently, different priority headings of the FEMISE agenda have been examined from the perspective of enhancing growth to the benefit of greater employment. These are (i) the fight against poverty, (ii) increasing women's participation in the labor markets, (iii) state reform, and (iv) trade in goods and capital.

Finally, after briefly highlighting GDP and balance of payments, this report presents MC areas of strength and weakness as well as recent developments in 2002-2003.

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I- Creating jobs an absolute necessity

The primary objective of the Partnership is, indisputably, the establishment of an area of peace and prosperity, and this objective has gained even more weight in the region this year. It has a fundamentally social aspect which is to support the cohesion of those societies that make up the region. In the south, this now translates into a need to create jobs. The desire to be valued is at the top of the pyramid of human needs and human society grants this kind of recognition through work.

To understand the size of this task, we must bear the following considerations in mind, in addition to the present conditions of the labour markets:

(i) the specificities of the demographic transition in the Mediterranean region
(ii) the gender participation rate which by all standards ought to increase in proportions similar to those observed in the Mediterranean countries of the EU over the last 20 years
(iii) the potential productivity levels of a significantly larger active population.

Table 1: Population, structures by age and growth rate of MC population in 2001

	Population		**Average annual growth (1)**		**Structure according to age** (% population)		
	Total	Under 15 years	1980-2001	2001-2015	Under 15 years	15-64	65 years and Above
Algeria	31 040	10 181	2,4	1,5	32,8	62,5	4,7
Cyprus	759	172	1,0 (2)	0,6	22,7	65,9	11,4
Egypt	65 336	24 566	2,2	1,5	37,6	59	3,4
Israel	6 509	1 849	2,4	1,5	28,4	61,8	9,8
Jordan	5 182	2 052	4	2,2	39,6	57,7	2,7
Lebanon	4 385	1 232	1,8	1,2	28,1	65,4	6,5
Malta	395	76	1,0 (2)	0,4	19,2	68,2	12,6
Morocco	29 170	9 218	1,9	1,4	31,6	63,3	5,1
Palestinian Authority	3 299	1 537	3,7 (2)	3,3	46,6	50,1	3,3
Syria	16 720	6 772	3,1	2,1	40,5	56,4	3,1
Tunisia	9 674	2 893	2	1,3	29,9	63,9	6,2
Turkey	68 618	20 517	1,9	1,1	29,9	64,7	5,4
Total MP	**241 087**	**81 064**	**2,4**	**1,5**	**33,6**	**61,7**	**4,7**

Sources: Eurostat, Medstat base newcronos program; World Development Indicators 2003, Human Development Report 2003.
(1): Average annual growth rates are exponential.
(2): Average growth for the period 1975-2001.

a- The problem is no longer related to demographic developments but to the population structure

In 2001, the 12 MC had a population of more than 240 million, or 3.9% of the global population (table 1).

Two main features were highlighted in table 1: the first observation is that the total population growth rates clearly fell, and that 2001-2015 forecasts show a continuation of this trend, which is mainly the result of a drop in fertility; the second observation is that the number of youths is immense: from the perspective of 2001 it appears that more than 80 million individuals will need a job within 15 years. This reality is obviously the major constraint in Mediterranean societies.

The first observation also indicates that the MC have started their demographic transition to a great extent, which makes it possible to envisage a near stabilisation of MC population within some twenty years. The second observation leads us to underscore the low average activity rate, especially vis-à-vis the population structure. Today, the active population (those who have a job or those who declare that they are unemployed) is less than those below 15 year old, a group that will be of working age between now and 2020. In other words, the present characteristics of the MC productive structures does not allow for a forecast concerning the employment of newcomers on the labor market.

b- A demographic transition that has largely begun

The demographic transition can be divided in very classical terms into three phases:

(i) the first phase is characterized by an improvement of health conditions aimed at lowering child mortality while raising life expectancy. However, not only do populations normally grow very rapidly, but countries also suffer from a greater dependency rate (that is, the relationship between the inactive age brackets, those below 15 years and over 65 years of age, and the working age population) due to a relative

Table 2: MC labor markets

		Necessary jobs in 2020 to reach an activity rate of …					
	Employment in 2000	48% (actual rate)	**To be created**	51% (hyp. 1 : South of Europe)	**To be created**	56% (hyp. 2 : European Union)	**To be created**
Algeria	5 726	8 759	**3 033**	10 833	**5 107**	11 794	**6 068**
Cyprus	300	428	**128**	428	**128**	428	**128**
Egypt	17 289	29 088	**11 800**	31 366	**14 077**	34 149	**16 860**
Israel	2 221	3 109	**888**	3 109	**888**	3 195	**974**
Jordan	815	1 459	**644**	2 344	**1 529**	2 552	**1 737**
Lebanon	1 365	T1 473	**108**	1 594	**229**	1 736	**370**
Malta	145	160	**15**	166	**21**	180	**36**
Morocco	9 019	13 199	**4 180**	13 199	**4 180**	14 002	**4 983**
Syria	4 611	8 547	**3 936**	8 547	**3 936**	8 700	**4 089**
Tunisia	2 702	3 704	**1 002**	3 903	**1 200**	4 249	**1 547**
Turkey	20 579	28 816	**8 237**	31 280	**10 701**	34 055	**13 476**
Total MP	64 772	98 742	**33 970**	106 768	**41 996**	115 041	**50 269**

(1): Ratio of the active population in the working age population.
Sources: ILO, 2003, Internet Site based on the National Statistics Institutes.

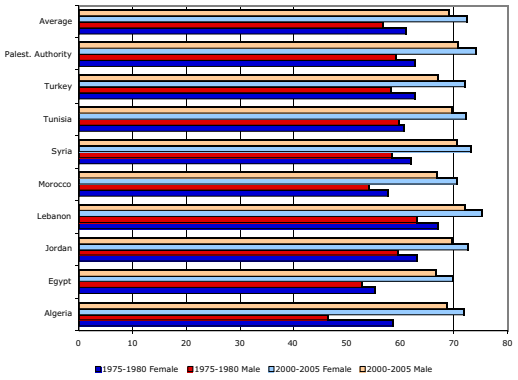
increase of the young population. This is an extremely delicate situation that will lead to development only through a reduction in fertility;

(ii) in the second phase, the fertility rates diminish and the population below 15 years of age, which has rapidly multiplied during the first phase, begins to merge into the active population, which leads to a drop in the dependency rate, inasmuch as the country succeeds in providing jobs to the newcomers. In this situation, the main issue is to provide jobs to the youths;

(iii) in the third phase, the birth and mortality rates are stabilized, while life expectancy continues to increase. Because of the aging population, the dependency rate will rise again, thus raising the question of social security coverage and the financing of retirement schemes, but the young people will be able to find jobs.

The extent of the pressure exercised by the demographic transition on MC economies depends mainly on two factors: on one side, the speed of the transition which determines the duration of the pressure exercised by the young (below 15 years) who become part of the active population and must be provided with jobs and, on the other side, the degree of dependence; this will determines the intensity and measure the efforts that an economy must exert to support the population below 15 and over 65 years of age. These two factors determine to a large extent the management of the transition and the growth gains that must be achieved.

Figure 1: Life expectancy in the MCs



Source: Arab World Competitiveness Report, 2002-2003.
Note: Turkey, 2001 data.

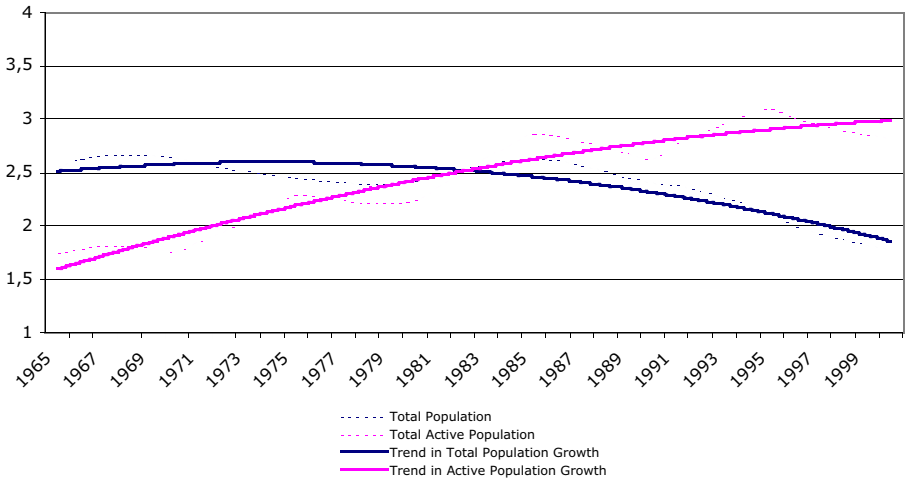
With regard duration, although there is strong heterogeneity between MCs, the population growth forecasts published by the UN reflect a net change that is bound to increase during the coming 20 years. Thus, the populations of Malta and Cyprus should stabilise in twenty years time, but another decade is required for stabilization in Tunisia, Lebanon, Turkey, Algeria and Israel. On the other hand, Jordan, Egypt and Syria have fallen behind and their populations will not begin to decrease until 2050. Nevertheless, overall population growth is rapidly plummeting in all these countries.

This is essentially due to changes in the fertility rates. These have been reduced by half between 1980 and 2000 in Algeria, Morocco, Syria and Tunisia, by 30% to 40% in Egypt, Lebanon, Jordan and Turkey, by 20% in Cyprus and by 5% in Israel and Malta.

Furthermore, life expectancy has risen by 10 years on the average in MC (which reflects an improvement in the health systems and sanitation). However, this increase is much greater for men than for women (12.3 years on average), and the region still suffers from relatively high maternal mortality rates, which reduce the life expectancy rate for women (figure 1).

However, despite the demographic transition now well underway, the active population will continue to grow for more than half a century (figure 2).

Figure 2: Demographic transition in the Mediterranean (growth rate of the total and active population and trends)



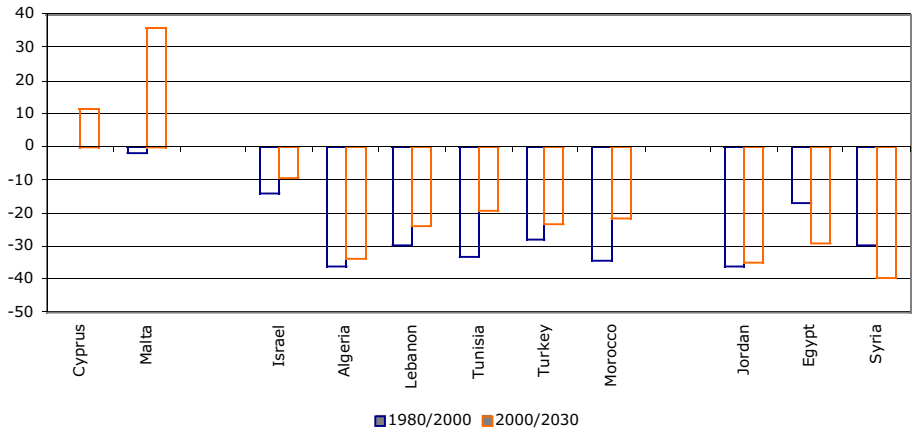
Sources: World Population Prospects: The 2002 Revision Population Database, United Nations Population Division, calculations Institut de la Méditerranée.

It therefore appears that all MC presently find themselves between the first and the second phase of the demographic transition. This means that they must - at the same time - bear the costs of a greater dependency (relatively speaking, there will be more 15 years old, which will generate schooling expenditure, and more 65 years old, which will entail health expenditure) and also provide a much greater number of jobs to the youth who reach active age. Nevertheless, three groups of countries are highlighted again:

(i) a first group made up of Cyprus and Malta which are more advanced, and which recorded low dependency rates (however, these will rise between 2000 and 2030 due to aging populations).

(ii) A second group made up of Algeria, Israel, Lebanon, Morocco, Tunisia and Turkey, whose dependency rates will plummet over the three next decades as youths merge into the working age population, on condition they can find a job. Israel, however, has the particularity of a large over 65 years old popu-

Figure 3: Evolution of the MC dependency rates



The dependency rate is defined here as the relation between the 0-14 years and +65 year old population on the 15-64 year old population. Here we give the dependency rate in percentages.
Sources: World Population Prospects: The 2002 Revision Population Database, United Nations Population Division, calculated by the Institut de la Méditerranée.

lation, in comparison with the other countries of this group.

(iii) Finally, a third group that comprises Egypt, Jordan and Syria. The dependency rate in these countries will be maintained or even grow because their aged population will increase while the young population remains a large component (figure 3).

c- A major objective is significantly better growth for more job creation

The issue has therefore changed. It appears that today, the crucial emphasis for MC should be optimal medium and long term management of development in the structure of their population, which is very young, rather than controlling demograhic growth.

Economic growth can be strongly dynamised by the existence of a large labour force. But this "democracy gift" must be realised within a new growth regime that must seek a greater accumulation (which requires an increase in saving rates and a better transformation of saving into investments) and labour productivity (through improving the quality of labour, a better combination with capital, etc).

Employment and growth , "volume" versus "quality".

The 1970-1980s Asian "miracle" was in great part possible as a result of a rapid demographic transition. Thanks to a large active population ("volume" effect) and low dependency rates - which suggest a high savings rate - it was possible to realize a sustained accumulation of capital and the growth rates that we know. But one specific feature of the demographic transition in the Mediterranean is that it will take a longer time than in the other emerging countries, especially the Asian ones. Surveys show that if the African region of the Middle-East had witnessed a demographic transition as rapid as in East and South Asia, it would have registered growth rates higher by one point per year than the ones registered between 1965 and 1990, whichwould have led to a 28% higher GDP than in 1990 (Williamson and Yousef, 2002). However, the duration and degree of the effort required might have ruined the expected positive consequences of the "volume" effect, for two main reasons:

(i) the higher the percentage of dependent populations (below 15 and over 65 years) within the working age population (15-64 years), the weaker the savings and therefore the investment capacity, so that accumulation will suffer. This effect, albeit transitory, makes economic growth dependent on the inflow of foreign capital or governmental savings.

(ii) More worrisome than this is the fact that improvements in the level of education can be slowed down by the low level of real salaries, a constraint that is presently experienced by the MC. There are strong risks of "dropping" out or of exclusion from education, especially for women. The "quality" of the available labour force can also be negatively influenced if the "volume" or size of the workforce is too great, or long lasting, which in both cases could result in an impoverishment of the population. It is the quality of future manpower that is at stake and the potential productivity gains.

These factors are directly determined by the quality of education which, if it drops, can have unfavorable consequences on the competitivity and growth that might be generated by openness on the one hand, and on the increase of real salaries and, therefore, of internal demand, investment, technical progress and quality of manpower, on the other.

Thus, for the demographic "gift" to deliver its potential, the development of a sufficiently vital economy is indispensable to provide the necessary jobs and for these jobs to be sufficiently productive to allow for an increase in real salaries without stopping the competitiveness of the economy.

d- An urgent need for new jobs

Taking into account the MC demographic picture (Table 1) and that of the labour markets (Table 2), it is possible to evaluate minimal needs to ensure that present conditions will not deteriorate any further. In doing so, we have used forecasts of the ILO (2000-2010) and the United Nations (2000-2020) on total population and active population growth. The resulting hypothesis is that it is the minimal threshold that maintains the present employment rate (that is, the jobs ratio vis-à-vis the active population).

In a little over 15 years, the MC will have to create nearly 34 million new jobs, mostly before 2010, if only to avoid a deterioration of the present situation.

If the jobs available are insufficient or not sufficiently attractive, a growing fringe of the population will stop seeking a job in the formal sector and will turn to the informal sector. This mechanism has often been considered more positive than in actual fact, because it allows for a certain degree of flexibility. However, it is also a reflection of the impoverishment of a population and of the state, and tends to increase poverty. In addition, it ultimately transforms those countries where it constitutes a large part of labour (as in the case of the MC) into two track economies. Growth is not an objective in its own right, and the equitable distribution of the dividends of growth are limited by the difficulty of making the necessary transfers (narrow tax base, etc.).

According to the FEMISE, the aim has to be a general and progressive increase in job rates, which cannot be allowed to remain those of 2000. To calculate the number of jobs required to improve the general situation, three scenarios were adopted[1].

(i) The least ambitious hypothesis is to raise average job rates to the level of the European countries of the South, notably those that have become EU members during the eighties. Like the MC, they have opted in favour of open-

Table 3: Minimum number of jobs needed in MC 2010-2020 to stabilise conditions

	Population of 15 years and over			Active Population			Number of necessary jobs Jobs to maintain the 2000 employment rate		
	2000	2010	2020	2000	2010	2020	2000	**2010**	**2020**
Algeria	19 681	25 181	30 107	8 154	11 765	12 474	5 726	**8 262**	**8 759**
Cyprus	499	562	713	312	346	445	300	**333**	**428**
Egypt	40 258	51 079	68 034	19 215	25 201	32 329	17 289	**22 675**	**29 088**
Israel	4 487	5 533	6 2™80	2 435	3 111	3 408	2 221	**2 838**	**3 109**
Jordan	3 024	4 084	5 363	956	1 385	1 711	815	**1 181**	**1 459**
Lebanon	3 091	3 802	3 401	1 492	1 926	1 610	1 365	**1 762**	**1 473**
Malta	313	337	346	155	163	171	145	**153**	**160**
Morocco	19 608	24 921	28 553	10 260	13 309	15 015	9 019	**11 699**	**13 199**
Syria	9 565	13 495	17 570	5 195	7 822	9 629	4 611	**6 943**	**8 547**
Tunisia	6 494	7 726	9 061	3 215	4 002	4 406	2 702	**3 364**	**3 704**
Turkey	47 164	55 951	66 042	22 263	26 653	31 174	20 579	**24 637**	**28 816**
Total MP	**154 185**	**192 672**	**235 470**	**73 651**	**95 684**	**112 372**	**64 772**	**83 846**	**98 742**

Sources: Calculated by the Institut de la Méditerranée, based on the ILO, 2003, web site, World Population Prospects: The 2002 Revision Population Database, United Nations Population Division. The active MC population in 2000 was recalculated on the basis of the present growth rates.

ness and rapprochement with the European Union. Thanks to economic adjustment, their job rates have shot up, especially for women, and have become closer to the average rates of European Union as a whole. This is equal to a 48% to 51% increase of the average rate, which is comparable to South Europe countries' achievement between 1980 and 2001.

(ii) The intermediary hypothesis is to reach a rate that is on a par with the European Union by 2020. This time, the goal would be to raise the activity rate from 48% to 56%.

(iii) The most ambitious hypothesis consists in keeping abreast of the rates registered on average by the Eastern European countries. The average rate should rise from 48% to 58% in this case. This extreme hypothesis is interesting inasmuch as a parallel has been systematically made between the MC and Eastern European countries within the framework of the acceleration of the latter's membership negotiations (Handoussa, Reiffers, 2003).

Regarding the hypothesis proposed to improve the participation rate, the idea is not to create 33.9 million jobs but rather 41.9 to 53.8 million jobs from now to 2020. This means a 50% to 83% increase of the present employment rate. It is important to note that these first estimates do not take the plummeting trend of agricultural jobs into account, which is a significant additional difficulty (migration, development of urban unemployment, etc.).

An immediate modification of the growth regime is therefore necessary when we consider that the creation of 20 million jobs before 2010 will still not lead to a reduction of the present unemployment rates, which remain very high: 9% to 12% in Egypt, Israel, Morocco, Syria, Turkey, 15% in Tunisia and Jordan and nearly 30% in Algeria. And it is probable that these rates do not reflect the real size of the phenomenon because the informal economy has not been taken into consideration.

II- The asset of macro-economic stabilisation must be consolidated

In the eighties, the MC were confronted with serious foreign debt crises linked to high budgetary and balance of payments deficits. It took more than fifteen years of austere stabilisation plans to remedy this situation. The price paid was a significant decrease of public equipment, a relative stabilisation of the purchasing power of civil servants, while the counter-cyclical role of the state's budget and seigniorage were brought to an end.

Table 4: Target Mediterranean employment needs up till 2020

		Necessary jobs in 2020 to reach an activity rate of …							
	Employment in 2000	48% (actual rate)	**To be created**	51% (hyp. 1 : South of Europe)	**To be created**	56% (hyp. 2 : European Union)	**To be created**	58% (hyp. 3 : Candidate Countries)	**To be created**
Algeria	5 726	8 759	**3 033**	10 833	**5 107**	11 794	**6 068**	12 157	**6 431**
Cyprus	300	428	**128**	428	**128**	428	**128**	428	**128**
Egypt	17 289	29 088	**11 800**	31 366	**14 077**	34 149	**16 860**	35 198	**17 910**
Israel	2 221	3 109	**888**	3 109	**888**	3 195	**974**	3 294	**1 073**
Jordan	815	1 459	**644**	2 344	**1 529**	2 552	**1 737**	2 630	**1 815**
Lebanon	1 365	T1 473	**108**	1 594	**229**	1 736	**370**	1 789	**424**
Malta	145	160	**15**	166	**21**	180	**36**	186	**41**
Morocco	9 019	13 199	**4 180**	13 199	**4 180**	14 002	**4 983**	14 432	**5 413**
Syria	4 611	8 547	**3 936**	8 547	**3 936**	8 700	**4 089**	8 967	**4 357**
Tunisia	2 702	3 704	**1 002**	3 903	**1 200**	4 249	**1 547**	4 380	**1 677**
Turkey	20 579	28 816	**8 237**	31 280	**10 701**	34 055	**13 476**	35 102	**14 523**
Total MP	64 772	98 742	**33 970**	106 768	**41 996**	115 041	**50 269**	118 562	**53 791**

With the exception of Turkey and Lebanon, who experienced exceptional circumstances, this advantage was maintained despite great internal (droughts) and external (lower tourism revenues, higher oil prices) shocks.

Nevertheless, within the context of a higher demand for jobs, the persistence of pockets of poverty and the growing need for social coverage (especially for old people), state budgets will become increasingly burdened. This phenomenon clearly appears at the end of the period and will require deep structural changes (tax base, tax collection, etc.).

The FEMISE position is that the advantage of macro-economic stability must be preserved. This were acquired at an enormous cost in effort and is now a trump card for the MC, relative to other countries (especially those countries engaged in acquiring membership).

a- A stabilised macroeconomy able to resist shocks

The most austere macroeconomic management set into place in most of the region (except Turkey and Lebanon) was characterized by:

(i) relatively low inflation rates since the mid nineties,
(ii) acceptable budget deficit ratios (except in Lebanon and Turkey) with a leap, however, at the end of the period in some countries (Egypt, Morocco),
(iii) external account balances that strongly depend on the transfer of the migrant workers' remittances, tourism revenues and public aid from the international community, since direct and portfolio investments are insufficient balancing factors,
(iv) austere monetary policies promoted by anchorage mechanisms related to the exchange rate, and based on a decreasing recourse to seigniorage in financing the state's budget,
(v) high unemployment rates which, given the still considerable active population growth, constitute a heavy constraint that the FEMISE believes will play a determining role in the years to come, on the one hand due to the youthfulness of the population concerned (youth unemployment, including graduates is becoming a major concern in the MC) and, on the other, the present international context.

Macroeconomic stabilisation now seems to be solidly anchored in government practices. However, two black areas remain.

Firstly, low GDP growth, only slightly higher than active population growth, which is close to 3% per year. This is a recurrent difficulty in the macroeconomic picture, inasmuch as the economy can only absorb internal (bad crops) or external (decrease in tourism revenues, in transport, evolutions of primary product prices, slow European growth) shocks at the cost of a marked unemployment increase. Secondly, the brittle balance of external accounts, when the region is inserting itself in the free-trade-area and is facing greater competition vis-à-vis local products.

Slow growth has several causes, each of which require a set of appropriate responses:

(i) insufficient capital accumulation to be able to catch up (20.3% investment rates in 2001 in the MC on the average, compared with the 26% of countries in the process of joining the EU and of higher investment rates (over 30%) in the South-East Asian countries when they took off). This insufficient capital accumulation simultaneously requires

Macroeconomic Aggregates in the Mediterranean Countries

	Growth rate (% annual ave.) 1995-1998	(ii)	Growth rate (% annual ave.) 1998-2001		Growth rate (% annual ave.) 2002		GDP ppp per capita International $ 2001	(i)	Inflation rate (%) 1995-1998	(iii)	Inflation rate (%) 1998-2001	(iii)	Inflation rate (%) 2002	(iii)	Budget balance (% GDP) 2001	(vi)	Budget balance (% GDP) 2002	(vi)
Algeria	3,0%		2,6%	(i)	4,1%	(iv)	5335		16,1%		3,0%		1,4%		-1,6%		0,0%	
Cyprus	5,2%		4,7%		2,2%	(iii)	20824	a(iii)	2,8%		2,7%		2,8%		-3,0%		-3,5%	
Egypt	5,4%		4,9%		3,2%	(iv)	3693		7,9%		3,2%		2,7%		-4,7%		-5,8%	
Israel	3,3%		2,9%		-1,2%	(iv)	20131	a	8,9%		3,4%		5,7%		-3,1%		-4,0%	
Jordan	2,7%		3,7%		4,8%	(iii)	3966	a	4,1%		1,9%		1,8%		-3,0%		-3,9%	
Lebanon	3,3%		0,5%	(vi)/d	3,5%	(ix)	4308		7,7%		-0,8%		n.a.		-16,9%		-11,8%	
Malta	4,1%		3,1%		1,0%	(iii)	17273	a(iii)	3,0%		2,5%		2,2%		-6,8%		-6,2%	
Morocco	5,4%		2,7%	(iii)	4,5%	(iii)	3716		3,2%		1,5%		2,8%		-6,7%		-4,3%	
Syria	5,8%		-0,7%	(ii)/d	n.a.		3592		4,3%		0,2%		1,7%		-4,5%		n.a.	
Tunisia	5,8%		5,2%	(iii)	1,7%	(iii)	6598		4,2%		2,7%		2,8%		-2,7%		-1,8%	
Turkey	6,0%		-1,8%	(iii)	7,8%	(iv)	6367		84,7%		1,9%		45%		-10,0%		-14,7%	
Total MP (0)	*4,6%*	*1*	*3,8%*	*1*	*3,4%*	*1*	*5 335*	*1*	*4,3%*	*1*	*2,5%*	*1*	*2,8%*	*1*	*-3,1%*	*1/2*	*-3,9%*	*1/2*

	Interbank interest rate 2002	(iv)	Current account balance (% GDP) 1998-2000	(ii)	Current account balance (% GDP) 2002		Gross Domestic Fixed Investment 2001		Debt Service (% of exports) 1995-1998	(ii)	Debt Service (% of exports) 2002	(ii)	Reserves (Number of month of imports) 1998-2001	(ii)	Monetary base growth (% an. ave.) 1998-2002	(ii)	Unemployment rate 2002	(iii)
Algeria	5,5%		n.a.		n.a.		26,5%	(vi)	33,0%		19,5%	e	8,5	d	14,9	c	27,3%	e
Cyprus	4,4%		-4,6%		-6,1%	(iv)	17,3%		n.a.		n.a.		4,3		12,5		3,3%	
Egypt	5,5%		-1,2%		0,0%	(iv)	22,5%	(iv)	11,0%		12,0%		8,9		10,4		9,1%	
Israel	6,5%		-1,9%		-2,1%	(vii)	19,5%	(ii)	19,7%		n.a.		6,4		9,6		10,3%	
Jordan	4,5%		-0,1%		4,9%	(iv)	20,3%	(ii)	16,0%		13,7%		5,7		9,5		15,3%	
Lebanon	10,8%		-20,8%		n.a.		*20,3%*		18,0%		46,3%	e	8,6		8,2		9,9%	*a*
Malta	4,0%		-7,4%		-5,0%	(iv)	23,2%		n.a.		n.a.		5,2		7,4	b	6,8%	
Morocco	5,1%		0,6%		3,8%	(x)	23,6%	(vii)	28,0%		17,8%	e	5,0		9,8		11,6%	
Syria	n.a.		0,6%	d	n.a.		17,4%		6,0%		n.a.		n.a.		18,6	c	11,7%	
Tunisia	6,1%		-3,5%		-3,5%	(iv)	26,3%	(iv)	16,0%		16,7%		2,0		11,6		14,9%	
Turkey	n.a.		-0,7%		-3,7%	(iv)	21,7%	(iv)	23,0%		47,2%		4,7	d	101,0		10,6%	
Total MP (0)	*5,5%*	*1*	*-1,6%*	*1*	*-2,8%*	*1*	*21,7%*		*18,0%*	*1*	*17,8%*	*1*	*5,5*	*1*	*10,4*	*1*	*11,7%*	*1/2*

Sources: World Bank, WDI 2002 (i) ; International Monetary Fund, SFI April 2003 (ii) ; Eurostat, Medstat program (iii) ; Central Banks (iv) ; National Statistics Offices (v), EIU 2002 (vi), Ministry of Finance (vii), Calculations Institut de la Méditerranée (viii), World Bank forecasts online WDI 2003 (ix), BMCE Bank Maroc.
0: unless otherwise indicated, MP ratios are calculated from the sum of the nominal values in $. 1: median of the countries retained. 2: excluding Turkey. 3: excluding Lebanon. a: 2000, b: 2002, c: 1998-2001, d: 1998-2000, e: 2001.

higher savings rates and an improved transformation of savings into investments (some countries like Morocco are over-liquid - which suggests lack of dynamism of the financial system, a lack of entrepreneurial projects and defects in the institutional framework - especially the capacity to recover loans),

(ii) a weak allocation of capital, in the sense that it does not go to the more productive jobs. This is a sign of a disfunction in the capital market which is still largely focussed on public enterprises. Here again, reform of the institutional and regulatory frameworks is necessary, but is hampered by the unemployment rate which encourages all kinds of official and unofficial practices aimed at slowing down the substitution of labor by capital. The result is virtually no increase of labor productivity since the beginning of the nineties,

(iii) slow technical progress which contributes very little to growth (productivity only increases in the most dynamic countries, Tunisia, Jordan), which on the whole means a lack of innovation, insufficient organisational progress and inadequate levels of improvement of the factors of production through learning (endogenous growth). One of the possible remedies here, as advised by the World Bank, is the accelerated development of what is known as the "knowledge economy", a kind of economy in which the region is significantly lacking (Reiffers, Aubert, 2002).

Secondly, the external account is extremely fragile due to the persistence of a trade deficit that is either poorly counter-balanced or compensated for via resources that depend excessively on an uncertain economic climate. However, such trade imbalances are natural for countries in transition. The saving deficit to which it corresponds reflects the fact that the population is young and the development gap wide.

Current difficulties are due to the fact that balancing the external position is based on two highly volatile resources: remittances from the immigrants in Europe, and tourism. We must note, on the other hand, that the size of the external debt and of the annual reimbursements of the principal of this debt presently make the costly public external net transfer negative for the MC (the interest free net public external transfer is low except for Israel and Egypt). This brittleness, which places the MC at the mercy of conjunctural events, and which presupposes that the international community will intervene *ex-post*, piecemeal, and massively, every time a difficulty arises, can be corrected in two ways:

(i) via an improvement of the competitiveness of exports by a greater diversification, up-market activities and more aggressive trade policies,

(ii) via attracting more direct and portfolio investments that have the double advantage of contributing to settling the external account and increasing productivity.

GDP growth components in persistantly unfavourable conditions

Several major events have characterized the past two years and weakened the situation of the MC despite progress previously accomplished.

(i) The World economy has experienced a strong slowdown. World growth rose by 2.2% only in 2001 and estimated at 2.8% in 2002. These rates are much lower than the 4.7% reached in 2000. Symptomatic of this predicament, glo-

bal trade also slumped and shrank by 0.1% in 2001 after having increased by 12.6% in 2000, a decline which had not occurred in 20 years. Furthermore, growth in the European Union, one of the main partners of the MC, is increasingly sluggish; rates amounted to 4.7% in 2001 and 0.9% in 2002, clearly below the 2.8% of 1999 and 3.5% of 2000. This tendency and its probable sequels in 2003 are serious handicaps for the MC where external demand has become the driving engine of growth, given the extent of income elasticity.

(ii) The already considerable slump in tourism revenues is equally protracted. After a shy recovery at the end of 2002, the trend seems to be negative again in 2003.

(iii) Oil prices are still high, which has a negative impact on importing countries in the MC. However, the effects are equally adverse in the exporting countries, inasmuch as high levels generate the need for an adjustment of domestic monetary issuance and shocks induced by global demand.

Although the MC have demonstrated their support for the adoption of healthy economic policies, the persistence of a frankly unfavourable economic climate heavily reinforces the constraints they face.

By analysing the components of the MC's gross internal product, we see that they have so far absorbed the different shocks through a combination of means and without an excessive use of credit and/or a budget deficit. But the persistence of these negative conditions has forced them to introduce changes in political tendencies:

(i) more flexible policies, in some cases; in Israel, it was the public sector which increased its expenditure in 2002 to compensate for the reduction of private consumption and of fixed investment, and to avoid a negative growth rate, given plummeting exports. For Tunisia, which so far relied on external demand to feed its growth trajectory, the decrease in exports (-0.6%) hampered investment and required a significant increase of public consumption to sustain labour. Turkey accompanied its economic boom in large part with a public consumption rate twice higher than that of private consumption. Tunisia thus smoothed over the cycle while the other two MC took action to limit the negative impact of these very special situations which affected the real economy;

(ii) other countries emphasized austerity: Cyprus, Egypt and Morocco that had partly refused real adjustment and used public consumption as the main engine of growth in 2001, returned to healthier

Table 5: Breakdown of MC growth, 2001 and 2002

2000-2001	Algeria	Cyprus	Egypt	Israel	Lebanon	Malta	Morocco	Syria	Tunisia	Turkey
GDP	***2,1%***	***4,1%***	***3,5%***	***-1,1%***	***1,3%***	***-0,8%***	***6,5%***	***3,4%***	***4,8%***	***-7,5%***
Private Consumption	7,6%	3,4%	1,3%	1,7%	8,8%	-0,6%	10,8%	-0,8%	5,2%	-9,2%
Public Consumption	0,9%	10,6%	3,8%	4,0%	-1,9%	7,2%	13,8%	8,6%	6,2%	-8,5%
Fixed Investment	1,2%	2,3%	7,4%	-7,5%	-6,5%	-12,5%	3,1%	8,0%	3,9%	-31,5%
=Total Domestic Demand	***10,0%***	***3,2%***	***2,5%***	***1,5%***	***5,0%***	***-6,6%***	***10,7%***	***2,0%***	***5,8%***	***-15,7%***
Goods and Services Exports	-9,8%	4,8%	3,3%	-13,3%	11,4%	-15,5%	4,7%	13,1%	12,2%	7,4%
Goods and Services Imports	1,2%	0,9%	-0,4%	-2,1%	5,3%	-7,1%	6,1%	11,3%	4,4%	-9,1%

2001-2002	Algeria	Cyprus	Egypt	Israel	Lebanon	Malta	Morocco	Syria	Tunisia	Turkey
GDP	***2,4%***	***2,2%***	***3,2%***	***-1,1%***		***1,0%***	***3,0%***		***1,7%***	***7,8%***
Private Consumption	2,7%	2,4%	3,5%	-1,0%		2,7%	2,0%		3,4%	2,0%
Public Consumption	2,5%	2,5%	5,0%	5,4%		2,5%	4,6%		4,5%	5,4%
Fixed Investment	7,3%	10,3%	0,6%	-8,8%		-4,2%	3,2%		-0,9%	-0,8%
=Total Domestic Demand	***3,4%***	***0,8%***	***1,5%***	***-1,3%***		***-1,6%***	***2,4%***		***0,5%***	***9,4%***
Goods and Services Exports	1,9%	-6,0%	-7,8%	-4,8%		-4,8%	2,2%		-0,6%	11,0%
Goods and Services Imports	7,7%	-1,8%	-6,0%	-1,9%		-5,5%	0,5%		-1,7%	15,7%

Sources: Algeria, Cyprus, Egypt, Israel, Malta, Tunisia, Turkey, Eurostat, Medstat program, Jordan and Lebanon, World Bank, Morocco, Ministry of Finance.

policies in 2002, by reducing or strongly containing its growth rate;

(iii) finally, others kept up austerity programs: Algeria and Syria took advantage of the high price of petroleum. The contribution of private consumption in these countries is low. Growth is obtained by fixed but essentially public investments, which is detrimental to any real take-off of their economies.

Developments in the balance of payment.

In 2001, MC balance of goods and services improved, except for Tunisia and Jordan. The deficit was reduced by two thirds leaving out Israel and by more than 46% including Israel. This result is not really positive because it is due to:

(i) an improvement of the balance of goods, generated by the slump in private consumption and in MC economic activity, which led to a drop in imports greater than export revenues. The former dropped by -14% in 2001 while they increased by 18% in 2000. The latter stagnated in 2001 (+0.9%) after having increased by 12% in 2000. Thus it was the unfavourable predicament rather than any structural improvement that paradoxically led to a positive effect.

(ii) The maintenance of the services surplus at a sufficient level, despite weak tourism, but at 8.5% less than in 2001 while it had increased by 54.9% between the first and second halves of the nineties. The fall in tourism revenues was particularly steep for Israel (-43%) and accounts for the deterioration of services in Jordan. Such impacts were largely offset by the very great improvement of the situation in Morocco (+33% in tourism revenues).

The balancing effect of worker remittances was maintained as well as that of uncovered capital transfers. Remittances were particularly profitable for Jordan and transfers for Turkey. On the whole, the net current accounts of Israel, Egypt, Morocco and Turkey improved spectacularly. However, except for Morocco, we must remember that this was merely a circumstancial effect resulting from the economic recession.

The climate of uncertainty weighed heavily on the financial accounts. Setting Egypt aside, all the MC suffered from a short term capital drain. The portfolio investments deficit dramatically increased between 2001 and 2000: outside Israel, the balance of this account went from +188 to -3 679 million dollars. This is entirely the result of the Turkish situation since the balance of its operations, after having reached +1 02 million in 2000 plummeted to -4 575 million dollars.

We probably cannot hope for an improvement in 2003 because, although the succession of shocks in 2001 was exceptional, the MC suffered from the slump in the European economy which had deep effects. Furthermore, in 2002, tourism revenues plummeted by 10% to 15% in all the MC except Jordan (+12%) and Turkey (+5%) and there will be consequences to the war in Iraq, especially with regard oil prices and the slump in tourism.

An improvement could certainly be generated by the transfer of worker remittances following an upswing in the oil prices, but the net result is uncertain for most of the MC because the oil bill is also on the rise.

At any rate, the agricultural season was good in 2002 and has had very positive effects on the situation of the Maghreb countries.

The structural weakness of the MC external accounts has persisted due to the fact, on the one hand, that the settling of the external position is essentially based on two highly voaltile resources - remittances from workers in Europe, and tourism, and on the other hand, the fact that MC are increasingly exposed to the fluctuations of the international and European situation as a result of the liberalization they have opted for.

We must also underscore the fact that a great part of the structural brittleness of the external account was induced by MC relations with the EU. Given the commitment of the MC vis-à-vis the EU, settling the external account is the main economic element that will allow for an evaluation of the quality of the interdependence that has developed between them. In simpler terms, the objective is to succeed in providing - with an underlying system of coherent economic interdependence - the close geographical and human proximity that binds the EU to the MC, manifested by emigration, tourism and more generally, the mobility of people.

b- Constraints and rigidities that in the long term impede government action

The reform of taxation is unavoidable because: (i) MC must find resources to replace revenues from customs duties, (ii) the present budget structure does not allow for an efficient counter-cyclical action, (iii) short term remedies are antithetical to a sustained and stable long term growth objective.

Taxes on international trade still constitute an important share of the total budget resources of most of the MC: it was a marginal share in 2002 in Israel, and Malta (1% for the former), it waivered between 10% and 14% in Algeria, Egypt, Jordan, Morocco, Tunisia and Turkey and reached 28% in Lebanon (Source IMF, GDF and national institutes). This is therefore an important tool for the MC and they must find a substitute for it, since it is destined to become marginal in the light of their new commitments.

However, the Jordanian and Tunisian economies, which are among the most dynamic in the area, have seen this share diminish by two thirds in a decade (11.6% and 10% of total revenues respectively in 2002 against 28% in 1993). This indicates that the acceleration of growth resulting from MC economic liberalization might offset the loss of this resource, especially because a job increase will increase other tax revenues. Further, the case of these two countries indicates that, thanks to the diversification of production, the intensification of trade will diminish budget balance dependence on the cost of raw materials such as oil and also phosphate, and also the volatility of the terms of trade. The mechanism is as follows: diversification, which means increasing MC products, while taking their initial structure into consideration, will allow improving purchasing power of exports and result in importing material that incorporates more technical sophistication and is therefore, theoretically more expensive but also more productive, and thus stimulates the competitiveness of local production.

The MC are equally penalized by systems of direct and indirect taxes that have not achieved full profitability. These systems were only recently set into place except in Cyprus, Israel, Malta and Turkey. States are thus relinquishing an important amount of revenues since:

(i) governments have opted to exclude the VAT from a number of basic products so as not to aggravate poverty; the price of some products, such as fuel in Morocco,

is also subsidized. In this context, population growth, without a rise in the standard of living, can alter the budget balance because consumption growth in volume will favor VAT exempted basic products (shortage of tax revenues) and subsidized products (higher public expenditure);

(ii) the informal sector's share in the economy, also by definition, stretches tax revenues, especially because the levying systems do not allow for an efficient follow-up of the narrow tax base.

It is increasingly clear that in the countries where the tax reform has been most complete, the governments' margins of manoeuvre are much less dependent on revenues from privatisation, for example, which are precarious and non renewable and therefore should not be considered a budget resource. With reform, resources are more predictable and create less distortions between the agents or between the sectors. Thus the fiscal system becomes more equitable. A long term action by the state can be envisaged and it would not require frequent amendments in adverse cicumstances during the financial year, as these are always prejudicial to capital investment and to credibility vis-à-vis the government's capacity to steer the economy.

As regards expenditure, recurrent political tensions have weighed heavily on the governments' margin of manoeuvre. Officially, expenditure remained higher for defense than for education or health in Lebanon (9% of total expenses), in Israel (18% of total expenses) and in Jordan (24% of total expenses). In Egypt and Morocco, it amounted to 10% and 15% of total expenditure. A real commercial integration of the region, demonstrating a real political will to resolve the devastating regional conflicts, would avoid the absorption of about 11% of total expenses given to defense by these seven countries. An idea of the figures at stake can be seen if we lower this rate to 5% (which is approximately its share in the total expenditure of Tunisia or of a country like France). This would result in savings of about 9.5 billion dollars per year, which is of the same order as the total amount of FDI received annually during the past two years.

The burden of the external debt is equally a barrier to growth in the MC, except for Cyprus, Israel and Malta. They must achieve a highly positive primary balance so as to honor the service of the debt. Thus, a great part of tax revenues is not reinjected in the economy. The burden of the internal debt is equally a source of concern. Resulting from budget deficits, it drains domestic savings and the available hard currencies. Thus, the internal debt amounts to 78% of the debt for Turkey, 67% for Morocco, 65% for Egypte for 57.5% to Tunisia. On the other hand, this ratio amounts to only 20% for Jordan. Lebanon has reduced its domestic debt from 92% in 1993 to 54% in 2002. Reducing the internal debt is therefore indispensable to stimulate investment, to reduce the eviction of the private sector, and to diminish the uncertainties that weigh over the balance of payments. This is particularly urgent in Turkey or Lebanon whose banking systems are highly exposed given the level of their involvement in the financing of the public debt (respectively 65% and 80% of their banking loans are from the public debt).

The problem is that adjustment essentially relies on budget management, given that the MC refuse to have recourse to seigniorage. Economic conditions do not help, since real interest rates are too high and growth insufficient. While a significant improvement was

observed in 2002, this was induced by an upswing of inflation that reduced the real interest rates, rather than from a downswing of nominal interest rates.

It remains that the most diversified economies and the most advanced with regard budget reform are those that have best monitored the development of their budget balance: Cyprus, Israel, Jordan, Malta and Tunisia. As to the other countries, their balance is still dominated by oil prices (Algeria, Syria), agriculture (Morocco) and is very sensitive to the economic conjuncture (Egypt, Lebanon, Morocco, Turkey).

However, governments' capacity to smooth down the economic cycle will be put to the test once more in 2003 (as in 2001), due to the numerous shocks that have occurred and to their persistence. Governments will have to face, in particular:

(i) an increasingly greater need for hard currency, resulting from the deterioration of the external account provoked by soaring oil prices and the loss of an important trade partner (Iraq), especially for Jordan;

(ii) a slowdown of growth consecutive to the persistent downtrend of tourism. Israel, Morocco, Tunisia and Jordan should be able to absorb the shock without major difficulties, seeing that these countries, anticipating the potential lack of hard currency, issued sovereign debt bonds and obtained good rates (400 million Euros at 230 basis points - bp - for Morocco, 750 million Euros at 153 bp for Israel, 500 million Euros at 300 bp for Tunisia). The situation will be much more difficult in Turkey and Lebanon where the debt is supportable, ensured by international aid and also, in the case of Turkey, by having

Box 1: Growth and sustainability of public deficits and public debt
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The study of the sustainability of the fiscal policy and the public debt in Tunisia was carried out according to two of three methods identified in the literature, namely, (a) the "accounting" method which consists of step by step evaluations, year per year evaluations, and which allows simulations for the near future (note that this method followed by the IMF for their country-studies); (b) "actuarial" method, inspired by the work of B.Trehan and C.E.Walsh (1988) (1991) and the econometric studies of E.C. Quintos (1995) or several papers of S.van Wijnbergen (alone or with other authors).

(a) Very brief summary of the implementation of the "accounting" method: From the budgetary constraint identified as follows: Bt - Bt-1 = Dt + r Bt-1, and, by expressing these sizes in proportion of the GDP, from now on indicated by small letters, we are to check the stability of the national debt namely bt = bt-1, whatever the t (i.e. at a certain time, which means in a permanent mode). this condition is written as follows: dt = - (r – n) / (1 +n) bt, expression in which n indicates the nominal growth rate of the economy and dt the primary net budgetary position necessary each year to maintain the public debt rate constant on its current level.

The application of this method for Tunisia between 1986 and 2000 (F.Gabsi) shows that with the exception of the years 1991 and 1995, the primary budget deficits achieved were lower than the critical threshold of sustainability dt.

(b) A brief summary of the implementation of the "actuarial" method: this method is based also on the public sector's budgetary constraint study expressed as follows: Bt = (1+ rt) Bt-1 - SURPt, expression in which Bt represents the titles of the national debt, the date t and SURPt the primary surplus, difference between the public receipts Tt and the expenditures Gt; r is the real revenue rate of the public titles. By recurrence, while solving recursively by substitution, one obtains the inter temporal "actuarial" budgetary constraint of the State: Bt = Et (SURPt+j / (1 + r)j+1) + Et limN (BN+1 / (1 + r)N+1).

From this approach, and after having proceeded very rigorously to a certain number of sophisticated econometric tests, it could be shown (E Ayadi) that the long term elasticity of the public expenditure compared to the GDP, in the case of Tunisia, is much higher than that of the receipts and that Tunisia seems a structurally overdrawn country, which is not in favor of a weak sustainability but tends to prove that the budget policy is non sustainable.

Several other econometric methods were conducted and others are being carried out to support this conclusion, which has the merit of revealing a result different from that obtained by the accounting method. It is then a matter of explaining why the two methods used lead to a different diagnosis.

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recourse to the domestic banking sector (with highly negative consequences on growth), and in the case of Lebanon, by restructuring the debt (Bellocq, 2003).

Two elements can ease the need to finance the economy:

(i) the restructuring and privatisation of the banking system, to make it more competitive and more efficient in allocating resources and reducing the asymmetry of information. A greater competition will allow for the emergence of new products: long term loans, directed towards investment rather than trade, for example, without which it is difficult to finance growth;

(ii) opening up the financial markets so as to have recourse to international funds. This policy presents a short term destabilisation risk resulting from the volatility of the drained capitals. However, surveys have shown that accepting such short-term volatility might generate high revenues in the medium term. Further, the stimulating effect on the economy and especially on the private domestic investment of portfolio investments seems to be more powerful than than that of FDI (Sadik and Bolbol, 2001).

These highly competitive markets also allow for a better allocation of resources. However, there is a danger that competition might become global in terms of macroeconomic stability, the credibility of economic policies, the business climate and the costs of transactions, all these being elements that determine the degree of volatility of the investments. It is therefore indispensable to create monitoring and management infrastructures for the institutions working in this field to avoid crises if possible.

c- The strategy of the state, the employer of last resort, and long term negative effects that can hamper future growth

Finally, another heavy constraint burdens MC budgets: public sector salaries. On average, civil public jobs amount to almost 17% of total employment (table 5), while the world average is 11%. Despite a growing interest in the private sector, public sector jobs are still attractive for a large part of the population. Despite their intrinsically low level, public sector salaries were always considered higher than private sector ones, especially given the low levels of qualification required. In fact, the total income earned in public sector jobs surpasses the modest basic salaries, because there is a great variety of bonuses and indemnities the total amount of which can reach 70% of the basic salary. There are, in addition, other advantages in kind, such as less working hours, additional holidays and lower income taxes.

Table 6: Working in the MC public sector in 1999

	Administrations		Social sectors		Total civil jobs	Armed forces	Total
% of Total Employment	General	Central	Health	Education			
Algeria	8,7	4,9	7,5	3,8	24,9	2,7	27,6
Egypt	7,2	11,1	3,8	3	25,1	3,1	28,2
Jordan	3,3	3,3	6,5	2	15,1	10,3	25,4
Lebanon	1,1	1,6	5	0,5	8,2	6,9	15,1
Morocco	2,9	1,7	3,2	0,5	8,3	2,7	11
Palestinian Authorithy	16,6		7,6	2	26,2	Na	26,2
Syria	4,2	1,2	7,1	1,1	13,6	Na	13,6
Tunisia	5,2	0,9	5,4	1,9	13,4	1,5	14,9
MP	**6,2**	**3,5**	**5,8**	**1,9**	**16,9**	**4,5**	**20,3**

Source: ERF, 2000 based on World Bank data.

The increase in public jobs was one outcome of the efforts deployed to improve social services (health, education and social security) and it led to a significant improvement of indicators in these fields (especially health). But this rapidly resulted in a huge and rigid public sector, a high percentage of redundant jobs and a marginalisation of the private sector. In Egypt, for example, it was believed that redundant posts in the public enterprises amounted to 10% of the workforce, but in practice this share is closer to 35%. In Morocco, 23% of public enterprises had very poor results, 36% have incurred losses and the 14 biggest public enterprises suffer an annual loss that reached more than 2% of the GDP in 1992. In Algeria, not less than half a million jobs were made redundant between 1990 and 1998. So many indicators favour the suppression of redundant jobs. But this would require a political consensus and the right social climate, given the social implications of such a trend.

However, leaving out Israel and Turkey, the burden of salaries on the budget strongly shackles government capacity to react in the face of a reduction of jobs.

This ratio amounts to more than 46% of the total expenditure of Jordan (although public jobs amount to only 15% of the total number of jobs, public salaries amount to 14.4% of the GDP), 35% of Morocco's and Tunisia's, 25-30% of Cyprus's and Malta's and 20% of Algeria's, Egypt's and Lebanon's.

Table 7: Salaries ratio in the expenditure of MC governments

(% of total public expenditure)	**1995**	**2001**
Algeria	24	19,4
Cyprus	28,6	26,52
Egypt	17,1	19,41
Israel	15,3	15,1
Jordan	45,7	46,1
Lebanon	21,2	22,63
Malta	33,2	30,72
Morocco	34,2	36,33
Tunisia	31,1	34,64
Turkey	26,9	17,3
MP	**27,7**	**26,8**

1. 1997, 2. 1998, 3. 1999, 4. 2000.
Source: IMF, Governance Finance Statistics Yearbook, 2002.

Beyond the burden that it represents, this type of expenditure develops in a counter-cyclical manner. Thus, in times of crisis, the government, by accepting to behave like a last resort employer, increases the burden of its own commitments and reinforces rigidities because it is then difficult to reduce the number of public jobs when the crisis has been resolved.

In fact, increasing public jobs in moments of crisis produces exactly the opposite effect on growth to the desired one; it side-steps the real mechanisms of the labour market, and generates negative effects.

(i) Competition on the labour market is diminished because the young graduates take refuge in waiting for a public job.

(ii) There is a clear gap between the private sector's need for competence and the available training. This is what partly explains why, despite a 180% increase in the level of manpower education (the most rapid increase ever registered anywhere), economic growth has remained insufficient to match population growth (Keller, Nabli, 2002, Elbadawi, 2002).

(iii) In addition, governments are relatively unable to monitor the evolution of wages. This might lead to a greater pressure on internal demand, and hence on inflation, on external accounts, which are already vulnerable in the international economic context, and on hard currency needs. Rises in wages from the public sector could also

increases the cost of labour for the private sector. Foreign investments can equally have this kind of effect, but they are expected to improve productivity in trading. Thus, the comparative advantage of the MC with regard to the cost of labour is gradually disappearing without generating an advantage in productivity, while the high cost of labour obstacles the development of the private sector.

(iv) Whenever there is an economic slump, this configuration forces the authorities to draw on the anticipated investment expenses. But in fact, the rhythm of growth and increased productivity required to contain and reduce unemployment cannot be achieved without public savings. When the investment capacity of governments is low, these must have recourse to internal and external debts, with the forementioned negative effects. However, from the point of view of external financial flows, the MC situation is not auspicious. FDI, which would have a significantly positive impact on economies, is barely present. Bank loans are diminishing due to the uncertain predicament of the region and portfolio investments are limited by the lack of depth and liquidity of the MC financial markets.

III- Improving the vitality of growth

a- Emphasizing action on global productivity

With about a 3% GDP growth on average (corresponding to the 2.8% active population growth rate), it would be fanciful to think that the MC might achieve significant labour productivity increases through a massive substitution of labour by capital.

MC are facing a difficult combination of objectives for which they would need to reconcile:

(i) the stabilisation of the macro-economic situation;
(ii) liberalisation and increased competitiveness to preserve/acquire market shares;
(iii) social stability via a larger social coverage, reducing pockets of poverty and illiteracy, and increasing revenues.

How can the margins of manoeuvre that can reconcile these three objectives be restored?

Box 2: Segmentation of the labour market in Egypt

State intervention in the labour market generated a strong segmentation, in particular in Egypt. The government abolished the employment guarantee for holders of a secondary education diploma and higher education degrees at the beginning of 1990. However, those who can wait prefer to be registered as unemployed because they believe they will be able to obtain employment in the public sector in the long term. There is thus a reserve of unemployed labour requiring relatively high wages beyond the possibilities offered in the private sector. This wait-and-see policy constitutes a net loss for companies, which cannot profit from the externalities due to employment of a better-qualified labour force in private activities. The government also loses insofar as it finances education then this population remains inactive, waiting for employment that is of low productivity and which burdens the capacity for growth of the economy.

Distribution of employment by level of education:

Sector	***Lower than intermediary level***	***Intermediary level and above***	***University Diplomas and above***
Government	*7.4*	*47.2*	*55.6*
Public enterprises	*5.3*	*15.8*	*14.7*
Agricultural sector	*57.6*	*9.6*	*2.6*
Non agricultural sector	*29.7*	*24.5*	*23.0*
All sectors	*100*	*100*	*100*

Source: Bridsall and O'Connell, 1999.

Ideally speaking, countries should increase factor productivity and accumulate more capital (the competitive aspect of growth) but not to the detriment of an increase in the labour force.

The substitution of capital to labour, which is true of open, industrialised and flexible economies, presupposes a vital economy to absorb the effects of adjustment to this mode of operation. This condition is not fulfilled in the MC and explains the difficulty that faces developing an open market economy - which task is impeded by all sorts of interventions aimed at limiting its effects on unemployment.

A modification of the growth regime itself is therefore imperative, which implies action on global factor productivity and an ever greater improvement of factor quality (endogenous growth: see box 4).

This imperative requirement to modify the growth regime entails:

- √ a greater accumulation of more "productive" capital, and here, foreign direct investment is a decisive input;
- √ a continuous upgrading of the labour force (human capital) by raising training levels and through an adequate matching of training and jobs;
- √ an increase of Global Factor Productivity (technical progress in the Solow sense of the word) which is the best way to increase per capita production without an exaggerated substitution of labour by capital.

It is observed, on the one hand, that the increase in labour productivity is low in the MC, which automatically results in lower competitiveness when the salaries rise and, on the other hand, that the contribution of global productivity to the growth of production is low, not to say negative.

MC registered very little additionnal per capita revenues when they mobilised new factors of production. This absence of technical progress makes growth closely dependent on capital accumulation.

There are several tracks we can explore to remedy this situation:

- √ firstly, innovation and improvement of the quality of products,
- √ secondly, seek progress in the internal organisation of enterprises and, in particular, in the optimisation of the productive combination (intermediary consumptions, capital, labour),
- √ thirdly, look for synergies (external elements) that can be developed between firms with the encouragement of the public authorities,
- √ fourthly, a continuous improvement of the factors of production and especially labour, through the development of training levels, matching of training to jobs, and lifelong training.

MC are today behind schedule on all these fronts, and they must make a considerable effort if they are to become capable of entering the virtuous circle of a growth based on an increase in productivity and a redistribution of revenues. This is the price of a growth regime that would make it possible to absorb the growing active population.

The FEMISE believes that the open door policy and liberalisation strategy adopted is the best inasmuch as it directly affects the behaviour of the actors. However, while action by the state is necessary to create a number of externalities (especially the quality of public goods in such matters as edu-

Box 3: Total Factor Productivity in the MC

The measurement of Total Factor Productivity (TFP) is the simplest econometric method and most used to evaluate the past and future performances of growth of an economy, its capacities of correction relative to other economies and the differences in level of income and growth.

TFP is calculated starting from the decomposition of the three principal elements of growth, which are capital accumulation, work accumulation and technical progress. Once these are identified, the residue is interpreted as the measurement of the TFP.

The concept is important. But, the methodology suffers from several limits which are due at the same time to the method (an explanatory capacity through a residue) and to the main assumptions, essential for its implementation, which are:

(i) the type of the retained production function which assumes constant economies of scale, in turn which means that when no constant economies of scale occur due to the presence of externalities, one allocates to factor productivity the effect of the externalities; it is of course possible to choose a production function of increasing or decreasing economies of scale. But, in all cases, this requires fixing the desired hypothesis at the beginning, by giving a value to this parameter;

(ii) the capital and labour values in the added value of the economy, which must be fixed. For developed economies, this hardly poses problem: one measures relatively well the stock of given available capital at one point in time in a given economy, which makes it possible to know the share of the capital (traditionally noted α) with little uncertainty. In practice, it varies between 0,3 and 0,5 according to the country. But, in the case of the developing countries in general and the MC in particular, measurements of the stock of capital are not very reliable, which induces a great uncertainty on the value of the parameter.

However, it was shown that small differences in the preceding assumptions can involve very significant differences in the results. Thus, the World Bank calculated the annual growth of the TFP for Korea during the period 1960-1997 according to various hypotheses (Cf. World Bank Premnotes n°42, September 2000). By supposing decreasing outputs (parameter 1 to 0,8) and a share of the capital identical to the value traditionally used for the developing countries (parameter 2 to 0,3), the result obtained is an annual growth of the TFP of 3%. But, by supposing increasing outputs (parameter 1 to 1,2) and a higher share of the capital (parameter 2 to 0,5), the result obtained is completely contrary: the TFP would have decreased of 1,4% per annum during the same time.

It is then clear that the assumptions taken are essential. Why, for example, should the economies of scale not be constant? Because competition is not perfect, which is very evident in the developing countries. In the same way, when we use an approach comparing several countries, a third series of hypotheses must be made on the differences in the value of the parameters in each country. For example, in the MC, one can suppose that the value of the parameter has α (the share of the capital) is identical, which means they employ all more or less same technology. As shows it the following table, Algeria would have largely exceeded Morocco in performance terms. But, if we suppose that the parameter is different for each country (which means there is a difference in the technology employed), the result turns to the opposite here still.

The limit of this method is that the statistical errors that are made in the measurement of the values of the coefficients as well as those of the variables of stock of capital or work determine the end value of the TFP. The robustness of the results presented was thus tested by the coherence of the values produced by various authors and from different data.

Nevertheless, one can learn some lessons from several estimates carried out in the MC:

(i) All MC have a negative TFP over 1981-1990, meaning during the period of oil prices decrease and the entry in a strong economic recession phase.
(ii) The contribution of growth factors has changed for all MC in favor of labour. In Jordan and Turkey, the capital accumulation still contributes more to it, but the difference has decreased. For the others, the contribution of the labour factor to growth has become bigger than that of capital during 1991-1997, while it was the opposite for 1970-1980. That explains well the fact that they have put emphasis on the absorption of new entrants to the labour market.
(iii) But, as mentioned earlier, this movement has to lean on competitiveness in many cases. The growth of TFP was negative over the period 1991-1997 for Turkey and Morocco while it was positive over the former decade. Jordan and Algeria have undergone a negative TFP growth for at least two decades.

Country	Period	Growth Rate			Contribution to Growth (α =0,54 for all Countries)			Contribution to Growth (A different α per Country)		
		Output	Capital	Labor	Capital	Labor	TFP	Capital	Labor	TFP
Algeria	1960-80	6,73	7,04	2,52	3,80	1,16	**1,77**	4,93	0,75	**1,04**
	1981-90	2,46	4,87	3,73	2,63	1,72	**-1,88**	3,41	1,12	**-2,06**
	1991-97	0,83	1,02	4,27	0,55	1,96	**-1,68**	0,71	1,28	**-1,16**
Egypt	1960-80	6,77	7,95	2,20	4,29	1,01	**1,46**	4,53	0,94	**1,29**
	1981-90	4,93	8,75	2,52	4,73	1,16	**-0,95**	4,99	1,08	**-1,14**
	1981-97	4,86	1,28	2,84	1,23	1,31	**2,32**	1,30	1,22	**2,33**
Jordan	1960-80	5,76	10,95	3,22	5,91	1,48	**-1,63**	6,57	1,29	**-2,10**
	1981-90	3,19	6,99	5,04	3,78	2,32	**-2,90**	4,19	2,02	**-3,02**
	1991-97	4,18	8,20	6,00	4,43	2,76	**-3,00**	4,92	2,40	**-3,13**
Morocco	1960-80	5,87	8,25	2,71	4,45	1,25	**0,17**	2,97	1,73	**1,16**
	1981-90	3,57	4,95	2,46	2,67	1,13	**-0,23**	1,78	1,57	**0,22**
	1991-97	2,36	3,59	2,61	1,94	1,20	**-0,78**	1,29	1,67	**-0,60**
Tunisia	1960-80	6,61	6,48	2,84	3,50	1,31	**1,81**	4,99	0,65	**0,97**
	1981-90	3,72	4,60	2,78	2,48	1,28	**-0,04**	3,54	0,64	**-0,46**
	1991-97	4,30	3,92	2,96	2,12	1,36	**0,82**	3,02	0,68	**0,60**
Turkey	1960-80	5,18	7,60	1,42	4,11	1,65	**0,42**	4,71	0,54	**-0,08**
	1981-90	5,35	4,63	2,59	2,50	1,19	**1,65**	2,87	0,99	**1,49**
	1991-97	3,96	5,48	3,14	2,96	1,44	**-0,45**	3,40	1,19	**-0,64**

Source and calculations: Sekkat (2000)

cation, research and training) it is constrained by and subjected to cyclical fluctuations and therefore cannot be the main engine of these evolutions.

b- Accelerating the implementation of the necessary reforms to modify the growth regime

The transition to a market economy requires, first, setting into place a legal and institutional framework which provides the conditions for an efficient functioning of markets and allows the civil society actors to meet their own needs in the best manner. Reform must, above all, reinforce the stability and predictability of the socio-economic environment.

In this perspective, a modification in ideology is not enough to make a successful transition. It appears that tradition and a familiarity with the market economy helps the process. Some MC such as Lebanon, Morocco, Syria or Tunisia have an advantage because they have been integrated into trade for centuries. The Phoenician trading disposition is still present and will make the transition easier than in

Box 4: Endogenous growth

Briefly summarized, the recurring idea in this family of models (based on Romer 1986, 1990 [a]) does not question the Solow model, but is an extension at the micro-economic level, which means the level of agents, the production function preserves its form and its properties. In particular, the outputs - with the scale of each firm - remaining not increasing, as well as the marginal productivity of capital. In fact, there is always long term equilibrium and we preserve the microeconomic theoretical base at the level of the production function. By refrerring to the Solow model, $Y=AK^{\alpha}L^{\beta}$ *and* $\alpha+\beta\leq 1$.

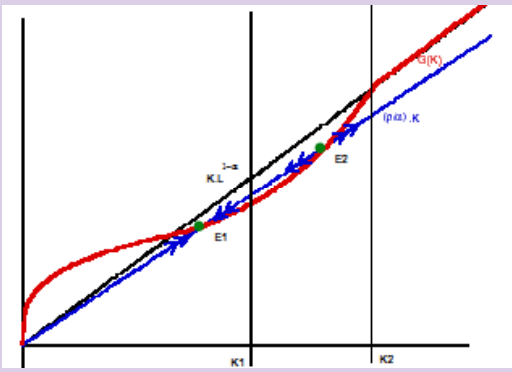
But, there exists in the aggregate function, meaning on the level of the whole economy, positive externalities which are sources of increasing returns to scale. In initial work by Romer, each firm profits in fact from the capital of other firms, for example by diffusion of good practices, etc. While reconsidering a theoretical production function, on the level of the group of firms $Y=AK^{\alpha}L^{\beta}X^{\chi}$ *and* $\alpha+\beta+\chi>1$

Nevertheless, for firms and other agents, these externalities do not enter in their process of optimisation. They do not perceive the gains from these externalities. The economy may reach a balance, but it is less than optimal. If a "social planner" intervenes to increase the level of externalities, either by subsidizing its components, or by taxing its substitutes, or otherwise, a new balance is reached where the new long term growth rate is higher.

The current situation is, in fact, comparable to a problem which d'Autume and Michel (1993) call a trap of nondevelopment. The idea is simple: the presence of externalities, which are potential sources of growth, is not in doubt, but their impact on the level of growth is subject to a threshold. Below this threshold, the economy remains on path of a stable but weak growth (point E1 in Figure 4). When the level of externalities reaches or exceeds a certain threshold (K2), the positive effects work and the economy moves towards a level of long higher term growth.

In other words, there is a certain number of "public" actions and interactions which modify long term équilibrium and locate it at higher levels.

Non development trap and the externalities threshold



According to D'Autume et Michel, 1993.

[a] Cf P. ROMER, "Increasing returns and long-run growth ", Journal of Political Economy n°3 vol. 94, October 1986, pp.1002-1037 ; ROMER P., " Are nonconvexities important for understanding growth ", American Economic Review n°2, vol. 80, May 1990, pp.97-103

other countries not been acquainted with any free market experiences.

However, the transition to the modern market and the adoption of the necessary economic reforms have been slow in the region, which has made the growth performances more burdensome. The legal infrastructure is still being built. The fields of trade, investment, competition, social legislation and tax laws are also being adapted and updated. Privatisations are slow in the making and generally only concern some sectors and not necessarily those where this action would be most productive (Handoussa, Reiffers, 2003). A structural reform index [2] (limited to Egypt, Jordan, Morocco and Tunisia) indicates an intensification of reforms in the second half of the nineties which has been, however, insufficient in comparison with Eastern Europe and Central Asia (Dasgupta and Keller, 2002).

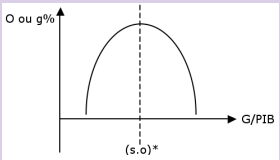
Despite the declared intention to achieve openness and integration within a global economy, the institutional backwardness might hinder efforts. As an example, the MC have not modified their constitutions, regardless of the changes that have taken place in the world. Thus, according to its constitution, Egypt remains under a socialist democratic system. More generally and in comparison to other systems of governance, these constitutions grant more power to the executive than the judiciary and legislative.

In reality, some facets of the socialist system have been important for the MC. This has been the case, as previously mentioned, for public employment and subsidies. It has allowed for real progress in the social sphere and for political stability, even if it has been detrimental to the efficacy of markets. However, most of the MC have now undertaken to libe-

Box 5: Public expenditure and growth: is there an «optimal size» of the State ?
CEMAFI, University of Nice, France.

With inspiration from a theoretical approach developed by R.K.Vedder and L.E.Gallaway (1998) for the case of the USA in the nineties, we studied the relationship between the "size" of the State and economic growth in Tunisia, over the three last decades to see whether it was possible to observe the "presence" of an Armey curve (cf R.Armey, 1995). The curve rests on the idea that when public expenditure is weak (or lower than a certain volume), a number of public goods (or public services) - considered suppliers - exhibit positive externalities favorable to the development of the private sector, and the level of the total product or the growth rate of the economy is weak; conversely, when the level of public expenditure is very high, the weight of the State in the economy is excessive and this diverts a too great amount of wealth to it, thereby penalizing the private sector which does not have the means to accumulate enough resources to allow good economic growth. From there comes the idea of a threshold of public expenditure G, locatable in proportion to GDP, which would determine the optimal proportion (G/GDP) compatible with the maximum output (or the growth rate).

The basic idea is that we can justify the drawing of the curve of the type below connecting the explanatory variable (G/GDP) in X-coordinate to the variable explained (a variable "measuring" the growth, O for GDP or g% its growth rate) in Y-coordinate.



The method of determination of this threshold used is econometric, allowing us to obtain the best adjustments for Tunisia 1968 to 1997, with the following:

g%= a + b (G/GDP)+ c(G/GDP)2 + d. Infl. +e. (Ip/GDP)+ g.(X/GDP) + h.(T/GDP) + j.((G-T)/GDP)*

*where G indicates the current public expenditure, Infl. the rate of inflation, (Ip/GDP) the share of the investments deprived in the GDP, X * growth of exports, (WP) the public deficit.*
The best adjustment gives: g% = -0,52 + 3,26 (G/GDP) - 4,65 (G/GDP)2 +... which gives an estimation in the order of 35% for the "ideal" threshold required. This level of magnitude for Tunisia appears completely credible, taking into account the significant role played by the State in economic activity.

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ralise their economy and to decrease state intervention in some sectors, and are contemplating the role that governments should play for the well-being of their societies.

In the MC, as in many other developing countries, institutional reforms have started to take place some time later than political reforms. The following observations were made on the basis of a selection of governance indicators concerning eight MC (table 8):

(i) the situation is relatively good and comparable within the countries in matters of "law and public order" - an indicator that measures the impartiality and respect of the judiciary systems - except in the case of Algeria. Morocco, Tunisia and Syria record a very good performance;
(ii) this is not the case for the indicators of the "rule of law" and "efficiency of government": the score was mediocre in Algeria, Lebanon and Syria;
(iii) corrupt practices in the administration and the judiciary system seem to constitute a constraint to business in Algeria, Lebanon, Syria and to a lesser extent Egypt. Tunisia and Morocco, as well as Jordan, have been spared this phenomenon;
(iv) tunisia's score is good in all the criteria (ahead of all the MC), especially in that measuring the government's efficiency, which positions Tunisia among countries with a high income and high human development. Morocco and Jordan, generally, also show superior performances.

The protection of property rights still requires improvements

Good governance must not only ensure the existence of property, but also the protection of property rights and the enforcement of the law (World Bank, 2002). Going from a socialist economy to a market economy requires the creation of a free environment to make contracts, which imposes a deep revision of the legislation or even its creation (Nestor, 2001).

The system must, in the first place, revise the framework of real estate ownership, which is still a delicate subject in the region (Morisset and Neso, 2002). The old nationalisation/confiscation hazards have now disappeared, thanks to constitutional modifications and the introduction of guarantees in the investment laws (for example, articles of Law

Table 8: Selection of the governance criteria in the MC

	Laws and public order (1)	Force of law (2)	Efficiency of governments (2)	Corruption perception index (3)	Corruption (2)
	2001	2000-01	2000-01	2001	2000-01
Algeria	2	-0,97	-0,81	na	-0,62
Egypt	4	0,21	0,27	3,6	-0,16
Jordan	4	0,66	0,42	4,9	0,09
Lebanon	4	-0,05	-0,02	na	-0,63
Morocco	6	0,46	0,1	na	0,44
Syria	5	-0,52	-0,81	na	-0,83
Tunisia	5	0,81	1,3	5,3	0,86

Source: UNDP 2002, Human Development Report.
Notes: (1). Source: The International Country Risk Guide (measures varying between 0 and 6.6 which is the best situation).
(2). Subjective indicators of quality and governance based on surveys carried out by the World Bank (Varying from -2.50 to 2.50, 2.5 being the best situation). The "rule of law" indicator measures the predictability of justice and the cost of crimes and misdemeanors. "The efficiency of governments" indicator measures the quality of the administrations, the costs of transactions, the quality of the public health system and the stability of the governments.
(3). Source: Transparency International's corruption perception index (the scale varies from 0 to 10, 10 being the best situation).
na: not available.

Box 6: Intermediate institutions for the growth of the processes of governance for the Mediterranean Partners

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A general review of the role of national governments, within the framework of globalization and policies of decentralization, has initiated new approaches, which go well beyond the hierarchical design of the state, founded on the principle of authority. According to these new conceptions, the multiplication of actors and levels of negotiation - international, national and local - require a new model of government and good governance, based on organized structures of interaction and partnership, and which increasingly characterize societies. If the debate on these questions is frequent in the industrialized countries, familiarity with the structures and strategies of good governance in the developing countries is relatively weak. Indeed, there is very little analysis in these countries aimed at understanding and evaluating the impact of networks on governance, or the role of intermediary institutions.

The goal of this project is to evaluate the efficacy of strategies of governance and the role of intermediary institutions in the design and implementation of MP strategies of economic development.

One cannot regard governance simply as a local process – that is, only as the exercise of political, economic, and administrative authority for the management of local business. It is, rather, a multilevel process which develops through territorial and functional networks: intersecting political networks, technical organisms, distribution coalitions, and groupings organized at the international, national and local levels. The INGO-MED project applies a concept of governance as being "a heterogeneous whole, consisting of methods and practices able to create a multilevel model of collective action based on interaction between a plurality of actors who belong neither to the government nor to the public sector". The project considers the mechanisms, the processes and the institutions through which collective decisions are made and incorporated, and also citizens, groupings and communities which follow their ideas, articulate their interests, exert their rights, carry out their obligations and reconcile their differences. In general, defining good governance as a unit consisting of diverse models of action and manners of organization, with negotiated rules, based on the interdependence of organizations and the networks, presupposes a significant level of independence of the networks from the state (Rhodos, 1997). But, in this case, the public remains the coordinating institution. It should be emphasized, moreover, that participation, partnership and community cooperation increase transparency, accountability, and the achievement of consensus and equity. Political networks[a] fall within this context. But, what are the mechanisms behind relationships, decision-taking and action among the various actors?

Intermediary institutions also play an effective role, and act as key partners to governments in their transition towards decentralized forms of authority management. These institutions, among which several actors operate, place themselves in an intermediate dimension with the role of connecting and mediating between two principal entities: state and individual. In intermediary organizations, personal and singular relationships coexist to produce a mixture of flexible interactions. They make it possible for these organizations to act like powerful mechanisms of equilibrium in the tensions between the macro and the micro levels (Arrighetti & Serravalli, 1999). Their existence makes possible, one the one hand, the replication of economic, social and political decisions on a broader scale (national and international) and, on the other, guarantee a certain effectiveness in an operational context.

The INGO-MED project considered two specific vertical processes:

(i) the management of public services, in particular water stock management, (ii) the extent and range of innovation. The first can be represented as a movement from the general to the particular: water resources to the users. The second, the process of innovation, starts from individual level, to become, eventually, shared by the organization. These two different movements can indicate the development of good governance, but in different contexts. With regard the first: there are strong relationships between the institutional and political aspects of the market. Institutional and economic changes cause developments in public enterprises, based on the need for greater technical efficiency and specialization, characterized by legal status, high level of organization and flexibility aiming not only for quantitative and qualitative efficiency but economic efficiency as well.

The public services market was analyzed through three different models:

1) *the tender, reinforcing competition among local and foreign actors to improve the local public services;*
2) *the strategy of "project financing" which implies mechanisms of co-operation among the public and private sectors;*
3) *the division of the various branches of local services among several contactors, each ensuring maximum efficiency in its field.*

Based on market models, good governance was defined as a "coordinating mechanism ", aiming at defining the roles of the various actors in the provision of local services and the management of these services: local authorities, companies, users and associations, interest groups, trade unions, etc. In this case, research analyzes the tools and mechanisms supporting integration among the local authorities and other actors. The key elements in this process are the interactive relationships among actors, but also inside knowledge and innovation in the production process. In particular, market synergies - associated with infrastructure policies - are based on a networking logic that allows for better management and quality of public services. This approach points to the crucial role played by the "territorial" systems in the development of confidence and values shared by economic, institutional and social actors.

The management model which satisfies these conditions is the "multi-service" or "multi-utility" enterprise. This model can simultaneously provide gas, water, electricity, the collection and treatment of refuse, and other services. Its structure can profit from economies of scale depending on the structure of the production and the dimension of the organization, and also from the savings in diversification and other sources, due to the complementarity of technologies.

With regard the processes of innovation, research is focussed on the network model, according to which a competitive local productive system is characterized by a plurality of integrated relations. Among the ideal models of references are the Innovator Media (Camagni, 1995), National and Regional Systems of Innovation (Nelson R., 1993; Braczyk H.J., 1998; Castro E.A., 1998, Cooke P., 1997; Lundvall B.A., 1988, 1992, 2002) and the recent "Triple Propeller" model (Etzkowitz H., 2000; Leydesdorff L, 1998, 2001). They are used to explain, connections in the dissemination of information (among a different variety of actors) and the processes of innovation. The role of formal and abstract knowled-

ge is also significant, as a crucial resource in the production processes and in interaction between different actors (Kline and Rosemberg, 1986; Mansel and When, 1998; Rubenson and Schuetze, 2000).

From a networking approach, combining the endogenous theory of growth with the heterogeneity of the models of external growth, it appears that the intermediate institutions are of crucial importance for the diffusion of innovation in social contexts characterized by an advanced governance system. By supposing, on the one hand, that economic externalities, related to technological heterogeneity and the process of diffusion of innovation can encourage convergence between advanced areas and others; on the other hand, the weakness of this process is that it depends on political or market factors which can reduce the effects of "spill-over". So it is clear that the development of good governance and the network strategies become an important stake: the development of local and regional productive systems can be stimulated by the creation of networks of innovation and knowledge. The role of the government then becomes that of facilitator: a catalytic force which reinforces the conditions needed for innovation and which produces environments that improve the efficiency of individuals and partners.

In the Mediterranean area, the many methods of interaction used by international, national and regional institutions are not yet well-known, in particular with regard to the diffusion of innovation in local productive systems. Understanding these methods could lead to indications and suggestions for the implantation of economic policies of MP partners of European Union. A selection of case studies in the Maghreb areas allows the empirical analysis of opportunities and obstacles to the local development in these countries.

Notes :
[a] : By "Political Networks" we mean governance characterized by more or less stable social relations beween actors, relating to specific problems or (political programs) (Kickert and all, 1997 b)
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8 in Egypt or Law 16 of 1995 in Jordan forbid the nationalisation or confiscation of private property, Radwan, 1999). However, private property is sometimes still prohibited or subject to restrictions for non residents, which is the case especially for agricultural lands, which accounts for investors' preference for renting. Thus, in Jordan, purchasing real estate, setting up enterprises and connecting the premises to the main services require 36 procedural stages that are equal to a duration of 89 working days, with an assessed cost for the procedures and a total cost estimated at US$11 281 (Ibid 2001; see table 9). Although Morocco charges a number of procedures at a significantly lower cost than most of the other MC, the time involved is very high (278 working days) in comparison with the standards of the advanced countries.

The problem of property rights has been the object of a survey carried out in Asia, Africa, the Middle-East and Latin America by Hernando de Soto, demonstrating that the incapacity of some countries to reach a capitalistic development comparable to that of the advanced economies can be accounted for by defects in their systems of property rights. It indicates especially that despite the setting into place of formal rights in the developing countries and the old socialist economies, the framework does not protect the (unregistered) property of the "poor", and thereby transforms their assets into "dead capital". The total assets of the "poor" in Egypt, for instance, are thought to be 55 times larger than the sum of the FDI, the Suez Canal revenues and the Aswan Dam revenues put together (De Soto, 2000).

Table 9: Administrative barriers to purchasing real-estate

Access to site (1); 1999	Number of procedures	Duration (working days)	Cost (US dollars)
Jordan	36	89	11 281
Morocco	16	278	1 149
Average*	31	334	4 723
Minimum*	13	45	47
Maximum*	125	985	22 523

Source: Morisset and Neso, 2002.
(1). comprises access to the plot of land, setting up the site and connecting with the main networks.
** Calculated for the 32 countries of the study.*

Furthermore, it is assessed that the unregistered real estate is worth 240 billion US dollars. Such amounts show the importance of an efficient ownership system.

Another frequent problem in the developing countries is the protection of intellectual property. In conformity with the commitments resulting from their membership in the WTO, almost all the MC have introduced provisions for the recognition and protection of these rights in their legislation. However, as has been previously highlighted in other FEMISE reports, it is the application of these laws that seems to pose a problem, if we are to believe the investment guides or some professional organisations of the developed economies. It is noticeable that there has been an increase in investment in the pharmaceutical and high technology sectors in Jordan when the law on intellectual property rights became stringently applied (EIU, 2003).

The business environment still suffers as a result of administrative problems

Despite great improvements in the FDI related legislation over the past decade, the same observation on the need for more improvements given the decline of the region's attractiveness, has been frequently repeated.

However, a survey carried out on the Egyptian business environment indicated that the investment related legislation and incentives were the least restrictive factors (Handoussa and Shnief, 2001). The problem lies elsewhere.

Setting tax exemptions and other tax reductions into place is not the only, nor the best means to attract investment. It appears that the tax administration was often mentioned by the private sector as the most constraining factor to its development (Handoussa et al, 2000), although even the tax levies and income taxes are low vis-à-vis GDP in the light of the international standards (Ibid, 2000).

In fact it is the administrative barriers that obstruct the entries and exits of markets and they are now the main obstacle in the MC, as suggested by a survey carried out by Morisset and Neso (2002).

The situation is certainly comparable to that of the average developing country, but it is still far from what is required to improve the attractiveness of the region. Other sectors of the administration are equally considered restrictive, especially customs: in Algeria for example, customs clearance requires an average duration of 16 days, to compare with the 3 days required in Morocco (after the system was reformed), the 8 days required in China, the 11 days required in India (ERF, 2003).

Table 10: Administrative barriers to investment

	Number of procedures		Duration (working days)		Cost (US dollars)	
1999	Entry[1]	Operations[2]	Entry[1]	Operations[2]	Entry[1]	Operations[2]
Egypte	10	-	52	-	943	-
Jordan	15	12	60	-	-	
Morocco	12	5	91	63	255	1 981
Tunisia	7	-	39	-	286	-
Average*	11	11	68	41	504	756
Minimum*	2	2	18	8	80	10
Maximum*	29	26	187	122	3 040	3 186

Source: Morisset and Neso, 2002.
Notes: (1). Comprises of legal, statistical, recruitment declaration, retirement, taxes registration
(2). Comprises the import-export obligations, exchange control, the payment of taxes or the ins pection of the health services or labour.
**Calculated in the 32 countries of the study.*

On this point, it is certain that setting some measures into place within the framework of the Partnership might be beneficial, especially the introduction of the single document of the European Union (Ghesquiere, 1998).

Some MC have adopted a proactive attitude in the simplification of procedures and the improvement of administrations. In Morocco, regional investment centers (in fact "single counters" or one stop shops) will be set into place across the whole country, in view of decentralising and improving procedures for the registration and launching of activities (EIU, 2003). Similarly, the recent experience of Morocco in customs related matters must be taken as an example for the region. Finally, a noteworthy improvement of administrative procedures in the field of investment followed the setting into place of the single counters in Tunisia (EIU, 2002).

Other priorities on the agenda, the competitive framework and the courts

The past years have witnessed a significant increase in transnational mergers and acquisitions. This development requires an improved means of control and supervision for international buyers. Ensuring transparency and regulating cartel activities will better protect local companies. In fact, laws on competition play an important role in curbing anti-competitive behaviour and the misuse of power.

Such legislation has also helped developing economies to protect themselves against the possible adverse effects of some WTO agreements (Hoekman, 1999). Interactions between trade and competition have been at the heart of WTO negotiations since 1996. Although it is better to include provisions in the national laws to regulate competition in the domestic market, any potential agreement concluded within the framework of the WTO will have an impact on the MC since the large majority of these countries are members of the organization. In the context of the Doha Declaration, countries should concentrate their efforts on transparency, the principle of non-discrimination, equity in procedures and anti-trust provisions. Tunisia and Algeria promulgated relevant laws in 1991 and 1995 respectively. In Egypt, Jordan and Morocco, these laws are still under discussion (EIU, 2002; Handoussa, Reiffers, 2002).

With regard the legal system, the basic principles of speed, transparency, equity, respect for decisions and the effective enforcement of legislation constitute important factors of attractiveness for developing economies (Nestor, 2001), as well as being the foundations of a democratic system.

The experience of the developing countries seems to indicate that complex procedures reduce the efficiency of judicial systems. This is mainly attributed to shoddy administration standards and poor human resources, inadequate information flows, corruption and the low complementarity of institutions (World Bank, 2002). In the MC, judicial systems are slow because they are overloaded with cases, face new types of cases, as well as the lack of adequate technical infrastructure (ERF, 2003).

In Egypt there are no courts specialized in trade, but the current utilization of past contracts to settle disputes has proved effective (Radwan, 1999). Although the performance of the Jordanian system is generally good, there are no courts specialized in trade and conflict resolution. In Morocco, despite the satisfaction expressed by the IMF with regard to the judiciary's reform, companies still complain about lack of pre-

dictability and abrupt and sudden changes in economic policy (EIU, 2001 and 2003). In Egypt, Lebanon and Morocco, professional judges are required in the courts of general jurisdiction, even in such simple cases as indebtedness. Contrary to other experiences where "non-professional" judges might play the same role, this obligation increases the cost and duration of litigations. (World Bank, 2002).

The framework of privatization

The privatization process has hardly taken off in the region. Beyond the strong resistance to it, the experience has been characterized by periodic changes in strategies, techniques and momentum.

During 1990-2000, results indicated that nearly 20 billion dollars in revenue (excluding the Turkish program) represented just a small proportion of the privatizations carried out by the developing countries. And this differs according to the countries: Israel and Egypt taking 75% of these revenues (for a more detailed analysis see Handoussa, Reiffers, 2003). In fact, the number of public enterprises that remain to be privatized is significant: 250 in Algeria, 100 in Egypt and in Morocco, 60 in Tunisia, 20 in Jordan (Page, 2001). Some 45 billion dollars of infrastructure projects for the private sector will be added to these (ibid, 2001).

In most of the developing countries where privatizations were carried out, the result was the emergence of a large number of big firms. However, the process was not always accompanied by the emergence of an appropriate culture and of the structures required for an efficient private sector (Nestor, 2001). But if privatization is accompanied or rather preceded by the necessary institutional reforms and economic policies that generate competition, it will have a positive impact on economic activities from the very first stages (Ran, 2001). This was how Slovenia, Hungary and Poland achieved a high growth rate, although they adopted different methods.

At the macro-economic level, policies must aim at upgrading the efficiency of the fiscal administration, the efficiency of the banking supervision system, the setting into place of rigid budgetary constraints, the adjustment of the exchange system and the independence of the Central Bank. As underlined above, a legal framework facilitating the entry and exit of markets, the promotion of competition, the protection of intellectual property rights and the facilitation of financial transactions is equally necessary to increase the role of the private sector in the economy (Nabli, 2001).

According to the experience of countries in transition, the main obstacle to impede the process was that the management of public enterprises was left in the hands of ministries (Nestor, 2001). It is clear that those countries where the process was most dynamic are those that transferred the institutional control of enterprises as a first step. In this perspective, the optimal solution seems to be the creation of a specialized institution to manage the firms earmarked for privatisation.

Despite the weakness of the process, the MC exerted numerous efforts to overcome these institutional challenges. The programmes in Morocco and Tunisia were associated with comprehensive institutional reforms (Nabli, 2001). Jordan, in 2000, issued a privatization law which established a "High Council for Privatization". Algeria dismantled the public gas and electricity monopolies and authorized private investments in the same

sectors (EIU, 2002). Similarly, the new Algerian law on telecommunications energized the process but, contrarywise, the project authorizing competition in the completely public hydrocarbon sector has been set aside (EIU, 2003).

IV– Reinforcing competitiveness in trade in goods and services, and attracting capital

Given the initial decision to consolidate growth by opening up the Mediterranean economies, the development of trade in goods and services, as well as attracting capital, especially foreign direct investment (FDI) are obviously decisive factors in the process.

When we assess developments on these fronts, we get an indication as to how the productive systems have performed and the real efficiency of implemented reforms. On the other hand, the assessment demonstrates how Mediterranean companies rank within the global trading system and underlines their rigidities.

Despite some undeniable progress, the diversification of trade is still not sufficient, the internationalization of services is below the level of the other large regions and the overall attractiveness of the region remains low. Further, low labor productivity suggests that raising wages is a danger to competitiveness.

One of the reasons for these results is the insignificant development of South/South trade, which is severely limited by tariff and non-tariff barriers. In this regard, the FEMISE is keen to emphasize, once more, the importance of accelerating the implementation of the various intra-Mediterranean free-trade-areas.

a- Trade in goods advancing, particularly with the EU, but is not sufficiently diversified

On the whole, trade for the Mediterranean Partners is characterized by the following[3]:

- √ higher growth in the commodities trade than in GDP, which promoted increased openness.
- √ A tendency to increasingly privilege the EU. Exports from the MC to the EU have increased by an annual average of 7.2% since 1990, in comparison with 4.2% towards the world; thus, the EU share in MC exports grew from 45% in 1990 to 51% in 2001. This situation had two consequences: (i) a weak increase of intra-area trade within the MC (from 4.5% to 5.2% of total trade); (ii) a greater weight of the business branches for which they have comparative advantages in their trade with the Union (the MC sell 68% of their oil to the EU and 67% of their manufactured commodities, while the EU provides them with chemical products and equipment goods).
- √ A continuous trade deficit in the MC. This deficit has lasted throughout the decade (8.5% of GDP on average) and amounted to 33 billion dollars in 2001.
- √ Cost benefits are still substantial. The Mediterranean Partners are in a favorable position due to their relative labor costs, which constitute the essential part of their production costs, given the level of development of the productive systems involved. However, it is important to underline the fact that this advantage is relatively low, which leaves the region at the mercy of competition from other countries that have lower costs at present. Further, it essentially depends on moderate wages,

which makes it fragile, as labor productivity upswings are low and even negative in most of the MC. This also reinforces the potentially negative impact of high wages on competitiveness.

- √ Insufficiently developed non-cost advantages and an exaggeratedly concentrated structure of exports. The general positive development of export purchasing power and the (lower) terms of trade are linked, for the most part, to an increment in real exchange rates rather than to a signifciant improvement of the relative quality of products. This is induced by an exports structure that is relatively ill-adapted to global demand and is thus vulnerable to revenue and price risks. The diversification of export structures, according to the weight of the first five comparative advantages within total exports, reveals two large groups of countries: a first group that is still largely dependent on comparative advantages centered on the exploitation of a natural resource or a traditional agri-food activity (fruits and vegetables) or on downstream industry (textiles, clothing, in general), in which especially Algeria and Syria have a prominent place. A second group made up of already highly diversified countries. It is worth noting that comparative advantages are relatively limited (essentially, in textiles, clothing and agri-food) and the increasing diversification of export revenues is significant, except for the countries where the value of their principal natural resource was increased at the end of the period. This was especially true of Egypt, Turkey, Jordan and Tunisia.
- √ A development of intra-branch trade reflecting a significantly greater differentiation of products, but that is still lagging behind other regions. This development simultaneously indicates the level of integration within European and global markets and the capacity of the productive system to qualify products for the large industrial sectors, on a wider basis than the national market. It also reflects the development of upmarket products that allowed an industry less competitive in costs to survive. Clearly the extent of integration within the international trade system, the FDI inflows and the quality of manpower are among the conditions that favor the development of intra-branch trade. As recorded in the FEMISE report on enlargement, the MC are lagging behind in this respect. However, a significant increase was observed at the end of the period (especially in Jordan, Morocco and Egypt). This increase can be partly attributed to the Partnership, to the extent that it appears more clearly in MC/EU relations than in MC/rest of the world relations, particularly in the agrifood and clothing sectors.

The virtuous path of growth through openness requires the passage from a competitiveness based on low labor costs to a competitiveness based on the quality of products and on the capacity to penetrate market segments thanks to a variety of products on offer. The passage from one form of competitiveness to the other requires significant growth, allowing for higher wages and revenues, which on an enlarged market will favour scale economies and attract investments. Yet, the MC appear unable to generate a substantial productivity increase that might have led to significantly higher wages without any deterioration in their labor costs.

This last remark lies at the heart of the MC growth problem. In the context of substantial active population growth (nearly 3% per year

on average in an environment of general unemployment), with a near 3% GDP growth rate, the increase in labor productivity must be equal to 0 if an increase of unemployment is to be avoided (see Handoussa, Reiffers, 2002).

Hence, as mentioned earlier, an increase of the global productivity of factors and non-cost advantages can be generated by quality/creative approaches and market strategies that must progressively substitute competitive costs.

b- Trade in services: comparative advantage limited

The export of services is an important part of MC trade. From 1998-2001, 70% of Egypt's total exports were in services, 46% for Jordan, and about 30% for Morocco, Tunisia and Syria.

At the same time, the value-added share of services in GDP generally increased during the decade and surpassed 50% at the end of the period. But, although the services sector expanded vis-à-vis national production, this did not systematically lead to a similar increase of external trade. In fact, within the area, only Morocco and Cyprus realized an increase in their share of trade in services. At the regional level, Egypt was the main exporter of services with nearly 9.5 billion dollars in 1999, 41% of which was provided by the export of people. Despite annual fluctuations, this "transport of persons" increased, while the transport of goods decreased relatively, according to reports on a drop in Suez Canal revenues. The same trend was observed in other MC: in Morocco, Tunisia, Jordan and Syria, exports increased significantly in the transport of persons during the nineties. Parallel to this, Morocco and Tunisia succeeded in maintaining a growing increase of the exported transport of goods. In 1999, their total services exports rose by 3.1 billion dollars for Morocco and 2.9 billion dollars for Tunisia. In 2001, they respectively reached 4 billion dollars and 2.9 billion dollars, while the exports in services of Egypt and Jordan, which plummeted in 2000 and 2001, rose to 9 billion for the former and 1.5 billion for the latter. At the global level, it was evident that no MC played a significant role in exporting services. However, setting aside the developing countries and the Eastern European countries in transition, some MC appeared to be potential exporters among the developing countries. They are Egypt, Morocco and Tunisia. These countries were classified among the top 20 exporter developing countries in almost all the services. If we take just the transport of persons (which amounts to 32% of world exports in services in 2001), the list of the main exporter countries does not include any MC as this activity was large-

Table 11: The share of services in exports and in GDP of MC and AC10

	Exports of Services as % of Total Exports		Services Value Added as % of GDP	
	1994-1997	**1998-2001**	**1990**	**1999**
Cyprus	68,1	74,3	na	na
Egypt	70,3	69,8	52	51
Jordan	49,8	46,3	64	72
Malta	37,7	36,1	na	na
Morocco	24,5	29,1	50	53
Syria	29,9	28,7	48	na
Tunisia	31,2	30,9	54	59

Sources: WTO: International Trade Statistics 2002, World Bank WDI 2001.
**Average for 1998-2000*

ly dominated by the advanced countries (in both exports and imports) (World Tourism Organization 1999, quoted in WTO 2000).

The MC depend to a large extent on the European market for their tourism. In 2001, more than half of the tourists visiting Egypt and Tunisia were European citizens (EU 15). The share of European tourists amounted to 42% for Morocco and 12% for Jordan (Eurostat, 2002). In the case of Jordan, this share was normally around 20% but it was significantly reduced in 2001 due to the political instability of the region.

As in the transport of persons, no MC figured among the main global exporters of the transport of commodities, which amounted to 23% of the global exports of services. The prevalence of the public sector in air and maritime transport, the absence of competition, and the inefficiency of transport infrastructures hindered the MC from exploiting their geographic position. In air transport, the main problems are: (i) finding "market oriented" solutions in order to participate more effectively in international traffic, or indeed, to avoid being completely excluded from that market; (ii) seeking new links, new traffic, greater capacities; (iii) formulating new cost reduction strategies, forging new alliances; (iv) adapting to the new competition, subsidies and acquisition laws (Al-Khouri, 2000). In the field of maritime and land transport, the mediocrity of the infrastructure and services constitutes a non-tariff barrier for both importers and exporters (Handoussa, Reiffers, 2002). On this point, a regional integration of MC might become essential. According to Al-Khouri, South Mediterranean transport networks face increa-

Table 12: Exports of services in certain MC, by sector and year

(US$ Million)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Egypt	7716	7895	8070	8590	9271	9379	8141	9494	9803	9042
Transport	2882	2869	3165	3202	2869	2524	2494	2658	2645	2738
Travel	2165	1927	2006	2684	3204	3727	2565	3903	4345	3800
Others services*	2669	3099	2899	2704	3378	3128	3082	2933	2813	2504
Jordan	1449	1574	1562	1709	1846	1737	1825	1702	1637	1482
Transport	334	368	353	419	377	390	310	298	298	257
Travel	463	563	582	660	744	774	853	796	723	700
Others services*	652	643	627	630	726	572	662	608	616	525
Morocco	2125	2050	2014	2173	2744	2471	2826	3115	3034	4029
Transport	315	357	342	410	416	440	446	478	485	660
Travel	1371	1234	1231	1296	1675	1446	1744	1949	2039	na
Others services*	439	459	441	467	653	585	636	688	510	na
Syria	1281	1595	1863	1899	1792	1582	1666	1651	1700	na
Transport	260	271	342	237	245	214	257	240	246	na
Travel	600	1011	1149	1258	1165	1013	1017	1031	1082	na
Others services*	421	313	372	404	382	355	392	380	372	na
Tunisia	1973	2040	2267	2509	2632	2614	2757	2921	2767	2912
Transport	491	521	577	598	642	644	635	599	595	638
Travel	1174	1225	1417	1530	1588	1543	1657	1827	1682	1751
Others services*	308	294	273	381	402	427	465	495	490	523

Sources: IMF, Balance of Payments Statistics Yearbook 2000, base IFS online.
**Including government services*

Table 13: Revealed comparative advantages in goods and services of MC, AC 10 and candidate countries

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Algeria	0,15	0,33	0,29	0,32	0,38	0,3	0,28	0,49	0,45	0,28	na
Cyprus	3,27	3,51	3,52	3,65	3,65	3,41	3,39	3,64	3,82	4,07	3,96
Egypt	3,28	3,54	3,48	3,53	3,74	3,76	3,64	3,64	3,71	3,63	3,56
Jordan	2,84	2,75	2,78	2,67	2,59	2,62	2,51	2,55	2,46	2,48	2,14
Malta	2,04	1,82	1,99	1,97	1,85	1,97	2,08	1,97	1,94	1,71	1,89
Morocco	1,36	1,68	1,59	1,3	1,2	1,36	1,24	1,34	1,41	1,5	1,82
Tunisia	1,37	1,62	1,7	1,63	1,62	1,64	1,62	1,59	1,64	1,66	1,55
Syria	1,06	1,32	1,53	1,78	1,67	1,45	1,33	1,68	1,49	1,31	na
Turkey	1,97	1,96	2,04	1,91	2,13	1,87	2,2	2,35	1,94	2,2	1,76

Source: ERF, calculations based on WTO, International Trade Stastistics, 2002.

sing competition and the creation of an integrated EU-MC transport system would require close cooperation between the existing networks since these are not integrated in the South region (Al-Khouri, 2000).

Comparative advantage revealed in the services sector

Only some countries (Egypt, Morocco and Tunisia) have a rising comparative advantage indicator in the services sector. Turkey, although ranking 24th in the list of principal exporters in services, has a comparative advantage indicator that fluctuates in an irregular manner.

c- A "missing" decade in FDI, and a reduction in comparative attractiveness that appears to be correcting itself

During the past decade, all the MC introduced a number of reforms to attract FDI, but in different degrees, depending on the countries. These reforms, combined with regional integration initiatives with the European Union and the USA, have greatly improved the climate of investment in the region.

Nonetheless, capital inflows continued to fluctuate heavily from year to year in every country of the region, thereby reflecting their dependence on opportunities in hydrocar-

Figure 4: MC share in European FDI since 1995

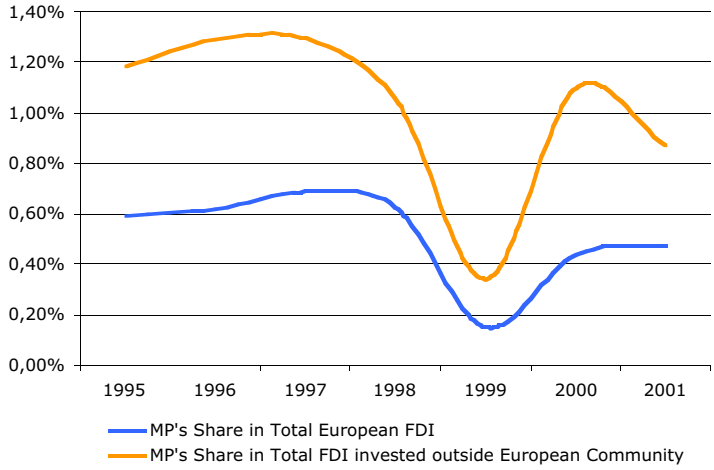
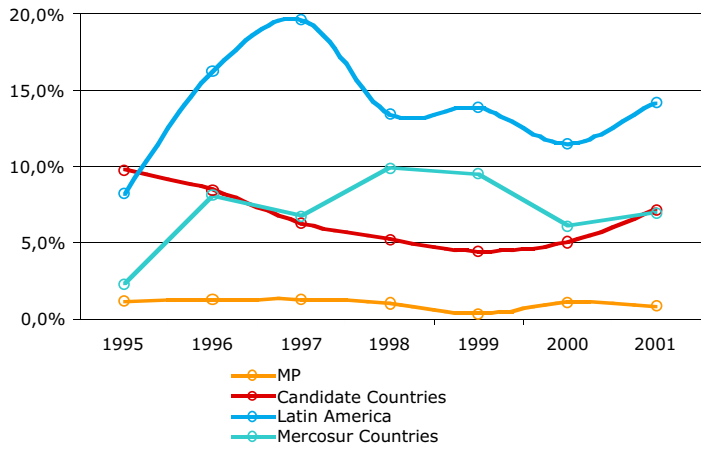


Figure 5: Share of several regions in European FDI invested outside the Union since 1995



Sources: Eurostat, Medstat Program, database Newcronos, August 2003.

bons or transactions related to raw materials, or again a non-systematized approach to encourage foreign participation at both the national and regional levels.

In fact, despite the reforms, political instability, volatile growth and, sometimes, the attitude of the authorities were behind the lack of interest from investors, as the "general climate of business" was considered less attractive than in other regions such as East Asia, Latin America or Central Europe. This was reflected in statistical surveys which showed that although flows were twice as high on average during the mid 1990s, the MC share was reduced. The dramatic increase recorded in 2001, when, with 5.8% of total foreign direct investments, the MC recovered their share of 1992, needs to be confirmed.

As to regional distribution, this is still concentrated, but the areas of attraction have changed. Israel and Turkey currently receive nearly 60% of the MC inflows (57.2%), a higher share than at the beginning of the decade (45.8%). The Maghreb gets about 30%, slight increase in comparison with 1990-1995 (28.2% versus 26.9%), whereas Mashrek rates declined (14.6% versus 27.7%), essentially owing to investment fatigue in Egypt (-36.6% between 1996-1999 and 2000-2001).

Partnership Agreements did not provoke significant interest on the part of European investors

The 2002 annual FEMISE report posed the question of whether the Partnership Agreements had stimulated the interest of European investors in the MC, not reflected in the statistics despite an increase in 2000. This increase was not confirmed last year although, at the global level, the MC strongly raised their market share in comparison with the other developing countries.

Inversely, the attractiveness of the candidate countries strongly recovered as the membership perspectives became more real.

Another striking observation: the MC were relatively more attractive to American investors than to European investors. The following table demonstrates that although EU countries invested four times as much as American investors, the average flow into the Maghreb and Mashrek differed by less than 30% (639 million dollars per year from the US, as compared to 825 million for the Union). The MC market share in North American flows is twice as high as Union flows.

It was equally noted that both American and the European flows are focussed. American

Table 14: MC share in the extra-european FDI of the Union and the USA since 1995

	From													
	1995		1996		1997		1998		1999		2000		2001	
FDI to ...	US	*EU*	US	*EU*	US	*EU*	US	*EU*	US	*EU*	US	*EU*	US	*EU*
Turkey	121	*350*	103	*405*	82	*425*	98	*1 013*	248	*859*	251	*1 211*	32	*1 420*
Israel	260	*118*	208	*199*	22	*100*	1 102	*225*	676	*-204*	803	*775*	550	*236*
Maghreb Countries	30	*100*	525	*201*	698	*659*	1 264	*520*	-1 234	*-61*	476	*771*	306	*584*
Machrek Countries	5	*169*	98	*80*	243	*236*	531	*546*	175	*434*	495	*1 736*	861	*-199*
Egypt	-1	*97*	93	*61*	228	*79*	513	*346*	158	*402*	475	*1 332*	851	*278*
Morocco	6	*33*	2	*154*	-6	*470*	-4	*113*	-39	*41*	6	*259*	22	*239*
MP	**416**	***737***	**934**	***885***	**1 045**	***1 420***	**2 995**	***2 304***	**-135**	***1 028***	**2 025**	***4 493***	**1 749**	***2 041***
Outside EU	33 058	*62 407*	37 996	*68 665*	42 658	*109 802*	48 853	*218 754*	81 224	*302 395*	88 904	*408 925*	75 440	*234 800*
World	70 392	*124 099*	66 490	*143 393*	84 449	*206 573*	116 854	*368 197*	163 801	*681 841*	178 613	*1 028 150*	127 259	*432 221*
MP's Share in FDI Outside European Union	**1,26%**	**1,18%**	**2,46%**	**1,29%**	**2,45%**	**1,29%**	**6,13%**	**1,05%**	**-0,17%**	**0,34%**	**2,28%**	**1,10%**	**2,32%**	**0,87%**

Source: Eurostat, Medstat Program, Newcronos database, August 2003.

Box 7: Exchange rates, trade, FDI flows and the Euro-Mediterranean Partnership

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Since the early 1970s, Mediterranean (MED) countries have taken several steps to integrate into the world economy. Among these steps was the negotiation and signing of bilateral trade agreements with the European Union (EU). These agreements were aimed at enhancing the access of MED exports to EU markets, promote transparency, standardization of procedures and regulations, as well as government revenues.

With the Barcelona Declaration of 1995, the EU-MED region moved to a new era of trade and economic integration and cooperation. In fact, the Barcelona conference aims at creating a Euro-Mediterranean Free Trade Area[a] (FTA) by the year 2010 that will promote trade flows in the region, as countries will alleviate obstacles to trade and perceive trade as a source of growth. Another feature of the agreement is to establish an integrated Euro-Mediterranean region of mutual economic co-operation. The establishment of the FTA requires, however, trade liberalization within the MED region. It also requires that MED exchange rates arrangements be in line with trade policies and not be a hindering factor in the promotion of Euro-MED trade and financial integration.

While the Mediterranean Partner Countries (MPCs) have been successful in the signing of bilateral agreements with the EU much still need to be done at the regional level to achieve the 2010 target of a Euro-MED FTA. Already ratified agreements are with Tunisia (1995), Israel (1995), Morocco (1996), and Jordan (1997), and an interim agreement with the Palestinian Authority was signed in 1997. With the exception of Syria with which negotiations are still under way, Algeria (2002), Egypt (2001), and Lebanon (2002) have now signed but their agreements are awaiting ratification. These agreements have reinforced the importance of Europe to the Mediterranean region especially in terms of trade and capital flows[b].

With the above in mind, the recent events in Argentina and Brazil made it clear that serious problems may arise when countries have trade agreements with exchange rate disagreements. In particular, it has been shown that trade agreements can generate trade patterns that can amplify the consequences of real exchange rate misalignments. This is a serious issue for the Euro-MED partnership. In fact, while this agreement is bound to increase trade between Europe and its Mediterranean Partners Countries, some countries in the latter group (e.g. Egypt, Jordan, Lebanon, and Syria) peg their currency to the US dollar. Given the divergent paths of the Euro and US dollar and the existence of exchange rate misalignments, this has led to a large real appreciation of some Middle Eastern currencies, and there are good reasons to believe that this misalignment is likely to become even more important after the completion of the Euro-MED partnership. This study, therefore analyses problems that may arise from real exchange rate misalignments within the context of the Euro-MED trade agreements.

Our initial results show that exchange rate misalignments within the Euro-MED trade agreements are in fact leading to a reduction in trade, and a relocation of foreign direct investment. This may have negative consequences on the stability of the Euro-MED trade agreements, and may lead in the future to macroeconomic instability throughout the region. In fact, the existence of exchange rate misalignments within the MED region has had a direct negative impact on FDI and intra MED trade for the past two decades. With the prevailing MED exchange rates arrangements these misalignments have been amplified within the Euro-MED region right after the ratification of Barcelona.

The initial empirical results are pointing to a non-stable macroeconomic environment that has characterized the MED region. While Exchange rates in Algeria and Tunisia cannot be classified as fixed, those of Egypt, Jordan, Lebanon, and Syria have been in general pegged to the US dollar. However, the success of the policy of pegged regimes to the US dollar has not been homogenous across these countries. In addition, a US dollar peg coupled with the depreciation of the Euro currency against the US dollar since its introduction in 1999 have been the main cause for a steady appreciation of the region's average real exchange rates with a direct negative impact on trade and FDI in the region.

The MED region has experienced similar episodes of high inflation and devaluations during the late 1980s and early 1990s. It is clear that heterogeneity do exist in the MED exchange rate arrangements, and has led to intra regional real exchange rates misalignments. Monetary and exchange policies in the MED region have long ignored the issue of exchange rates misalignments and its impact on trade and FDI flows. In light of the increased trade integration with the EU, the problem of intra MED and EU-MED misalignments should be resolved before the establishment of a FTA in 2010. While fluctuations in real exchange rates are in no doubt the main source of misalignments, divergence in inflation appears also to be causing misalignments. After stabilizing the nominal exchange rate the monetary authorities in the MED region should try to adopt a policy with as main goal price stability.

Other preliminary results also show that intra-MED exchange rates misalignments can be attributed to (1) the differences in the exchange rate arrangements adopted by the individual countries; (2) the domestic macroeconomic pressures, and (3) the recent depreciation of the currency of the MPCs major trading partner the EU. Since its introduction in 1999 for a nominal value of USD1.15, the Euro has depreciated by about 30 per cent to reach 0.83 against the USD dollar by the end of 2002. The MPCs have been pegging their currency to the USD and, as a result, have during the last three years experienced a constant appreciation of their real exchange rate. The fluctuation in the real exchange rate was not entirely due to domestic factors but was mainly driven by the appreciation of the US dollar against the currency of these countries major trading partner: The Euro. Whenever the anchor currency is appreciating with respect to the currency of the MPCs major trading partner, the domestic MPCs currency will appreciate in real terms[c]. This appears to have had detrimental negative impacts on the economies of the MPCs and has led to a significant loss in exports and competitiveness. Consequently, the choice of a future anchor currency for the MPC will be an important factor in the stabilization of their macroeconomic economic policies.

While macroeconomic and inflationary pressures appear to have been contained in the MED region since the early 1990s, it remains for the MPC to first harmonize their exchange rate policies on one hand and take into consideration the fact that most of their trade is with the EU, and now the euro has emerged to be a major challenger to the US dollar in world financial markets. The euro has not only proved to be a store of value but qualifies as a unit of account and a medium of exchange. The exchange rate peg to the US dollar may have been justified before the introduction of the euro in 1999. However, the euro is now presenting the MED region with an alternative exchange rate arrangement. With the Barcelona Declaration, the enhancement of the Euro-MED Partnership and the establishment of the FTA in 2010, MPCs are now

presented with a unique opportunity to effectively adopt proper exchange rate arrangements. Among others, a fixed exchange rate to the euro or to a basket of currency where the euro is given the highest weight might prove to be the pareto optimal arrangement for the MED region at least in the short run.

As a result of the exchange rate peg to the US dollar and the fact that a major portion of MPCs external debt is denominated in USD, a typical MED country's balance sheet or that of a MED firm operating in region is characterized in general by similar features i.e., a dollar debt on the liability side while revenues being increasingly denominated in euros. The major portion of debt at the country and firms level is either in local currency or in US dollar. This situation could prove to be particularly damaging after the establishment of the Euro-MED FTA in 2010. For the past decade interest rate and exchange rates volatilities have had negative impacts on MED Debt management policies and on firms operating in the MPC. MPC firms with dollar liabilities have suffered considerably due to exchange rates and interest rates volatilities. For instance, the composition of a typical balance sheet of an Egyptian firm is 60-70 per cent dollar dominated and most of its liabilities originate from creditors in the US. The story is quite similar for a Jordanian firm where one sees that the liability structure is highly dollaryzed. Similar liability and average leverage ratios are observed in Lebanon, Algeria and Syria.

Notes:
[a] The FTA will be established gradually. Tariff barriers to trade in manufactured products will be gradually eliminated according to specific timetables to be negotiated between partners. Under the agreement, partners are committed to liberalizing the current payments connected with the movements of goods, services, persons, and capital achieving the complete liberalization of capital movements as soon as conditions are met. Besides the bilateral vertical trade liberalization with the EU, the MPC are committed to implement free trade among themselves (Horizontal or South-South integration).
[b] Barcelona is intended to increase market access for both MPC and EU countries by providing gradual liberalization of European agricultural markets and reciprocal trade liberalization by the MPC for European manufactured goods. It also provides financial and technical support for the MPC undergoing the transition from protected markets to free trade with the EU.
[c] This trend has, however, been reversed since January of 2003, when the euro appreciated against the USD by about 30 per cent.

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investors focus essentially on two countries, namely Israel and Egypt, who catch two thirds of the American flows (65.8%) on average and only one third of the European flows (31.3%). European investors exhibit a clear preference for Turkey; in both cases these three countries receive more than three quarters of the flows sent to the MC (76.1% of American flows and 75.4% of European flows).

*Avoiding a race to the bottom**

*(*This section and the following one are based on a contribution by Sergio Alessandrini that will appear in the Economic Research Forum's MENA Trends Report, 2004)*

It is necessary to draw attention once more to dangers of FDI. It is certain that these investments could contribute to the development of infrastructure, technology transfer or to increase the capacities of the host countries in training, administrative or environmental management.

Social and growing environmental concerns in the advanced countries, linked to trade liberalization within the WTO framework, somehow have led the developing countries to become specialised in investing in low cost production, especially manpower. The search for lowest costs has equally compromised environmental protection. The race for attractive investments has also taken its toll on the social and environmental legislation of developing countries. An example of this is the negative judgement expressed in numerous "Free Economy Indexes" and other investment guides on market legislation in the MC, particularly those pertaining to retrenchment procedures or minimum wages.

Engaging in such a course would constitute a serious mistake, however, because the statistical as well as the economic surveys indicate that: (i) FDI flows between the advanced countries are much larger than the flows to developing countries (70% of flows on average between 1990 and 1999, 21.9% in 2000-2001); (ii) countries where labour laws

are very different from the high standards of the industrialised countries only received a small share of foreign investments; (iii) even those countries with apparently loose environmental laws did not attract more investments (only the activities linked to the exploitation of natural resources were sensitive to legal laxity).

Elements of a regional strategy vis-à-vis FDI

In addition to austere macro-economic management and to political stability, numerous other factors appear to be crucial in optimizing the strategies implemented in the MC:

(i) adopting a common approach, especially to reduce the fragmentation of domestic markets in the region;
(ii) favouring diversification in production, to go from an industry based on the use of natural resources to a manufacturing industry with a higher value-added rate and more intensive manpower;
(iii) improving education and training in order to upgrade human capital in the region;
(iv) adopting a proactive strategy to promote FDI by targeting some sectors in a realistic manner;
(v) radically reforming the procedures for investment in view of their eventual disappearance and pursuing the reform of financial institutions;
(vi) making sure that tax exemptions (especially in the "specialized" areas) are competitive vis-à-vis those observed in competitor countries;
(vii) creating investment promotion offices in some foreign countries, in cooperation with the private sector which might serve as a contact point for interested investors, and lobbying to attract potential investors.

d- Case study: a threatened sector, the textile-clothing sector

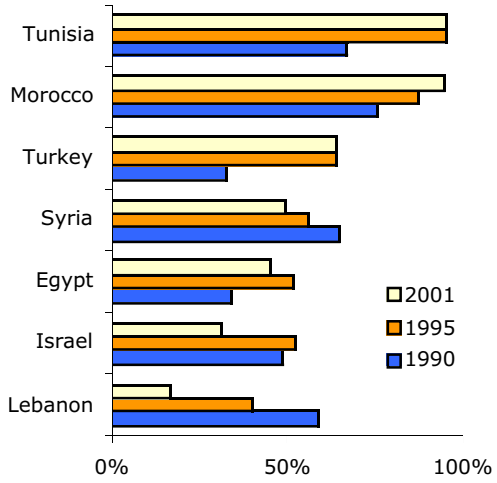
Textile-clothing, the second best sector after agriculture, added up to 5.7% of global trade in 2001, multiplying by 60 in 40 years. The USA (100 billion dollars), the EU (135 billion dollars) and Japan (35 billion dollars) were considered the three largest clothing markets. Developing countries were particularly involved as they represented 50% of global textile exports and 70% of garment exports. The sector will experience profound upheavals in the coming years, upheavals which could modify specializations: (i) Finalizing the VAT agreements[4] after the multi-fiber agreements, that foresee the abolition of quotas, will free the exports of countries that were so far limited by the quota system, will generate a growth of world trade and ever greater competition, (ii) China's entry in the WTO and the resumption of the DOHA negociations will, in the near future, provoke a massive reallocation of resources towards the production centers that offer comparative advantages in terms of price and quality, (iii) the erosion of the preferential systems that allowed developing countries to artificially maintain their competitive position and led them to partly base their development on this sector, will make the countries most specialized in textile-clothing vulnerable, especially those involved in exporting sensitive products.

Among the Mediterranean Partners, Turkey, Tunisia, Morocco and Egypt are the most affected[5]. They will be faced with a double competitive shock: (i) at the international level, with Asian (Chinese) producers, whose competitive advantage essentially rests on cost, and (ii) even within the sphere of industrial cooperation established with the European textile producers and where they

mainly had a sub-contracting function; countries that are becoming EU members (AC10) are now beginning to compete with the MC over geographic and cultural proximity, flexibility, reactivity and quality.

The question arises as to whether the MC are capable of adapting to the new international organization of production, and which requires that they (i) satisfy the timeliness and quality requirements that will enable them to maintain their regional position, (ii) carry out the indispensable move to up-market lines of products , (iii) improve their level of competitiveness vis-à-vis international competition, (iv) create the conditions required for an industrial recovery through a wider integration of the upstream sectors of dressmaking such as the production of synthetic threads and filaments; and taking over supply and other services that would allow them to pass from a sub-contracting status vis-à-vis the European contractors to the status of a contracting party sharing a higher level of responsibility in creating value added income within the business.

Figure 6: EU share in MC exports



Sources: Comtrade and Eurostat, Medstat Program, calculations Institut de la Méditerranée.

Three points ought to be developed at this point: (i) the key role played by the textile-clothing business in MC growth, (ii) the risks that threaten the MC within the business, (iii) the stakes linked to the regionalization of the business.

Textile-clothing: an industry at the heart of MC potential to increase openness

The FEMISE believes that textile-clothing will probably continue to be a key element in job creating and sustained growth for MC. Several reasons support this claim:

(i) firstly, the place occupied by this sector within the productive system in terms of value added and employment;

(ii) secondly, comparative advantage can be realized in these activities, even in countries that have reached significantly higher development levels than the MC. Italy, for example, currently has a comparative advantage in clothing based on the diversification of products, design and the organization of production and marketing processes. The sector has become a universal examples of successful local development (especially the industrial districts of Lombardy and Venice). Other countries that have banked on quality and luxury (eg: France) were equally able to develop highly competitive positions in this sector;

(iii) thirdly, notwithstanding the efforts that might be exerted by the MC in technolo-

Table 15: Textile-clothing share in EU imports from each area

	1990	1995	2000	2001
Outside EU	7,10%	10,10%	8,30%	8,70%
AC10	12,60%	16,50%	10,60%	10,30%
MP	**19,10%**	**31,40%**	**27,60%**	**28,10%**

Sources: Comtrade and Eurostat, Medstat Program, calculations Institut de la Méditerranée.

gical activities or activities carried out within the scope of the so-called "knowledge economy", it is hard to see how such activities might compensate for a significant loss of jobs in the textile-clothing industry;

(iv) fourthly, if the textile-clothing sector in itself embodies relatively little technology, its organizational and distribution environment has incorporated a great deal of technology. Once again, the Italian example is a perfect illustration of this fact.

To get an idea of the relative position of the MC in textile-clothing, we can explore how this sector stands up to competition.

A position that maintains itself in international markets, but that is threatened in the EU markets.

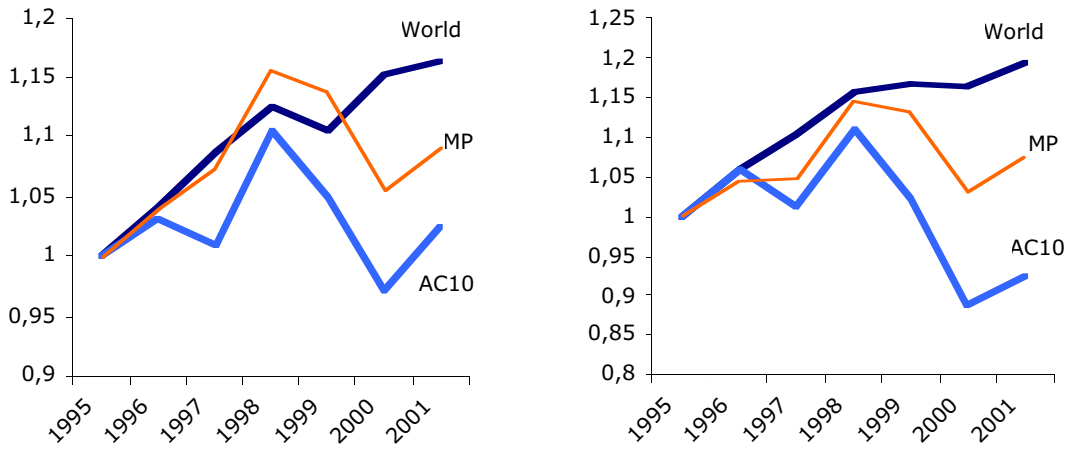
Looking at the competition confronting the MC in the textile-clothing sector has highlighted the central role played by the erosion of preferences in the European market. Three phenomena have been observed during the past years: (i) a stability on the part of the MC in the world market, (ii) a relative reduction of their position in their largest exports market, the EU market, (iii) the emergence of a formidable competitor, China.

China's rise on the textile-clothing world market (which, in 2001 amounted to nearly 1/5 of the global exports of the branch) is also equally based on garments (23% of the global exports) yarn and fabrics (12.5%). However, in spite of Chinese competition, MC globally improved their position on international markets and amounted in 2001 to 5.5% of the textile-clothing world exports. Clothing articles (from 7.1% in 1995 to 8.4% in 2001) constitute their best specialization and are progressing thanks to Morocco, while Turkey and Tunisia maintained the same relative rates. The MC even improved their position in yarn and fabric exports (from 2.7% to 4%) thanks to the performance of Turkish producers.

Textile-clothing was an MC specialization in relations with the EU: Textile products amounted to 28% of European imports from the MC, (table 15) while the average share of textile-clothing European imports only amounted to 8.7%.

Figure 7: Textile-clothing and garments imports in Europe (1995=1)

Textile-Clothing Imports *Garments Imports*



Sources: Comtrade and Eurostat, Medstat Program, calculations Institut de la Méditerranée.

The stability of this regional specialization stands in contrast with the reorientation of trade between Europeans and AC10 countries. The latter seem to be withdrawing from textile-clothing which amounted in 2001 to only 10.3% of European imports originating from this group while it amounted to 16.5% in 1995.

With regards the Mediterranean partners, the EU - on average - absorbed 70% of total textile-clothing exports, and in significant volume from specific individual countries.

In Tunisia as in Morocco, the weight of European customers is increasing and with 95% of textile-clothing exports to the EU, these countries are particularly sensitive to conjunctural fluctuations of European demand. Turkey is more integrated in trade outside the area, although the EU share doubled (from 33% to 64%) during the last decade. Syria, Egypt and Lebanon diversified their export markets and are increasingly turning toward international markets and the USA.

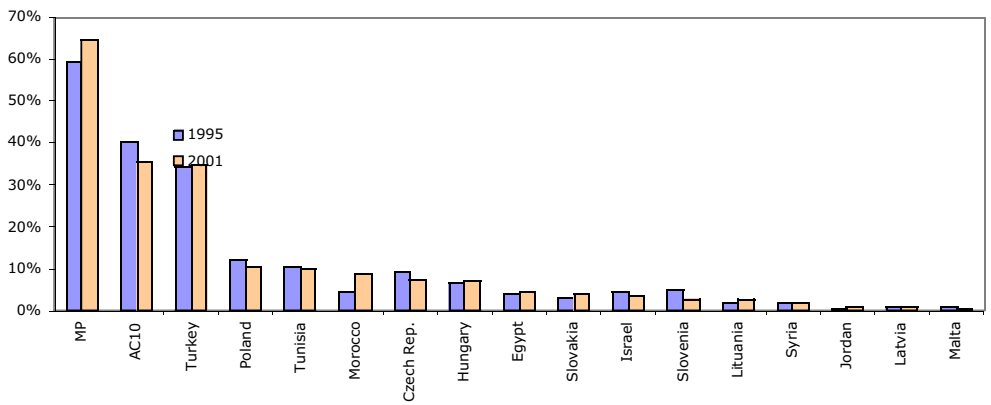
However, the erosion of preferences is playing a significant role in this context. In fact, the growth of Mediterranean textile-clothing imports in Europe is not keeping abreast of the global increase of textile-clothing imports in Europe.

In 2001, China had already overtaken the Partners in the European textile-clothing import markets (17% for China against 16% for the MC), while in 1995 the distribution was 13% and 17% respectively, reflecting a relative decline for the MC. The AC10 also underwent a significant decline from 12.3% to 9.6% in EU textile-clothing suppliers.

But Chinese competition is highest in the clothing area where it rose by 4 percentage points (12% to 16% of European imports) while the MC lost 3 points (from 24% to 21%) and so did the AC10 (from 12.3% to 9.5%). However, the MC and the AC10 maintained their positions in the yarn and fabric markets.

Chinese domination is therefore clearly on the horizon, at both the international and European levels. Trade liberalization after 2005 gives rise to misgivings over increased Chinese competition to the detriment of the MC in Europe. However, the fact that other regional framework agreements have succeeded in containing Chinese domination

Figure 8: Relative shares of pan Euro-Mediterranean countries in the export of textile-clothing products



Sources: Comtrade and Eurostat, Medstat Program, calculations Institut de la Méditerranée.

must be emphasised. The USA-Mexico agreements, for instance, put a break on Chinese penetration. Between 1995 and 2000, American textile-clothing imports from Mexico escalated by 324% and Mexican exports increased worlwide from 132%, thus passing from 5% to 13% of the global market share (Ricupero, 2003). This is the result of strong interpenetration of enterprises based on a segmentation of productive processes, sub-contracting, utilization of trade bridgeheads in the American markets, a sub-regional integrated Latino market etc. Thus, the erosion of trade preferences can be opposed by reinforcing production and trade networks at the regional level.

Within the enlarged pan-EuroMediterranean region - the hard core of EU partners in the sector - Turkey alone weighs more than the 10 new adhering countries. In addition, between 1995 and 2001, the Mediterranean countries gained ground over the AC10 in their relative share, and their exports reached 65%, half of which originated from Turkey. Poland is the major competitor. Romania and Bulgaria should be taken into account as they are making steady progress.

Textile-clothing, a vital sector in the MC

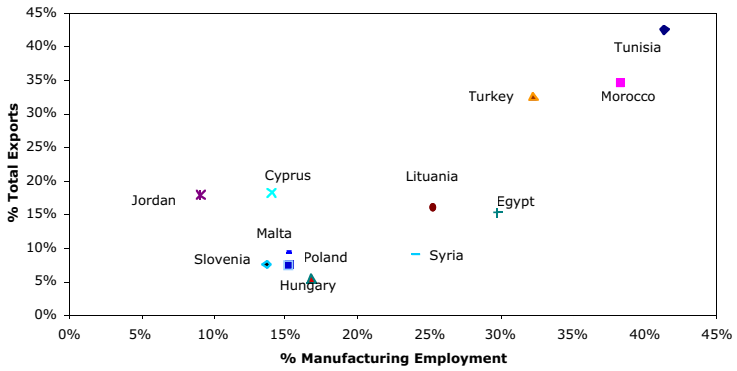
Figure 9 below relates the share of the manufacturing jobs in the textile-clothing sector with the relative weight of the sector in the total exports of Mediterranean and AC10 countries.

(i) for a first group of countries, Egypt, Morocco, Tunisia and Turkey, textile-clothing is the top industrial employer and the main export resource aside from oil. Ready-made clothes amount to 25% of Morocco's active population (95% of the sector's exports), 35% in Tunisia (95% of the sector's exports), 22% in Turkey, 6% in Jordan. Although AC10 countries are highly involved in the sector, they are less dependent on textile-clothing (15 to 20% of the jobs, 5 to 10% of the exports).

(ii) The textile-clothing sector creates nearly one quarter of the industrial value added in Tunisia and Syria, 16 to 17% in Morocco and Turkey, and 13% in Egypt. In the AC10 industries, textile-clothing amounts to 7 to 8% in the creation of industrial value added on the average.

Moreover, jobs in textile-clothing are largely supplied by a deregulated informal sector composed of very small-scale family enterprises, with precarious jobs, low wages, no social insurance and hardly any qualifications. A regression of this sector might therefore provoke a major social problem.

Figure 9: Dependence of Mediterranean countries on textile-clothing



Sources: Comtrade and Eurostat, Medstat Program, calculations Institut de la Méditerranée

For both the Mediterranean partners and the AC10, production is mostly geared towards exports. Tunisia exports 80% of its production, Morocco 50%, Turkey 73%. Egypt is more directed towards internal demand with an export rate of 45%. The same could apply to the AC10 that export 80% of their textile-clothing production [6]. The two cotton producers, Egypt and Syria, export raw materials but also vegetable fibers; 50% textile-clothing exports for Egypt and 70% for Syria provide jobs respectively to 22% and 24% of the active workers.

A threatened competitiveness

The sources of competitiveness are forged in the performance of local production and fulfilled by level of market share in exports and comparative advantage corresponding to these specializations. Wages and productivity play a role in this context.

The MC sustain with difficulty the competition with the Asians at the level of wages. Well above the wage scale practiced in Asia, MC salaries also ranked higher than Poland and Hungary. On the other hand, Romania and Bulgaria, both candidates to EU membership, strongly compete with the Mediterranean countries, all the more so because Romania is one of the most dynamic exporters at the international level.

Moreover, the labour cost incorporated in the price of an article did not only depend on wages but also on the time of production.

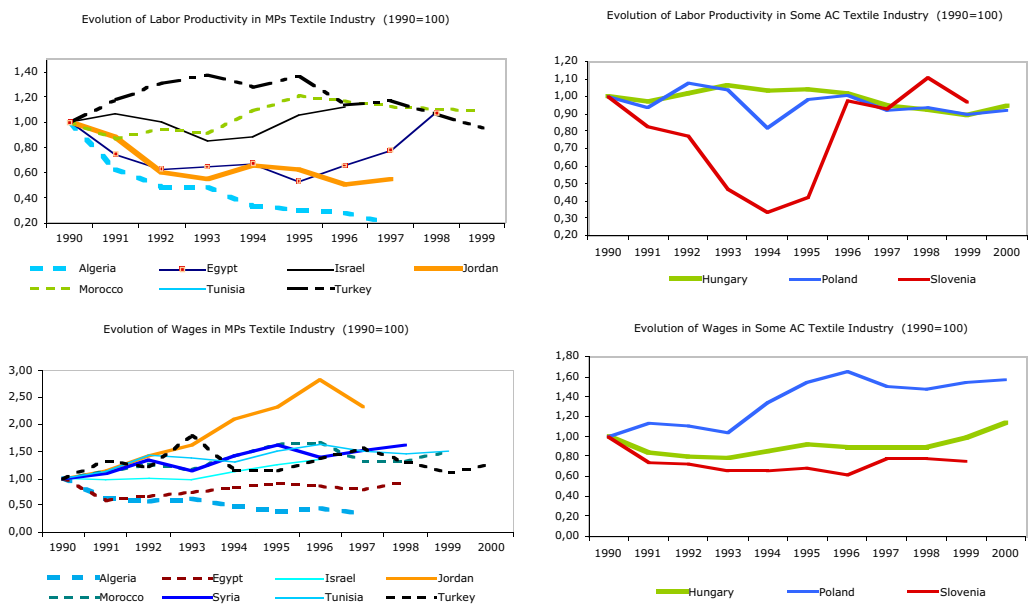
Figure 10 indicates that parallel to the almost general increase in wages, whether in the Mediterranean or in the countries gaining membership (except Egypt), labour producti-

Table 16: Daily wages in US dollars in textiles (2000)

Turkey	2,7
Morocco	1,8
Tunisia	1,7
Egypt	1,1
Poland	2,4
Hungary	2,6
Bulgaria	0,2
Romania	1
China	0,5
Indonesia	0,4

Source: JP Morgan Werner[7].

Figure 10: Productivity of labour and evolution of wages in the Mediterranean and AC10



Source: UNIDO, calculations Institut de la Méditerranée

vity did not improve: it had stagnated since the mid-nineties in Morocco, declined in Turkey, but increased in Egypt where it returned, at the end of the period, to its 1990 levels. The AC10 are in the same situation. Poland witnessed a rise in labour productivity that permitted a reasonable increase in wages. With lower wages and less costly inputs, Asia offers articles that are 50% to 60% cheaper.

Figure 11 indicates that: (i) China and India outclassed the MC and Poland by far, (ii) Romania and Bulgaria ranked higher than Mediterranean producers. However, such comparisons do not take into account the quality of commodities and the non-cost competitiveness of quality fashion products manufactured with modern materials, as all these characteristics allow for a relativisation of competititon between the producers specialized in traditional articles produced on a large-scale and at the lowest prices.

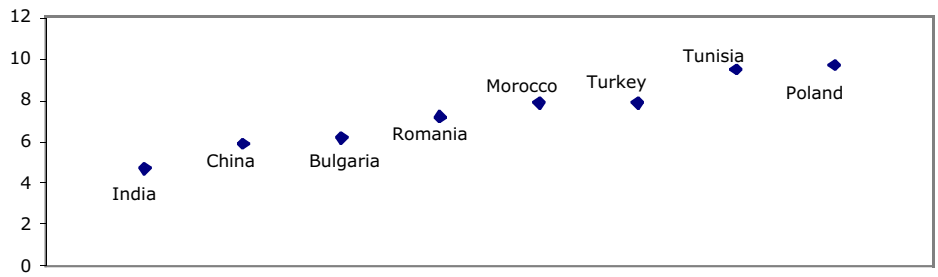
The comparative advantages obtained by the Mediterranean partners in world markets faithfully reflect their specializations. By differentiating textile exports into three categories of products corresponding to the state of their transformation in the production chain (raw material such as cotton, fibers and fabrics, and garments) the following was noted:

(i) Egypt and Syria alone and, to a lesser extent, Turkey, gained a comparative advantage in textile fiber exports. This trend was reinforced in Egypt and Syria but was reduced in Turkey. The fact that Egypt and Syria reinforced their comparative advantages in yarn and fabric exports suggests an *in situ* improvement of industrial capacities in transforming raw cotton.

(ii) Other Mediterranean countries, more specialized in exporting clothes, exhibited significant comparative disadvantages in the first two products. This is logical, since they undertake subcontracting with the European textile producers from whom they import the yarn and fabric that they transform. Meanwhile, comparative advantage in garment exports stagnated in Tunisia and Morocco and regressed in Turkey. Egypt, which specialized in textile-clothing to the detriment of the hydrocarbon sector during the past decade, rose in the three categories of products. Clothing exports amounted to 14.2% of Egyptian exports in 2001 (compared to 3.4% in 1990) and the comparative advantage indicator rose to 400% between 1990 and 2001.

(iii) The AC10 situation is different:
√ because specialization in textile-clothing is less pronounced (15% of exports to Lithuania and Estonia, 8% to Poland and Slovakia and 4% to the Czech Republic and Hungary,

Figure 11: Average price of a shirt exported to EU (in Euros)



Source: Customs, quoted by Fouquin et al, 2002.

√ because it was globally stable during 1995-2001,

√ because comparative advantages in the world markets are more modest. They were pronounced in the clothing exports to Lithuania and Estonia and dropped for Poland and Hungary.

(iv) A closer analysis of the composition of exported upstream products, that distinguishes between vegetable fibers and yarn in comparison with synthetic fibers and yarns, confirmed the fragile specialization of Mediterranean textile producers. Syria and Egypt only export cotton-based products whose global prices dropped in the past ten years. Only Turkey made headway in this effort to reach an upmarket level of production and synthetic fibers amount to 10% of the textile-clothing exports that it sends not only to the EU but also to the Eastern European partners and the Mediterranean ones. Their competitors in the East, on the other hand, have improved on this type of production: the Czech Republic with 2.8% textile-clothing exports, Slovakia (8.8%) and Lithuania (5.5%) supply the European and AC10 producers.

The exports of the Mediterranean partners are very concentrated on a small number of articles. A simple indicator of concentration showed that an average of 3 to 6 articles compose 50% of the textile-clothing exports of the Mediterranean Partner Countries. Turkey is the most diversified country with 10 articles (table 17).

This level of specialization revealed a fragile structure in the Mediterranean countries, which will expose them to shocks after the year 2005 and curb their capacity to adapt themselves.

The AC10 exhibit more diversified textile-clothing export structures with an average of 10 to 15 articles which amount to 50% of the sector's exports.

Competition with the AC10 was not focused on the same specialized slots. On the other hand, the MC are confronted with Asian competition and will be even more seriously faced with this competition in the future.

Asia dominates the knitted articles and severe competition on this type of article drove down the unit price during the past ten years. Specialization in chain readymade clothes and weaving relies on the differentiation of products and is often an area of subcontracting and "sourcing" with European contractors.

Table 17: Concentration of the textile-clothing exports of the Mediterranean partners and AC10 countries

Number of articles composing 50% of the exports			
Mediterranean Partners		Accessing Countries 10	
Cyprus	5	Czech Rep.	22
Egypt	6	Estonia	15
Jordan	3	Latvia	10
Lebanon	20	Hungary	11
Israel	7	Lithuania	10
Syria	4	Poland	13
Malta	2	Slovakia	9
Morocco	6	Slovenia	13
Tunisia	5	-	
Turkey	10	-	

Sources: Comtrade and Eurostat, Medstat Program, calculations Institut de la Méditerranée.

Table 18 indicates the relative share of each partner in the pan-Euro-Mediterranean zone on the most represented 5 clothing articles in the MC exports.

(i) T-shirts remain a Mediterranean specialty and amount to 86% of exports of the pan-Euro-Mediterranean area, 60% of which are Turkish. T-shirt amounts to 11% of the textile-clothing exports in Turkey, 7%i n Morocco, 5% in Syria and 4% in Tunisia. The AC10 were hardly present in this market except for Poland (2% of the area's exports) and Hungary (3.6%). Therefore, competition was to be expected from the Asian side in particular. In 2001, Turkey was the top supplier of T-shirts to Europe (33% of EU imports) while China only supplied 9% of the market. But the share of China in this article on the world market (17%) constitute an obvious threat.

(ii) The relative share of the Mediterranean partners in exported sweaters fell from 80 to 73% essentially due to a relative withdrawal of Turkey from the sector. Tunisia and Morocco, which represent nearly 9% each of the area's exports, are competing with Hungary and Poland. As was the case with the T-shirts, Asian competition is a threat to the countries of the area if China's place in the world trade is compared (27%) is compared to the one it occupies in the EU imports.

(iii) Tunisia being specialized in men's trousers (jeans), a sector that amounts to 21% of its textile-clothing exports, has seen its relative share diminish to the benefit of Turkey and Morocco. Globally, Mediterranean partners were the leaders in exporting this type of articles and such exports increased by 28% between 1995 and 2001. Competition with the AC10 was essentially due to Poland. The MC clearly improved their relative positions in women's trousers, a category of articles whose exports increased from 64%, through 61.7% to 75%. Turkey (38%) and Morocco (18%) were the main producers.

(iv) The relative position of the MC in the export of shirts was maintained essentially thanks to Morocco that passed from a relative amount of 7.6% to 16%. While taken globally the exports of this category of products diminished by 28% in 6 years,

Table 18: Relative share of the MC in 5 major categories of exported garments

	Men's trousers		Women's trousers		T-shirts		Men's shirts		Sweaters	
	1995	2001	1995	2001	1995	2001	1995	2001	1995	2001
Algeria	0,00%	0,00%	0	0	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Cyprus	0,30%	0,10%	0%	0%	0,10%	0,00%	0,50%	0,50%	0,90%	0,40%
Egypt	3,00%	4,10%	5%	5%	6,80%	5,00%	8,20%	4,70%	2,70%	3,80%
Israel	2,20%	0,60%	2%	2%	5,80%	2,00%	0,10%	0,20%	1,00%	1,10%
Jordan	0,20%	2,70%	0%	0%	0,00%	0,50%	0,50%	7,30%	0,00%	0,10%
Lebanon	0,00%	0,20%	0%	0%	0,00%	0,10%	0,00%	0,10%	0,00%	0,10%
Malta	4,60%	3,80%	1%	0%	0,20%	0,00%	0,10%	0,00%	0,10%	0,10%
Morocco	11,50%	16,20%	5%	18%	5,40%	9,60%	7,60%	16,60%	8,90%	9,40%
Syria	0,40%	0,40%	0%	0%	3,10%	1,70%	0,70%	1,10%	0,80%	1,10%
Tunisia	40,50%	27,40%	16%	12%	4,90%	7,20%	14,10%	14,40%	5,90%	8,70%
Turkey	14,90%	20,80%	34%	38%	61,10%	60,10%	37,10%	26,80%	60,90%	49,50%
MP	**77,60%**	**76,30%**	**63,00%**	**75,00%**	**87,40%**	**86,20%**	**68,90%**	**71,70%**	**81,20%**	**74,30%**

Source: Comtrade and Eurostat, Medstat Program, calculations Institut de la Méditerranée.

Box 8: Different products, different techniques of production

One generally differentiates the family of assembly line products (shirts, trousers) from knitted products (Tee-shirts, sweaters) because they are the outcome of different trades and techniques: knitted articles are created directly from the thread or yarn whereas assembled articles are made starting from fabrics cut according to a master pattern. The first process requires know-how simpler than the second. An industrialist specialized in knitted products cannot reconvert easily into producing line articles out of fabric.

only Morocco increased its exports. Turkey lost relative shares while remaining the leader with 26.8%, but its exports fell by 80% between 1995 and 2001. Poland is also gradually withdrawing from the sector of men's shirts and is specializing in ready made shirts for women.

A stable position for the textile-clothing line of production

The organization of the textile-clothing line is based on an "operational" breakdown of production. The input-output structure that describes the different activities for the creation of value-added and their interaction (from the design of the product to its transportation and marketing) is operational: (i) thanks to a structure of governance in which the dominant firm organizes the enhancement of the different segments of production, determines technical changes and the pace of production, etc., (ii) thanks to a spatial distribution of activities and (iii) thanks to a specific social and institutional framework founded on the standards and values of different spaces of trade for the firms[8].

The textile-clothing production network within the Euro-Mediterranean space (see box 9) is based on the fluidity and reactivity of trade (stocks management, respecting deadlines, pilferage control, etc.). Textile-clothing industries in the advanced countries are banking on innovation, creativity and quality, and on an increasing introduction of

Box 9: The process of textile-clothing production

The textile-clothing industry is one of the longest sectors of production and the most fragmented. The textile industry (spinning, weaving or knitting, fabric-finishing) is of the capitalist type and relies on advanced technologies, and much creativity and remains generally localised in the industrialized countries. The clothes industry remains a labour-intensive activity in which automation is low (the sewing machine accounts for 75% of manufacturing time) and develops in those countries which have wage "advantages".

But at the same time that production cost argues in favour of delocalization, customer taste and demand play a paramount role for certain categories of product. In order to meet demand, the production of clothing is guided more and more frequently by the requirements of large distributors. Manufacturing is just a stage in the chain of production; the creation of value is increasingly based on "intangibles". The customer buys a brand, a quality, a look and the selling price is not the key element. Today, demand depends on fashion which is volatile and differentiated. Distributors abandon their basic trade to become clients with specific requirements and develop sourcing strategies that include external subcontractors, based on juggling with price/quality/flexibility and speed/reactivity/creativity. The sourcing serves the final customer, (Bernard, 2003) and emerges from 3 components:

√ the ratio quality/price,
√ the availability of the product,
√ consumer values (social norms, equitable trade),

These, globaly, correspond to two types of sourcing:

√ traditional, founded on long-term planning, primarily oriented towards Asia,
√ restocking or reactivating, in the short term and for which the MP presently have a comparative advantage.

Price remains significant in the sourcing decision but its determination rests on the calculation of the total cost, which takes into account all the costs. The quality of the product, (its finish, its style, its fabric, its quality) constitute criteria as essential as the price in the choice of a potential supplier, which implies that new retail strategies are needed. The choice of a partner thus rests on the know-how of enterprises.

Quality is a process which is the outcome of the customer-supplier relations. It is a long-term investment which is not necessarily in direct relationship to factors determining cost. Moreover, the quality of the related services, their ease and flexibility, the quantities and the extent of available working capital - all these factors determine the level of competitiveness of a network of suppliers. The mission of a sourcing agent is to develop a group of good suppliers within these constraints.

These new trends which depend on external partners are also dependent on geographical and commercial proximity. Regionalization, in addition to frequently providing preferential rates, allows short cuts, where the response time for restocking can be lower than 10 days. Complementarities between various segments of the sector are the basis of the choice of partners of European producers. According to their place in the chain of production and the type of market they aim at, the importers of textile-clothing in industrialized countries do not give the same weight to the criteria behind the decisions and choices of foreign suppliers: wholesalers insist on vertical integration, retailers in the fashion sector play on speed whereas the large distributors are focused on costs.

Bernard B, Agent in charge of sourcing at crossroads (8 to 10% of the accounts in textiles), Conference on the future of textiles and and clothing after 2005, Brussels May 5-6, 2003.

technology and R&D. They clearly expect their partners to participate in this strategy which allows them to preserve a comparative advantage over the whole line. Like competence in the case of suppliers, the quality of the network and its capacity to develop and to adapt to changes in conditions of competition are determining elements.

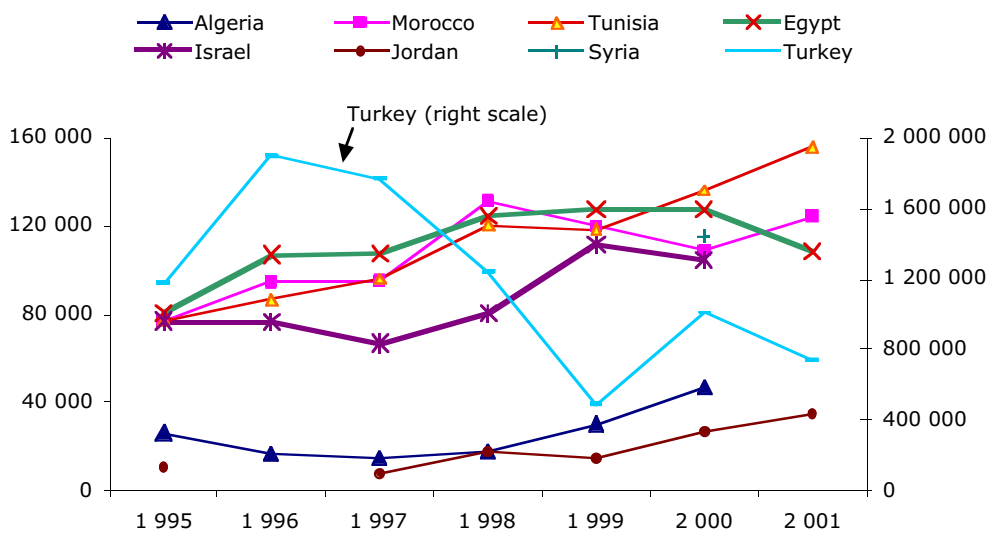
The Pan-Euro-Mediterranean area is firmly protected by the numerous professionals in the European textile-clothing sector[9] who have an immense production potential at all stages, an undeniable know-how, around 760 million consumers in the basin who believe that such privileged ties, created by history and trade, must be protected. These selfsame producers therefore believe that the preferential systems that so far protected the dressmaking business in the less developed countries should be maintained and allowed to play a win-win role between the two shores. The development of the rules of origin and their adaptation to a regional organization of production constitutes a means of prolonging the application of such protection systems even after the quotas.

The organization of sourcing networks protects the MC but it should also allow for industrial upswings. The passive traffic which characterizes the Pan-Euro-Mediterranean textile network can become active, given several conditions (Falke, 2003):

- √ that the network facilitates technology transfers,
- √ that the employees are fairly well trained,
- √ that there is an efficient administrative organization,
- √ that there is a proper legal and banking system in the country,
- √ that there is a good quality production of raw material.

The sub-contractors might then occupy the most profitable place in the chain of value. At the present time, Turkey is distinguishing itself from the other Mediterranean countries by best positioning itself in the chain of value-added creation. It is necessary to underline the fact that contractor-distributors are now heading towards a co-dealer partnership that can allow them to disengage themselves from activities outside their basic professional

Figure 12: Textile machines imported by Mediterranean Partners (in millions of Euros)



Sources: Comtrade and Eurostat, Medstat Program, calculations Institut de la Méditerranée

sphere. The AC10 seem better prepared than the MC to participate in this new form of organization. If no incentive is provided from one part or another of the Mediterranean, the latter might be confined to assembly tasks and thus lose some higher value-added slots.

Producing countries recognize the need for such adaptation and are investing in an upstream industrial restructure, that is, manufacturing raw materials.

Figure 12 displays a continuous effort on the part of Tunisia (+ 51% between 1995-2001), Morocco (+45%) and Egypt (+25%) to equip itself with textile machines 70% of which were furnished by European industrials. Turkey, which is represented on the right axis, amounts to 63% of imported textile machines after having reached more than 80% in 1996 and 1997, and suffered a major reduction of its imports in the past three years.

The division of the Euro-Mediterranean textile business, which is essentially structured with countries of the Southern shore, is facing a competition resulting from the close relations of Europe with the AC10. Annex B6 highlights the privileged relations of the Southern European countries with two producer countries of the Southern shore. Tunisia imports between 87% and 89% of its raw material (yarn and fabric) from European countries (France, Italy) and re-exports 97% of its apparels to them. Similarly, Morocco imports 80% of its fibers and yarn from the EU (France, Spain, United Kingdom) and exports 97% of its readymade garments to these countries. These two countries hardly export any yarn and fabric.

Eastern Mediterranean countries play a more open card in the international and intra-Mediterranean game, under the aegis of Turkey.

(i) The Turkish textile system of production is otherwise involved in Euro-Mediterranean trade and plays a more active role in the area: (i) Turkey imports fibers and yarn from Asia (30% of its synthetic fiber imports, 8% from China) and from the USA (20% vegetable fibers), and exports 16.6% of its clothing articles to these countries; (ii) the EU (Italy and Germany) supplies 35% and 39% of the fibers and fabrics and absorbs nearly two thirds of the exported Turkish garments, (iii) and finally Turkey is the only MC to export synthetic fibers and it not only supplies the European countries (46% exports) but also the other MC (especially Syria) with 13% of its exports as well as the AC10 countries.

(ii) Egypt, Syria and Jordan import Turkish synthetic fibers (respectively 17%, 20% and 6% of this category of imports), European countries provide vegetable fibers (7%, 55%, 22%). Syria equally supplies the Mediterranean countries (30% exports) especially Turkey (20%) with vegetable fibers. The European countries absorb nearly half of the Egyptian and Syrian vegetable fiber exports.

(iii) The USA import 14% of Egyptian vegetable fibers and 53% of its garments.

(iv) The presence of China is larger in the Eastern Mediterranean where it supplies synthetic and vegetable fibers to such countries as Egypt, Syria, Lebanon, Israel and Turkey (see Annex B6).

(v) As regards the AC10 countries, their behaviour is different in ways: (i) the sub-contracting relations between the European producers and the Eastern European ones are easier to understand for all the AC10 countries (cf Annex B7): the EU is the main supplier (between 60% and 80% of the imports) of fibers

and fabrics and receives between 80% and 95% of the readymade garments exported by the AC10 countries. Germany and Italy are the most concerned countries, but these relations equally touch the countries of Northern Europe (Denmark, Sweden, Finland), (ii) there are very few extra-European partners, China's intervention is only marginal in this context, (iii) finally, complementary relations tend to develop among the AC10 countries as the fibers and yarn producers supply their partners in the area.

By way of conclusion, we wish to point out that given the international context that is emerging for the post 2005 period, South-East Asia and in particular China will be formidable adversaries for all actors in the Pan-Euro-Mediterranean textile industry.

(i) In actual fact, the European yarn and fabric producers are not sheltered from Asian competitiveness. Let us recall that the textile-clothing sector employs two million active workers in the European countries and that upheavals in this territorially speaking highly concentrated sector might have significant consequences in terms of basins,

(ii) the characteristics of the sector that are most closely linked to final demand are directed towards a first movement which responds to cost considerations, and a second movement which relies on the reactivity of the client/supplier network. From a schematic point of view, costs plausibly are not the only factor on which the determination of the comparative advantages is based. The polarization of production towards Asian countries should be less huge after 2005; while the traditional products that essentially play on price would be assembled in Asia, and the countries that will be able to take advantage of their know-how and their proximity/reactivity advantage might specialise in a "just in time" production line,

(iii) the quality of the sourcing type of sub-contracting networks that coordinate Euro-Mediterranean production will constitute a potential way of resisting Chinese competition, on both sides of the Mediterranean. However, the South-East Asian countries increasingly ensure low production costs in addition to better quality products thanks to their imported modern textile machines and technology transfers. Furthermore, their reaction time to European contractors is increasingly shorter, which accentuates the potential threat to the Europeans and the Mediterranean,

(iv) the Euro-Mediterranean Agreements must help to provide the partners in the South with the financial, technological and training means required for a more active participation in the indispensable adaptations of the sector.

Reactivity and quality, which are certainly considered the trump cards of the Euro-Mediterranean area, can allow these countries to face up to Chinese competition provided the actors-producers constantly improve their competitiveness;

(i) for the Europeans, this means searching for new techniques, improving the quality of products, promoting R&D activities and innovations, training qualified manpower and seeking competent external partners within the network of quality sub-contractors.

(ii) For the MC, who seek a collective competitiveness with the textile producers of the North, the question is not only to

use a more complex technology but also to accede to a higher level of responsibility within the production line, which not only requires efforts to increase quality and competence but also greater investments to improve supply and to modernize the production equipment.

V– Modifying a labour market approach that is currently constrained by the structure of jobs, inadequate training and legislation

Firstly, the job structure is still deeply oriented towards agriculture.

We can thus observe that (i) the services sector is developing itself and covers the biggest share of jobs (47.7 %), Cyprus, Israel, Jordan and Malta are the most advanced from this point of view, with a share of services vis-à-vis total employment that is close to that of the Union, (ii) this does not apply to the industrial sector which saw its share diminish by 1.5 points in average since 1995 (only Turkey increased its industry); (iii) the agricultural sector amounted on the average to nearly one quarter of the manpower (but 45.2% in Morocco and more than 35% in Turkey) and this share has been stable since 1995.

Thus, although more views were expressed on structure than on evolution, the MC are still faced with a major problem. Agricultural jobs can only be reduced in the coming years, especially due to the mechanization of the sector, which is crucial for its survival. The 1995-2001 evolution shows the incapacity of the manufacturing and services sectors to absorb not only the newcomers on the market, but also those whose jobs were made redundant in the agricultural sector. In fact, thousands of people found themselves without jobs, even in the informal sector (ESCWA, 2001). The most preoccupying fact is that the numbers previously calculated with regard to the needed jobs, albeit impressive, did not take the structural change into account, hence the misgivings that despite their magnitude, they still minimised the reality of this predicament.

Certainly, there has been a visible development of NICTs (new information and communication technologies) in some countries of the region. But, this development is rather timid and the sector can only absorb a limited number of scientists, technicians, computer programmers, consultants and trainers. Moreover, these sectors do not correspond to the main training approach in the MC.

Table 19: Employment by large sectors in the MC (in %)

	Agriculture			Industry			Construction			Services		
	1995	2000	2001	1995	2000	2001	1995	2000	2001	1995	2000	2001
Algeria	17,4	15,7	21,1	13,3	12,6	13,8	13,3	11,7	10,4	56	60	54,7
Cyprus	10,5	5,4	4,9	16,3	14,1	14	9,8	10	10	63,4	70,5	71,1
Egypt	33,4	29,6	..	15,6	13,4	..	6,4	7,9	..	44,6	49,1	..
Israel	2,9	2,2	1,9	20,7	18	17,5	7,2	5,3	5,2	69,2	74,5	75,4
Jordan	6,9	5,5	4,1	15,7	14,5	15,1	10,1	7,3	6,7	67,3	72,7	74,1
Morocco	..	47,1	45,2	..	13	12,8	..	6	6,4	..	33,8	35,5
Malta	1,7	1,7	2,1	23,2	26,2	24,1	4,6	6,9	7,7	70,5	65,2	66,1
Pales. Auth.	12,7	13,7	12	18	14,3	14	19,2	19,7	14,6	25,6	29,9	34,5
Syria	28,6	32	26,9	17,3	13,1	12,2	12,6	12,4	11,2	41,5	42,5	49,7
Tunisia	21,9	22,1	22	21,8	20,5	21,7	13,2	12,7	12,2	43,1	44,7	44,1
Turkey	43,4	34,5	35,4	16,2	18,2	18,3	6,1	6,4	5,3	34,3	40,9	41
Average South-Med.	23,5	25	23,8	16,8	14,9	15,4	11,6	10,5	9,5	44,6	46,7	47,7
Average MP	**17,9**	**19**	**17,6**	**17,8**	**16,2**	**16,4**	**10,3**	**9,7**	**9**	**51,6**	**53,1**	**54,6**
EU-15	5,2	4,3	4,3	21	19,5	19,2	7,4	7,2	7,2	66,3	68,9	69,3

Source: Eurostat, Medstat Program, Newcronos database 2003.
Algeria: the 1995 numbers refer to 1996 (source: Statistical Yearbook, ONS, 1998); the 2000 numbers apply to the first three months and the 2001 numbers to the third quarter. Tunisia: the 1995 numbers refer to 1994.

Secondly it is difficult for the training systems at the present time to strike an adequate balance between supply and demand.

(i) Unemployment, which is an immense waste of human capital, is increasing, especially since the economic recession of 2001. The average rate currently amounts to 14%, one of the highest in the developing regions (table 20). But it still underrates the situation, given the size of under-employment in the informal sector.

(ii) Young graduates are increasingly affected by unemployment and they are proportionately more affected than other age groups. In Tunisia, the unemployment rate for youths was evaluated as 25-30%, in comparison with 14.9% for the entire employed population. In Morocco, the unemployment rate for urban youths has risen to 31% (against 11.6% for the average rate). Although the schooling years increased by 50% in two decades in all the MC, the unemployment rates, far from diminishing, are rapidly soaring, which indicates the divide between attained and demanded skills.

(iii) Illiteracy rates are still high, however. Higher education is performing, but the governments must also set into place the necessary mechanisms for the whole population, including adults, to acquire basic knowledge.

(iv) The private sector could play a greater role in supplying education services. Compared with the situation in Asia, for example, the private sector is really under-represented in education. However, this sector can generally afford to assume different and complementary tasks vis-à-vis the public sector, especially continuous training, training for adult or even training for youths who drop out of the traditional system.

(v) Mechanisms to channel information to the decision -makers are required to target problems more adequately and to respond to them in an appropriate manner.

(vi) The training proposed should be better oriented towards demand so as to fulfill the needs of the private sector and the allocation of funds must at least partly take this criterion into consideration.

Thirdly, the improvement of labour market legislations seems necessary.

These are significantly different within the MC. For example, Morocco possesses a law on minimum wages, but it is not systematically applied in the private sector. The high unemployment rate motivated the government to authorize the employers to hire wor-

Table 20: Unemployment rate in the MC (in %)

	1990	1995	2002
Algeria	19,8	27,9	27,3[2]
Cyprus	..	2,6	3,8
Egypt	8,6	11,3	9,0[3]
Israel	..	6,9	10,3
Jordan	..	14,4	15,3
Lebanon	35	18,0[1]	..
Morocco	15,8	16	11,6
Pales. Auth.	..	18,2	25,5[2]
Syria	..	7	11,7
Tunisia	..	17,8[a]	14,9
Turkey	7,5	6,6	10,4
MP	**12,9**	**14,5**	**14**

Sources: Eurostat, Medstat Program Newcronos, Base 2003; a: INS Tunisia, 1995.
Notes: a. assessment, 1. 1997 figure; 2. 2001 figure; 3. 2000 figure.

Table 21: Average number of education years in the MC

	1980	1985	1990	1995	2000
Algeria	2,68	3,46	4,25	4,83	5,37
Cyprus	6,52	7,44	8,71	8,91	9,15
Egypt	2,34	3,56	4,26	4,99	5,51
Israel	9,41	9,35	9,37	9,46	9,6
Jordan	4,28	5,23	5,95	6,47	6,91
Syria	3,65	4,47	5,11	5,48	5,78
Tunisia	2,94	3,34	3,94	4,53	5,02
Turkey	3,41	3,69	4,15	5,12	5,29
MP	**4,1**	**4,73**	**5,29**	**5,84**	**6,21**

Source: World Bank, WDI database.

kers beneath the legal level. In Egypt and Tunisia, limited to the public sector abides by minimum wages and this provision does not exist in Jordan.

However, there are ways and means that might increase flexibility without implicating the social dimension. Thus, labour laws providing for collective wage negotiations and a rapid and efficient resolution of conflicts would improve the status of workers and guarantee their minimum rights without excessively hampering the flexibility of the market. But it is necessary to bear in mind that the conditions prevailing in the MC will not allow this kind of measure to totally function especially because: (i) they do not protect the employees of the informal sector although they represent a significant share of jobs in most of the MC, (ii) they are often circumvented by the enterprises of the domestic formal sector, since the institutions that can monitor their enforcement are often inexistent or inefficient, (iii) they are not well considered by the foreign enterprises which prefer to hire the least protected manpower, which induced perverse effects on productivity on the one hand and on qualified manpower on the other.

VI– A dire constraint, controlling the development of poverty

a- Poverty is not spreading but is getting deeper

Apparently, despite the sluggish growth of real per capita income during the nineties, the MC seem to have been relatively spared by poverty. Measured in terms of consumption or spending, it affects about 2% of the total population, which means that almost 5 million persons live with less than 1 dollar per day (at the 1985 LDC price). Undoubtedly this is a considerably inferior amount in comparison with the other developing regions[10]. However, if we have recourse to other definitions of the poverty line, the magnitude of the phenomenon is impressive: we can thus assess that nearly 27 million persons spend less than 60 dollars per month, that is, nearly 30% of the total population, with conspicuous variations among the MC.

The general tendency is even more alarming. Following a considerable progress achieved during the eighties, the IDG[11] index (1 dollar per day) fell from 4.3% in 1980 to

Table 22: Incidence of poverty in Egypt, Jordan, Morocco and Tunisia from 1981/1982 to 1998/1999

Country and Survey Year	Urban		Rural		Overall	
	Headcount Index (%)	Poverty Gap Index (%)	Headcount Index (%)	Poverty Gap Index (%)	Headcount Index (%)	Poverty Gap Index (%)
Egypt						
1981/82	18,2	3,5	16,1	3,1	17,2	na
1990/1991	20,3	4,3	28,6	4,5	25	na
1995/1996	22,5	4,9	23,3	4,3	22,9	na
1997	22,5	5,6	24,3	6,4	23,5	6,7
Jordan						
1986/87	2,6	na	4,4	na	3	0,3
1992	12,4	3,1	21,1	5,1	14,4	3,6
1997	10	2,1	18,2	4	11,7	2,5
Morocco						
1984/85	17,3	na	32,6	na	26	na
1990/91	7,6	1,5	18	3,8	13,1	2,7
1998/99	12	2,5	27,2	6,7	19	4,4
Tunisia						
1985	4,6	na	19,1	na	11,2	na
1990	3,5	0,7	13,1	3,2	7,4	1,7
1995	3,6	0,7	13,9	3,1	7,6	1,6

Source: Adams and Page, 2001. na : data not available.

2.4%.The trend slowed down in the nineties (1.6% in 1996) then started to rise (2.1% in 1998). Again, changing the definition of the poverty line made the trend more visible. The number of people living on less than 2 dollars per day was nearly 30% in 1987, then it heavily dropped to 22.2% in 1996 – quite similar to the Eastern European and Central Asian countries – before rising again at the end of the period to 29.9%, thus wiping out a whole decade of efforts (see Page and Adams, 2001). Furthermore, this phenomenon is gaining "depth" (see table 22): the index measuring the distance between the poor from the limit fixing their condition tends to grow wider (except in Tunisia).

Table 23: Distribution of household expenditure in Egypt, Jordan, Morocco and Tunisia, from 1981/1982 to 1998/1999.

Country and Survey Year	Gini Coefficient of Expenditure		
	Urban	**Rural**	**Overall**
Egypt			
1981/82	0,322	0,275	n.a.
1990/91	0,34	0,36	n.a.
1995/96	0,331	0,235	n.a.
1997	0,385	0,321	0,35
Jordan			
1986/87	0,362	0,319	0,361
1992	0,406	0,33	0,4
1997	0,371	0,305	0,364
Morocco			
1984/85	0,405	0,317	0,397
1990/91	0,377	0,312	0,393
1998/99	0,377	0,316	0,395
Tunisia			
1985	n.a.	n.a.	0,43
1990	n.a.	n.a.	0,4
1995	n.a.	n.a.	n.a.

However, a more favorable tendency was observed in the distribution of revenues, somewhat attenuating the effects of the economic slowdown: the share of the 20% poorest revenues is increasing. Similarly, the evaluation of the inequality of revenues realized on the basis of the Gini coefficient (table 23) seems to indicate:

(i) a similar inequality in the MC, as the coefficient at the end of the period wavered between 0.35 and 0.40;
(ii) a lesser inequality than in other regions: thus, the same Gini coefficient wavered in Latin America from 0.44 to 0.60;
(iii) an inequality that did not increase, despite the aggravation of the phenomenon, except perhaps in Egypt.

Table 24: Synthesis of poverty and inequality trends in Egypt, Jordan, Morocco and Tunisia from 1981/1982 to 1998/1999

Country	Poverty measured by Headcount Index	Inequality measured by Gini Coefficient	Mean Expenditures measured by survey mean per capita expenditures
Egypt	Increasing (urban, rural and overall)	Increasing (urban, rural)	Declining (urban, rural)
Jordan	Increasing (urban, rural and overall)	Stable (overall)	Declining (overall)
Morocco	Declining (urban, rural and overall)	Stable (urban, rural)	Increasing (overall)
Tunisia	Declining (urban, rural and overall)	na	Increasing (overall)

Source: Adams and Page, 2001.
na: data not available.

Although it is difficult to reach a conclusion on the available database for these four countries, the following was nevertheless observed:

(i) a slight increase appeared at the rural and urban levels in Egypt, but for the whole period, whereas global development in the past decade has been rather stable, on the basis of a reversal between urban and rural conditions that is in keeping with the rural exodus inspired by the search for jobs and income;

(ii) stability over the whole period in Jordan suggests that the rise of poverty was mainly attributable to a 32% reduction of per capita consumption;

(iii) symmetrically, the stability displayed by Morocco, combined with an improvement of the incidence of poverty over the whole period indicates that this can be attributed to a 21% increase in per capita spending.

On the whole, the main reason underlying the trends observed was the dynamic of the available revenues.

In fact, the decline of real wages increased the depth of the phenomenon even though a more pronounced spread of poverty was not directly observed, as the real average income was in fact slower to rise than the real pur-

Box 10: The Mediterranean region: the social variables of development, health, poverty and crime

CENSIS, Italy

The study emerges from a belief that economic development in the Mediterranean region can only progress if there is a commitment towards cooperation with regard to the social aspects of development as well as the economic ones. The main objectives of the Euro-Med Partnership - trade and security - cannot be achieved unless priority is also given to spreading social well being in every corner of the Mediterranean region.

By looking at the social imbalances and differences between the societies of the Mediterranean basin, the study concentrates chiefly on three areas, health, poverty and crime, to measure how these three fundamental aspects of a country's "state of health" are affected by the greater or lesser degree to which the Mediterranean countries carry on global relations.

Thought a comparative desk analysis of countries of the Mediterranean involved in the Euro-Med Partnership, the research has confirmed some fundamental facts:

- √ *after a long period of protectionism, the progress of the developing economies of the Mediterranean basin towards an "open" model, with a new approach to the market, has often been accompanied by sharp decreases in the growth rate of per-capita GDP, rising levels of unemployment and widespread poverty;*
- √ *the structural adjustment programmes which guided the reforms of the 1980s in the Middle East and North Africa (MENA) achieved important results with regard to stabilizing the macroeconomic indicators but at the same time caused a significant increase in unemployment and poverty, generating "new poor" in various social groups as "direct victims" of the structural adjustment measures;*
- √ *the economic growth that takes place when developing economies open up to the world markets and sign multilateral trade agreements may initially generate an improvement in the income poverty indices – as has been the case over the last few years, in which the economy has experienced a period of expansion – but there is a risk of leaving sizeable "holes" of poverty and exclusion in the social network, aggravating the inequality and social exclusion affecting large segments of the population and fomenting tensions and discontent;*
- √ *the results achieved by many countries on the economic side, and sometimes with regard to the reduction of poverty too, conceal strong social imbalances which still persist and which are not reflected in an equally satisfactory improvement in the effective living conditions of the inhabitants of Mediterranean countries;*
- √ *in the interconnections between development and crime, despite fairly substantial differences in the crime rates of the various countries, can be appreciated a significant (and "weird") negative correlation between the incidence of offences and the position occupied by a country in the world development rating (expressed by the "human development index" (HDI) calculated by the UNDP as a proxy indicator of a nation's socio-economic and civil progress).*

The analysis thus confirms that an increase in per-capita GDP is not automatically accompanied by a reduction in income poverty (measured on the basis of the threshold of one dollar per person per day) and doesn't produce an improving of the health condition of the population or neither an immediate reduction of crime and social insecurity. In the same way, if we look at the set of indicators that refers to health, poverty and crime, it is by no means certain that they correspond to a lower level of "human poverty" or an improvement in "human development".

Our study stimulates us to consider health, poverty and crime as coordinates of a three-dimensional space where different countries and sub-regions in the Mediterranean can be located and where relevant aspects of social well being can be measured and assessed. CENSIS is currently combining a series of the most important results described in the existing literature (with reference to theoretical models and empirical research) with the most recent findings from international organisations (starting with the 2003 UNDP Human Development Report). The next step will be to use multivariate statistical analysis to measure the effectiveness of each single indicator related to poverty, health and crime and consequently assess the overall impact of each of the three dimensions considered.

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chasing cost of essential commodities. Hence, the reduction of real wages in the public sector was very significant during the mid-eighties: in 1992, its real level in Egypt only reached 50% of its 1982 level. In Morocco, public sector wages in 1993 only amounted to 75% of the 1975 level and to 85% of the 1985 level in Jordan. The public sector was not the only area affected: in Algeria, real minimum wages dropped by a yearly 16% throughout the period 1989-1992 (Ali and El Badawy, 2000). Poverty is more pronounced in the rural areas, which added to the impetus of the rural exodus, but urban poverty is also increasing and has affected the retail independent active workers despite the higher productivity and growth rates. In the urban areas, poverty is related to the segmentation of the market: similar to unemployment, it is induced by the poor capacity of the "modern" sector to absorb the labour markets. Poorly qualified manpower is considered less productive and is faced with greater difficulties in entering markets, so that it is more seriously vulnerable to underemployment and poverty.

b- The struggle against poverty and the performance of economies

In the long term, growth is the most important simple gauge of poverty. When the objective is poverty reduction, and ultimately the eradication of poverty, the best instrument is a sustained growth of these economies' per capita GDP. The countries that have realized the best results against poverty were also those that achieved a more rapid growth (Rodrik, 1998).

But despite the fact that the impact of growth on poverty is unquestionable, the link between growth and the improvement of income distribution is much more ambiguous. This ambiguity is manifested in a number of countries across the world.

An important condition of the struggle against poverty is to coordinate the action undertaken by the different stakeholders, governmental and non-governmental alike. It is evident that the lack of coordination between these different actors resulted in a useless duplication of the efforts deployed for the poor, or even in conflicting initiatives (Khossaif, 1998). Coordination is necessary at all levels, intra-ministerial, inter-ministerial and among NGOs.

Furthermore, the monitoring and follow-up of poverty reduction programs were particularly low, due to poor institutional capacities and weak human resources that were partly linked to the lack of resources. We have not found any independent surveys evaluating the impact and efficiency of such programs.

Thus, the efficiency of the struggle against poverty required a rapid correction of the following shortcomings:

(i) government institutions' limited capacity to reach the poor at the local level;
(ii) the limited capacity of NGOs in setting innovative and successful programs into place;
(iii) the lack of systematic impact studies despite the significant amounts spent;
(iv) the high percentage of unfruitful or abandoned projects as well as the low reimbursement of loans;
(v) the great number of donor countries or agencies and the fragmentation and partial character of contributions;
(vi) the lack of qualified human resources to formulate, set into place and ensure follow up of the programs.

On the whole, the FEMISE underlines the importance of addressing the problem from a multi-dimensional and holistic point of view. Well conceived programs do not often

enough acknowledge that the problem is more complex than the simple transfer of resources to the poor. Thus, a dose of critical judgment coupled with a serious analysis of the determining elements of poverty in the MC is urgently needed if effective policies are to be set into place.

c- Migration in the Southern Mediterranean countries, a consequence of poverty and unemployment

Migration is a consequence of poverty and unemployment. Nearly all the countries of the Northern shore of the Basin became the host countries of millions of illegal immigrants while the public authorities and the experts debate the consequences of this phenomenon with a warm and mounting interest. Migration from the Maghreb privileges Europe as a destination: the latter has become the place of residence of 80% to 90% of this regions' expatriates (Di Magliano, 1999). On the other hand, migration from the Mashrek countries is focusing more heavily on the other Arab countries, especially the Gulf countries, and the USA (Bauer and Gang, 1998).

Migration to the countries of the North is characterized by:

(i) a relatively significant number of illegal emigrants which reached a total of 3 million at the beginning of 2000 in comparison with less than 2 million in the early nineties.
(ii) More than half of these emigrants live in the four countries of Southern Europe: Spain, France, Italy and Greece (Icduygu and Unalan, 2000).
(iii) Most of these are with little or no qualifications and integrated into the most exposed segment of the local labour market, and placed at the bottom of the social scale.
(iv) The migration of entrepreneurs and highly qualified and educated emigrants, although a minority, represented a considerable loss for their countries of origin that have financed their training. The movement led to a decline in the skilled human resources of countries (brain drain).
(v) Immigrants and their families are often confronted with political and socio-cultural discrimination in times of recession (Ministry of Foreign Affairs of Sweden, 2000).

Euro-Mediterranean integration requires the setting into place of a new migration policy, focusing more specifically on the movement of qualified workers (Garson, 1999), because it is possible to make this phenomenon beneficial to both parties. The European countries could respond to the problem of the declining number of their force, due to their aging populations, by drawing up legal immigration programs. These programs would allow MCs to:

(i) reduce unemployment in the short term,
(ii) obtain foreign currency to finance their development (in Morocco in 1997, the net incoming foreign capital from Italy amounted approximately to 30 billion liras while remittances from immigrant workers in Italy reached 40 billion,
(iii) train workers professionally so that they may increase their prospects when they return,
(iv) accelerate the regional integration that is taking place with the European Union.

In the meantime, the impact of migrants remittances on development has been insignificant. Remittances are rarely invested in the productive process and did not actively help create employment. On the other hand,

these transfers could exacerbate income disparities within the community of origin and even prompt inflationary pressures which aggravate the poverty of the families that do not benefit from such transfers.

Hence, the issue of the flow of migrants between both shores has not been included in the European agenda; any discussion concerning the admission of legal immigrants is always taboo. The main concern is still protection against uncontrolled population movements.

Many observers in South Mediterranean societies estimated that repression encourages the newcomers to live illegally, fearing measures that might be taken against them by the European authorities or by their countries of

Box 11 : Workers' remittances: practices of Moroccan migrants to Denmark and Tunisian migrants to Italy

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I- The case of Moroccans in Denmark

a- Patterns/rationale for remitting

There are 8404 Moroccan immigrants in Denmark of which 46.6 per cent are women. In 2001, they represented about 3% of the immigrant population and their descendants from Third Countries (i.e. non-EU countries and excluding United States and Norway). Although rated only the 12th largest migrant group in Denmark, their number has doubled over the last ten years. A preliminary finding of the 30 interviews conducted this far is that the amount of transfers depends on the personal and family situation of the migrant and thus that individual migration histories determine remittance patterns. Two general tendencies have been discerned: On the one hand, newly arrived migrants remit more money and more frequently than their predecessors. This is mainly due to the fact that the majority tend to see their stay as temporary. At the same time individual remittance patterns are also related to the presence/absence of other relatives living abroad. The more migrants who contribute remittances to the same dependant family in Morocco the less remittances are transferred to the country of origin. On the other hand, a longer stay in Denmark may also imply a better remunerated position in the Danish market which in turn might imply better options to remit money for dependent family members or for building a house for future retirement. In other words, we may describe the relationship between the stages of migration and the share of income as a U-curve: A larger percentage of income is transferred home at the beginning and the end of the migration period, whereas the period in between is characterized by a lower flow of remittances due to reproductive factors and living- and housing expenses in Denmark.

Different factors explain the variation in remittance practices. The socio-economic situation of the family left at home play a substantial role: In fact, in a few cases the people interviewed were economically supported by the family back home, while the majority send money to sustain the migrants' household and other close relatives in the country of origin.

In addition, the economic status of the migrant in Denmark has a direct correlation with the remittances practice. Higher household incomes favour the transfer of larger amount of money. It should be noted, however, that the better-educated people in the sample tend to keep most of their savings in the host country whereas lower educated migrants tend to transfer home a larger percentage of their income.

Family relationship in the home country also plays a substantial role. In Denmark, the so-called 'second generation' of Moroccan migrants have looser ties with their parents' home country and family ties tend to become weaker.

Generally, remittances are not sent on a regular basis but rather depend on spontaneous needs expressed by relatives in the home country, or on particular events such as illnesses or weddings. Remittances peak during feasts such as the 'Eid' or other religious festivals.

Donations as for example the 'Zakat', or the Friday's prayer donation to the Mosque, represent other forms of remittances that are sent through the migrant associations to local communities in Morocco. The Zakat corresponds to approximately 2.5 per cent of households' savings which have been untouched for a period of a year. The precise amount is calculated by the head of the household and is normally distributed among people in need in the local area. Whether individual respondents overestimate the Zakat donations is debated among the people interviewed.

Remittances in kind represent another important resource flow, although more difficult to quantify. New and second-hand electrical equipment, wearing apparel, and used cars are often brought to Morocco during holidays' trips.

Until some years ago, remitted money could be deducted from Danish income tax (up to 10,000 DKK per year, or ca. 1,400 Euro). Many respondents explain the decline in their remittance transfers with the lapse of this policy.

b- Modalities

In Denmark, Moroccans largely make use of the bank system, which they find easy and inexpensive to use. Other money transfer systems, such as Western Union, are generally not known among Moroccans and if known only used in case of an emergency. Apart from bank transfers, migrants bring cash during visits, but generally only if larger amounts (over 60.000 DKK, or ca. 8000 Euro). Moroccans rarely ask friends to carry money on their behalf. While visiting Morocco during holidays, Visa or credit card cash withdrawal is frequently used and preferred to carrying cash.

A change in the use of the official channels is taking place following the tighter control imposed by the authorities on financial flows to and from the Arab country in the wave of the "war on terror" declared by the United States administration.

c- Impact on country of origin

The main purpose of sending money to Morocco is to support the family household and other close relatives and/or to build a house. But remittances also impact the macro-economic environment. Purchase of real estate is the prevailing form of investment. The interviews give only limited evidence of investments in productive sectors. However, the next phase of the research in the main source areas in Morocco (and Tunisia) will focus on this particular aspect.

Remittances are also invested pension schemes and in a particular form of insurance in case of death. Investments in pension schemes seems to be more rewarding in Morocco than in Denmark - interest rates are higher in Morocco 7-9% compared to 4-5% in Denmark and the pension is tax free. The life insurance, which in case of death ensures transport of the body back to Morocco, is controlled by the Moroccan 'Bank Popular' who has representative at the Moroccan Embassy in Copenhagen. To get the life insurance, one must have a bank account with 'Bank Popular', and pay a fee of 100-200 DKK (app. 12-24 Euro) per year. The need to get this kind of life insurance was one of the main reasons why many informants even after many years of residence in Denmark kept a Moroccan Bank account. However, this common practice might change when a Muslim graveyard in Denmark becomes a reality.

Lack of investments in productive activities is often related to the lack of information about investment opportunities and to the insecurity produced by the economic and political situation in Morocco. People find it difficult and unattractive to make investments in Morocco because of a slow bureaucratic system and widespread corruption. Provided a supporting economic framework and legal mechanisms to prevent fraud and corruption existed, wealthier Moroccan migrants in Denmark would consider investing in Morocco.

II- The case of Tunisians living in the Italy: preliminary results

The study is based on qualitative interviews Tunisian immigrants in Italy focusing on the migrants' remittances practices, their use of available transfer channels, and migrant families' use of received money in the countries of origin.

Considering the data of the Tunisian Balance of Payment reported by the Tunisian Central Bank, the role of migrant remittances appears worthy of attention in relation to other BoP inflows and macroeconomic country data..

The Tunisian Central Bank has chosen not to follow the standards of the IMF Manual for the compilation of national BoP with regard to transfers from Tunisian living abroad. This permits the unification in one single line of the whole amount of financial transfers operated by Tunisian citizens working abroad. The registered flows include both the remittances in cash and in kind and are comprehensive of the goods and financial instruments transferred by migrants living abroad for more than one year (which should be registered as unilateral transfers according to the IMF) and by Tunisians staying in a foreign economy for less than one year (which should be recorded as labour incomes).

Moreover, the Tunisian legislation which regulates the market of foreign currency exchange results in the registration of flows not recorded by other countries (e.g. Italy), such as the transfers made through postal services or by specialized operators, (i.e.,Western Union or MoneyGram).

According to the data publicized by the Tunisian Central Bank, in 2001 the inflow of remittances was of approximately 1.334 million TD, 76% of which in money and 24% in kind, registered by customs officers. In the last five years the inflow of workers' remittances increased by 11,54% yearly with a peak of 22,3% in 2001, which will descend to 14,1% if the provisional figures for 2002 are confirmed.

This growth was mainly due to the remittances in value which were increasing during the whole period with a growth rate reaching 25% in the last considered year. In the last three considered years the proportion of the remittances in kind was decreasing in to 24% of total inflows in 2001.

Workers' remittances are particularly valuable when compared with other BoP components. In 2001, labour incomes – which accounted for the majority of the inflows classified as factor incomes – were 7.02% of total receipts and 8.72% of current receipts. They amounted to almost double the Foreign Direct Investments and were equal to about one seventh of total exports.

Compared to other figures of the National Accounts, the role of remittances in the Tunisian economy appears significant. They correspond to 4.64% of GDP, almost 20% of gross savings and 8.87% of the total foreign debt stock.

Remittances cover about 32% of the Tunisian current account deficit, being alongside tourism one of the main source of foreign currency for the country. Labour income inflow is equal to almost 250% of total ODA, but in this case the proportion is diminishing, and equals approximately 65% of total debt services.

Almost 91% of remittances transferred to Tunisia come from OECD countries, while the remaining 9% originate almost totally from other Arab countries. Continental breakdown has Europe in the forefront with almost 90% of the whole inflow, with remaining transfers coming from Asia (6.33%), Africa (2.74%) and America (1.29%). The remittances from other African countries are almost totally originating from Libya and the Asian ones from the Gulf area, while the USA and Canada are the only two countries involved in the Western Hemisphere.

Almost 80% of total remittances are transferred from France, Germany and Italy, with outflows from France accounting for 51% of total transfers.

Italian balance of payment registers remittances according to the IMF standard, recording, in 2000, an amount of 737 million of Euro transferred by Tunisians living in Italy for more than one year. According to Tunisia Central Bank modalities, the transfers of Tunisian workers in Italy registered in Tunisia BoP are 137.2 million TDN in 2000, which become 149.9 million TDN in 2001, equal to 109 million Euro and to 11.29% of total transfers from Tunisian workers abroad.

The data regarding the last three years show a considerable growth also for what Italy is concerned, although it is beneath the average growth rate. It should be considered that the substitution of the Lira with the Euro has caused a loss for the Tunisians working in Italy in terms of exchange rate.

Tunisians legally living in Italy were 46,494 in 2001, corresponding to 3,41% of total foreigners and representing the sixth foreign community in the country. During the last decade their number has increased of 1,12%, with the lowest growth rate among the 25 greatest foreign communities in Italy, for which the average growth rate was 2,10%. Tunisians stay in Italy mainly for working reasons. Almost 57% of total residence permits has been delivered to workers with a regular job, 2.995 to migrants searching for a job (6,44%) and 2.386 with a independent activity in Italy. The share of permits delivered to Tunisians being employed by an Italian company is about 9 percentage points more than the average, while the share of permits for job finding is about twice the average, corresponding to 6,81% of total permits delivered for this reason.

The first results of a survey conducted among Tunisian workers living in Sicily and Rome, suggest to pay more attention to those migrants who are less integrated in the Italian society. These are the majority in some communities and the volume of their transfers is not negligible (remitting up to the 80% of their income), while in some cases, remittances of wealthy Tunisians, well integrated and living in Italy with their family for a long time, only consist of presents taken to the relatives when travelling to Tunisia on holiday.

The not integrated and the irregular migrants maintain stronger links with the community of origin and this relation leads to a more frequent transferring of saved money. Remittances are a fundamental flow of revenue for the families living in Tunisia, which often include wife and children, particularly in the case of seasonal workers, illegals or workers without regular contract.

As evidenced by some scholars, remittances become an important tool for workers whose prospects to find a stable job are not given for granted to assure themselves the support of the family in Tunisia in case of misfortune. The need not to loose the right of being considered part of the family and the community are one of the reasons for sending money home.

The most common ways of managing the savings and transferring remittances show a limited use of services supplied by banks and other financial operators. Even if more than half of the interviewed declared to deposit money in a bank – mainly using a save deposit and in only a few cases with a current account –, transfers are mostly made personally taking cash money or giving it to trusted people. Among the official channels, postal services are the most common alternative, along with private services such as Western Union or MoneyGram. The latter are used if available in the place of residence and only for emergency, because of the high commissions charged. Bank services are almost totally disregarded as a possibility of transferring money home.

Only few are informed about the tools made available by the Tunisian government to channel remittances to the official financial system and to promote investments in Tunisia by citizen living abroad and nobody seems to take advantage of them.

Although some banks show growing interest for the remittance market, it still seems to be underestimated by official financial systems of both countries. Among the findings on migrants needs, a rather strong desire of investing in estate in Italy has been mentioned even by those who are willing to move back to Tunisia in the future and plan a similar investment also there.

A great share of the interviewed is also planning to invest in business activities, either in one of the two countries or in both of them. As already mentioned, only a few are informed about the incentives offered by the Tunisian regulations, as well as by the financial market; the majority of them having very few relations with the banking and financial system.

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origin if they are forced to return. Furthermore, such a narrow-minded attitude discourages the exchange of what is best on both sides of the Mediterranean because highly qualified emigrants prefer to live in North America. Therefore, there remains the unemployed and unqualified who clandestinely settle down in Europe, thus creating a situation that does not favor mutual understanding, and exacerbates the problem (Di Magliano, 1999).

Migrants can be considered as a challenge but also as an opportunity. If the problem had been addressed differently, without its being considered a source of political tension but rather a phenomenon that can serve mutual interests, new possibilities for political and socio-economic cooperation might develop. This would reduce the flow of illegal and uncontrolled emigrants and avoid the loss of human capital which, in the final analysis, diminishes the capacity to attract investments (Di Magliano, 1999).

d- The issue of employing women in markets and their income

In East Asia, low fertility during the demographic transition phase led to a higher rate of female active work, which in turn constitu-

ted an important motor of growth. This increase was experienced in the Mediterranean countries of Europe that joined the Union during the eighties: the rate of working women between 1981 and 2001 shot up in Greece from 25% to 38%, in Portugal from 47 to 54% and in Spain from 27 to 40% (source Eurostat, Medstat program, newcronos base).

However, despite low fertility, this growth in female participation did not take place in the MC (ERF, 2000). Even among women with a higher level of education, those with a low fertility rate did not join the labour market in a proportion commensurate with their progress at the training level. While the rate of illiterate women dropped by half between 1980 and 2001, the average participation of female workers only rose by 5.2 points.

Rates were relatively low compared to other developing regions and above all vis-à-vis the prevailing situation on the other side of the Mediterranean shore. Nonetheless, a large proportion of women worked in the informal sector or in household activities, and mainly in agricultural. Measuring the real rate of participation such as the contribution of the female population in economic activity was not easy (in the Mediterranean as in other places). The definition of the working population did not take into account household tasks, childcare, or the farmwork carried out by women. Most of these activities were not considered "commercial" and did not figure in national accounts. Moreover, and this was more specific to the region, these activities, that amounted to a quarter of female employment, were entirely unremunerated because they were executed within the family circle.

The growth of female employment in the public sector was evident in several MC. Some jobs were highly demanded by women despite their low wages, owing to the security of employment and the social coverage they offered. In Egypt, 55% of the public sector' jobs were occupied by women (48% in the administration, 7% in public enterprises; 1992 statistics), growing at an annual rate of 5% since 1986 (Wadie, 1998). In Jordan, the percentages were identical, while the number of jobs occupied by women in the private sector only amounted to 40%. In Syria, the ratio of women in the public sector passed from 18.7% in 1980 to 40% in 1995

Table 25: Indicators of the level of training and participation rate in the workforce-for women

	Rate of illiterate women			Rate of women with primary education 1995-2001		Rate of participation of women as a percentage of the workforce	
	1980	1990	2001	Total	Female	1980	2001
Algeria	76,1	59	42	91	88	21,4	28,3
Egypt	75,2	66	55	99	92	26,5	30,7
Jordan	46,1	28	15	104	106	14,7	25,1
Israel	n.a.	12	7	n.a.	n.a.	33,7	41,5
Lebanon	37,1	27	19	70	n.a.	22,6	29,9
Morocco	84,6	75	63	55	47	33,5	34,8
Syria	66,2	52	38	90	86	23,5	27,3
Tunisia	68,8	53	38	91	90	28,9	31,9
Turkey	45,9	34	23	92	89	35,5	37,8
MP	**62,5**	**45,1**	**33,3**	**n.a.**	**n.a.**	**26,7**	**31,9**

Source: World Bank Development Indicators, 2003.
Note: the average employment rate mentioned above, 25%, was not calculated by a simple non-weighted index, but referred to the number of women declared active among the working age female population in 11 MCs (equivalent to an average weighted index on population). This explains the difference between both estimates.

owing to the State's encouragement of female participation (ESCWA, 2001b). However, in Turkey the ratio only reached 18.7% (ERF, 2000) and was even lower in Tunisia, at 28% (ESCWA, 2001c).

At the sectorial level, ILO statistics indicated that 70% of working women were employed in services, 20% in agriculture and only 10% in industry, especially textiles and clothing. The ratio of women in services, to the detriment of the agricultural sector, showed an increase according to the women qualifications and training level (ESCWA, 2002). Nevertheless, they were relatively underrepresented in comparison with men in administrative and management jobs and their participation in the hi-tech sectors was very limited. While the data on female employment in the informal sector was very fragmented, the surveys indicated that they were very active, possessing a certain degree of competence or knowledge and some capital. The main constraint that hindered them from becoming entrepreneurs with high incomes was due to the lack of access to financial resources or the ownership of assets required for operations.

Although there was a certain increase in the women's wages (table 26), these represented a ratio of the mass of wages inferior to that of the men. In Turkey, female wages doubled and in the Territories ruled by the Palestinian Authority they increased by nearly 50% between 1996 and 1999. This higher rate of

Box 12: The informal sector, micro and small enterprises in MENA

A micro and small enterprises survey was conducted during the period March-May 2003 in Egypt. The MSES2003 covered 4958 enterprises and the same related number of households. The primary objective of the sample design of SMES was to provide an accurate and detailed profile of SMEs in Egypt, their dynamics, problems and their potentials.

The main objectives of the survey were to:

a) gain insight into the factors determining the competitiveness of micro and small enterprises;
b) suggest how to effectively involve central and local government at the various policy and implementation levels in helping this sector achieve higher levels of income and competitiveness;
c) identify internal and external constraints on and potential linkages with the modern private sector;
d) determine the conditions under which women participate in these enterprises, including women working at home.

The preliminary results have showed some interesting new insights especially where the gender differentiation and formality issues are concerned.

Main results obtained are as follows:

- √ *Female entrepreneurs represented 11% of the total SMEs owners on the national level.*
- √ *Trade Activities represent the main economic activities practiced by the SMEs (68%) followed by the services (18%) and the manufacturing (14%).*
- √ *The highest concentration of entrepreneurs was in the age bracket 40 years and above.*
- √ *The majority of male entrepreneurs (78%) and female entrepreneurs (49%) were married, an exceptionally high percentage of females were widows or divorcees (23%) as opposed in comparison to males (1.4%).*
- √ *The difference in the levels of education between males and female entrepreneurs were quite visible: 19% of the male entrepreneurs were illiterate, this percentage was as high as 39% in the female entrepreneurs' community.*
- √ *Female owned enterprises tend to be relatively smaller than male owned enterprises, whether measured in terms of number of workers or value of capital.*
- √ *Female entrepreneurs are more prone to act informally than males. They tend to comply less to legal procedures, especially where keeping regular accounts and subscribing to the Social Insurance Scheme were concerned.*
- √ *One of the interesting results was regarding the issue of acquiring credit through the formal channels. Data revealed that only a minor percentage of the entrepreneurs received such finance. However, female entrepreneurs had more access (6.9%) to such finance as compared to males (5.3%).*
- √ *As to the different other types of services, such as management, information, training, technical support, marketing, or export services their degree of outreach to the community of the small entrepreneurs was negligible or almost non-existent.*
- √ *Both the male and female entrepreneurs face similar types of problems in the market. High tax rates, bad tax administration, limited profitability and difficulty in securing the initial capital represent the major types of constraints.*
- √ *One of the most serious problems facing female entrepreneurs is personal harassment in the market. Both the female and male entrepreneurs have expressed this opinion clearly.*

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wages could be the result of changes in the type of occupation, as jobs in the agricultural sector do not require qualifications and were generally less well paid in comparison with the sector of services where higher qualifications and remunerations are required.

It is important to note that, for most indicators, the existence of a certain bias against women was manifest. This was due to a combination of economic, social and cultural factors that primarily affected the development of women's activity, rather than to the feeble dynamics of labour markets in the MC.

Table 26: Nominal growth in female wages in some MC

	Females	Males	Total
Cyprus (1996-2000)	21,1	19,4	20
Egypt (1996-1999)	39,8	45,1	44,4
Jordan (1996-1999)	3,3	0,7	1,3
WB & Gaza (1996-2001)	42,9	58,6	57
Turkey (1996-1997)	115,2	112,7	112

Source: Calculations ERF from ILO Yearbook, 2002

Box 13: Implications of EU – Egypt Partnership Agreement with special emphasis on Egyptian agriculture

Center of Agriculture Economic Studies, Egypt

The EU-Egypt Partnership Agreement (EUEPA) already signed by the two parties is expected to come into force by 2004. The EUEPA requires that both parties gradually abolish all tariff and non-tariff barriers on their imports of industrial and agriculture products in a period of 12 years. The EUEPA offers some concessions on Egyptian exports of agricultural goods to the EU, compared to the preferential concessions in the Cooperation Agreement mainly through enlargement of duty free quotas, widening seasonal windows, and adding new products to preferential treatment.

The constraints imposed on Egyptian exports of agricultural products to the EU comply with the well-know Common Agricultural Policy (CAP), which provides limits on the production, a high level of external protection and high support prices. Thus, the CAP could be an obstacle to Egypt achieving full market access for its agricultural products.

The current study aims at evaluating and analyzing the static and dynamic effects of the insertion of the agricultural trade in EU-Egypt Partnership Agreement in terms of trade, employment and production. Emphasis will be put on certain products, in particular cereals as imports, and fruits and vegetables as exports from Egypt's side.

The proposed computable General Equilibrium (CGE) model emphasizes the role of agriculture in the Egyptian economy in particular, the linkages between agriculture and other sectors, including agro-industry sectors, which supply agrarian inputs and process agricultural food and non-food outputs.

a- Importance of agriculture in the Egyptian economy

The Egyptian economy has traditionally relied heavily on the agriculture sector as a source of growth and support for the non-agricultural sector. During the 1980s and 1990s, this dominance declined, but agriculture still accounts for a significant share of growth, exports and employment. The share of agricultural in GDP fell from 29.3 percent in 1970 to 18.2 percent in 1980 and 16.6 percent in 2000. Also, the share of employment in agriculture declined from 35.8 percent in 1985 to 33.2 percent in 1990 and 28.1 percent in 2000. The relative decline in the role of agriculture partly reflects the large growth in other sectors, particularly oil, services and construction. In addition, prior to the initiation of the sector policy reform in the 1980s, the sector was subjected to various distortions, which impacted negatively on its development. It also received a declining share, of public sector investment during the last 25 years, which in turn was not always optimally allocated between the different sub-sectors.

b- Main features of Egyptian agriculture

On a per capita basis, Egypt's area of cultivated land at 0.05 ha per head is among the lowest in the world. Farm sizes are small with an estimated 70 percent of holding less than 0.42 ha. Agriculture is almost entirely dependent on irrigation from the Nile River. The agricultural land-base of Egypt amounts to about 3.3 million hectares, consisting of 3.0 million hectares lying within the Nile basin and delta, and about 80 000 ha of oasis and rain-fed land. Of the total area in the Nile basin and delta, some 2.5 million hectares are "old" lands, and the remaining 0.72 million hectares are new reclaimed lands. In the old lands, an elaborate crop rotation system is followed. The main winter crops are wheat, berseem (Egyptian clover) and broad beans. Among the summer crops, maize, rice and cotton are dominant. Vegetable crops such as tomato, potato, cucumber, melons and others are cultivated in the three seasons.

c- Overall balance on agricultural trade

In the period 1985-1989, the total agricultural trade averaged US$ 3.81 billion annually, representing about one-third (34.1 present) of Egypt's trade, but it decreased in both absolute and relative terms to average US$ 3.06 billion in the period 1990-1994, representing 25.7percent of Egypt's trade. In the latest period 1995-2001, although the total agricultural trade increased to US$ 4.38 billion, its share decreased further to 22.4 percent of total trade.

Agricultural exports decreased from US$ 610 million on average in the period 1985-1989 to US$ 457 million in the period 1993-1994 and made a slight increase in the period of 1995-2001 to an average of US$ 528 million. The share of agricultural exports in total exports decreased from 22.7 percent in the first period to 13.4 percent in the second period to 10.8 percent in the third period.

Agricultural imports decreased between the first two periods from US$ 3.20 billion to US$ 2.64 billion but increased to US$ 3.85 billion on average in the third period with a share of 37.8 percent, 30.1 percent and 26.3 percent of total imports in the three periods, respectively. The terms of trade index, which reflects the ratio of export unit value to import unit value, shows a decreasing trend during the period 1995-2000 compared with the period 1990-1995.

Egypt continues to record a large agricultural deficit, which grew from US$ 2.4 billion in 1985 – 1994 to over US$ 3.32 billion in 1995-2001.

d- Trends in agricultural exports

Egypt traditionally has a concentrated export profile, but it is becoming more diversified over time. In the period 1985-1989 agricultural exports were dominated by cotton, which constituted about 60 percent of the total agricultural exports. Orange exports amounted to a further 10.5 percent of the total. In the period 1990-1994, cotton's share dropped to only 27 percent. Exports of rice, potatoes and oranges constituted together 25.7 percent of the total. In the period 1995-2001, exports of cotton have stabilized at 30.0 percent, while the share of rice, potatoes and oranges grew further to 37.1 percent. There was also a corresponding drop in the contribution of "other" exports from 43.9 to 30.2 percent.

Egypt's export profile is concentrated not only in terms of commodities but also in terms of markets. The EU is the largest market for Egyptian exports with a share of 44 percent of the total in the post-agreement period, while the United States has the second largest share, 13 percent. Exports to Arab countries represent 10 percent of total Egyptian exports. The EU was the most important destination for Egypt's exports of cotton and potatoes, with 24.5 and 80.4 percent, respectively, in the period 1993-1994 and 36.2 and 81.4 percent in the period 1995-2001, respectively. It seems also that the EU opened up its markets for Egyptian exports of cotton and potatoes in the period in both absolute and relative terms; the volumes are greater, and the shares are larger. However, the EU is of minor importance as a market for Egypt's rice, oranges and onions. Arab countries in general and the Gulf countries in particular are important markets for Egypt's exports of rice and oranges and, to a lesser extent, potatoes and onions.

Egyptian exporters still face serious constraints on increasing sales abroad. Domestically, the constraints include: low-quality domestic input, cumbersome duty-drawback and temporary admission regimes, excessive paperwork, fees and delays for customs and various inspections during export and import; workers that are poorly prepared for the jobs available; insufficient incentives to export; and lack of access to information on foreign markets and products standards.

e- Trends in agricultural imports

Egypt's agricultural imports have expanded significantly from an average of US$ 2.6 billion in the period 1990-1994 to an average of US$ 3.5 billion in the period 1995-2000 with an annual increasing rate of 5.9 percent. Wheat, maize, edible oil, sugar, powdered milk and red meat are Egypt's major import commodities. Valued at US$ 767 million, wheat imports constituted 29.0 percent of the total agricultural imports in the period 1990-1994 but decreased to 22.9 percent with a value of US$ 803 million on average in the period 1995-2000. In terms of maize and edible oil, their imports increased in both absolute and relative terms; the value of maize imports increased from US$ 227 million with 8.4 percent the first period to US$ 462 million representing 12 percent in the period 1995-2001. The share of edible oil imports increased from 8 percent to 9.9 percent.

Egypt depends on several sources for supplying agricultural and food imports. However, there has been some concentration in terms of the origins of each food commodity. The origin of Egyptian imports of cereals in particular is almost exclusively the United States, which supplied Egypt with 65 percent of wheat and 77 percent of maize (yellow corn for poultry feed) in the period 1993-1994, and 67.7 percent of wheat and 81.7 percent of maize in the period 1995-2001.

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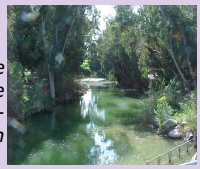
Box 14: Regional integration and resource use in the Middle East : water and the need for peace

Department of Economics, Hamburg University, Germany

Water scarcity has been a recurrent source of tension between Israel and riparian states of the Jordan river basin, all of which are stakeholders, as tributaries, as users or both. Yet, the potential gains from joint water management are substantial and could act as a catalyzer towards peaceful co-operation. The project seeks to quantify these gains and to define the strategies for realizing them.

Road Map for Water?

Joint management of the scarce water resources in the Jordan River basin is critical for a future development of agriculture as well as urban settlements in the region. This project studies the availability, distribution and use of water and the impact of alternative water management policies on the stakeholders: Lebanon, Syria, Jordan, Israel and territories under the Palestinian Authority.



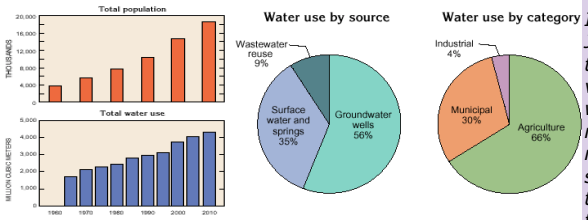
Jordan downstream from Tiberiade lake

Sharing a common resource

The stakeholders use water from closely related sources, e.g. the rivers Jordan, Yarmouck and Zarqa. In addition, Israel and the Palestinian Authority use the same aquifers for their groundwater. Whereas upstream countries Syria and Lebanon are contributors rather than users, Jordan, Israel and the Palestinian Authority rely heavily on the Jordan River for their water supply. By World Bank standards they are classified as water stress zones. In 2000, availability in the territory of the Palestinian Authority already even fell below a critical threshold, while Jordan is likely to reach this level in 2020, given its high rates of population growth. Hence, the efficient management of water resources is an urgent priority. Yet, present water charges are often symbolic at best, and there are no explicit payments from net importers to net exporters of water. In fact, a mere redistribution of water use will not do, as all stakeholders except Lebanon and Syria, essentially face serious shortages. Thus, any regionally sustainable strategy would have to expand current water supply, and to operate a water master plan with imports from outside, additional recycling, and possibly new modes of desalinization.

The price of water

The management of scarce resources calls for adequate incentives, i.e. users should pay the correct price to the suppliers to guarantee an efficient allocation of the water. Therefore, the project will, in addition to mapping out the actual flows and economic uses of water.

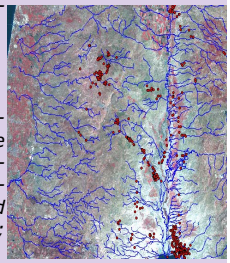


Water use in the Jordan Valley (source: Middle East Data Banks Project, 1998)

It will also evaluate on a fine grid of locations in the Jordan Basin the implicit economic contribution of water to the economy, by calculating site-specific marginal values of water flows and stocks and present these as a water value map. Besides providing an indication of the relative scarcity and a benchmark for cost-benefit assessments of water development projects, this value map will serve in calculations that trace the user value back to the territories that deliver the water, quantifying in this way the implicit transfers that currently take place between the countries. The map will also be used to assess the cost and economic implications of depletion of groundwater resources at various locations. In addition, different modes of user charges will be compared, including those that account for damages from salinization. Finally, it will study some of the implications of arrangements to expand water supplies from external sources.

A spatially explicit equilibrium model

The main tool under construction for this project is a (multi-commodity) spatially explicit equilibrium model with special detail on agriculture and with water as focal commodity. To calibrate this model, the project is currently compiling an extensive geo-referenced data base, that combines information from the respective National Bureaus of Statistics, as well as data bases kindly made available by research institutions (e.g. Hebrew University of Jerusalem; Applied Research Institute Jerusalem, Palestinian Authority), private consultants (EnviroConsult, Jordan; Seibersdorf, Austria) and international organizations (FAO and ICARDA).



Tributary and groundwater (source: Seibersdorf, 2001).

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MONOGRAPHS ON THE MACRO-ECONOMIC SITUATION IN MC

Algeria

In 2001, the GDP growth amounted to 2.1% in real terms. It improved in 2002 when it reached 4.1% and the government hopes to maintain this level in 2003. However, growth rates in Algeria are totally determined by the fluctuating prices of oil and the recent evolutions did not display any improvement from this point of view:

(i) 98% of the export revenues are still derived from the hydrocarbon sector;

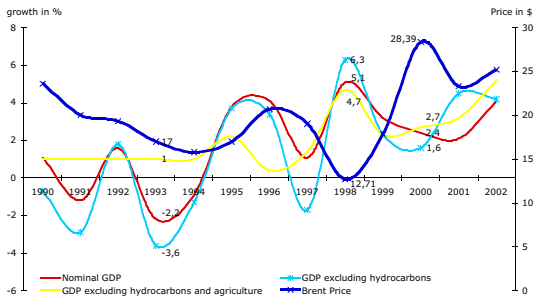
(ii) the value-added share of the hydrocarbon sector increased between 1998 and 2002 to the detriment of all the other sectors, to reach 35% against 21.8% for services, 8.7% for the construction sector, 8.6% for agriculture and 7% for industry;

(iii) if growth in 2002 was higher than the average growth rate in sectors other than agriculture and hydrocarbons, it was essentially due to the good results of construction (8.2%). Services also had a high growth, but the fact that it was inferior to that of the construction sector (5.3%) and that industry had a relatively low performance (2.9%), indicates that the benefits of a gradual opening up of the economy will not manifest themselves until a deep restructuring is achieved;

(iv) the overall annual growth of productivity in Algeria was negative (around -2%) according to the hypotheses formulated about the impact of the human and physical capital, (Lazare, Callier, Khanjar, Koranchelian, 2002). Therefore, there was no significant improvement in the growth regime which continues to rely heavily on accumulation.

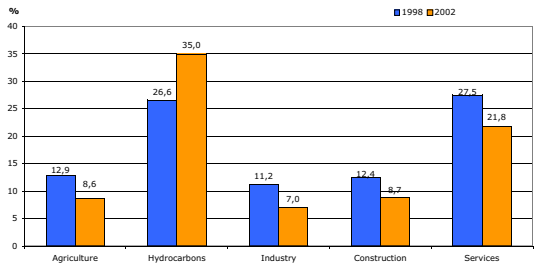
However, these modifications of the productive structure and growth regime are all the more necessary since, despite recent exceptional growth levels in 2002 and perhaps 2003, (growth exceeded 4% only four times in the past two decades) this performance was not efficient enough to significantly reduce unemployment rates, which remained very high (27.3% in 2001), and it had a greater impact on the below 25 years of age bracket (the unemployment rate in this age bracket reached 48.6%). In fact, the growth levels required an improvement of the situation estimated at 6-7% per year, a figure which seemed unattainable in the short term (even in the most prosperous years ever known in the country, 1966-1980, the GDP growth did not exceed 6.4% per year). The actual structure of production renders growth increasingly volatile and vulnerable to external shocks. The per capita GDP evolves in a chaotic manner, which does not allow for an improvement of the efforts deployed against poverty and illiteracy, whose rate is still high (33% in average, 42,9% for women but the gap with men - 24% - tends to decrease).

GDP and price of hydrocarbons
(GDP, left scale, Brent Price, right scale)



Source: Ministry of Finance

Value-added in GDP

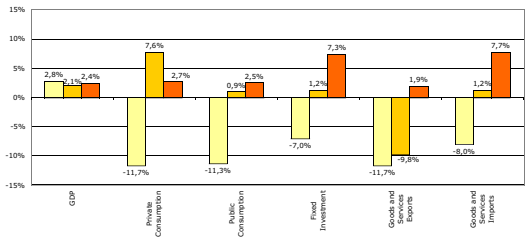


Source: Ministry of Finance

The administration is increasing its staff faster than the economic sector, thus becoming the main employer: the share of workers in the administration reached 48.5% in 2001 against 46.4% in 1997, while during the same period, the share of the economic sector dropped from 49% to 47.1%. At the same time, the statistics of the Labour National Agency indicated that precariousness was growing rapidly: the share of "precarious" contracts out of the investments realized passed from 45.4% to 86.5% between 1997 and 2001.

The government launched two years ago an intensive program to support economic revitalization (PSER). Although the price paid for it was high (budget deficit estimated at 9% of GDP in 2003), it had positive effects but was slow to reflect itself in the productive structure. The industrial production index, leaving out hydrocarbons, was closely coupled with the general index of industrial production. In fact the petroleum sector was neither an important provider of jobs nor a vector for the propagation of powerful new technologies. Structural diversification takes a long time in the making and deep reforms are required. This implies that the Algerian economy will remain subjected for a long time to the hazards of international circumstances and the fluctuating prices of raw materials. However, this administration is an efficient management reinforced by the country's rich natural resources, which should enable Algeria to restructure its economy more rapidly.

Breakdown of GDP
(clear shade: 1998-2000, medium shade: 2000-2001, dark shade: 2001-2002)



Sources: Eurostat, Medstat program, Ministry of Finance

A controlled macro-economic balance

(i) Seen in the light of trade in goods, the external position of Algeria remains dominated by the inherent weakness of its specialization in hydrocarbons. Evidently, openness increased throughout the last decade (from 35 to 54%) and the balance of trade reached a peak in 2001 (+8.5 billion dollars +6.5 billion of which were derived from relations with the Union). But 98% of the trade was generated by hydrocarbons in 2001, and this excessive concentration also increased during the nineties (in 1990, hydrocarbons amounted in fact to 89%). This situation prevails with all the trade partners: oil products amount to 98% of exports to the EU, 95% to the other MC and 98% to the rest of the world.

In fact, Algeria no longer controls its own external accounts that totally depend on oil prices and the dollar's exchange rate. As the price per barrel was low at the end of 2001 and the beginning of 2002, and the evolution of the dollar was unfavourable, the balance of trade surplus fell to 23% in 2002 and the balance of payments surplus to 61.6%. Imports in fact increased 18.5% and exports almost remained stable (1.8%).

The situation evolved somewhat as a result of the new trend in economic policy. The imports share of semi-finished products grew rapidly, and were dynamised by the new customs tariffs that went into force in 2002. This tariff foresees a level of taxation differentiated according to the degree of openness, and a global tariff reduction for the goods earmarked for the industrial sector in order to import relatively more performing technolo-

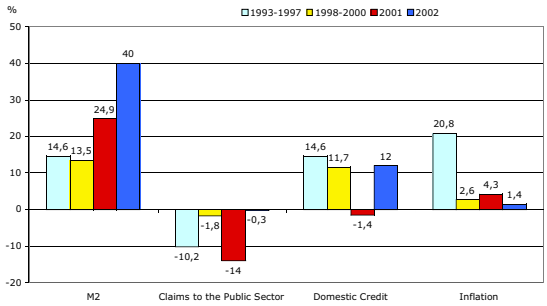
gies and to increase productivity. But during the entire decade, extremely volatile terms of trade and the exports purchasing power had to be acknowledged: these two indicators respectively reached 68 and 86 in 1998, and 134 and 202 in 2001 (base 100 in 1990). In fact, the imports capacity became uncertain, despite the fact that it is essentially the factor that can improve the economy's productivity, given the time required to restructure the productive sector.

(ii) As regards exchange, in 2002, the dinar rose to 3.2% against the dollar and fell to 8.2% against the Euro. In terms of the exchange strategy, Algeria limited its currency fluctuations vis-à-vis the dollar. This policy is rational since its exports consist almost totally in petroleum products. Meanwhile, its repercussions on the competitiveness of Algerian products might constitute a strong limit to the profit generated by a growing insertion in international trade, especially in businesses linked to the free-trade agreement with the EU. If exports are to be diversified by increasing non-oil products, a revision of this policy must be carried out, seeing that a control of the effective exchange rate would spontaneously facilitate this diversification. However, taking this situation into account, reforming the exchange policy is not urgent, since the real effective exchange rate of the dirham did not stop falling for at least a decade. (cf. FEMISE, 2002).

(iii) The demand for currency in Algeria is remarkably stable despite the volatility of oil revenues. This provides the government with an efficient instrument to steer the economy and allows the authorities to mop up a great part of the surplus liquidity in the years when petroleum prices are high. Inflation is, therefore, rather adequately tamed despite the sometimes large sized monetary fluctuations. These fluctuations are induced by the impact of the external assets that increased by 357% in 2000, 70% in 2001, 34% in 2002 and 43% in the first quarter of 2003 (essentially transformed into fixed term deposits). Thus, the inflation rate amounted to 1.4% in 2002 (against 4.2% in 2001 and 18.7% in 1996). From this point of view, it is necessary to follow the effects of the reactivation of credit by the government in 2002. Thus the drop of interest rates, from 8-10% in 2001 to 6.5-9% in 2002, reinforced the granting of credits to the private sector. The latter, whose progress was sluggish up to that point (+15.8% in 2001), are finally taking off, +63% in 2002 and +65.5% in the first quarter of 2003. The lack of elasticity of supply might in fact lead to an inflationary pressure as in the past. All the more so, since the problem of managing the balance of external accounts is added to that of the response of supply: given the instability of the export revenues, imports might have to be curbed in order to preserve this balance.

(iv) The policy of revitalization adopted by the authorities in 2001 is expressed through higher public consumption and very vigorous investment, which were the major engines of growth in 2001 and 2002. It is not based on seigniorage, the authorities preferred to borrow and preferably in the global markets, for the past two years. However, they reimburse their debts whenever the macro-economic

Monetary policy and inflation



Sources: Bank of Algeria, IMF, IFS April 2003

situation allows them to do so, in order to avoid a remake of the situation experienced in 1998-1999 when the falling oil prices and tax revenues linked to this industry weakened them a great deal. By doing so, they limit the eviction effect which is detrimental to the development of the private sector, another explanation of the private sector's growth in domestic credit as indicated above (from 29.4% in 2000 to 44.5% in 2002). On the other hand, the stabilization of the domestic currency vis-à-vis the dollar induced an increase of the debt in Euros that reached 28% of the total debt in 2002.

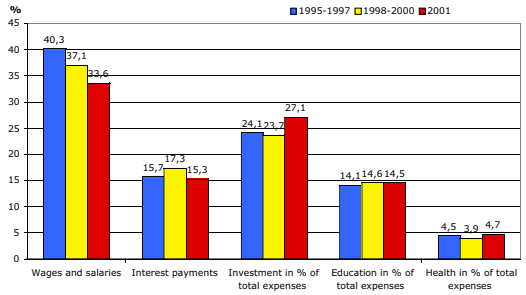
The medium term situation will now depend on the economy's reaction to the government's revitalization and reform plan. It will depend, in particular, on how this plan will be financed. And from this point of view, the question arises as to whether there is any risk of seeing the government fall into a vicious circle of indebtedness if the oil prices happen to fall again as in 1998-1999. The situation would undoubtedly be even more serious because the customs revenues will decrease.

A risky budget situation

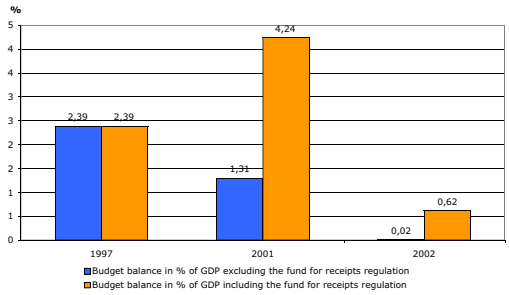
For a country endowed with natural resources, that has founded its economic development on the exploitation of such resources, the major difficulty that it has to face is the inter-temporal management of the revenues engendered by this wealth. As the latter is bound to be depleted, the authorities must gradually find a different source of revenues. Algeria therefore adopted successive revitalization plans whose results were not always the expected ones, especially due to the extreme volatility of the tax revenues at its disposal.

In 2002, the oil taxes amounted to 58% of the total revenues and 81% of the indirect tax revenues, against the 18.8% of the VAT. Customs duties only amounted to 9% of the total revenues and direct taxes 7.2%. In fact, the reduction of customs duties implied by the choice of an open-door policy was managed, thanks to a knowledgeable mixture of modified rates (3 rates depending on the degree of transformation of the imported goods, 5% for raw materials, 15% semi-finished products, 30% for final consumption

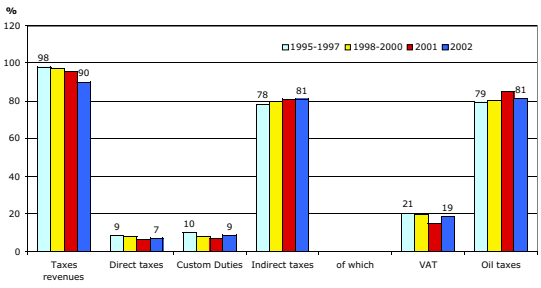
Expenditures



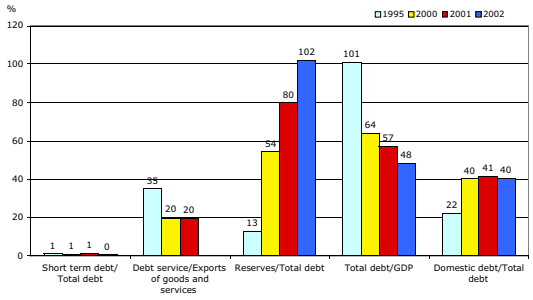
Budget balance



Revenues



Debt indicators



Source: Ministry of Finance

commodities), changing the tax base and promoting imports in some categories of goods (new list of products benefiting from alleviated duties).

In 2002, it was the higher ordinary tax revenues (+20.2%) that balanced the budget. However, the budget's exposure to variations in the prices of oil is still great and makes a counter-cyclical action difficult in the long term.

The risk is to fall back into a situation comparable with that of 1997-1998. The reduction of oil taxes due to the unfavourable conjuncture had driven the country to magnify this uncontrollable problem by financing investment through indebtedness so that, due to the burdensome size of the debt, the margin of maneuver were reduced and a recourse to new loans was induced.

Actually, the high unemployment rate and the weakness of the private sector forced the government to keep public investment at a high level (27.7% of expenditure in 2002). However, the other expenses are also still highly rigid. The public debt interests, albeit reduced, still absorb a large share of the budget (15.3% of the total spending in 2001). Similarly, personnel related spending also drains the budget (33.6%) to a large extent. The government's revitalization effort is such that it reduced the budget surplus from 1.31% of the GDP in 2001 to 0.02% in 2002, apart from the revenues regulation fund (from 4.24% to 0.62% if it is included).

Since then, the sustainability of the debt has been improved. The service of the debt, expressed in terms of exports in goods and services, dropped from 47.5% in 1998 to 21.7% in 2001 and the ratio of the reserves on the total debt rose from 27.5% in 1998 to 83% in 2001. Finally, the short-term debt only amounts to 1.15% of the total debt stock.

A rating that handicaps the attractiveness of Algeria

Going back to the ranking method utilized in the FEMISE Report of 2003 on the transition, it is possible to situate Algeria's rank relative to other developing regions and to the Union, either on the basis of how it is perceived by foreign investors (subjective criteria generally retained by rating agencies), or on the objective basis of its economic performance.

From both the objective and the subjective points of view, Algeria's ranking is mediocre, even vis-à-vis the average ranking of the MC.

At the subjective level, this inferior ranking is essentially due to:

(i) the restrictions curbing the use of foreign currency by the residents and the possibility of having recourse to the financial markets. The stock exchange opened in July 1999 marked a certain progress but it lack of depth translates a persisting distrust of financial instruments.
(ii) The perception of property rights, particularly due to the limited independence of the judiciary vis-à-vis the executive system. Similarly, as regards intellectual property rights, it is the enforcement of the enacted legal texts that is questioned, rather than the quality of these laws.
(iii) The general perception of the level of democracy and corruption.

A second specific characteristic of Algeria is that the subjective position is ultimately quite close to the objective position (same class) with regard to the divide that generally prevails in the MC. This objective position is equally behind the other MC, due to four shortcomings:

(i) a very low level of foreign investment. However, a good progress was observed during the past two years, reflecting an obvious improvement of the FDI legal framework during the decade, thanks to the national salary (1993) and its recent sectorial extension to strategic sectors in the national plan, such as hydrocarbons (1999) or air transport (2000). Thus, the relative position of Algeria in investment frameworks is now on a par with the strongest economies in the world.

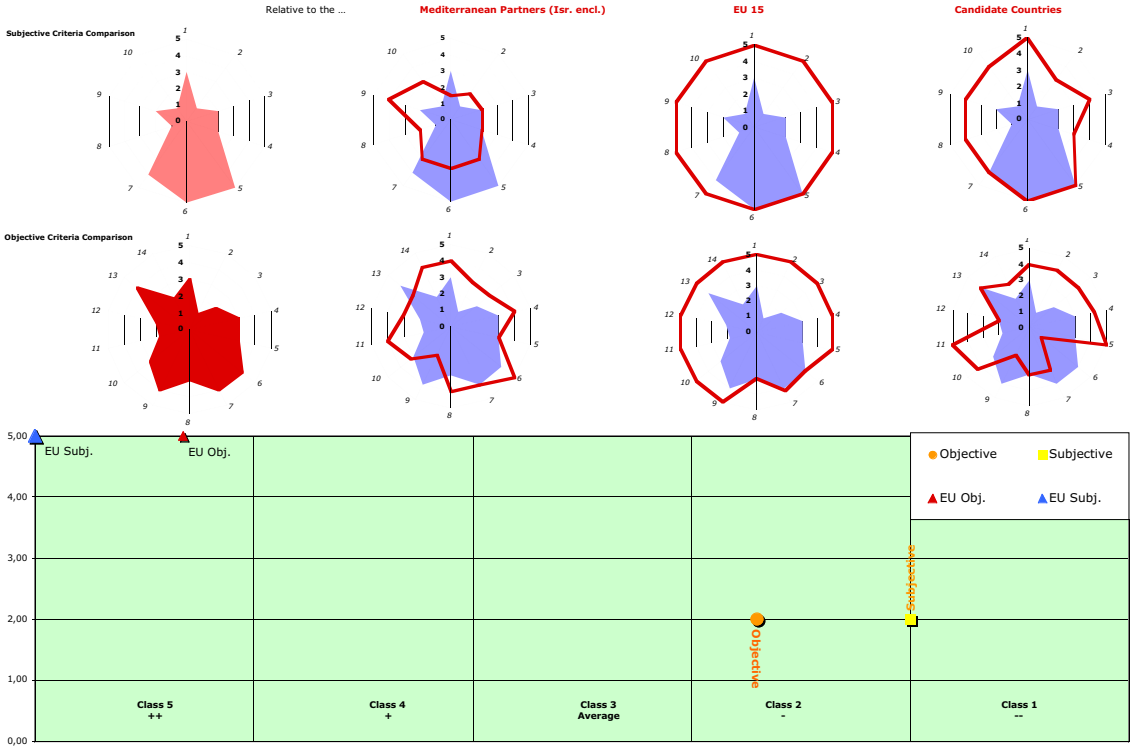
(ii) A low trade openness in comparison with the country's population and an excessive specialization in hydrocarbons.

(iii) A still high rate of debt servicing vis-à-vis trade.

(iv) A private sector that does not always have at its disposal the means to finance its own development, as it is always granted an extremely low share of credit. This curbs the possibility of diversifying production and trade.

Algeria

2001 or more recent data	Subjective Indicators		Objective Indicators
	Tariff and non-tariff barriers	1	Life expectancy
	Free use of currencies	2	FDI (GDP percent)
	Property rights	3	Openness (per capita sum of exports and imports)
	Free trade in capital markets	4	Per capita GDP ($ PPP)
	Regulation of foreign investments	5	Human Development Indicator (UNDP HDI, 2000)
	Regulation	6	Inflation (CPI)
	Black market control	7	Current account balance as % of GDP
	Accountability & Transparency	8	GDP growth rate
	Corruption control	9	Budget deficit as % of GDP
	Moody's rating	10	Number of telephone lines (per inhab., 2000)
		11	Number of Internet users (per inhab., 2000)
		12	Debt Service (in % of Goods and Services Exports)
		13	External Debt (in % of GDP, 2000)
		14	Credit granted to private sector (in % of GDP)



ALGERIA - Main Indicators of Trade Openness

	1990	1995	2001
Openness rate (X+M/GDP)	35,40%	47,90%	54,30%
Exports Orientation (%)			
To the EU	59,0%	64,8%	64,5%
To the MP	3,0%	5,6%	7,0%
To the Rest of World	38,0%	29,6%	28,5%
Imports Orientation (%)			
From the EU	59,7%	59,3%	59,8%
From the MP	3,2%	5,6%	5,3%
From the Rest of World	37,0%	35,1%	34,9%
Rate of Coverage X/M			
With the EU	1,48	0,95	2,10
With the Rest of World	1,53	0,73	1,59
Trade Balance in million of dollars			
With the EU	2 498	-327	6 488
With the Rest of World	1 735	-1 012	2 033
Export concentration Indices			
With the EU	0,53	0,53	0,51
With the Rest of World	0,54	0,54	0,56
Terms of trade indices (1990=100) (*)			
Unit value indice of exports	100	75	113
Unit value indice of imports	100	96	84
Terms of trade indice	100	78	134
Purchasing power indices of exports	100	83	202
Intra-trade indices			
With the World	2,6	3,0	2,0
With the EU	3,9	2,9	2,7
With the Rest of World	0,7	1,8	3,3

(*) Source: UNCTAD

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Algeria: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS			IMPORTS			BALANCES			EXPORTS			IMPORTS		
	Products (*)	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001
World	0	28	100	24	1 789	2 701	2 348	-1 761	-2 601	-2 324	0%	1%	0%	20%	25%	24%
	1	11	11	4	13	84	34	-2	-74	-30	0%	0%	0%	0%	1%	0%
	2	53	40	53	325	415	282	-272	-375	-229	0%	0%	0%	4%	4%	3%
	3	11 680	8 909	18 729	109	116	135	11 571	8 793	18 595	89%	95%	98%	1%	1%	1%
	4				159	352	209	-159	-352	-208	0%	0%	0%	2%	3%	2%
	5	63	114	193	752	1 218	1 171	-689	-1 104	-978	0%	1%	1%	9%	11%	12%
	6	70	136	109	1 501	2 205	1 914	-1 431	-2 069	-1 805	1%	1%	1%	17%	20%	19%
	7	38	35	54	3 771	3 292	3 326	-3 732	-3 257	-3 272	0%	0%	0%	43%	31%	34%
	8	20	12	7	302	399	417	-282	-387	-410	0%	0%	0%	3%	4%	4%
	9	1 164			55			1 108			9%	0%	0%	1%	0%	0%
	Total	13 127	9 357	19 175	8 777	10 782	9 836	4 350	-1 426	9 339	100%	100%	100%	100%	100%	100%
Rest of the World	0	5	71	1	693	1 483	1 148	-687	-1 411	-1 147	0%	3%	0%	21%	39%	33%
	1	4		1	6	34	19	-2	-34	-18	0%	0%	0%	0%	1%	1%
	2	12	9	10	259	120	53	-246	-111	-43	0%	0%	0%	8%	3%	2%
	3	4 932	2 605	5 359	50	55	39	4 882	2 550	5 320	99%	94%	98%	2%	1%	1%
	4				60	255	174	-60	-255	-174	0%	0%	0%	2%	7%	5%
	5	10	27	41	133	128	197	-123	-102	-157	0%	1%	1%	4%	3%	6%
	6	11	30	16	477	577	674	-466	-547	-657	0%	1%	0%	15%	15%	20%
	7	5	22	36	1 479	1 003	1 009	-1 474	-982	-972	0%	1%	1%	46%	27%	29%
	8	2	6		88	126	119	-85	-120	-119	0%	0%	0%	3%	3%	3%
	9	4			7			-3			0%	0%	0%	0%	0%	0%
	Total	4 986	2 770	5 465	3 251	3 782	3 432	1 735	-1 012	2 033	100%	100%	100%	100%	100%	100%
EU	0	22	23	22	1 024	1 130	1 148	-1 002	-1 107	-1 126	0%	0%	0%	20%	18%	20%
	1	7	7	3	6	48	15	2	-41	-12	0%	0%	0%	0%	1%	0%
	2	39	29	39	62	261	217	-24	-232	-178	0%	0%	0%	1%	4%	4%
	3	6 364	5 840	12 094	59	51	94	6 304	5 789	12 000	82%	96%	98%	1%	1%	2%
	4				96	90	34	-96	-90	-34	0%	0%	0%	2%	1%	1%
	5	53	83	135	588	1 014	896	-535	-931	-761	1%	1%	1%	11%	16%	15%
	6	53	76	66	873	1 329	1 040	-819	-1 253	-974	1%	1%	1%	17%	21%	18%
	7	27	3	7	2 275	2 217	2 168	-2 248	-2 214	-2 162	0%	0%	0%	43%	35%	37%
	8	17	5	6	211	253	272	-194	-247	-266	0%	0%	0%	4%	4%	5%
	9	1 160			48			1 111			15%	0%	0%	1%	0%	0%
	Total	7 742	6 067	12 371	5 244	6 394	5 883	2 498	-327	6 488	100%	100%	100%	100%	100%	100%
Med. Partners (**)	0		6	1	72	88	52	-72	-82	-51	0%	1%	0%	26%	14%	10%
	1		3		1	2		-1	1		0%	1%	0%	0%	0%	0%
	2	2	3	4	4	35	12	-2	-32	-8	1%	1%	0%	1%	6%	2%
	3	385	464	1 276		10	1	385	454	1 275	96%	89%	95%	0%	2%	0%
	4				3	7		-3	-7		0%	0%	0%	1%	1%	0%
	5	1	4	18	32	75	78	-31	-71	-60	0%	1%	1%	11%	12%	15%
	6	5	29	26	152	298	201	-147	-269	-174	1%	6%	2%	54%	49%	39%
	7	6	10	12	16	72	149	-10	-62	-137	1%	2%	1%	6%	12%	29%
	8		1	1	3	21	27	-3	-20	-26	0%	0%	0%	1%	3%	5%
	9										0%	0%	0%	0%	0%	0%
	Total	399	520	1 338	282	607	521	117	-87	818	100%	100%	100%	100%	100%	100%
AC10 (***)	0					33	132		-33	-132	0%	0%	0%	0%	33%	62%
	1										0%	0%	0%	0%	0%	0%
	2					3	1		-2		0%	1%	1%	0%	3%	0%
	3	32	81	30				32	81	30	100%	99%	98%	0%	0%	0%
	4										0%	0%	0%	0%	0%	0%
	5					1	5		-1	-5	0%	0%	0%	27%	1%	2%
	6					53	56		-52	-56	0%	0%	1%	45%	53%	26%
	7					8	18		-8	-18	0%	0%	0%	23%	8%	8%
	8					2	2		-2	-1	0%	0%	0%	5%	2%	1%
	9										0%	0%	0%	0%	0%	0%
	Total	32	81	31	1	99	213	31	-18	-182	100%	100%	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Egypt

The Egyptian economy is going through a phase of sluggish economic growth. This phase was divided by 2 between 1999 and 2002 (3.2%). The impact of circumstances, especially the drop in tourism, accounts for this in great part, as shown by the evolution of some key sectors of the economy:

(i) the hotel business suffered a significant setback in 2002 when it dropped by -10.9%, after having grown at an average rate of 14.3% between 1998 and 2001. This is in fact a major sector of the Egyptian economy and it would amount to 7.5% of the GDP and 15% of total employment, that is, over two million Egyptians if we take the direct and indirect effects of this activity into consideration (Tomasy, 2002),

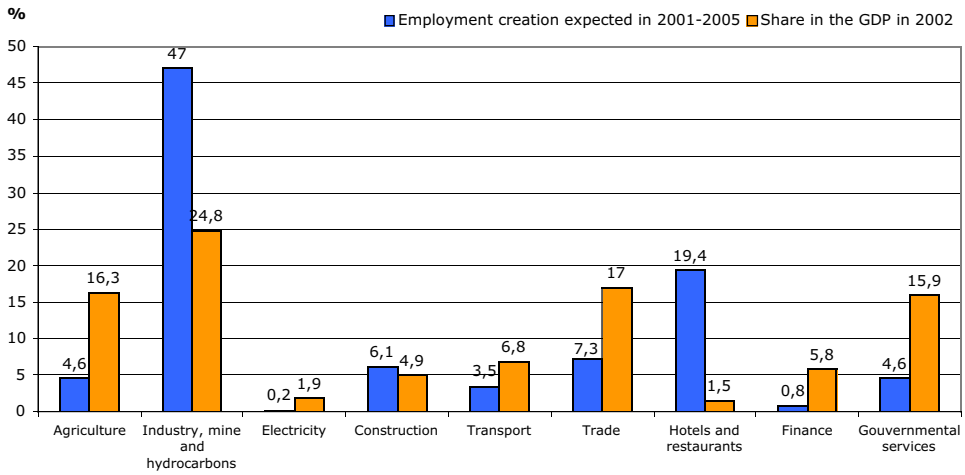
(ii) trade (+2.7% in 2002, after +5.7% between 1998 and 2001) and industry (respectively +3.4% against +6.2%) were severely affected by the economic slump and will continue to be so due to the adjustments required by the move to a floating exchange regime.

Despite the deep disturbances that have affected its economy (plummeting tourism revenues, reduction of petroleum revenues, weak European conjuncture), Egyptian unemployment has been remarkably resistant up to the present day. The unemployment forecasts for 2003 place it at 10% after having remained stable at around 9% since 2001.

However, we must observe that the continuous descending trend that has been recorded from 1994 (11%) to 2000 (8.1%) seems to have definitively given way (Eurostat data). In fact, several aspects of unemployment and the labour market can give rise to misgivings. Thus, gender discrimination was not reduced during the past decade. The unemployment rate for women or youths was four times higher than that of men (25% against nearly 5%). As to the labour market, it would seem confusing if we observe the following:

(i) the sectors that are heaviest in the GDP are not the most dynamic in terms of job creation. The 2001-2005 estimates of the share of the demand for jobs out of the total demand of the trade sector should rise to 7.3%, public services 4.6% and agriculture 4.6%. Only the sectors of industry, mining and oil can boast a significant job creation, that is 47% of the total demand for new jobs

Growth and dynamism of the different sectors



Sources: Egyptian Ministry of External Trade, Prime Minister's Office (2001), quoted by Radwan (2002).

(Prime Minister's Office, 2001). Among the most dynamic sectors, although tourism can generate a significant need for manpower (19.4%), this will probably not be the case for the financial sector (0.8%). Finally, the construction sector could largely act as a supplier of jobs since its needs will increase by 6.1%, which is nearly the equivalent of its ratio in relation to the total number of jobs (5.1% in 1998).

(ii) the new jobs foreseen for 2001-2005 ought to privilege under-qualified labour. 66% of the demand would address the workers who have a very low level of education, who can just read and write. In this configuration,

(a) either some workers will have to accept jobs for which they are overqualified, which will drive down the average real wages and slacken the pace of growth,

(b) or bottlenecks might occur in some sectors, coupled with an aggravation of unemployment for the highly qualified persons whose skills are not valued in the private sector, as well as for illiterate persons (the Egyptian illiteracy rate amounts to 45% with a significant male/female disparity, 33% versus 56%, which is one of the highest in the MC).

The Egyptian government has, officially put an end to its policy of guaranteeing jobs for the graduates. This will not fail to increase the tensions that weigh on the population below 25 years which is already heavily affected by unemployment. However, it might be a powerful factor in motivating young people to seek jobs in the private sector or to subscribe to complementary training programmes that are more appropriate for the market. However, the present divide between the training proposed and the needs of the economy is setting a limit to this effect.

A growing impoverishment of the population is to be feared, especially for the qualified youths. In fact, in 1999, 48% of the urban population was considered poor against 39% in 1990 (respectively 55% against 39% of the rural population).

A still insufficient growth rate in a context of external shocks

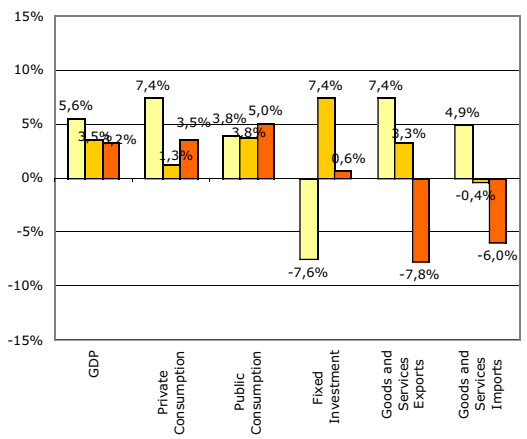
Thus, Egypt must manage a GDP growth that is not sufficient to satisfy its needs and whose sectorial structure is significantly unmatched to the characteristics of the available manpower. The positive point, which seems to show that Egypt is evolving from a growth regime based on capital accumulation and an increasing working population with stable qualifications, to a growth regime based on technical progress, is the contribution of the global productivity to growth. This seems to be the highest among the MC, which reflects a capacity to generate revenues that should be confirmed in the coming years when the external shocks diminish.

However, Egypt was torn for a long time between the will to control inflation, the weight of its trade in oil products and its debt in dollars (40% of the total debt) which dictated an anchorage of the pound to the dollar while the growing share of its trade with the European countries pleaded for an anchorage to the Euro (30% of its exports and 45% of its imports). The choice of the dollar led to increasing difficulties for the government to manage the economy. At the same time, the strategy consisting in stimulating growth through trade did not yet bear its fruit. The economy is still very vulnerable to shocks, growth is insufficient and the real wages are plummeting (25% in real terms), while poverty increases. But the new political and economic trends have intervened, especially the floating of the exchange rate at the out-

set of 2003, which will have repercussions on the economy's capacity to absorb internal and external shocks and to finally profit from openness:

(i) within the balance of payments, the deficit in commercial transactions is traditionally offset by the workers' remittances from abroad, transactions in services and uncovered transfers. In 2001 and 2002, the external account paradoxically improved due to the economic slowdown. The services surplus dropped to 17% due to the uncertain political climate: travel fell by -11% and investment by –28%. These reductions were counterbalanced by an upswing of spending on the part of the foreign embassies (31%). The current account deficit only amounted to 8.5 million dollars in 2002 and that of the balance of payments to 447.1 million, while they amounted respectively to 1 163.1 and 3 026.7 million dollars in 2000. The official transfers guarantee a balanced situation. During the first quarter of 2003, exports grew more rapidly than imports and the services surplus reinforced itself. However, the official transfers fell by 72%. As to tourism, it is still as dull as in 2002.

GDP Breakdown
(clear shade: 1998-200, average shade: 2000-2001, dark shade: 2001-2002)

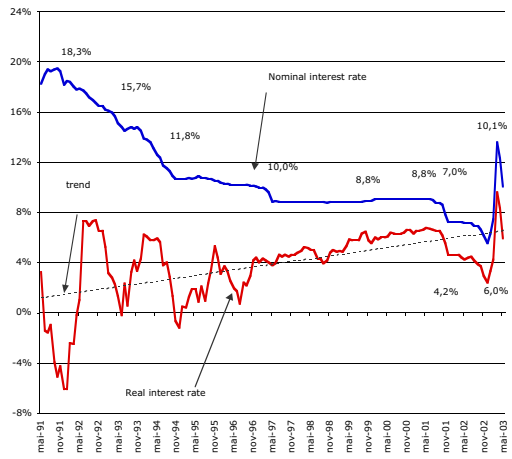


Sources: Eurostat, Medstat program, Ministry of Foreign Affairs.

(ii) As to internal demand on the commodities' market (see next figure), despite the reduction in GDP growth induced by the external shocks of 2001-2002, the authorities maintained their austere policy in order to restore the macro-economic balance. At the end of the period, monetary restrictions were relaxed to support internal demand. Thus, the Central Bank put at the disposal of the commercial banks 437 million Euros at a 4% rate, to be used only for credits to the consumption of Egyptian products. But this measure ran up against the low wages. The tolerated ceiling of indebtedness is 25%, which might become unsustainable if there is an increase of inflation. However, investment remained very low, which is not favourable to Egyptian productivity and competitiveness.

(iii) At the level of monetary policy, the anchorage of the pound to the dollar and the convergence of the inflation rate with that of the United States reinforced the credibility of the policy. The latter dropped from 25.8% in 1991 to 2.7% in 2002. However, the concomitant effect was an appreciation of the real effective exchange rate vis-à-vis European currency. In 2001 and 2002, the functioning of the exchange market and the

Nominal and real interest rates 1/ (May 1991-2003)



1/Low on T-bills rates for 91 days
Source: Central Bank of Egypt

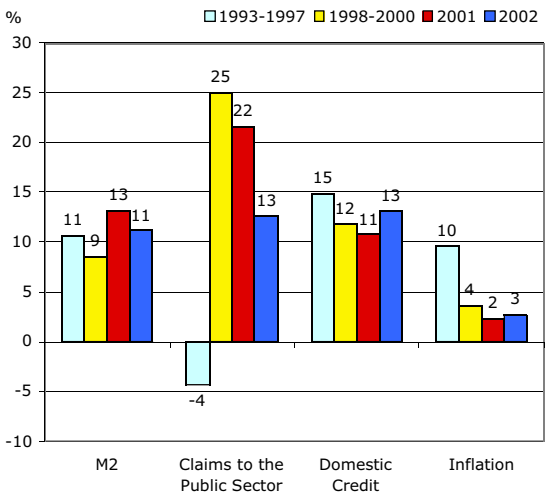
anchorage were relaxed, especially thanks to rather frequent revisions of central parity. At any rate, this did not counterbalance the erosion of the competitiveness of the Egyptian economy. The tensions over the external accounts diminished but, between 1997 and 2002, Egypt lost a quarter of its reserves. The authorities were therefore forced to opt for a restrictive monetary policy. In 2003, within a context of floating exchange and lack of inflationary tensions, a reduction of interest rates (12% at present) should benefit growth but its potential impact on capital movements must be taken into account.

(iv) The budget policy remained very prudent in 2001-2002 so as to stabilize the budget deficit, which surpassed 5% of the GDP in 2001-2002 despite the resulting adverse negative on private consumption and growth (The 2002 forecasts were initially 7%). The high real interest rates (6% in 2002) and low growth rate are not helping the government to pursue its debt reduction policy, which is aimed at restricting the eviction effect that took its toll on the private sector, but the downward trend has maintained its impetus. Thus, the domestic debt amounted to 65% of the total debt in 2002 against 73% in 2000. In view of potential negative impacts on liquidity (-2 billion dollars for the tourism sector alone according to the Ministry of Tourism) and to limit the recourse to the black market, the government contracted hard currency loans 2002. However, the structure of the debt does not present any major risks. Solvency is satisfactory since debt servicing only amounts to 12% of the exports in goods and services, the reserves cover 46% of the external debt and the short-term debt is not big (13.5% of the total debt in 2001).

As with most of the MC (except Cyprus, Israel and Malta), Egypt's problem is the fragility of the resources on which the budget is based, compared with the rigidity of its expenditure.

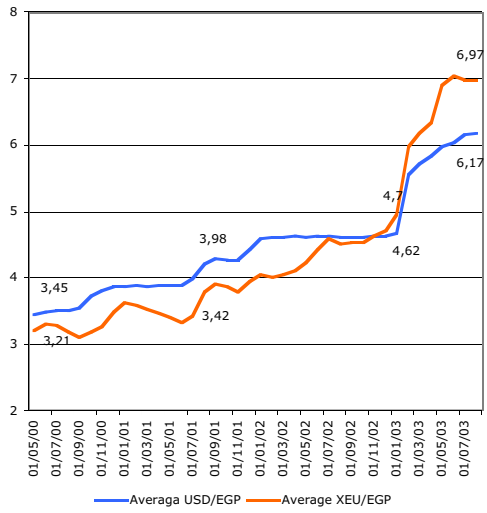
Firstly, the fragility of resources, because of the low rate of indirect taxes (26% of total revenues of which 46% was the VAT) and direct taxes. The operations of the Suez Canal generate a large part of the State's resources (8.6% of the resources) almost as much as the per capita income tax (8.9%). But the Suez Canal's revenues directly

Monetary policy and inflation



Sources: IMF, IFS April 2003, Central Bank of Egypt

Exchange rate



Sources: IMF, IFS April 2003, Central Bank of Egypt

depend on political climate of the region. Revenues emanating from ancient seigniory duties, that is, not generated by taxes, are still very high in Egypt (28.3% of the total revenues in 2002) as are the customs duties (12%). At the same time, it is difficult to raise the income taxes and business taxes in a sluggish economic context. The limits to which the government is subjected with regard to the VAT are identical, inasmuch as its increase might generate social instability. Finally, balancing the budget crucially depends on foreign aid (4.7%) which is by nature uncertain.

Secondly, rigid expenditure, as 33% of the current expenditure go to personnel and 26.8% of the total expenditure are absorbed by servicing the debt. Although investment spending is cut down in difficult times (15.1% of the total expenditure in 2002 versus 21.9% in 1999), this does not apply to defense spending, which regularly absorbs about 10% of the total expenditure. In this context, the surveys demonstrated, on the whole, that the budget policy has had significant counter-productive effects, especially on the quality of manpower and the functioning of the market (Fawzy, 2002, Galal, 2002). The Egyptian economic policy failed so far to create the positive externalities that might have induced a greater productivity in both the public and the private sectors (Cottenet, 2001).

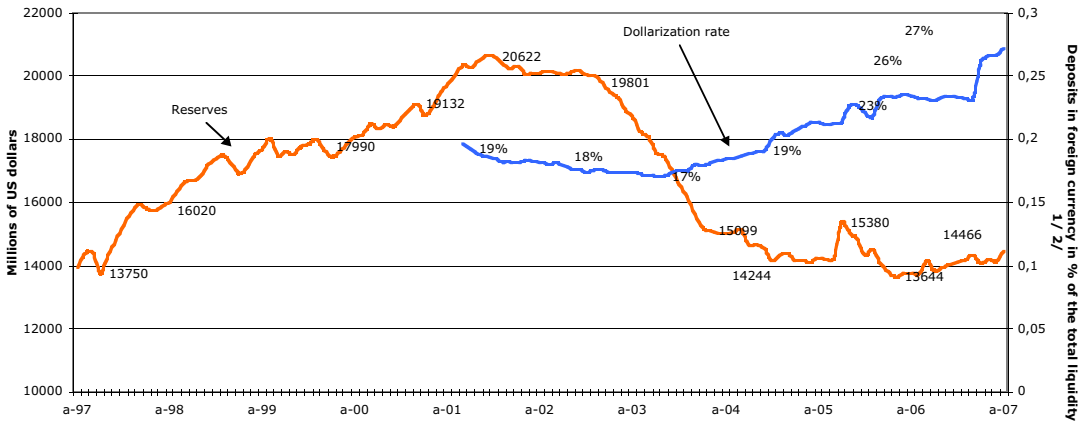
The macro-economic situation in Egypt might deeply change with the entry into force in January 2003 of the new floating exchange rate, especially due to:

(i) the impact of the monetary policy on the economy, now that it has recovered a certain degree of independence vis-à-vis the dollar;
(ii) the impact of the external position: will the floating exchange rate really allow Egypt to profit from its openness?

A redefinition of the monetary policy, a harbinger of hope

The very positive act of adopting a floating exchange rate in January 2003 is that this was a choice on the part of the authorities rather than a coerced decision resulting from a balance of payments crisis, for

Evolution of exchange reserves and dollarization of the economy



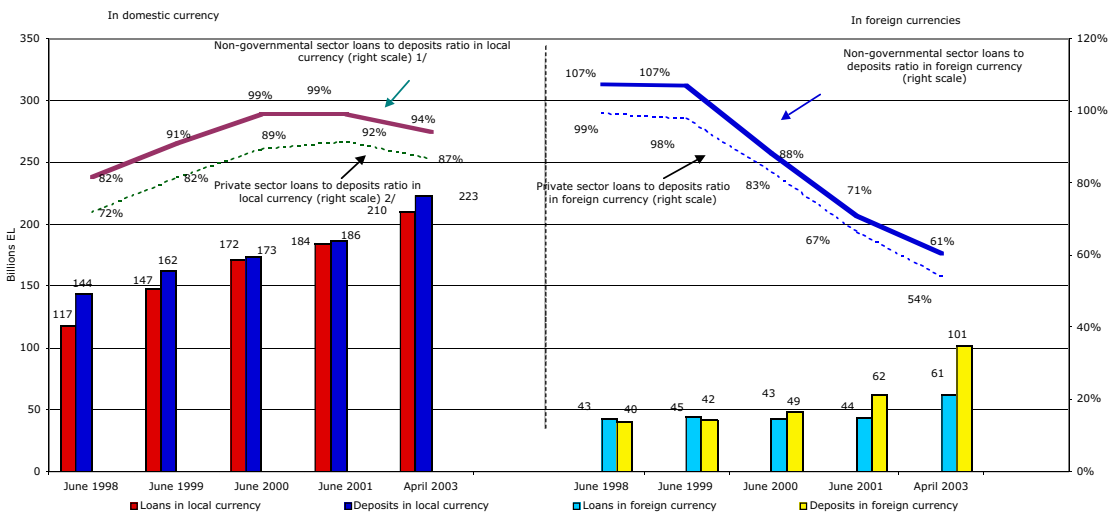
1/ the non- residents' deposits are not included
2/ before September 2002, the dollarization rate was calculated as the foreign currency liquidity ratio against total liquidity. After September 2002, it became the foreign currency deposits ratio against total liquidity, excluding the non-residents' deposits.
Source: Central Bank of Egypt.

example. This gives this policy, and the monetary policy that goes along with it, a high degree of credibility. This change in fact demonstrates determination on the part of the authorities to break away from the old practices that have prevented the country from truly drawing profit from openness. The question is how will the government make this capital endure?

The major difficulty that must be addressed by the authorities is the redefinition of the instruments of their monetary policy. The very important loss of exchange reserves induced by the anchorage to the dollar has led to a shortage of hard currency and has shackled the smooth running of the economy. The dollarization of the economy (see previous figure) has loosened the ties linking monetary policy decisions and the behaviour of the agents. Although this is in great part the result of disciplinary measures, the loans are more systematically backed by the domestic currency (see following figure). This situation reinforces the effectiveness of the policy via credit, which can itself serve the national economic objectives. Under a fixed exchange regime, in fact, the domestic rates are dictated by the rates practiced in the country of anchorage, for any difference might entail capital movements of a possibly significant size.

The danger is that the domestic enterprises have often had recourse to relatively less expensive hard currency loans, especially in dollars. The exchange risk to which these enterprises and the banking system are exposed is significant, inasmuch as the potential devaluation is high, because the real exchange rate is still higher than in 1990. An IMF survey of September 2002 evaluated doubtful debts as 14% of the total credit of the banks. The mechanisms of control and supervision of banking operations are not sufficiently efficient to deter this kind of risk. Measures to renegotiate these debts were announced, but these might be insufficient to avoid numerous bankruptcies caused by the joint consequences of the floating of the currency, a sluggish economy and external shocks.

The banking facilities provided to the non-governmental sector and deposits in the banks



1/ Non-governmental comprising the public sector, the private sector, the households sector and the non-residents. 2/ Private sector, leaving out the public sector
Source: Central Bank of Egypt

At any rate, the activity of the parallel market has been reduced. The floating of the exchange rate allows for an a priori satisfaction of the sizable national demand for hard currency. The price of the dollar has been stabilized in the parallel market but at a higher rate than the banks (6.15–6.20 against 5.95 LE). This has had the effect of reducing speculation on the one hand and attracting hard currency back into the banking system, on the other. The hard currency capital in the banks was also fed by the obligation laid on the tourism agencies and the exporters to resell to them their hard currency revenues. The needs of importers were covered more easily.

However, confidence in the domestic currency is not yet established. The anchorage to the dollar has allowed for the reduction and stabilization of inflation at about 2.5% per year, but this result can only be maintained under certain conditions. In particular, this excludes the monetization of widening deficits or an exaggeratedly expansionist monetary policy in terms of the capacity to adapt to the private sector's demand. Pending a clarification of the central bank's role, its status, its degree of independence vis-à-vis the government and the hierarchy of its objectives, the dollarization of the economy has increased (27.2% in April 2002 against 18.5% in 1997) and the dollar continues to be a safe haven.

Finally, the repercussions of the floating exchange rate on the external balance are the most beneficial expected effects, but their materialisation is uncertain. In the first place, experience has shown that such an exchange regime cannot guarantee the rebalancing of the external accounts. In the second place, Egyptian exports suffer from a lack of competitiveness which limits their expansion and the exchange related uncertainties might discourage investors.

Trade in commodities: a structurally favourable improvement which could help in reducing the deficit

Two contradictory tendencies were observed in Egypt's trade in commodities since 1990.

On the one hand, there has been a clear deterioration of openness and the external position. Thus, the rate of openness in 2001 was 6 points lower than in 1990 (25% against 31% for the total amount of exports and imports brought down to internal production) and the trade in goods deficit deeply increased, to more than 10 billion dollars.

On the other hand, Egypt's external trade was structurally modified in a promising sense. In terms of products, the exports are being diversified. Thus, the share of exported petroleum products rose from 67% in 1990 to 29% in 2001, while industrial products (items 6 to 8 of the CTCI) rose from 22% to 43%, thanks to the increase of the exported manufactured articles (from 4 to 19% between 1990 and 2001).

From the geographic point of view, it is not easy to describe the Partnership's effect: the share of exports to the Union certainly progressed between 1995 and 2001 (from 54% to 57%), but it remained below that of 1990 (59%). Inversely, the share of imports from Europe in 2001 was close to the level reached at the outset of the past decade (38%) but clearly lower than in 1995 (44%). As regards Intra-Mediterranean trade, it more or less increased, in both exports and imports (9% total exports and 4% imports). However, the essential part of growth took place before 1995.

The overall position is behind schedule with regard to the MC, especially with regard social concerns

As in the general situation of the MC Egypt, in comparison with the other economies of the world, advertises a widely undervalued subjective position vis-à-vis the position it occupies according to the objective economic criteria. Nonetheless, from this point of view, Egypt's performance is below the average of the MC.

According to observation, the shortcomings of the Egyptian economy are essentially generated by:

(i) very high trade barriers. More than the nominal protection rate which seriously decreased during the past years, this protectionistic judgment is essentially the result of the customs' procedures. These are complicated and rigid, lengthy and discretionary. The authorities do not have to justify their decisions in this manner, especially when they classify products in a tariff category and there are no formal procedure for appealing such decisions.

(ii) A deregulation disconnected from the huge intervention of the State. Here again the absence of transparency, the excessive bureaucracy and the arbitrary aspect of the administration are stigmatized.

Regarding the main macro-economic indicators, Egypt's situation is on the whole average in comparison to other world economies as well as other Mediterranean Countries. But in this last case, Egypt's performance is slightly behind in most indicators, except as regards the debt (the level of indebtedness and the weight of debt servicing measured against trade) and the financing of the private sector which augurs well for improvements.

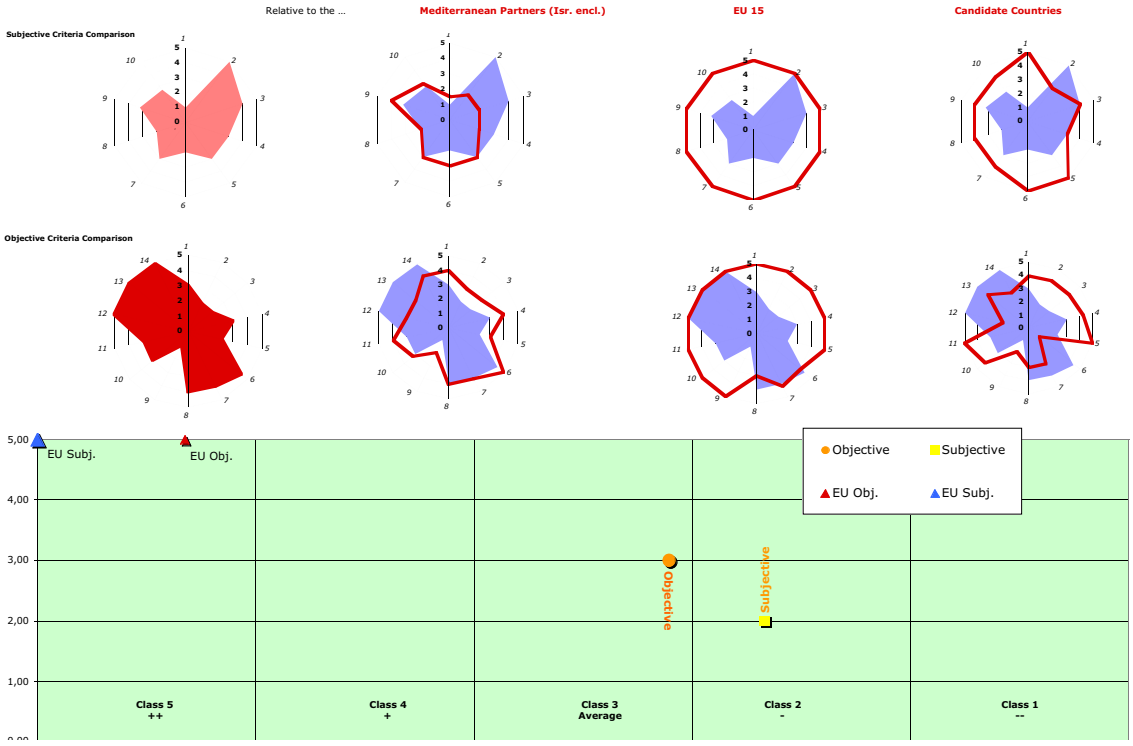
Two significant shortcomings remain:

(i) the economy is relatively more closed than the average, taking into account the size of the population and the investment flow.

(ii) The social sphere, in which Egypt is behind in comparison with the other MC, as indicated by the low level of the Human Development Report of the UNDP or the one on life expectancy, since it is lower in Egypt in average than in the other MC.

Egypt

2001 or more recent data	Subjective Indicators		Objective Indicators
	Tariff and non-tariff barriers	1	Life expectancy
	Free use of currencies	2	FDI (GDP percent)
	Property rights	3	Openness (per capita sum of exports and imports)
	Free trade in capital markets	4	Per capita GDP ($ PPP)
	Regulation of foreign investments	5	Human Development Indicator (UNDP HDI, 2000)
	Regulation	6	Inflation (CPI)
	Black market control	7	Current account balance as % of GDP
	Accountability & Transparency	8	GDP growth rate
	Corruption control	9	Budget deficit as % of GDP
	Moody's rating	10	Number of telephone lines (per inhab., 2000)
		11	Number of Internet users (per inhab., 2000)
		12	Debt Service (in % of Goods and Services Exports)
		13	External Debt (in % of GDP, 2000)
		14	Credit granted to private sector (in % of GDP)



EGYPT - Main Indicators of Trade Openness

	1990	1995	2001
Openness rate (X+M/GDP)	30,80%	32,70%	25,10%
Exports Orientation (%)			
To the EU	59,0%	53,9%	56,9%
To the MP	2,1%	7,2%	8,6%
To the Rest of World	38,9%	39,0%	34,5%
Imports Orientation (%)			
From the EU	38,0%	43,7%	37,8%
From the MP	1,8%	2,3%	4,3%
From the Rest of World	60,1%	54,0%	57,9%
Rate of Coverage X/M			
With the EU	0,67	0,50	0,46
With the Rest of World	0,28	0,29	0,18
Trade Balance in million of dollars			
With the EU	-1 277	-3 130	-3 182
With the Rest of World	-4 456	-5 458	-7 379
Export Concentration Indices			
With the EU	0,57	0,25	0,18
With the Rest of World	0,61	0,26	0,26
Terms of trade indices (1990=100) (*)			
Unit value indice of exports	100	121	121
Unit value indice of imports	100	105	122
Terms of trade indice	100	116	99
Purchasing power indices of exports	100	127	149
Intra-trade indices			
With the World	8,9	10,0	14,2
With the EU	9,8	12,0	14,4
With the Rest of World	6,8	8,9	12,3

(*) Source: UNCTAD

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Egypt: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS			IMPORTS			BALANCES			EXPORTS			IMPORTS		
	Products (*)	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001
World	0	148	506	470	1 844	2 449	2 398	-1 696	-1 943	-1 927	3%	9%	10%	18%	17%	15%
	1	3	11	11	94	136	170	-92	-125	-159	0%	0%	0%	1%	1%	1%
	2	219	305	346	676	716	618	-457	-411	-272	5%	5%	7%	7%	5%	4%
	3	3 019	2 837	1 362	138	144	228	2 880	2 693	1 134	67%	49%	29%	1%	1%	1%
	4		1	3	182	469	321	-182	-468	-318	0%	0%	0%	2%	3%	2%
	5	48	209	386	937	1 500	2 122	-889	-1 291	-1 736	1%	4%	8%	9%	11%	14%
	6	622	1 097	953	1 544	2 260	2 135	-923	-1 162	-1 182	14%	19%	20%	15%	16%	14%
	7	192	136	193	4 067	5 232	5 859	-3 875	-5 096	-5 667	4%	2%	4%	39%	37%	38%
	8	190	603	895	685	1 171	1 344	-494	-568	-450	4%	10%	19%	7%	8%	9%
	9	49	57	149	146	183	396	-97	-126	-247	1%	1%	3%	1%	1%	3%
	Total	4 489	5 762	4 768	10 314	14 259	15 592	-5 825	-8 498	-10 823	100%	100%	100%	100%	100%	100%
Rest of the World	0	44	198	185	1 211	1 717	1 865	-1 167	-1 519	-1 680	3%	9%	11%	20%	22%	21%
	1	2	10	6	65	97	122	-63	-88	-116	0%	0%	0%	1%	1%	1%
	2	161	135	174	596	388	430	-435	-253	-256	9%	6%	11%	10%	5%	5%
	3	1 113	1 045	292	55	102	50	1 058	943	242	64%	47%	18%	1%	1%	1%
	4			1	158	423	305	-158	-423	-305	0%	0%	0%	3%	5%	3%
	5	10	98	132	443	522	924	-433	-423	-792	1%	4%	8%	7%	7%	10%
	6	257	334	281	928	1 232	1 175	-671	-899	-894	15%	15%	17%	15%	16%	13%
	7	12	33	30	2 233	2 384	3 059	-2 221	-2 351	-3 030	1%	1%	2%	36%	31%	34%
	8	113	342	502	463	772	849	-350	-430	-347	6%	15%	30%	7%	10%	9%
	9	35	51	44	51	66	246	-16	-15	-202	2%	2%	3%	1%	1%	3%
	Total	1 748	2 245	1 647	6 204	7 704	9 025	-4 456	-5 458	-7 379	100%	100%	100%	100%	100%	100%
EU	0	92	272	162	608	685	413	-516	-413	-251	3%	9%	6%	15%	11%	7%
	1			2	29	34	46	-29	-34	-44	0%	0%	0%	1%	1%	1%
	2	51	130	139	73	310	169	-21	-180	-30	2%	4%	5%	2%	5%	3%
	3	1 882	1 635	1 036	84	42	70	1 799	1 594	966	71%	53%	38%	2%	1%	1%
	4		1		24	46	16	-24	-45	-16	0%	0%	0%	1%	1%	0%
	5	29	84	187	456	922	1 108	-427	-838	-921	1%	3%	7%	12%	15%	19%
	6	329	634	568	515	918	786	-186	-284	-218	12%	20%	21%	13%	15%	13%
	7	179	95	143	1 821	2 770	2 695	-1 642	-2 675	-2 552	7%	3%	5%	46%	44%	46%
	8	71	247	372	220	390	444	-148	-142	-72	3%	8%	14%	6%	6%	8%
	9	13	5	105	95	116	149	-82	-111	-44	0%	0%	4%	2%	2%	3%
	Total	2 648	3 103	2 714	3 924	6 233	5 896	-1 277	-3 130	-3 182	100%	100%	100%	100%	100%	100%
Med. Partners (**)	0	11	36	123	25	47	120	-14	-11	3	12%	9%	30%	13%	15%	18%
	1		1	3		4	2		-4	1	0%	0%	1%	0%	1%	0%
	2	6	41	33	7	19	19	-1	22	14	7%	10%	8%	4%	6%	3%
	3	24	157	34			107	24	156	-73	25%	38%	8%	0%	0%	16%
	4			2						2	0%	0%	1%	0%	0%	0%
	5	9	26	67	37	56	90	-28	-29	-24	9%	6%	16%	20%	17%	13%
	6	36	130	104	101	109	174	-65	21	-70	38%	31%	25%	54%	34%	26%
	7	1	9	20	13	78	105	-12	-69	-85	1%	2%	5%	7%	24%	16%
	8	6	14	20	2	10	51	4	4	-31	6%	3%	5%	1%	3%	8%
	9	1					1	1		-1	1%	0%	0%	0%	0%	0%
	Total	93	413	408	186	323	670	-93	90	-263	100%	100%	100%	100%	100%	100%
AC10 (**)	0	1	7	7		8	23			-16	6%	13%	15%	2%	4%	9%
	1				14	1	2	-14	-1	-2	0%	0%	0%	68%	0%	1%
	2		12	8		5	12		6	-4	2%	20%	19%	0%	2%	5%
	3		3	2		4	26			-24	2%	6%	4%	0%	2%	10%
	4										0%	0%	0%	0%	0%	0%
	5		2	1	1	20	14	-1	-17	-12	2%	4%	3%	4%	9%	5%
	6	8	23	11	3	86	71	5	-63	-60	83%	40%	26%	14%	39%	27%
	7		4	3	1	75	101		-71	-97	5%	8%	8%	4%	35%	39%
	8		4	9	2	8	8	-1	-4	1	2%	7%	21%	8%	4%	3%
	9		1	2		11	3		-11		0%	2%	3%	0%	5%	1%
	Total	10	58	43	20	217	260	-10	-160	-215	100%	100%	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Israel

Israel experienced an average growth rate of 3% during the second half of 1995. But after the record results of 2000 (+7.4%), the economy entered into an acute recession owing to persisting political tensions in the Palestinian Territories, to which can be added the bursting of the high tech bubble and the slowing down of global trade. In 2002 and for the second consecutive year, growth was negative, at –1%.

All of the Israeli economic sectors were affected: construction underwent negative growth rates during the past three years; industry experienced a spectacular reversal (after having reached 14% in 2000) with two consecutive years of recession (-6.1% in 2001 and –2.2% in 2002). In fact, since the outset of the crisis, Gross Domestic Product decreased by 3%.

The impact of unemployment was of course very significant: the number of unemployed rose by 10% annually since 2000 and in March 2003 it affected 10.8% of the working population.

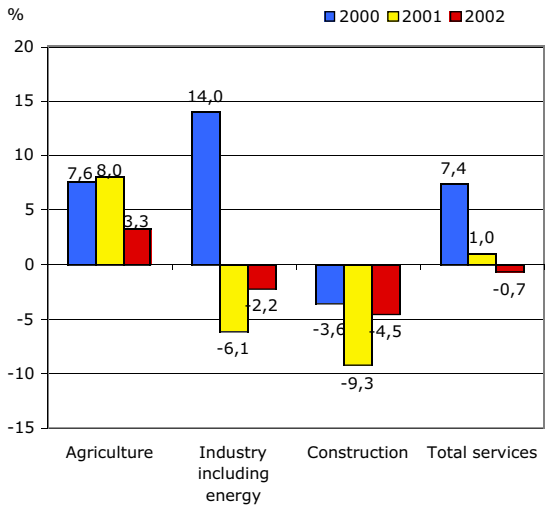
This tendency prompted the Israeli authorities to modify the legal framework governing the labour market, especially with regard to foreign manpower: taxes on employing foreign workers, who amount to 14% of the private sector labour force, were raised. These measures had an impact on the construction sector: the employment of non-israelis dropped by 30,2% compared to 1997. But this did not revive the impetus of job creation, which remained sluggish.

At the macro-economic level, the situation was as follows:

(i) External trade, which was the engine of growth during a decade, was exposed for two years to the negative effects of the political crisis.

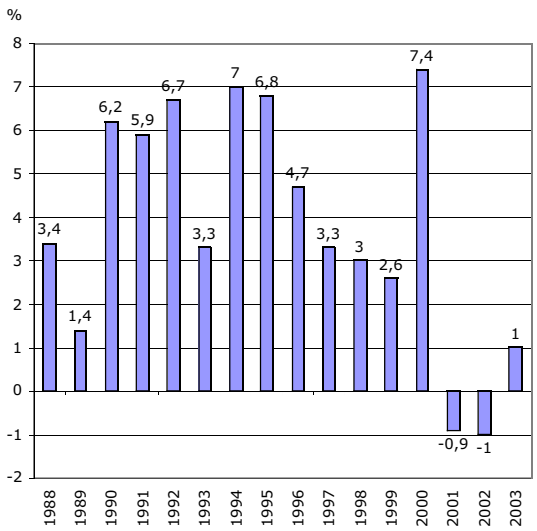
Between 1990 and 2001, overall openness slightly increased to reach 55.5% of domestic production. The general structure of trade was relatively diversified and was increasingly axed on industrial products, while agricultural products lost ground (from 8% in 1990 to 3% in 2001). However, it is the relations with the European Union that were

Sectorial composition of GDP



Sources: Eurostat, Medstat Program, Ministry of Finance

Real growth 1988-2003



Sources: Eurostat, Medstat Program, Ministry of Finance

modified in their structure: between 1990 and 2001, the share of exported agricultural products to the Union fell from 17% to 7%, while at the same time "machines and transport material" increased from 12% to 30%. The geographic orientation did not allow for the appearance of the Euro-Mediterranean partnership "volume" effect. Exports to the EU only amounted to 27% of the total exports, close to the 1990 level (29%) but definitely lower than in 1995 (32%). The phenomenon was identical for imports from the EU (42% in total in 2001), which were slow to increase in comparison with 1990 (38%), but they have diminished in comparison with 1995 (52%). The balance of trade deficit remained high since 1995 (nearly 8 billion dollars). Most of this deficit was generated by the relations with the EU.

For the past two years, the exports of goods and services underwent a very negative growth (see the following figure). Later, exports of high-tech manufactured goods, a specialization of the economy, decreased again by –0.9% during the first months of 2003.

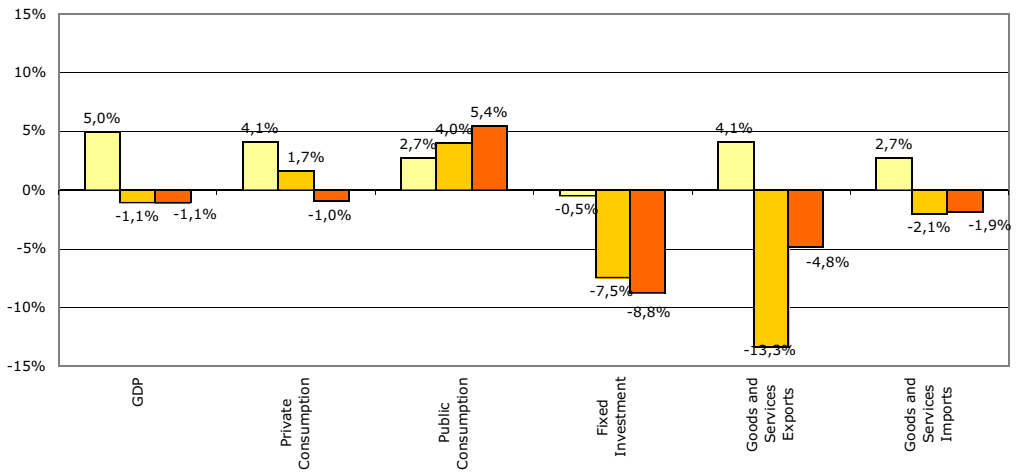
This is equally the tendency that took its toll on financial flows. In 2001, FDI was steady (3 044 million dollars in 2001 against 4 392 million dollars in 2000 according to UNCTAD), and the bank financing outflows were still significant (-1 302 million dollars in 2001), as were the portfolio investments - 910 million in 2001 against 2 947 in 2000 - (IMF, June 2002).

The exchange rate was depreciated in 2002 vis-à-vis the main partners and the dollar in particular, but exports react slowly to this type of change. It is therefore necessary to wait for the end of 2003 to eventually see the beneficial effects of this depreciation. At all events, the fact that the nature of growth is focused on the traditional industries, especially in the US, does not advantage Israel whose exports are above all technological products.

(ii) With regard to internal demand, the only source of support to growth since 2000 is public consumption and this has made the situation difficult. The collapse of exports was followed by a reduction in investments (-7.5% in 2001 and –8.8% in 2002), and private consumption (-1% in 2002), partly due to drop in saleries (of about 6% in 2002, in real terms, or a drop in purchasing power of 12%, october 2002) according to the Isreal Statistical Agency. The outlook has not improved given increased cuts in staffing and stagnation on the conflict with the Palestinians.

Breakdown of GDP

(clear shade: 1998-2000, medium shade: 2000-2001, dark shade: 2001-2002)



Sources: IMF, IFS June 2002, Central Bank

(iii) Monetary policy is still extremely restrictive, focused on respecting the inflation target announced in August 2000, a 2-3% rate in 2002. The Authorities are maintaining high real interest rates in order to limit the outflow of capital. The first objective was easily attained in 2000 and 2001 with a 1.1% rate. True, the inflation rate rose to 5.8% in 2002, but the surveys of inflation forecasts indicate that this is not due to structural inflation tensions but rather to the adjustment of the exchange, which has been delayed due to the level of interest rates.

However, as regard the second objective, this strategy is a failure because direct investments decreased even more, down to 585 million dollars in 2002 (IMF data, balance of payments); portfolio investments plunged to -1 910 million dollars in 2002. Furthermore, the balance of the financial account dropped from a surplus of 3 788 million dollars in 2000 to a deficit of – 746 million dollars in 2002. Hence, the country is a victim of the flight towards less risky investments and only the supported costs survived to the slowdown of growth. At the same time, the Authorities were forced to make this choice because they had to avoid a degradation of their ranking by international rating agencies, as it would affect their debt management. The total debt stood at 106% of the GDP in 2002 75% of which is internal, but only 14% of the total debt is short-term.

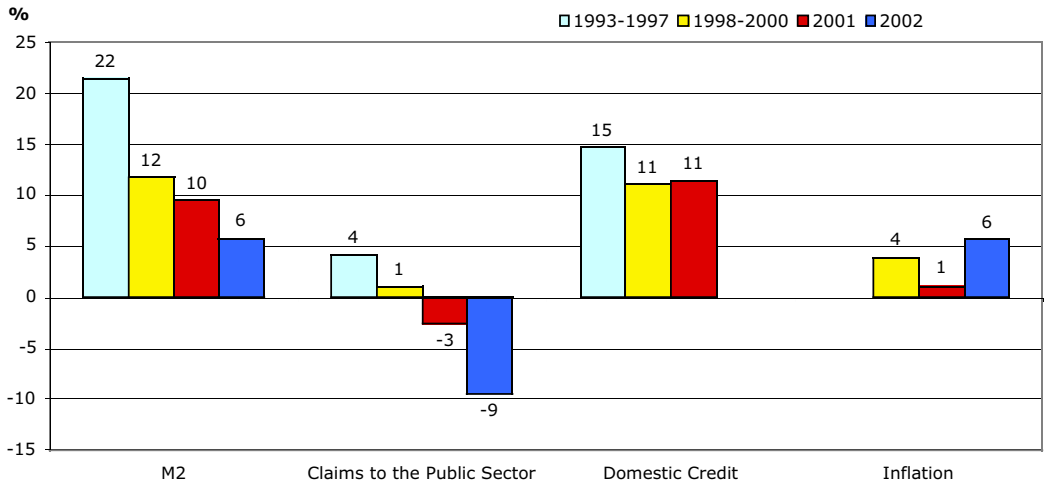
Given the situation, the iterest rates have been lowered in 2002 to fuel the recovery of the economy.

(iv) The budget policy is very prudent and focused on restructuring:

(a) allocation systems: the government reduced the social transfers and especially the unemployment allocations whose generosity was judged demotivating. The government thus intends to bring back the allocators of substitute revenues to the labour market, so as to raise the participation rate to the level of the OECD countries (65% against 56% in Israel) and to curb poverty. The burden of wages represents a stable 15% ratio of the budget, that is, half Egypt's and Algeria's and a third of Jordan's, Morocco's and Tunisia's. It was reduced to 2,8% in real terms in 2002 after increasing by 2.6% in 2001 and 5,9% in 2000.

(b) Expenditures on research and capital (15% of the budget in 2002) to upgrade

Monetary policy



Sources: IMF, IFS June 2002, Central Bank

infrastructure and raise productivity while maximising on education (14% of expenditure) and public health (13%, the highest level in the region). It must be remembered that the demographic profile in Israel is not typical of other countries in the region, not in terms of a youthful population (28% under 15 years in 2000) but in terms of the propoetion over 60 years (about 10%), twice as high as the regional average. This raises health expenditures. However, this segment has higher savings potential.

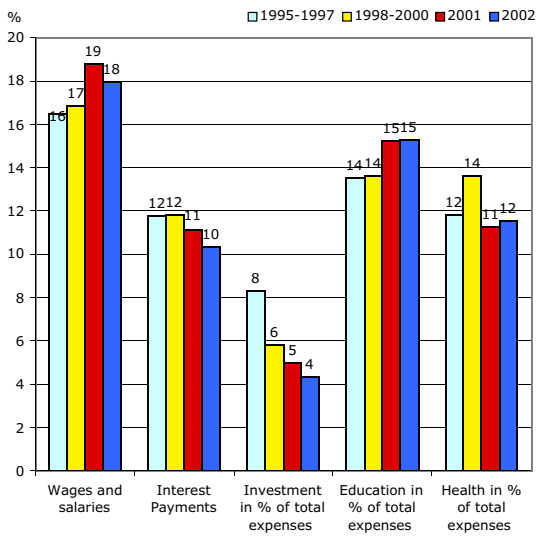
Finally, the pace of reform has accelerated. The authorities are playing the card of a tight budget so as not to harm longterm growth potential. The hope is that - despite the recession - the deficit will not go beyond 3% of GDP in 2003, which seems very optimistic, given the figures for 2002 (3.97% of GDP) and the continuing deterioration of the economic and social situation (reduction of taxes). Additionally, with no improvement in the regional situation the government's margin of manoeuver is constrained by defense spending.

Foreign aid, notably the US guarantees on new debts lightens the burden of debt servicing impacting on budget flexibility and the size of any intervention in the economy. Despite the weight of the internal debt, the banking sector does not appear weakened.

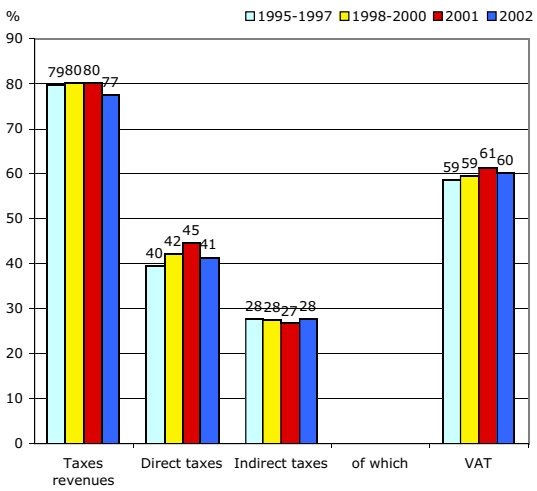
An exceptional position in the Mediterranean, but high risk factors that threaten ratings

As might be expected, Israel's position has nothing in common with the other Mediterranean Cpuntries. According to the macro-economic indicators, the economy performs even better in the good years than the countries of the Union (in 2001), especially as regards inflation (1.12% against 3%), GDP growth (6% against 2.29%). However, this static portrait based on the year 2001, has overlooked an essential point: the political situation, which makes any attempt to give an accurate account of the economic situation anecdotal (and some indicators, such as the official budget deficit that does not take military spending into account, untrustworthy).

Expenditures



Revenues



Sources: Ministry of Finance, Central Bank, IMF, GDF October 2002.

Nonetheless, there are some shortcomings that are not linked to this near state of war:

(i) the regulation of the financial markets is not up to the standard of the developed countries. The state's participation in the banking sector is still too high, for example, the restrictions on foreign participation in this sector and some measures such as prohibiting banks from operating in the insurance sector, or the strict framework that limits their capacity to manage pension funds.

(ii) Transparency and the level of democracy are equally behind in comparison with the developed countries.

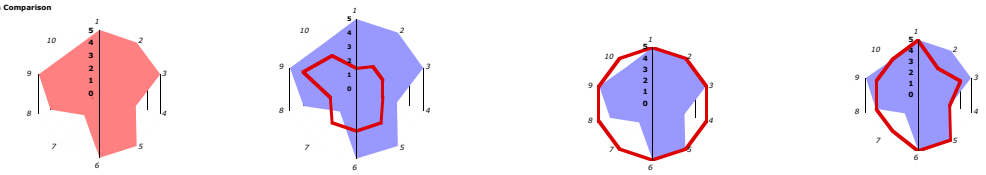
(iii) There is intense activity on the black market, especially in products usually protected by intellectual property rights - an activity that exceeds the average for other countries of the region. The problem lies in the application of laws that exist, unlike other neighbouring countries.

Israel

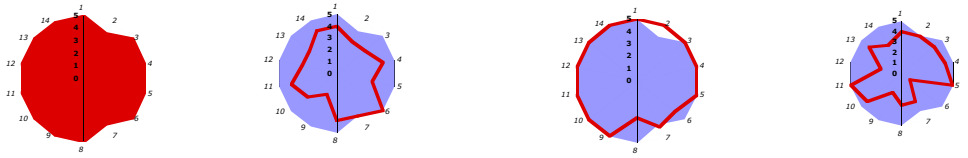
2001 or more recent data	Subjective Indicators		Objective Indicators
	Tariff and non-tariff barriers	1	Life expectancy
	Free use of currencies	2	FDI (GDP percent)
	Property rights	3	Openness (per capita sum of exports and imports)
	Free trade in capital markets	4	Per capita GDP ($ PPP)
	Regulation of foreign investments	5	Human Development Indicator (UNDP HDI, 2000)
	Regulation	6	Inflation (CPI)
	Black market control	7	Current account balance as % of GDP
	Accountability & Transparency	8	GDP growth rate
	Corruption control	9	Budget deficit as % of GDP
	Moody's rating	10	Number of telephone lines (per inhab., 2000)
		11	Number of Internet users (per inhab., 2000)
		12	Debt Service (in % of Goods and Services Exports)
		13	External Debt (in % of GDP, 2000)
		14	Credit granted to private sector (in % of GDP)

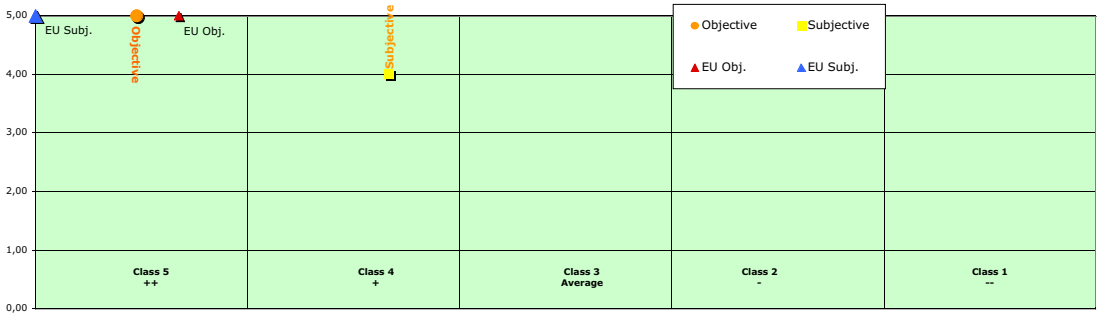
Relative to the ... **Mediterranean Partners (Isr. encl.)** **EU 15** **Candidate Countries**

Subjective Criteria Comparison



Objective Criteria Comparison





ISRAEL - - Main Indicators of Trade Openness

	1990	1995	2001
Openness rate (X+M/GDP)	52,20%	53,40%	55,50%
Exports Orientation (%)			
To the EU	29%	32%	27%
To the MP	1%	1%	1%
To the Rest of World	70%	67%	72%
Imports Orientation (%)			
From the EU	38%	52%	42%
From the MP	0%	1%	2%
From the Rest of World	62%	47%	56%
Rate of Coverage X/M			
With the EU	0,61	0,42	0,49
With the Rest of World	0,88	0,97	0,96
Trade Balance in million of dollars			
With the EU	-2 221	-8 519	-7 143
With the Rest of World	-1 104	-407	-673
Export Concentration Indices			
With the EU	0,27	0,29	0,34
With the Rest of World	0,19	0,18	0,19
Intra-trade indices			
With the World	48,4	51,2	48,9
With the EU	37,3	39,0	40,5
With the Rest of World	36,8	43,1	42,1

(*) Source: UNCTAD
Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Israel: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS			IMPORTS			BALANCES			EXPORTS			IMPORTS		
	Products (*)	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001
World	0	978	950	870	947	1 505	1 654	31	-555	-783	8%	5%	3%	6%	5%	5%
	1	21	39	11	73	111	188	-53	-72	-177	0%	0%	0%	0%	0%	1%
	2	437	510	536	610	721	609	-173	-211	-74	4%	3%	2%	4%	3%	2%
	3	80	3	7	1 354	1 368	3 169	-1 275	-1 365	-3 162	1%	0%	0%	9%	5%	10%
	4	1	1	6	37	89	62	-35	-88	-56	0%	0%	0%	0%	0%	0%
	5	1 734	2 804	3 584	1 508	2 641	3 134	226	164	450	14%	15%	14%	10%	9%	9%
	6	4 397	7 053	10 335	5 330	9 063	9 228	-934	-2 010	1 107	36%	37%	41%	35%	32%	28%
	7	2 930	5 111	7 223	4 047	9 624	11 929	-1 117	-4 512	-4 705	24%	27%	29%	26%	34%	36%
	8	1 455	2 121	2 480	1 086	2 336	3 243	369	-215	-763	12%	11%	10%	7%	8%	10%
	9	20	454	5	332	582	71	-312	-128	-66	0%	2%	0%	2%	2%	0%
	Total	12 052	19 045	25 059	15 324	28 039	33 287	-3 272	-8 994	-8 228	100%	100%	100%	100%	100%	100%
Rest of the World	0	372	340	385	547	696	966	-175	-356	-581	4%	3%	2%	6%	5%	5%
	1	10	33	7	51	81	124	-41	-48	-118	0%	0%	0%	1%	1%	1%
	2	160	139	160	463	397	354	-303	-258	-194	2%	1%	1%	5%	3%	2%
	3	78	1	3	1 347	1 360	3 115	-1 268	-1 360	-3 112	1%	0%	0%	14%	10%	17%
	4	1	1	3	21	50	30	-20	-49	-28	0%	0%	0%	0%	0%	0%
	5	902	1 380	2 251	864	905	1 193	38	475	1 057	11%	11%	13%	9%	7%	6%
	6	3 368	5 193	8 309	2 345	2 956	4 620	1 023	2 237	3 690	40%	41%	46%	25%	23%	25%
	7	2 502	3 801	5 152	2 922	5 122	6 516	-420	-1 321	-1 364	30%	30%	29%	31%	39%	35%
	8	1 010	1 377	1 669	665	1 063	1 672	345	314	-3	12%	11%	9%	7%	8%	9%
	9	12	407	5	295	450	26	-283	-43	-21	0%	3%	0%	3%	3%	0%
	Total	8 416	12 673	17 943	9 521	13 080	18 616	-1 104	-407	-673	100%	100%	100%	100%	100%	100%
EU	0	605	606	481	387	778	627	218	-172	-145	17%	10%	7%	7%	5%	5%
	1	10	5	5	22	30	62	-12	-25	-57	0%	0%	0%	0%	0%	0%
	2	268	353	359	142	308	240	126	44	119	8%	6%	5%	2%	2%	2%
	3	1	2	5	8	7	51	-6	-6	-46	0%	0%	0%	0%	0%	0%
	4			1	15	34	20	-15	-33	-19	0%	0%	0%	0%	0%	0%
	5	774	1 296	1 205	642	1 721	1 890	132	-425	-686	22%	21%	18%	11%	12%	14%
	6	1 019	1 836	1 953	2 967	5 931	4 227	-1 949	-4 094	-2 274	29%	30%	29%	51%	40%	30%
	7	419	1 274	2 004	1 124	4 482	5 331	-704	-3 208	-3 326	12%	21%	30%	19%	31%	38%
	8	437	733	767	419	1 263	1 432	17	-530	-665	12%	12%	11%	7%	9%	10%
	9	7	45		36	115	44	-29	-70	-44	0%	1%	0%	1%	1%	0%
	Total	3 541	6 149	6 781	5 762	14 669	13 924	-2 221	-8 519	-7 143	100%	100%	100%	100%	100%	100%
Med. Partners (**)	0	1	4	4	13	31	61	-12	-27	-58	1%	2%	1%	32%	11%	8%
	1						2			-2	0%	0%	0%	0%	0%	0%
	2	9	18	17	4	15	16	4	3	2	9%	8%	5%	10%	5%	2%
	3						4			-4	0%	0%	0%	0%	0%	0%
	4			2		6	11		-6	-9	0%	0%	1%	0%	2%	1%
	5	58	128	129	2	15	50	56	113	79	61%	58%	38%	5%	5%	7%
	6	10	24	72	18	176	381	-8	-152	-309	10%	11%	22%	43%	61%	51%
	7	8	36	67	2	20	82	7	17	-15	9%	16%	20%	5%	7%	11%
	8	9	12	44	2	11	139	7	1	-95	9%	5%	13%	5%	4%	19%
	9		1			17	1		-16	-1	0%	0%	0%	1%	6%	0%
	Total	95	223	335	41	290	746	54	-68	-411	100%	100%	100%	100%	100%	100%
AC10 (***)	0	8	26	29	6	11	25	2	16	5	13%	11%	10%	8%	7%	10%
	1						1			-1	0%	0%	0%	0%	0%	1%
	2	3	5	5	8	8	8	-5	-3	-3	5%	2%	2%	10%	5%	3%
	3			1			1			-1	0%	0%	0%	0%	0%	0%
	4					2	1		-2	-1	0%	0%	0%	0%	1%	0%
	5	20	74	56	8	29	48	12	45	9	31%	30%	19%	10%	19%	19%
	6	10	30	47	52	73	62	-42	-43	-14	15%	12%	16%	64%	47%	24%
	7	14	81	121	5	28	74	9	53	46	21%	33%	42%	7%	18%	29%
	8	10	29	29	1	3	32	9	26	-3	15%	12%	10%	1%	2%	13%
	9		2			1	1		1		0%	1%	0%	0%	1%	0%
	Total	66	249	289	81	157	253	-15	92	37	100%	100%	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Jordan

Thanks to a higher diversification of production and trade than other MC, Jordan has shown a remarkable resilience to the internal (drought) and external (slow down of the international conjuncture, etc.) shocks that have intervened since 2001, as shown by the stability of the growth rate. Between 1997 and 2001, the average annual rate amounted to 3.6% and reached 4.8% in 2002.

As a result of a reform and development policy based on openness, such diversification allows for the production of upper-range commodities, to the benefit of a manufacturing industry that has registered great progress in 2002 (10.6%) after five years of good results.

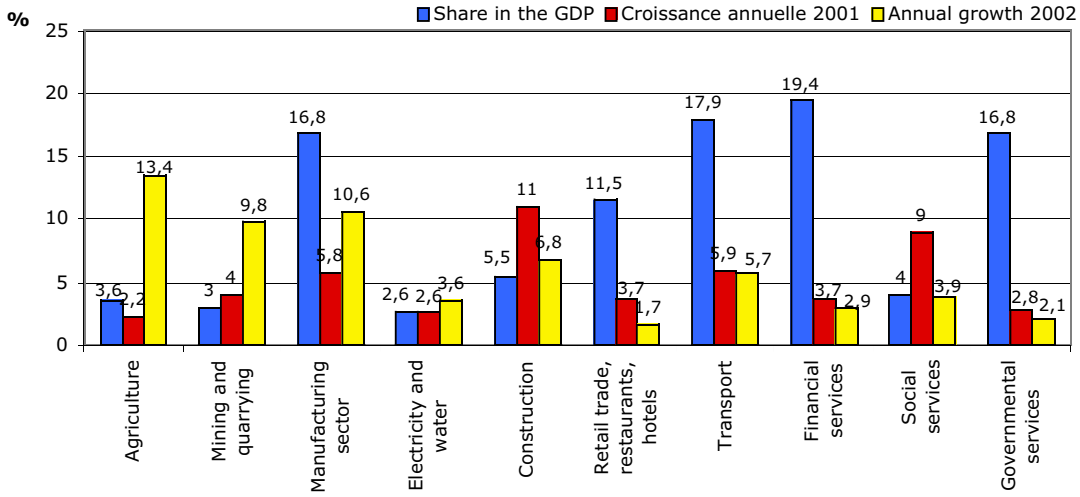
This movement must be sustained because, although the per capita GDP tends to increase (3 966 dollars per inhabitant in 2000 against 3 818 in 1998), the growth rate is still insufficient to absorb newcomers to the labour market. On the basis of the 1990-1999 period, there should, in fact, be an 8.3% annual GDP growth rate if the needed 5.8% per year job creation rate is to be reached (Keller and Nabli, 2002). Furthermore, over the 2000-2002 period, unemployment increased from 13.7% to 15.3%, particularly for the below 25 years old (from 26.6% to 31%).

Not only does this burden impede significant social improvement, but it also hampers competitivity.

Firstly, more than the illiteracy rate (estimated at 10% but not improving, with a stronger repercussion on women - 16% - than on men - 5%), it's workers' qualifications wich will suffer from the fact that only 64% of the children in primary school age are effectively enrolled (59% in secondary school).

Secondly, we must note that Jordan is the MC for which growth of the productivity factors is slowest, with a significant descending trend in the accumulation of factors (a decrease in pace of capital accumulation and an increase in labour). As mentioned above, overall, this is a coherent movement, given the difficulty of absorbing newcomers into the labour market, but it threatens the long term process, especially vis-à-vis the other developing regions.

Contribution of sectors to GDP



Data at the 1994 price in constant terms
Sources: Department of Statistics, Central Bank, Eurostat, Medstat Program.

However, recent developments appear to be favourable and show that the economy is on the right track:

(i) the dynamics observed in 2002 in construction, mining and agriculture might allow for the absorption of poorly qualified workers, who are numerous in Jordan.

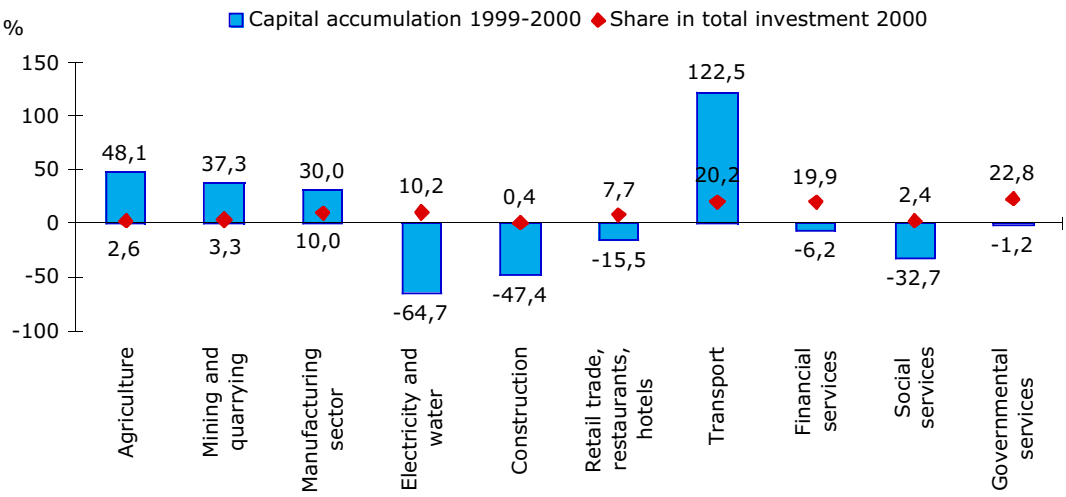
(ii) The sectorial analysis of investment tends to indicate a better allocation of capital. The sectors utilizing the most recent technologies allow for rapid productivity gains which have a growing share in total investment (financial and insurance services, transports, manufacturing and trade sectors, restaurants and hotels). Similarly, the structure of investment growth is favourable, since it appears to be moving away from low innovation sectors (construction) and to turn towards those concentrating on demand, exports (mining and extraction, manufacturing sector) and territorial expansion (transport) and which contribute to increase productivity.

The noteworthy points in terms of macroeconomic evolution are the following:

(i) on the external commodities market, Jordan remains one of the most extroverted countries in the region, despite a slump in the openness rate during the first part of the decade (from 87.5% to 66.6%): trade amounted to nearly 77% of internal production in 2001. It is distinguished from the other Mediterranean partners in many ways:

(a) a unique geographic orientation; weak relations with the European Union lasted throughout the decade, as the Union represented only 28% of Jordanian imports and less than 4% of its exports. Inversely, the intra-Mediterranean flows are more important than elsewhere and their share has almost doubled (7.6% to 13.1% of the exports). Similarly, exports to other parts of the Mediterranean are abundant, which could paradoxically pose a problem in 2003, given the political situation of the region (Iraq represented nearly 10% of the exports and 14% of the imports in 2001). Jordan is the spearhead of the policy underlying the creation of a free-trade-area between the Arab States and the United States. The road map published by the United

Sectorial investment



Data in constant terms according to the 1994 prices
Sources: Department of Statistics, Central Bank.

States contains astounding figures about the increase of Jordanian exports to the United States (soaring from 60 to 76% in 2002). But the reality appears completely different: the trade results were apparently not as high as the hopes and Jordanian imports might even have decreased a little. In fact, a merger was made with another project that aimed at establishing trade links between Israel and the neighbouring Arab countries in order to maintain peace in the area. This forecasted the entrance of Jordanian manufactured products in the American market without quotas or customs duties if they incorporated at least 8% of the Israeli value-added. The re-exporting activities (+48,3% in 2002) mainly profited the leather industry which is labour intensive but with a sluggish global market.

(b) An export structure that has become largely diversified, since the primary materials other than hydrocarbons (especially phosphates) decreased in general from 38% in 1990 to 18% in 2001, while the weight of manufactured articles increased from 5% to 20% since 1995. Relations with the Union saw similar developments: the raw materials ratio plummeted from 75% in 1995 to 33% in 2001, while the industrial products (posts 6 to 8 of the CTCI) rose from 9 to 39%. This movement, among others, allowed Jordan to reduce to a great extent the volatility of the terms of trade and the purchasing power of its exports.

(c) A structurally negative balance of trade where the contribution of the Union (for nearly half this deficit: -1.3 billion against a total deficit of nearly 3 billion dollars in 2001) is disproportionate, because of what the European marketplace represents for Jordan.

In 2002, however, the deficits of the balance of goods and of goods and services decreased repectively from 13.2% to 8%, thanks to a more rapid increase in exports (20%) than imports (+3%) and the maintenance of the surplus in services. Tourism revenues, after decreasing in 2000 (-9%) and 2001 (-3%), were readjusted in 2002 (+12%). This resiliance was generated by Arab (+17.4% in 2002) and African (+21%) tourism, which counterbalanced European (-25.3%) and Israeli (-12%) tourism.

The saving needs thus generated were covered by the increasing transfer of workers' remittances (+10.3% in 2001 and in 2002, +6.5%) as well as by public financing (+62% in 2001 and +10% in 2002). However, in 2001, portfolio investments diminished (-22%), and so did private financing (-34%). These trends were probably not modified before 2003.

Due to the war in Iraq, 2003 appeared to promise difficulties despite a good agricultural season. In January and February 2003, exports diminished by 13.6% and 15.2% respectively, in comparison with the results of the previous year. The imports had a similar evolution with the slowdown of business (-2.8% in January and -19.5% in February). However, March witnessed a new increase in exports (+29.7%) and imports (+44.7%) which might be a sign that confidence in the Jordanian economy was not endurably affected by the political climate.

However, the eventual balance of payment tensions will be largely reduced thanks to external aid. The United States proposed to cover the income shortage resulting from the loss of the Iraqi market, that the Jordanian government evaluated at 1.1 billion dollars. The 250 million in direct aid and 198 million of military aid granted in the past were added

to this. Other donors joined into this effort to support the current Jordanian balance. Japan offered 50 million in budget aid and an equal amount for the financing of development projects. The European Union proposed 35 million euros. The World Bank also intervened under the form of an aid programme to be implemented over three years (305 million in all) and the Club of Paris accepted to defer debts.

(ii) These figures give the impression that at the level of internal demand in 2001 and 2002, exports gave a stronger push to growth than implied by the figures of 1998-2000 (following figure). Private consumption is another powerful engine. Nevertheless, between 1998 and 2002, public consumption did not feed investment, which means that an adjustment is required.

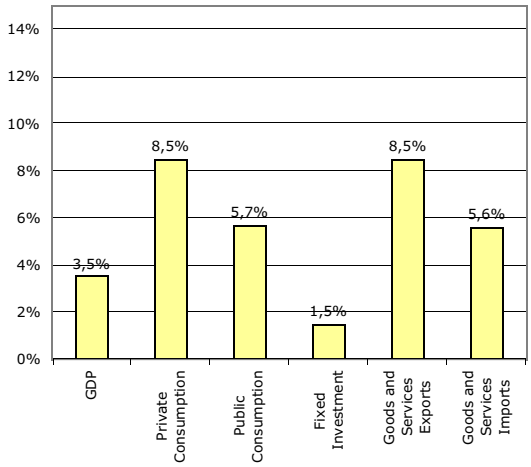
(iii) The effective real exchange rate rose from 118.5 in 1999 to 132.5 in April 2002, which hurt the competitiveness of Jordanian products. This is in great part due to developments in the dollar. However, anchoring to the dollar can be justified from the point of view of (a) the geographic distribution of trade taking into account, as we have seen, the ratio of exports to the Arab countries, most of which are anchored to the dollar, and of the United States; (b) the structure of the hard currency debt, which favoured the dollar at 32% in 2000 and the Yen at 24%. Jordan must therefore restore its competitiveness by betting on the productivity of factors and their costs.

(iv) A healthy monetary policy is characterised by a reduction of seigniorage and a moderate growth of the monetary mass. Inflation is controlled by the anchorage of the exchange rate, which endows Jordan with the credibility of the American central bank. In 2002, the relaunching of the economy took the shape of higher credits to boost the economy these, for the moment, have not led to an increase in prices. However, the risk has not been entirely eliminated.

The decision to contract a debt has two objectives: to respond to the need for currency in periods of uncertainty, especially political uncertainty, and not burdening the domestic economy. In this manner, the external debt grows like the total debt in relation to the GDP but the structure of the debt will be favorable (only 6% of short term debt in 2001) and the solvency is satisfactory. The service of the debt, in effect, only represents 14% of the exports and the ratio of reserves on the external debt is improving (42% in 2000 against 53% in 2002).

The assets market is expanding due to the absence of a quality banking intermediation. The regional political climate incites the banks to beware of passing the decrease in rates (which dropped from 3% to 2.75% at the beginning of 2003) onto the credit rates which have remained high, even for the most trustworty borrowers (10%). The segmentation of the financial actors equally plays a role in this sense, by

Breakdown of GDP, 1998-2000



Source: Central Bank.

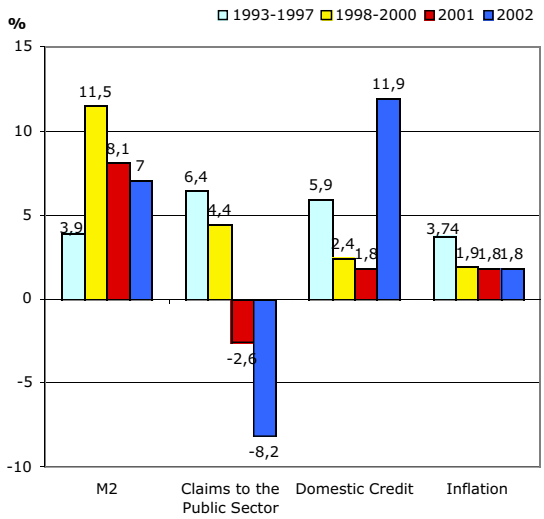
limiting their capacity to face up to unfavourable evolutions of the quality of their assets. The law of 2000, which suports mergers, did not bring any noteworthy changes in the situation. The present role of financial intermediation in the support of growth is therefore not satisfactory. The new guideline on the solvency of banks links personal property more closely to the risks incurred and it can only increase the difficulties of the small enterprises (its enforcement is foreseen for 2004). This would necessarily have a restrictive effect on the distributed loans. The alternative for the enterprises is to have recourse to the bond market which has been particularly active in 2002 (+40% compared with 2001). This form of financing is worth developing, since it only amounted to 141 million dollars in 2002 in comparison with the 7 billion dollars capitalisation in the stock-market of the market in Amman.

(v) The prudent budget policy limited the deficit to 3.9% of the GDP, but it suffers from the same limits as the other Mediterranean Partners, despite the fact that it is less exposed to the risks of the raw materials' prices: fragile resources and rigid spending.

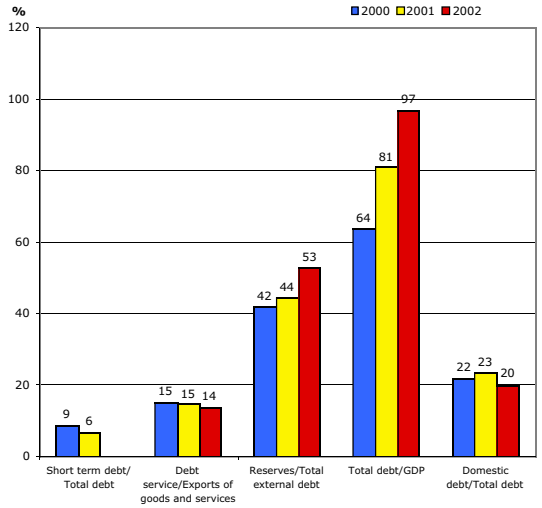
The tax revenues on international trade and commerce still amount to 11.6% of total revenues, but they were reduced by half in 8 years, which demonstrates Jordan's commitment to openness. Tax revenues are still insufficient (49.3% of total revenues in 2002). The VAT (25% of total revenues and 90.5% of direct taxes) allows for adjustments. Jordan has, in 2002, extended the VAT's application to some goods that were so far exempted (2% on bread, tea, sugar, etc). These measures did not prevent it from loosing 7.5% of its tax revenues and 10.9% of the non-fiscal expected revenues due to the slower rhythm of privatisation and the risks resulting from setting the VAT into place. On the other hand, the direct taxes remained low and hardly affected the expansion of the private sector and on consumption (20.5% of total revenues in 2002).

As regards expenditure, the commitments proved to be remarkably stable. Wages absorbs 49% and defense 24% of the total expenditure. The share of the latter is almost as large as for Israel. Despite its difficulties, Jordan has maintained the same level of health (9%), education (14%) and investment (19%) expenditure.

Monetary policy



Debt indicators



Sources: IMF, IFS April 2003, Eurostat, Medstat Program, Central Bank.

It remains to say that to evaluate the dependence of the Jordanian economy on international financing, its budget deficit must be calculated excluding donations. In 2002, it amounted to 8% of the GDP. The 2003 financial year, with its optimistic forecasts of economic growth (5%), exports (15%) and international aid (16%) runs the risk of ending up with a rather significant deficit. All the more so because the increase in expenditure will have to include the social and economic transformation plan launched by the King in 2001.

A confident Jordan vis-à-vis other developing countries

Jordan is a special case among the MC; it occupies a high rank on both objective and subjective criteria. In fact its performance, from the point of view of the macroeconomic criteria adopted here, is higher than that of all the new Member Countries of the Union.

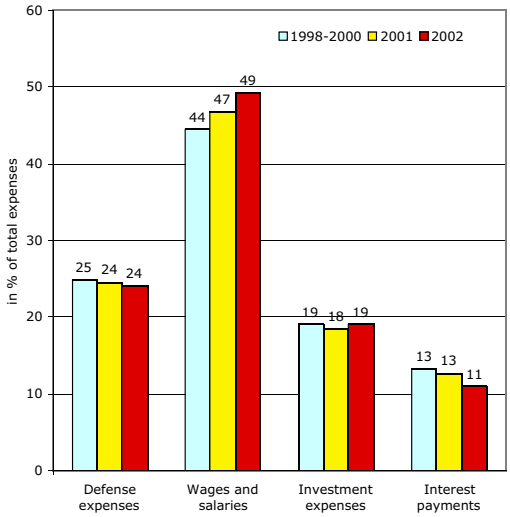
With regard the subjective criteria, the main tracks of reform include:

(i) implicit non-tariff protection resulting from customs procedures. While tariff protection is low for a developing country, customs procedures are lengthy and most of all arbitrary in some cases.
(ii) The financial markets, especially long term financing,
(iii) transparency, especially in the administration where procedures are frequently carried out in an opaque or arbitrary manner.

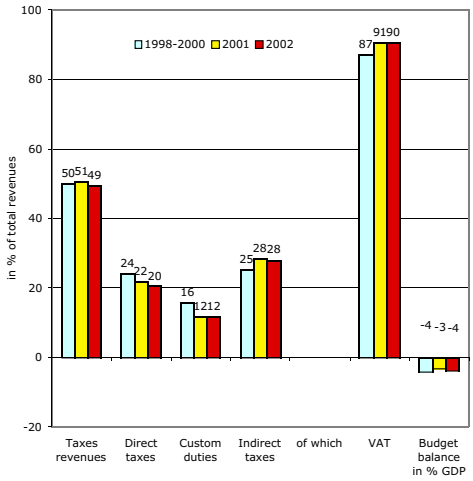
With regard the objective indicators, the great strength of the Jordanian economy, which are the FDI level vis-à-vis internal production, the control of inflation, of the current account balance and of the private sector's access to credit, are reduced by:

(i) a barely average general level of human development, especially with regard to economic conditions (although life expectancy is high, per capita GDP is low, even in comparison with the average MC level);
(ii) a modest commercial openness in comparison to population size, which makes the reform of customs procedures more urgent;
(iii) a still significant budget deficit;
(iv) a higher debt than other MC;
(v) an average level of telecommunications infrastructures and internet users that is inferior to that of countries in the process of adhering to the Union.

Expenses



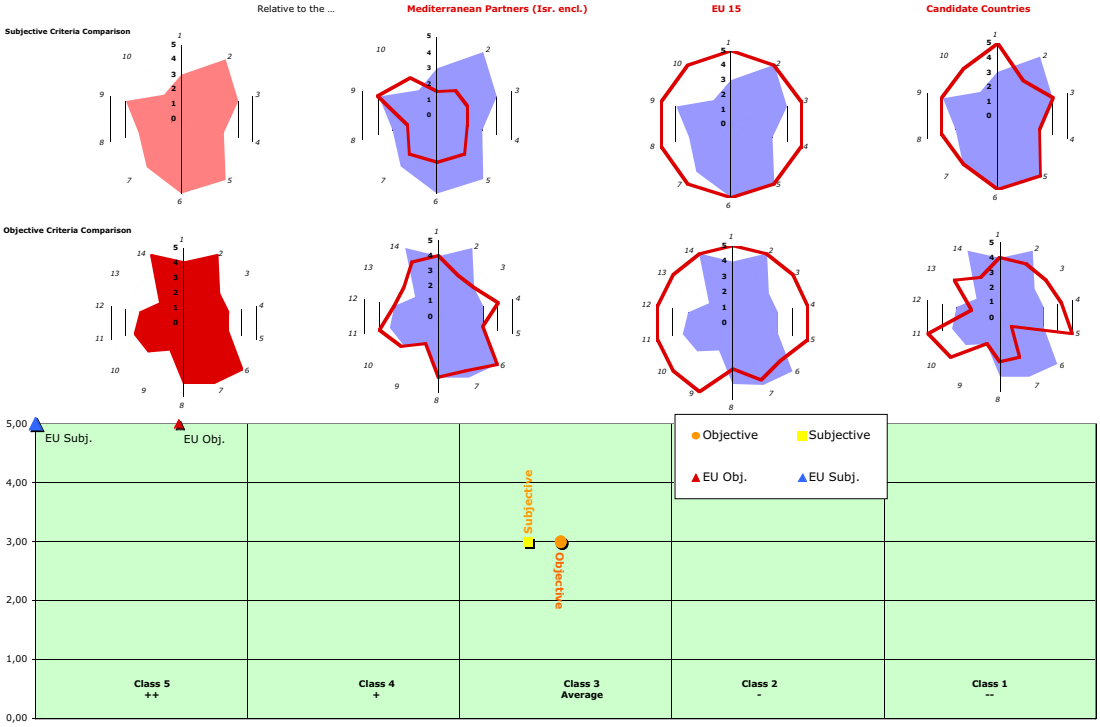
Revenues



Source: Ministry of Finance, IMF, GDF November 2002.

Jordan

2001 or more recent data	Subjective Indicators		Objective Indicators
	Tariff and non-tariff barriers	1	Life expectancy
	Free use of currencies	2	FDI (GDP percent)
	Property rights	3	Openness (per capita sum of exports and imports)
	Free trade in capital markets	4	Per capita GDP ($ PPP)
	Regulation of foreign investments	5	Human Development Indicator (UNDP HDI, 2000)
	Regulation	6	Inflation (CPI)
	Black market control	7	Current account balance as % of GDP
	Accountability & Transparency	8	GDP growth rate
	Corruption control	9	Budget deficit as % of GDP
	Moody's rating	10	Number of telephone lines (per inhab., 2000)
		11	Number of Internet users (per inhab., 2000)
		12	Debt Service (in % of Goods and Services Exports)
		13	External Debt (in % of GDP, 2000)
		14	Credit granted to private sector (in % of GDP)



JORDAN - Main Indicators of Trade Openness

	1990	1995	2001
Openness rate (X+M/GDP)	87,50%	66,60%	76,80%
Exports Orientation (%)			
To the EU	3,3%	6,3%	3,7%
To the MP	7,6%	10,4%	13,1%
To the Rest of World	89,1%	83,3%	83,2%
Imports Orientation (%)			
From the EU	22,8%	34,0%	28,2%
From the MP	5,4%	8,4%	8,4%
From the Rest of World	71,8%	57,6%	63,4%
Rate of Coverage X/M			
With the EU	0,05	0,07	0,05
With the Rest of World	0,44	0,58	0,51
Trade Balance in million of dollars			
With the EU	-562	-1 134	-1 304
With the Rest of World	-1 048	-881	-1 501
Export Concentration Indices			
With the EU	0,37	0,28	0,20
With the Rest of World	0,65	0,66	0,38
Terms of trade indices (1990=100) (*)			
Unit value indice of exports	100	117	107
Unit value indice of imports	100	99	105
Terms of trade indice	100	118	102
Purchasing power indices of exports	100	168	170
Intra-trade indices			
With the World	23,3	24,8	30,0
With the EU	4,1	5,8	21,5
With the Rest of World	22,8	20,1	28,0

(*) Source: UNCTAD

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Jordan: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS			IMPORTS			BALANCES			EXPORTS			IMPORTS		
	Products (*)	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001
World	0	90	142	191	609	598	740	-519	-456	-548	10%	10%	10%	23%	17%	15%
	1	7	7	32	15	14	47	-8	-7	-14	1%	1%	2%	1%	0%	1%
	2	354	370	353	65	130	150	289	240	203	38%	26%	18%	3%	4%	3%
	3				471	379	699	-471	-379	-698	0%	0%	0%	18%	11%	14%
	4	1	210	60	33	135	55	-32	74	5	0%	15%	3%	1%	4%	1%
	5	285	431	487	287	456	535	-2	-26	-48	31%	30%	26%	11%	13%	11%
	6	118	138	238	452	719	940	-334	-582	-702	13%	10%	12%	17%	20%	19%
	7	22	65	173	493	906	1 324	-472	-840	-1 151	2%	5%	9%	19%	25%	27%
	8	47	69	373	135	209	288	-88	-140	84	5%	5%	20%	5%	6%	6%
	9				43	52	94	-43	-52	-94	0%	0%	0%	2%	1%	2%
	Total	922	1 432	1 907	2 603	3 599	4 871	-1 681	-2 167	-2 964	100%	100%	100%	100%	100%	100%
Rest of the World	0	76	109	161	425	346	491	-350	-236	-330	9%	9%	10%	23%	17%	16%
	1	6	5	30	4	4	38	2	1	-8	1%	0%	2%	0%	0%	1%
	2	312	275	314	44	85	110	268	190	204	38%	23%	20%	2%	4%	4%
	3				469	367	673	-469	-367	-673	0%	0%	0%	25%	18%	22%
	4	1	208	58	18	122	49	-17	86	10	0%	17%	4%	1%	6%	2%
	5	256	390	412	163	220	298	93	170	114	31%	33%	26%	9%	11%	10%
	6	108	84	178	311	401	595	-203	-318	-417	13%	7%	11%	17%	19%	19%
	7	20	61	150	326	403	622	-305	-343	-472	2%	5%	9%	17%	19%	20%
	8	43	61	283	87	94	164	-44	-32	120	5%	5%	18%	5%	5%	5%
	9				24	32	49	-24	-32	-49	0%	0%	0%	1%	2%	2%
	Total	822	1 193	1 587	1 870	2 073	3 088	-1 048	-881	-1 501	100%	100%	100%	100%	100%	100%
EU	0	3	10	3	151	152	148	-149	-142	-145	8%	11%	4%	26%	12%	11%
	1		2		10	10	5	-10	-8	-5	0%	2%	0%	2%	1%	0%
	2	22	67	23	14	39	34	8	28	-11	73%	75%	33%	2%	3%	2%
	3				2	1	25	-2	-1	-25	0%	0%	0%	0%	0%	2%
	4				14	13	5	-14	-13	-5	0%	0%	0%	2%	1%	0%
	5	3	1	18	109	215	208	-106	-214	-190	10%	1%	26%	18%	18%	15%
	6	1	4	16	77	224	178	-76	-220	-161	4%	5%	23%	13%	18%	13%
	7			1	163	469	662	-163	-468	-661	0%	0%	2%	27%	38%	48%
	8	2	5	10	36	80	77	-35	-75	-68	5%	6%	14%	6%	7%	6%
	9				16	20	33	-16	-20	-33	0%	0%	0%	3%	2%	2%
	Total	30	90	70	592	1 223	1 374	-562	-1 134	-1 304	100%	100%	100%	100%	100%	100%
Med. Partners (**)	0	12	23	28	33	101	101	-21	-78	-73	17%	15%	11%	23%	33%	25%
	1	1	1	2		1	3	1		-1	2%	0%	1%	0%	0%	1%
	2	20	28	16	7	6	6	13	22	10	29%	19%	6%	5%	2%	2%
	3					11	1		-11	-1	0%	0%	0%	0%	4%	0%
	4		2	2	2		2	-2	2		0%	1%	1%	1%	0%	0%
	5	26	40	57	15	21	29	10	19	28	37%	27%	23%	11%	7%	7%
	6	8	50	44	64	94	168	-56	-44	-123	11%	33%	18%	46%	31%	41%
	7	1	4	22	5	34	40	-4	-29	-18	2%	3%	9%	4%	11%	10%
	8	2	2	80	12	35	48	-9	-33	32	3%	1%	32%	8%	12%	12%
	9				2		12	-2		-12	0%	0%	0%	2%	0%	3%
	Total	70	149	250	140	302	409	-71	-153	-159	100%	100%	100%	100%	100%	100%
AC10 (***)	0				15	3	6	-15	-3	-6	4%	1%	1%	42%	8%	18%
	1										0%	0%	4%	0%	0%	0%
	2			4	1			-1		4	0%	2%	67%	3%	1%	0%
	3			1							19%	3%	8%	0%	0%	0%
	4										0%	0%	0%	1%	0%	0%
	5		2	1	3	5	5	-3	-3	-4	5%	79%	16%	10%	14%	15%
	6				12	19	14	-12	-19	-14	19%	5%	0%	33%	53%	41%
	7				2	7	7	-2	-7	-7	0%	4%	1%	6%	20%	19%
	8	1			2	1	1	-1	-1	-1	52%	6%	2%	5%	4%	4%
	9						1				0%	0%	0%	0%	0%	2%
	Total	1	3	6	36	35	34	-35	-33	-27	100%	100%	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

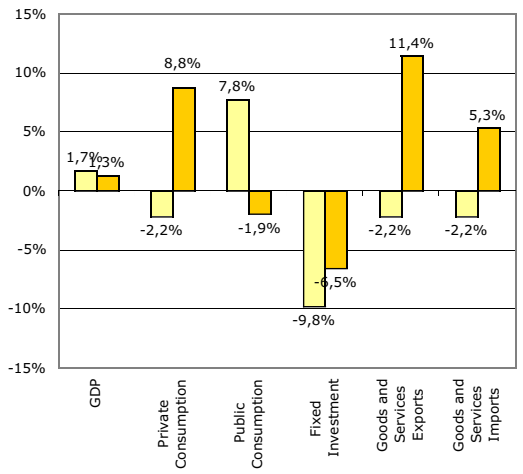
Lebanon

The situation in Lebanon is still very preoccupying. At the growth level, there is a clear improvement. Between 1998 and 2000, GDP increased by 0.5% per year only, but this rate rose to +1.3% in 2001 and the World Bank foresaw a 3.5% growth in 2002.

Agriculture is the sector that has witnessed the fastest growth in 2001 (+2.6%), but it only amounts to 12% of the value added. Industry, which amounts to 21.9% of GDP (10.3% of the GDP for the manufacturing sector alone) is readjusting and has now registered a 1.2% increase. Most of all, in 2002, it allowed for a very clear increase in the creation of jobs (+51.9%). The services sector (66.1% of the GDP) is growing more rapidly, +1.7% in 2001 against +0.6% in 2000. These developments suggest that the government's restructuring efforts are apparently reaping their fruits.

However, they are still insufficient to satisfy the need for jobs. Unemployment is still high and affects 10% of the active population, more particularly the youths (24% in 2000).

GDP Breakdown
(light shade: 1995-2000,
medium shade: 2000-2001)



Source: World Bank, 2002

Although Lebanon succeeded in arresting the drop in per capita GDP (-1.8% in 2000; 0% in 2001; World Bank 2001-2005 forecasts of +1,4% per year), poverty has increased just as much as population density in the cities (90% of the total population). In 2001, illiteracy still affected 14% of the population, alongside a strong gender discrimination (19.7% for women and 7.9% for men) that is now decreasing.

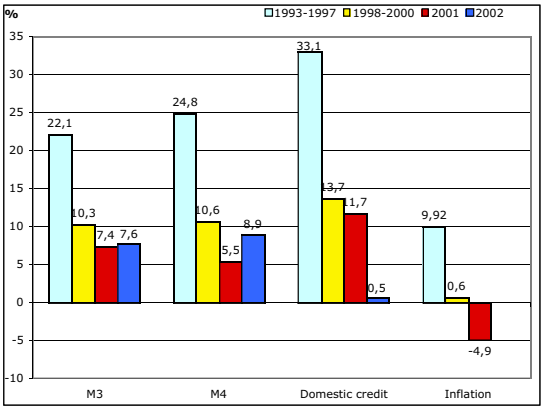
In the coming years, the stakes in Lebanon will consist in:

(i) adjusting its budget management and its debt to diminish the burden on the domestic economy,
(ii) revitalizing its openness (exports only amounted to 11.5% of the GDP in 2001 against 47.5% in Tunisia or 44.2% in Jordan),
(iii) restoring the country's ranking as an international financial market.

The present situation can be resumed as follows:

(i) On the commodities market, the nineties did not allow Lebanon to increase its openness in trade: the openness rate

Monetary policy 1/



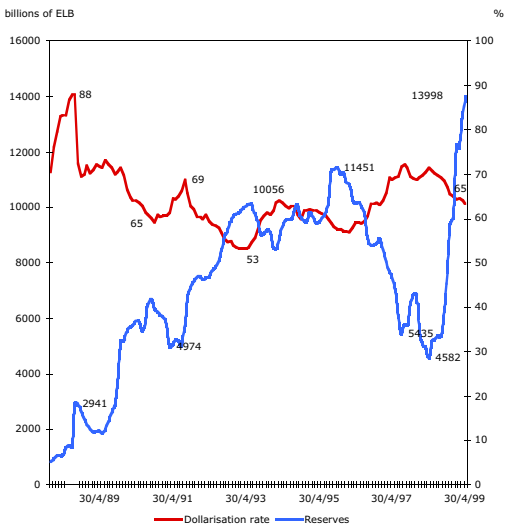
1/ Average annual growth rate.
Sources: Central bank, Eurostat, Medstat Program, International Monetary Fund, April 2003.

(imports+exports/GDP) decreased from 67% to 42%. In the meantime, despite the Partnership Agreements, relations with the Union seem to have relaxed: the Union only represented 19% of the Lebanese exports in 2001 versus 38% in 1990. The movement is lighter at the imports level, but it has followed the same trend, as the weight of the Union went down from 50% to 45% during the same period. Meanwhile, Lebanon developed its relations with the other MC that currently absorb 15% of its exports (versus 9% in 1990) and provide 8% of its imports (4% in 1990).

This significant modification in trade orientation did not lead to an improvement in the structural deficit of trade (nearly 5 billion dollars in 2001). On the contrary, the coverage rate significantly deteriorated with the Union.

The exports structure increased a little, but in an ambiguous manner. In fact, exports diminished during the decade, under the effect of a reduction of raw material exports, excluding hydrocarbon, (from 22% to 9% of the total), and of an increase under the "transport machines and materials" heading.

Dollarisation of the economy 2/



2/dollarisation rate, right scale; reserves, left scale.
Source: Central bank.

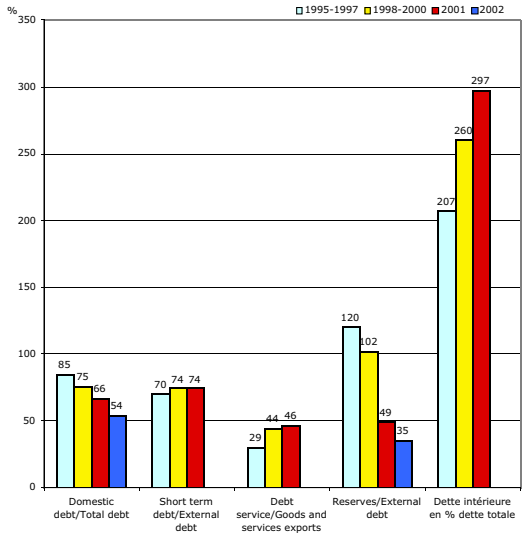
But at the same time, manufactured products evolved negatively (their share dropped from 20% to 18%) and, most of all, manufactured articles lost ten points (from 33% to 23%). Thus, the exports structure is specialising vis-à-vis world demand (Handoussa, Reiffers, 2002, p.47).

In 2002, exports increased by 17.5% while imports dropped by 11.6%, partly due to ther higher cost in dollars, which led to a 22% reduction of the balance of goods' deficit and reduced the pressures that saddled the national savings.

The problem is that the group of commodities whose imports diminished most is that of machines and tools (-15.4% in 2002 and -20.5% during the first quarterly of 2003), which will not fail to have a bearing upon capital accumulation.

Finally, if the current account deficit is covered and there is a balance of payment surplus, it is only due to the capital inflow resulting from the readjustment of the debt decided at the Paris II conference, only 15% of the inflows come under the usual movements[12].

Indebtedness



Sources: International Monetary Fund, GDF November 2002, Central Bank, Ministry of Finance.

(ii) At the level of internal demand, in 2001, private consumption kicked off again with an 8.8% increase against -2.9% in 2000. It was growth's main support in 2001 alongside exports and it took turns with public consumption which despite strong growth could not prevent a vertiginous plummeting of investment.

(iii) The effective nominal exchange rate dropped and lost 5.8% in 2002. This trend was sustained since January, especially because of the US dollar's depreciation and because of the political crisis in Iraq. The Lebanese position improved because Lebanon's exports to the Arab countries out of its total exports did not diminish and returned to their 49% rate in 2002. The setting into place of the Free-Trade-Area with the Arab countries might favour the development of closer trade links. On the other hand, if anchoring to the dollar is justifiable from the point of view of the composition of the debt (61% in dollars in 2000), this is less true from the point of view of trade, because the size of its imports with the European Union is still significant, despite the reduction.

(iv) The efficiency of the monetary policy is very low due, on the one hand, to the high dollarisation of the economy (68.6% in March 2003 in terms of deposits) and, on the other hand, to the anchorage to the dollar which dictates the interest rates, given the country risk.

Unlike Egypt, the high dollarisation is not the result of a lack of liquidity but rather of a distrust towards the government's solvency, given its financial situation. In order to resume growth, in the absence of inflationistic pressures (-5.9% in 2002 after -4.9% in 2001 and -2.2% in 2000), there has been a reduction of interest rates (16.76% in 2001 versus 14.74% in May 2003), but it is largely insufficient to reactivate growth. Furthermore, the persisting gap between the rates applied to local currency loans and dollar loans (9.62% for the dollars) weakened the authorities' control over the economy. Thus, the credit/deposits ratio in Lebanese liras amounts to 19% against 41.3% in dollars. The restructuring of the debt has allowed the investors to regain confidence, which led to an M4 growth, comprising the stocks issued by the treasury on the national debt and held by the non-banking sector, a growth faster than the M3 in 2002.

On the other hand, the government limited the recourse to funds sought on the domestic market (the internal debt went from 85% to 54% of the total debt) so as to minimise the eviction effect that plagued the private sector. This might have positive consequences on dollarisation, but might on the other hand increase vulnerability to external shocks, especially vis-à-vis the exchange rates of the currencies of the loans. Added to this, the exchange reserves now only cover 35% of the external debt and the servicing of the debt absorbs 45% of the revenues of transactions in commodities, services and incomes. Finally, the structure of the debt is not favourable to Lebanon since 74% of the debt is short-term. The Paris II conference indeed brought Lebanon a breath of fresh air, but the country will only be able to write off its debt if it lowers its interest rates to register an economic growth that is not necessarily compatible with its present anchorage policy.

(v) The budget policy is thus torn between two irreconcilable objectives, reducing the debt and reinforcing the conditions of sustainable growth. The VAT, which went into effect in 2002, might fulfill this goal. It already amounts to 18% of the total revenues. However, the possibilities of its increase,

which is required to raise the indispensable resources for an increase of public finances, will very rapidly run up against the poverty level. The direct taxes share is low and the still timid growth does not give any leeway for a rapid increase. Lebanon is the Mediterranean country whose budget depends most on its world trade revenues (30% in 2002), which is unsustainable given the above-mentioned need for openness, and on its commitments within the Partnership's framework.

As regards expenditure, the service of the debt, which still absorbed 85.6% of the budget resources in 2002 (somewhat lower than the 100.5% of 2001) forced the government to reduce all its functioning and investment expenses, since the revenues only covered 63.6% of the expenditure in 2002. In fact, according to a survey carried out by the Consultation and Research Institute, the social expenditure does not allow for a significant increase of the well-being of populations. The average monthly income of a Lebanese household is 550 American dollars which is below the minimum threshold of a decent standard of living assessed at 780 dollars. Furthermore, the households working in the private sector, in agriculture and as independent workers,are those who suffer most but they are the population bracket that benefits least from social expenditure.

LEBANON - Main Indicators of Trade Openness

	1990	2001
Openness rate (X+M/GDP)	67,30%	42,30%
Exports Orientation (%)		
To the EU	38,0%	19,3%
To the MP	9,2%	15,2%
To the Rest of World	52,8%	65,5%
Imports Orientation (%)		
From the EU	50,1%	45,4%
From the MP	4,0%	7,6%
From the Rest of World	45,9%	47,0%
Rate of Coverage X/M		
With the EU	0,13	0,06
With the Rest of World	0,20	0,20
Trade Balance in million of dollars		
With the EU	-709	-2 590
With the Rest of World	-599	-2 274
Export Concentration Indices		
With the EU	0,19	0,11
With the Rest of World	0,22	0,18
Terms of trade indices (1990=100) (*)		
Unit value indice of exports	100	110
Unit value indice of imports	100	102
Terms of trade indice	100	107
Purchasing power indices of exports	100	142
Intra-trade indices		
With the World	17,3	18,5
With the EU	9,9	9,3
With the Rest of World	18,9	21,4

(*) Source: UNCTAD
Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Lebanon: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS		IMPORTS		BALANCES		EXPORTS		IMPORTS	
	Products (*)	1990	2001	1 990	2001	1990	2001	1990	2001	1990	2001
World	0	28	101	295	980	-267	-879	10%	11%	18%	16%
	1	8	49	43	188	-36	-139	3%	6%	3%	3%
	2	62	83	34	211	28	-128	22%	9%	2%	3%
	3			38	81	-38	-81	0%	0%	2%	1%
	4	1	9	32	42	-30	-32	0%	1%	2%	1%
	5	16	100	175	723	-159	-624	6%	11%	11%	12%
	6	55	157	355	1 105	-300	-948	20%	18%	22%	18%
	7	13	124	331	1 721	-318	-1 597	5%	14%	20%	28%
	8	94	206	318	774	-224	-568	33%	23%	20%	13%
	9	4	59	9	253	-5	-194	1%	7%	1%	4%
	Total	282	888	1 629	6 078	-1 347	-5 190	100%	100%	100%	100%
Rest of the World	0	21	72	107	385	-86	-313	14%	12%	14%	13%
	1	6	30	19	140	-13	-110	4%	5%	3%	5%
	2	14	38	21	121	-6	-82	10%	7%	3%	4%
	3			13	29	-13	-29	0%	0%	2%	1%
	4	1	7	11	20	-10	-13	1%	1%	1%	1%
	5	5	51	54	233	-49	-182	3%	9%	7%	8%
	6	28	75	187	564	-159	-490	19%	13%	25%	20%
	7	3	90	205	739	-202	-648	2%	16%	27%	26%
	8	67	159	126	374	-59	-215	45%	27%	17%	13%
	9	2	59	5	252	-3	-193	2%	10%	1%	9%
	Total	149	582	748	2 856	-599	-2 274	100%	100%	100%	100%
EU	0	2	8	150	393	-148	-385	2%	5%	18%	14%
	1	2	16	24	45	-23	-29	2%	9%	3%	2%
	2	41	34	12	61	29	-27	38%	20%	1%	2%
	3			24	42	-24	-41	0%	0%	3%	2%
	4		1	17	17	-17	-16	0%	1%	2%	1%
	5	9	28	116	442	-106	-415	8%	16%	14%	16%
	6	20	39	159	442	-139	-403	18%	23%	19%	16%
	7	10	15	124	955	-114	-940	9%	9%	15%	35%
	8	22	31	188	364	-166	-334	21%	18%	23%	13%
	9	1		4	1	-2	-1	1%	0%	0%	0%
	Total	107	171	816	2 762	-709	-2 590	100%	100%	100%	100%
Med. Partners (**)	0	5	22	38	203	-33	-181	18%	16%	58%	44%
	1		2		3		-1	0%	2%	0%	1%
	2	7	11	1	30	6	-19	26%	8%	2%	6%
	3			1	11	-1	-11	0%	0%	2%	2%
	4		1	3	5	-3	-3	0%	1%	5%	1%
	5	2	21	6	48	-4	-27	8%	15%	9%	10%
	6	7	43	9	99	-2	-56	28%	32%	14%	21%
	7	1	19	2	27	-2	-8	3%	14%	4%	6%
	8	4	16	4	36		-20	16%	12%	6%	8%
	9							0%	0%	0%	0%
	Total	26	135	65	461	-39	-326	100%	100%	100%	100%
AC10 (***)	0		2	3	52	-2	-50	2%	7%	20%	46%
	1				8		-8	3%	0%	3%	7%
	2				1		-1	2%	0%	1%	1%
	3							0%	0%	0%	0%
	4			3		-3		0%	0%	19%	0%
	5		1	3	6	-3	-5	4%	3%	23%	5%
	6	3	5	1	27	2	-22	35%	15%	8%	24%
	7	1	2		9	1	-7	8%	7%	1%	8%
	8	4	22	3	10	1	12	46%	67%	25%	9%
	9							0%	0%	0%	0%
	Total	10	33	13	113	-4	-80	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Morocco

The situation in Morocco has been characterized by an insufficient and erratic GDP growth rate since the beginning of the nineties (3.5%), but which marked an increase in the recent past (6.5% in 2001, 3% in 2002, 4.5% foreseen in 2003). This growth rate is directly influenced by the droughts (the growth of the Moroccan GDP is greatly confused with the growth of agricultural production, although agriculture in the strict sense of the word only amounts to 14% of the GDP). During this relatively positive period, the Moroccan economy has lost 35 000 jobs in all, while creating 63 000 additional jobs for the active population. Those who retired have not been replaced yet, especially in the private sector on the one hand and, on the other hand, jobs have dropped from 51.3% in 2001 to 50.7% in 2002. This movement explains the modest improvement of the unemployment rate during the recent years (11.6% in 2002 vs 13.6% in 2000).

The creation of jobs takes place in the urban milieux where the global number of jobs increased, while in the rural milieu a decrease of total employment, a drop in the jobs offered to the working age population and therefore non-replacement of retirees were simultaneously witnessed. This evolution, which is at the same time the cause and consequence of the rural exodus, signifies that the active rural youths do not replace their fathers anymore and that the urban milieux will have to provide the necessary jobs in a context in which links with the rural world will still be very strong, which is manifested by the homothety of the previously evoked growth curves (the marketing of agricultural products, their processing, etc.).

The public sector has been a great supplier of jobs during the past years (+4.6% of the jobs created between 2001 and 2000), while employment in the private sector slightly decreased, particularly in industry (the sectors in which jobs increased are the construction and trade).

This context is therefore characterized by an unstable and on the average insufficient growth of the GDP, by recurring difficulties in the creation of the jobs required to absorb the growth of the active population, a growth concentrated in the urban milieux, and by pockets of endemic poverty: the illiteracy rate is the highest in the Mediterranean Partners (51%), with wide gender disparities (63,9% illiteracy rate for women), only 79.5% of the children are enrolled in primary schools, etc.. The evaluation must take into account the capacity of the Moroccan economy to develop an austere macro-economic management, a capacity to master external (decrease of tourism and transport revenues, slow European growth) and internal (droughts) shocks, the effectiveness of the reforms allowing for a more diversified and efficient openness in terms of productivity. It is on this condition that the Moroccan economy will be able to distribute the revenues that will place it in a higher endogenous growth.

At the end of the period, the macro-economic situation was characterized by:

(i) a negative balance of goods and services on the commodities' market (which in Morocco's case corresponds to a saving deficit) counterbalanced by the very significant remittances of emigrants in Europe (at least until 2002). On the other hand, as regards the internal demand, it is public consumption that played a role of adjustment when private consumption decreased, in order to maintain a significant volume of investment. It is made clear, in the following figure, that

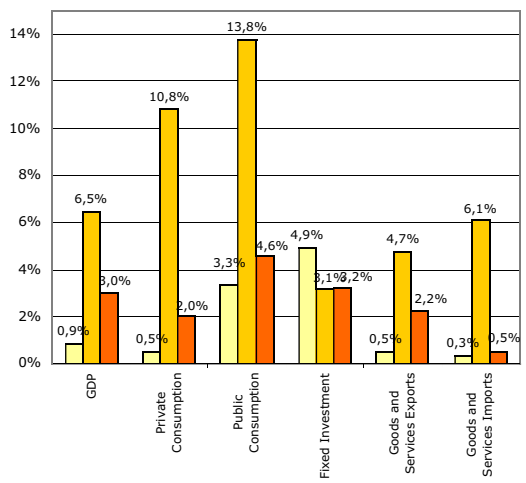
the growth of investment was maintained at the end of the period despite a considerable decrease of private consumption and a softer decrease of public consumption. On the other hand, the seriousness of the Moroccan macro-economic management was conveyed by a significant reduction of the import growth rate.

(ii) A real effective exchange rate (see next figure) which, after rising significantly in 1990 due to the anchorage of the dirham and to the inflation differential, began to decrease since 2001 in order to improve the competitivity of exports prices. The maintenance of an actual real exchange rate at parity level with the relative prices will become imperative in the forthcoming years, if Morocco wishes to safeguard its competitiveness. From this point of view, we noted that the real appreciation of the currency, that took place since the 90s (nearly 20%), almost represents Morocco's unit labour costs advantage vis-à-vis the other EU adhering countries. This shows that the constraint resulting from the anchorage system might have led to a tighter control over rising prices. Knowing whether there is need to pass on to a flexible regime as in Egypt is not important at the present time since the capital account convertibility is incomplete and seems risky today, given the lack of overall credibility of the Moroccan economic policy.

(iii) By a money market whose evolutions are tightly controlled and that has made it possible to limit the inflationistic tensions at the end of the period. The first point to underscore is that Morocco had little recourse to seigniorage (Cenral Bank advances) to finance the budget difficulties. In general, the budget is financed by loans, which had the effect of maintaining the rate at relatively high levels (between 7 and 12% for credits to the SME in 2002) and to preserve a very important hierarchical gap between the rates, since the Treasury continues to borrow at preferential rates.

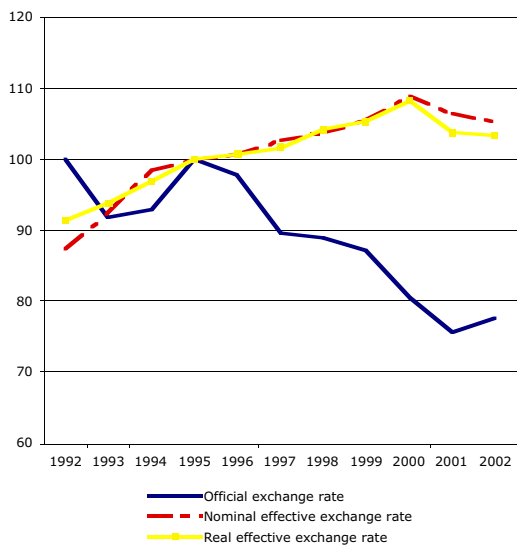
During the good years, however, the Treasury's loans in real terms were much lower than the real growth of the national income, which is the golden rule to diminish the debt. We noted that over the period, the short term debt of the Moroccan State signi-

GDP Breakdown
(light shade: 1995-2000, medium shade: 2000-2001, dark shade: 2001-2002)



Source: International Monetary Fund, IFS, April 2003.

Nominal and real effective exchange rate



Source: Central Bank.

ficantly increased without its posing solvency problems, because the reserves covered still 58% of the total debt in 2001, as the external debt amounted to 26% of the GDP in 2002 and the internal debt 48% of the GDP. It remains that, if this strategy of financing the State with the internal debt makes it possible to limit the risk of inflation and the crisis of the State's treasury, it also limits the capital's growth and accumulation capacities due, on the one hand, to the interest rates level, and on the other hand, to the eviction of the private sector. At any rate, this mechanism led to a growth of M2 (14% in 2001 and 6.4% in 2002) and an increase of prices that soared from 0.7% in 2001 to 2.8% in 2002. The 2003 forecasts gave 2.5%. Those evolutions are compatible with the macro-economic balance.

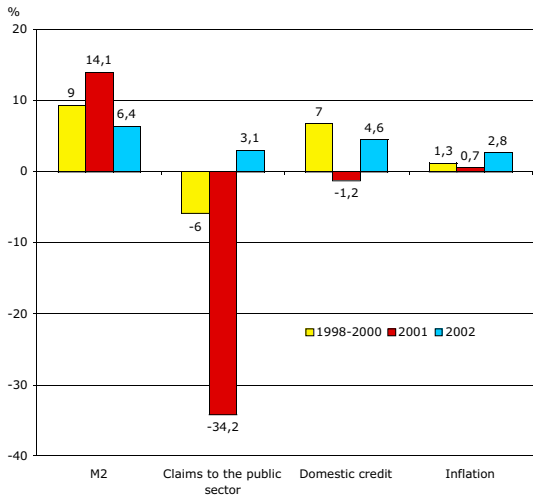
(iv) By a prudent budget policy that led to limiting the deficit to 3% of the GDP. However, the bases of the budget policy are still fragile inasmuch as the Moroccan State benefited indirectly during the last years from an exceptional increase of the emigrants' remittances from Europe (following the setting into place of the Euro). The increase of the coefficients of the mandatory reserves of the banks and the currency deposits are the vectors that allowed for these facilitations. A significant modification of spreads relative to the sovereign debt of Morocco allowed for much softer loans (February 2003: no more guarantee, spread at 250 base points, that is lower than for Turkey and Tunisia).

The medium-term consolidation of this macroeconomic situation now requires special attention with regard to two questions: (i) how to consolidate the state budget, taking into account the decrease of customs revenues, the dependence on agriculture and the future potential drying up of remittances of migrants?; (ii) how to maintain a sufficient competitiveness and to stabilise the external account in a context of customs dismanteling?

A budget that is difficult to control despite the improvement in growth.

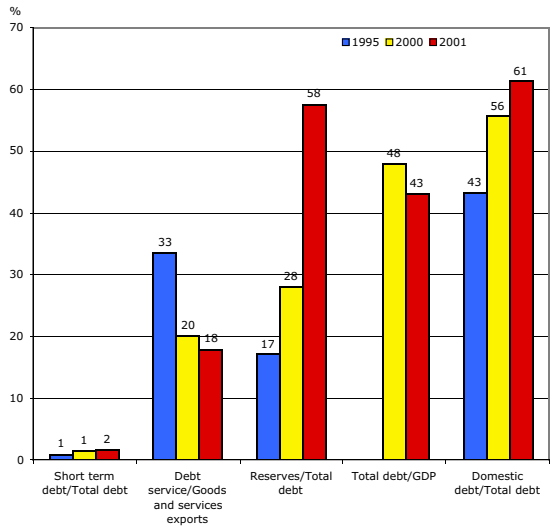
The state budget's expenses are for the most part burdened by the salaries of public officials (45% of current state expenses, see following figure). These amount today to 974.000 jobs in a total of 9.3 million.

Monetary policy



Sources: International Monetary Fund, April 2003, Eurostat, Medstat Program, Central Bank

Debt indicators



Sources: International Monetary Fund, GDF November 2002, IFS April 2003, Central Bank.

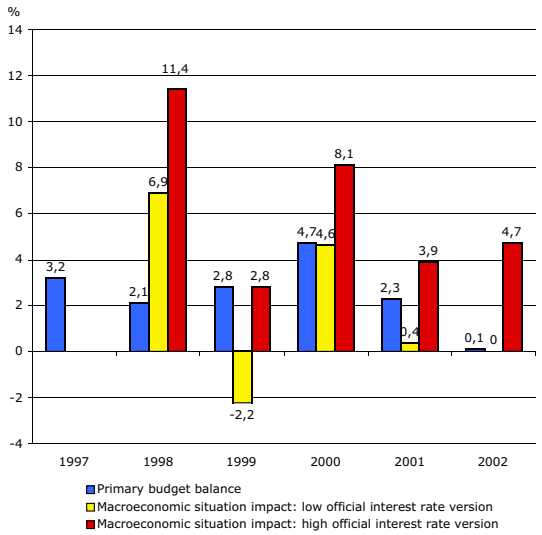
After a long period during which salaries were frozen, an adjustment was set into place during the last years (13% in 2001, 6.6% in 2002) following an increase of social tensions.

The second important item of expenditure is the debt interests, and the third item is investment expense. The points to highlight in the recent developments are, on the one hand, the stability of the cost of the debt (17% of expenses in 2001, and 16% in 2002) and, on the other hand, the high public investment rate (18%). The following questions will, however, arise in the future: (i) will the public investment rates be maintained in the face of shocks as they did in the previous years, and can the state therefore contribute to accumulating capital through its infrastructures, (ii) if public investment is maintained at this rate and holds good in more vulnerable situations, will it not lead to a withdrawal of private investment and will it not contribute to an exaggerated increase of interest rates?

From the point of view of the state's functions, we see that the three most important budgets that are the national education (28.6% in 2001), the national defense (17.6%) and the Ministry of Economy and Finance (16.5%) amount nearly to two thirds of the state's activities. Developments in the past years were to the benefit of education and somewhat to the detriment of the other two, which is essentially due to the fact that the rise in public salaries had repercussions (in fact, the expenses in equipment for education are relatively lower than for defense and economy/finance). We are therefore partly confronted to an optical illusion: the increase of education's share being essentially due to salary increases.

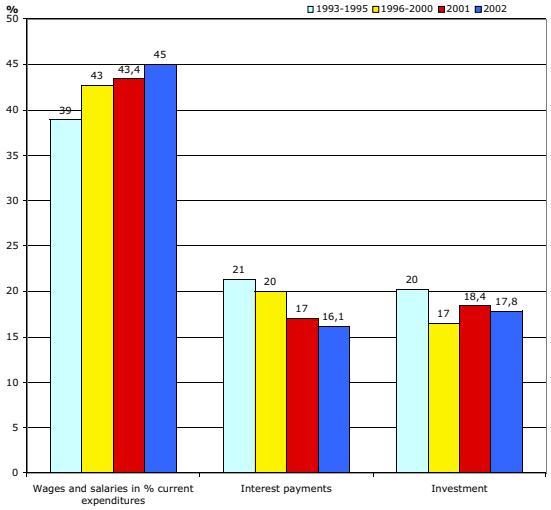
If expenditure seems to be relatively stable, revenues pose more difficult questions. The difficulty is due, in the first place, to the modification of the tax structure imposed by the EU Partnership Agreement. Even if most of the dismanteling of customs will take place in the coming five years, preliminary effects have appeared due to the cut down of customs duties on intermediary commodities and equipment goods. If we take the year 1993 as a reference, the customs revenues amounted to 23.5% of the total revenues of the State; in 2002, these revenues only

Diminishing the debt



Sources: International Monetary Fund, GDF November 2002, IFS April 2003, Central Bank.

Budget expenditure



Sources: International Monetary Fund, GDF November 2002, Ministry of Finance.

amount to 15.2% and this phenomenon will take ground. In addition there will be a negative VAT impact linked to the tariff disarmament on equipment goods and intermediary goods, the first categories that will register the tariff reductions.

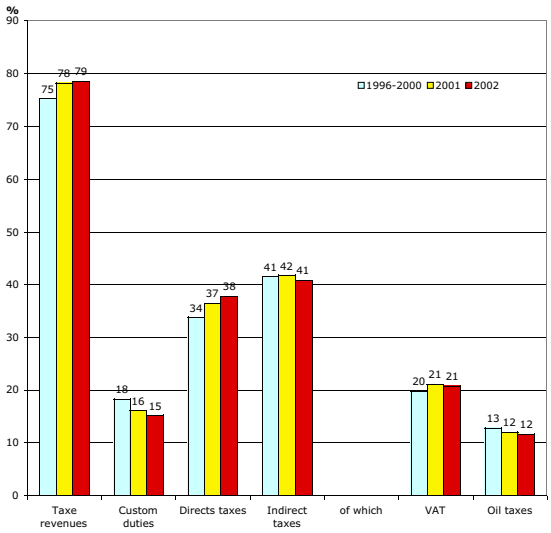
Finally, the tax revenues in Morocco are essentially provided by agricultural activities and investment, two items that were highly perturbed during the past years due to the droughts and to the slump in Europe. The indirect VAT is still an instrument that lacks flexibility and does not allow for a smoothing of the budgetary resources that are dominated by the economic cycle.

A still limited external openness but mindful of the Partnership

On analysing the main indicators of openness to trade, Morocco appears as one of the partners where the effect of the Partnership Agreement is most significant, from the qualitative and the quantitative point of view.

As regards the trade volume, the last decade is clearly divided into two periods, before and after 1995:

Budget revenues



Sources: International Monetary Fund, GDF November 2002, Ministry of Finance.

(i) from 1990 to 1995, the openness rate was slightly reduced from 41% to 40%; in 2001, it was 51%.

(ii) From 1990 to 1995, the weight of the Union in trade was significantly reduced, from the point of view of Moroccan exports towards the EU (from 67% to 62%) as well as that of the imports inflow from the Union (from 66% to 56%). In 2001, the negative imports evolution was arrested and especially the share of the Union in Moroccan exports increased by nearly 12% to settle down at 74%.

(iii) From 1990 to 1995, the coverage rate was increasingly reduced, from 87% to 61% in its relations with the Union. Due to this, the balance of trade deficit which amounted to 1 billion dollars in 1990, had almost quadrupled in 1995 (-3.7 billion). From 1995 to 2001, the deficit was stabilised (-3.6 billion), with a fundamentally different developments according to the partners. It increased by 44% with the world outside of the Union, but was reduced by half with the Union.

At the level of the trade structure, the case is identical. From 1990 to 1995 in fact, the agricultural sector increased, going from 27% to 31% for all the exports, while the manufactured commodities underwent a highly negative evolution (from 32% to 20%). This movement was equally observed only for the exports to the Union (from 25% to 29% for the agricultural products; from 37% to 29% for the manufactured ones). The trend was completely reversed since 1995: agricultural products went back to 21%, six points under their level at the beginning of the decade, while the manufactured commodities rose to 37%, five points above their level at the beginning of the decade. And this movement has been witnessed essentially vis-à-vis trade with the

Union. In fact, if with the other partners a reduction of agricultural products was also witnessed (from 32% in 1990 to 28% in 2001), its intensity is low and was not accompanied by an increase of industrial products: the share of the 6 to 8 items of the CTCI equally dropped from 32% in 1990 to 15% in 2001 (with the "rest of the World", the chemical products have replaced the agricultural products). But in the exports to the Union, the 6 to 8 items of the CTCI has greatly increased, reaching 77% in 2001 (48% of which for the sole manufactured commodities) against 47% in 1990.

In fact, as noted in the case of Jordan, this modification of the structure of exports allowed for an quasi continuous improvement of the terms of trade and the purchasing power of the exports since 1995.

A position vis-à-vis other developing countries that is a reflection of what remains to be achieved

As in the case of Algeria, the position of Morocco is middling, whether judged on the basis of subjective or objective criteria.

As shown in detail in the classification according to the subjective indicators, multiple efforts were deployed to liberalise the economy and to improve macro-economic management since the outset of the eighties. Thus, the legal framework of foreign investments is now believed to be at the level of the highest standards: there is no approval to obtain any longer, the national treatment is generalised and whenever a sector belongs to a public monopoly it concerns both foreigners and residents at the same time (except for the agricultural land that is inaccessible to the foreigners), foreign participation is not limited and it can reach 100%. The regulatory level is equally good. The black market is under control, its level is low for a developing country and relative to the MC average. Similarly, the level of corruption is not high.

However, the Moroccan economy cannot take advantage of these positive elements because it appears barely liberalised:

(i) its trade liberalisation appears timid, due to both the high level of tariff protection and the arbitrary customs procedures.
(ii) Financial liberalisation is limited. The banks cannot be owned by foreigners at 100%, and convertibility is limited to current account transactions. However, most of the controls and restrictions do not affect foreigners, (who are free to participate in the stock market), but rather Moroccans themselves.
(iii) The property rights framework seems suitable. However, as in the case of most of MC (and of developing countries generally), it is the enforcement of the legal texts that is inefficient. Foreigners are not allowed to own agricultural land and the counterfeiting in the textiles industry are equally referred to.
(iv) In a general manner, the efforts deployed by Morocco to reform its administration are real and serious. But a certain lack of efficiency and transparency in the procedures are sometimes visible.

With regard the objective indicators, the situation is similar: the criteria on which Morocco scores well (controlling inflation and the current balance, high GDP growth rate for some years, and access of the private sector to credit) are not a sufficient counterbalance to problematic areas:

(i) at the level of human development with a UNDP indicator that is significantly lower than other MC. Although life expectancy is equal to the average

developing countries, it is inferior to that registered in other MC. The per capita GDP level is equally lower and the very high illiteracy rate constitutes a handicap for medium term development;

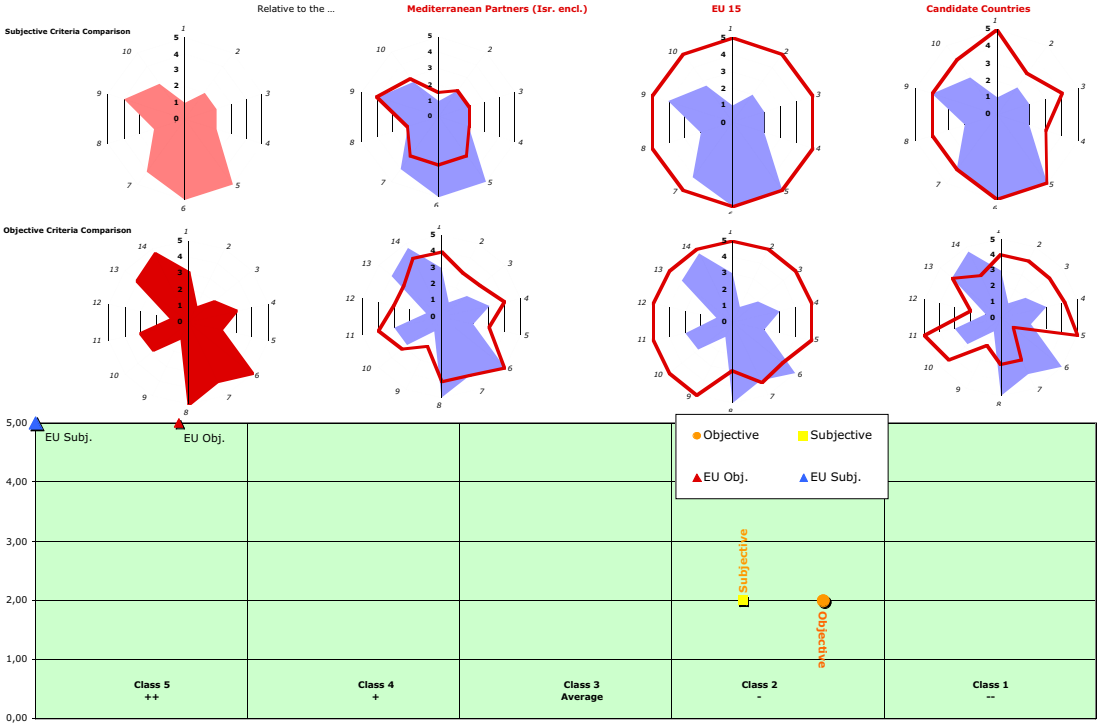
(ii) the low level of trade and consumption in comparison with population size, and of direct investment relatively to the internal production provides an objective impresion, in economic terms, of economic closure;

(iii) the budget deficit appears more significant than in the average MC;

(iv) although the ratio of the national debt level on production, appears more favourable, that of debt servicing relative to exports constitutes one of the most worrisome elements, because it also puts at stake the capacities of the country to remedy its weaknesses, while absorbing a large part of the margins for budget manoeuvre.

Morocco

2001 or more recent data	Subjective Indicators		Objective Indicators
	Tariff and non-tariff barriers	1	Life expectancy
	Free use of currencies	2	FDI (GDP percent)
	Property rights	3	Openness (per capita sum of exports and imports)
	Free trade in capital markets	4	Per capita GDP ($ PPP)
	Regulation of foreign investments	5	Human Development Indicator (UNDP HDI, 2000)
	Regulation	6	Inflation (CPI)
	Black market control	7	Current account balance as % of GDP
	Accountability & Transparency	8	GDP growth rate
	Corruption control	9	Budget deficit as % of GDP
	Moody's rating	10	Number of telephone lines (per inhab., 2000)
		11	Number of Internet users (per inhab., 2000)
		12	Debt Service (in % of Goods and Services Exports)
		13	External Debt (in % of GDP, 2000)
		14	Credit granted to private sector (in % of GDP)



MOROCCO - Main Indicators of Trade Openness

	1990	1995	2001
Openness rate (X+M/GDP)	41,10%	40,20%	51,40%
Exports Orientation (%)			
To the EU	67,6%	62,1%	73,7%
To the MP	3,0%	3,9%	2,2%
To the Rest of World	29,4%	34,1%	24,1%
Imports Orientation (%)			
From the EU	65,6%	56,1%	56,6%
From the MP	0,8%	3,7%	3,8%
From the Rest of World	33,6%	40,2%	39,6%
Rate of Coverage X/M			
With the EU	0,87	0,61	0,84
With the Rest of World	0,74	0,47	0,39
Trade Balance in million of dollars			
With the EU	-490	-1 861	-986
With the Rest of World	-503	-1 830	-2 648
Export concentration Indices			
With the EU	0,19	0,18	0,18
With the Rest of World	0,20	0,17	0,21
Terms of trade indices (1990=100) (*)			
Unit value indice of exports	100	107	94
Unit value indice of imports	100	101	79
Terms of trade indice	100	106	118
Purchasing power indices of exports	100	159	206
Intra-trade indices			
With the World	9,8	13,6	19,3
With the EU	10,8	16,4	20,0
With the Rest of World	5,6	7,6	15,4

(*) Source: UNCTAD

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Morocco: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS			IMPORTS			BALANCES			EXPORTS			IMPORTS		
	Products (*)	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001
World	0	1 304	1 444	1 479	361	1 304	1 295	943	140	185	27%	31%	21%	6%	15%	12%
	1	5	14	11	57	82	78	-51	-68	-67	0%	0%	0%	1%	1%	1%
	2	731	634	608	381	849	538	350	-215	70	15%	13%	9%	7%	10%	5%
	3	67	104	302	91	1 173	1 944	-24	-1 069	-1 643	1%	2%	4%	2%	14%	18%
	4	46	23	11	87	197	158	-41	-174	-147	1%	0%	0%	2%	2%	1%
	5	661	981	870	572	1 017	1 066	90	-36	-196	14%	21%	12%	10%	12%	10%
	6	265	425	422	1 574	1 562	2 478	-1 309	-1 137	-2 056	5%	9%	6%	27%	18%	22%
	7	237	153	773	2 234	1 987	2 698	-1 997	-1 835	-1 925	5%	3%	11%	39%	23%	24%
	8	1 568	939	2 655	378	368	777	1 190	571	1 879	32%	20%	37%	7%	4%	7%
	9	6	1	12	50		12	-44	1		0%	0%	0%	1%	0%	0%
	Total	4 891	4 719	7 143	5 785	8 540	11 042	-894	-3 822	-3 900	100%	100%	100%	100%	100%	100%
Rest of the World	0	461	551	489	204	745	797	257	-194	-308	32%	34%	28%	10%	22%	18%
	1	1	6	4	42	58	57	-41	-52	-53	0%	0%	0%	2%	2%	1%
	2	277	266	300	233	487	319	45	-221	-19	19%	17%	17%	12%	14%	7%
	3		26	134	28	911	1 549	-28	-885	-1 415	0%	2%	8%	1%	27%	35%
	4	1	7	4	48	41	120	-46	-34	-117	0%	0%	0%	2%	1%	3%
	5	236	503	519	147	259	314	89	245	205	16%	31%	30%	8%	8%	7%
	6	68	119	81	443	402	468	-375	-283	-387	5%	7%	5%	23%	12%	11%
	7	53	40	60	701	455	595	-648	-415	-535	4%	3%	3%	36%	13%	14%
	8	336	88	122	80	80	137	256	9	-15	23%	5%	7%	4%	2%	3%
	9	5	1	8	16		11	-11	1	-3	0%	0%	0%	1%	0%	0%
	Total	1 439	1 607	1 721	1 942	3 437	4 368	-503	-1 830	-2 648	100%	100%	100%	100%	100%	100%
EU	0	839	863	932	152	517	450	688	346	482	25%	29%	18%	4%	11%	7%
	1	5	8	7	15	19	19	-10	-11	-12	0%	0%	0%	0%	0%	0%
	2	440	324	297	143	329	205	296	-5	92	13%	11%	6%	4%	7%	3%
	3	67	69	155	63	163	215	4	-94	-60	2%	2%	3%	2%	3%	3%
	4	44	17	8	40	156	33	5	-140	-25	1%	1%	0%	1%	3%	1%
	5	335	428	313	413	737	711	-78	-309	-398	10%	15%	6%	11%	15%	11%
	6	167	272	312	1 110	1 074	1 929	-943	-802	-1 617	5%	9%	6%	29%	22%	31%
	7	178	103	710	1 528	1 515	2 065	-1 350	-1 412	-1 355	5%	4%	13%	40%	32%	33%
	8	1 229	846	2 530	297	280	627	932	566	1 903	37%	29%	48%	8%	6%	10%
	9	1		4	34		1	-33		3	0%	0%	0%	1%	0%	0%
	Total	3 305	2 929	5 267	3 794	4 790	6 254	-490	-1 861	-986	100%	100%	100%	100%	100%	100%
Med. Partners (**)	0	4	31	58	5	42	48	-1	-11	10	3%	17%	37%	11%	13%	11%
	1					5	2		-5	-2	0%	0%	0%	0%	2%	0%
	2	14	44	11	5	33	14	9	11	-3	10%	24%	7%	11%	11%	3%
	3		10	12		100	180		-90	-168	0%	5%	8%	0%	32%	43%
	4					1	4		-1	-4	0%	0%	0%	0%	0%	1%
	5	90	50	38	11	21	41	79	28	-3	61%	27%	25%	23%	7%	10%
	6	29	34	29	21	86	81	9	-52	-52	20%	19%	19%	43%	27%	19%
	7	6	9	3	5	17	38	1	-8	-35	4%	5%	2%	10%	5%	9%
	8	3	5	4	1	9	13	2	-3	-9	2%	3%	2%	2%	3%	3%
	9										0%	0%	0%	0%	0%	0%
	Total	147	183	155	48	314	420	99	-131	-266	100%	100%	100%	100%	100%	100%
AC10 (***)	0		17	15		44	15		-27		0%	14%	24%	5%	23%	15%
	1										0%	0%	0%	0%	0%	0%
	2		24	14		50	31		-26	-18	0%	19%	22%	0%	26%	32%
	3	32	81	30		2	1	32	78	29	99%	66%	49%	0%	1%	1%
	4										0%	0%	0%	0%	0%	0%
	5					4	5		-4	-5	0%	0%	0%	0%	2%	5%
	6			1		78	21		-78	-20	0%	0%	1%	4%	40%	21%
	7			1	1	14	23		-13	-21	0%	0%	2%	65%	7%	23%
	8					2	3		-2	-3	0%	0%	1%	26%	1%	3%
	9										0%	0%	0%	0%	0%	0%
	Total	32	122	62	1	194	98	32	-72	-37	100%	100%	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Syria

Syria is an economy dominated by natural resources: agriculture represents 22% of the GDP and the assessments concerning hydrocarbons vary from 14% to 20% of GDP. Growth is therefore largely determined by climatic hazards and developments in the prices of raw material. After a strong recession in 1999 when growth had plummeted to -3.6%, the Syrian economy grew in 2001 by +3.4%.

The unemployment rate has grown rapidly during the past years, going from 9.5% in 2000 to 11.4% in 2001 (Eurostat, Medstat program). The pressure exercised on the government for the creation of jobs is all the more powerful because the population will stabilize much later than other MC, at around 2060, and the share of those below 15 year olds, at 40.4% in 2001, will remain at about 30% in 2020.

Agricultural employment amounted to more than a quarter of the total jobs in 2001 (26.9%), and is very clearly decreasing in comparison with the 32% of 2000. The rural exodus is very strong and tensions are on the rise in the urban milieux.

The illiteracy rate is still high (26% in 2000), but it has significantly diminished during the last decade (it was at 35% in 1990). It is very high for women (illiteracy rate rose to 40% versus the 12% for men), but now ought to decrease thanks to a less discriminatory kind of schooling. Primary education is provided for 92% of the children who have reached primary school age, 88% for girls and 96% for boys. Although only 37% of the ages concerned are enrolled in secondary school, the girl/boy distribution is balanced.

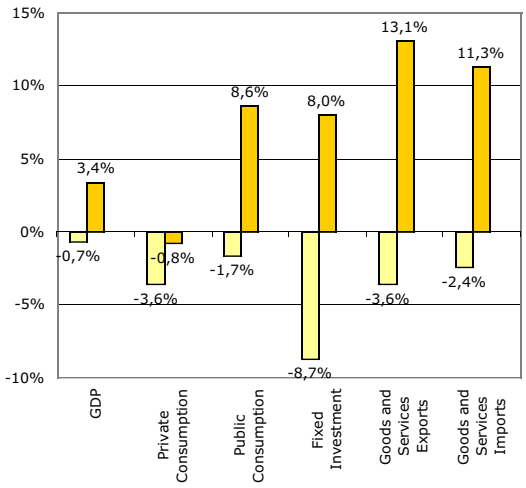
Syria is in a situation similar to that of Algeria. It is facing the depletion of its oil resources and chaotic growth insufficient to answer the need for present and future jobs. However inter-temporal management of national wealth is posing an acute propblem, inasmuch as the country lives on the exploitation of its natural resources - the authorities have in fact developed a programme to exploit gas deposits - and has not really engaged in reforms promoting the market economy.

The actual macro-economic situation is characterized as follows:

(i) on the commodities market, the low rate of internal demand and investment has been counterbalanced by a strong increase of public expenditure in 2001 (following figure). The nefarious consequences of low private consumption on growth have thus been reduced. But this situation cannot last and the only solution is a high rate of trade openness.

The past decade has not helped this very fragile situation to improve. Syria again offers a great similarity with Algeria with regard to the liberalisation of trade. As with the latter, trade is essentially an oil products affair,

GDP breakdown
(light shade: 1998-2000, medium shade: 2000-2001)



Source: Eurostat, Medstat Program.

which leads to a comparable situation in some respects:

- √ the Syrian economy is one of the least open in the world and the negative development in openness testifies to this: the already very low ratio has been further reduced throughout the decade, going from 15.7% to 11.5%;
- √ a rising concentration of oil products between 1995 and 2001 (from 70% to 78% of the total exports);
- √ a growth of the Union's share in exports from 1990 to 1995, but this has stagnated since;
- √ a large surplus of the trade balance ... when the oil prices are high;
- √ a great volatility in the terms of trade and export purchasing power.

However, some dynamic aspects might be conceived more positively:

- √ a modification of the export structure with the non-European Partners can be observed in the development of exports in other sectors. Thus, with the "rest of the world" Syrian hydrocarbon exports "only amounted" to 47% of the total in 2001 versus 89% in 1990. Exports in agricultural products (23%) and manufactured commodities (15%) were developed to reach a more serious weight.
- √ We still need to understand if the high relative growth of these items is not entirely determined by the reduction of exports outside the Union (from 43% in 1990 to 18% in 2001), which is itself largely linked to a slump of oil products exports outside the Union (-78% between 1990 and 1995; and despite a recovery in 2001, the level achieved is still lower by 39% over the whole decade). This does not seem to be totally the case, inasmusch as the intrabranch trade indicators, albeit low, evolved in a positive manner between 1990 and 2001. Similar to those of Algeria at the beginning of the period, they were three times higher in 2001.

(ii) The actual effective exchange rate was appreciated throughout the 1990 decade, which eroded the competitiveness of Syrian products (79 in 1993 against 111.1 in April 2002). In fact, one of the pillars of the private sector development policy in Syria is the increase of trade: signature of a Free-Trade-Agreement with the European Union, short-term entry in the WTO, active participation in the creation of the Arab Free-Trade-Area, but also a customs reform are the elements that consitute this policy. The Syria Lira-US dollar exchange rate has been unified in 2000 for exports and imports. Import interdictions have been abolished and will be replaced by customs tariffs partly to respond to the demands of an agreement with Europe, but there is still a great deal to do because the procedures are still opaque.

(iii) Monetary policy is based on a very significant relaunching of both the public and the private sector. However, the private sector is so narrow that it is not possible to respond to a strongly expanding demand. Private consumption is beginning to gain ground and if public consumption is not reduced to its benefit, the nascent inflationistic tendencies might increase a great deal.

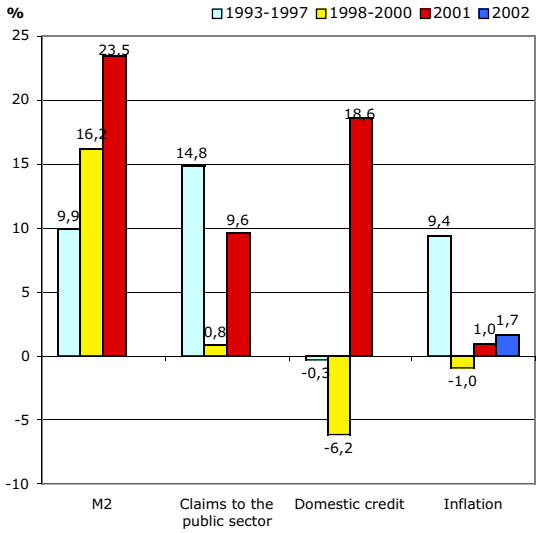
Furthermore, Syria has undertaken a reform of its monetary policy. It has reactivated the Monetary and Credit Council that will guide the reform of the banking system. It is assigned the task of choosing the private foreign banks that have been granted licences to

exercise on the local market[13]. This measure is very encouraging in many respects:

(a) it increases the depth of the very specialized market beforehand, and could encourage the emergence of a non-agricultural competitive private sector by efficiently using the funds generated by FDI policy and encouraging the repatriation of domestic funds deposited abroad. The increased competition will improve the allocation of resources and promote a chain of behaviour on the part of the domestic banks that have privileged the public sector so far. However, restructuring the banking system might lead to significant and nefarious consequences on the economy given the liabilities of the local banks, especially loans to the public sector. But the net effect is hard to evaluate.

(b) It reveales a broad vision of banking integration, even at the regional level, that would prolong the setting into place of a Free-Trade-Area between each of the MC and the European Union (the European Union-Syria Agreement might see the day before the end of 2003). This might favour a better South-South integration.

Monetary policy and inflation



Sources: Eurostat, Medstat Program, International Monetary Fund, IFS April 2003.

(c) The activation of this council is in fact a strong signal to national and foreign investors about the priorities in the authorities' objectives and make it possible to take advantage of Syria's admission to the Multilateral Investments Guarantee Agency (Agence de garantie des investissements multilatéraux) and the revision of the exchange policy. Syria does not benefit from any public fund or portfolio investments[14]. To finance the restructuring of its economy, the country can only depend on FDI, although it is an MC that scarcely receives such investments. Since 1999-2000, prospects of this new policy have increased investment by 150% although the legislative context is not encouraging.

(d) The reactivation of the Council is also a strong signal of the government's will to reduce its influence on the economy. However, the composition of the Council[15] impedes any independence of the Central Bank and the monetary policy. This means that the risk of a return to interventionist policies is still there and unfortunately limits the impact of the initial positive signals.

(iv) The effects of the budget policy are rendered fragile by the volatility of resources (51.3% of the 2003 budget's revenues should be provided by taxes on oil) and the rigidity of expenditure. The 2003 budget has increased by 18% in comparison with the 2002 one, which was 10% higher than the budget of 2001. The optimistic growth forecasts and the oil revenues calculated on the basis of 24 dollars per barrel inspire the concern that there might be balancing difficulties, but the 2003 agricultural season should be good, which will reinforce tax revenues.

Expenditure is constrained by the government's will to limit the effects of restructuring on the population. 14% of such expenditure is allocated to salaries and the burden of this item should increase since the authorities foresee a doubling of public salaries. The restructuring effort is particularly visible in the development of the very high investment expenses (51% of the total budget) and the subsequent foreseen development, 15% for 2003 after the 14% of 2002. However effect on growth will be reduced if not accompanied by a higher quality of labour.

A tax reform is therefore necessary and must rely more heavily on: (i) the income tax, which only amounts to 19% of the expected revenues for 2003 against 25% for taxes on firms, while limiting the permanent exemptions that were granted, (ii) a generalised VAT while limiting subsidized products, (iii) replacing customs revenues, since the policy of growth dynamisation is founded on a gradual dismantling of customs.

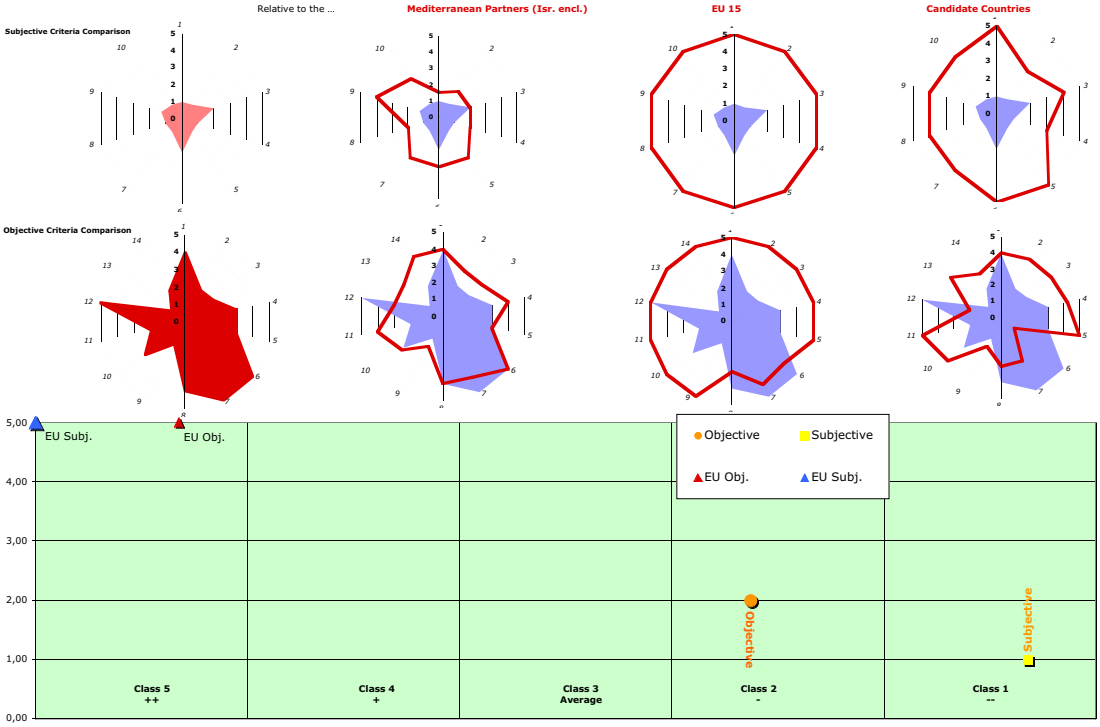
A worrisome status whatever the criteria

As with most MC, Syria's position according to the subjective criteria is greatly inferior to its position according to the objective criteria. However, this observation is laughable. Because if Syria appears one of the least hospitable economies in the world, given the position it occupies, its classification according to the objective criteria, shows that it belongs to the lowest performing third.

Altough the current account balance is under control, thanks in most part to the high price of hydrocarbons (which also make it possible to keep the service of the debt at an acceptable level vis-à-vis exports despite a dramatic stock of external debt), and although inflation is well contained and, if over the years GDP growth has reached a reasonable level, all the other indicators are at very low levels. This leaves one with the impression of an economy on the razor's edge, whose balance is precarious and at the mercy of any upheaval in the hydrocarbons market. Taking into account the youthfulness of the population (40% of Syrians are below 15 years of age), Syria must create an additional number of jobs, almost equal to the present number by 2020, as the social balance depends on this.

Syria

2001 or more recent data	Subjective Indicators		Objective Indicators
	Tariff and non-tariff barriers	1	Life expectancy
	Free use of currencies	2	FDI (GDP percent)
	Property rights	3	Openness (per capita sum of exports and imports)
	Free trade in capital markets	4	Per capita GDP ($ PPP)
	Regulation of foreign investments	5	Human Development Indicator (UNDP HDI, 2000)
	Regulation	6	Inflation (CPI)
	Black market control	7	Current account balance as % of GDP
	Accountability & Transparency	8	GDP growth rate
	Corruption control	9	Budget deficit as % of GDP
	Moody's rating	10	Number of telephone lines (per inhab., 2000)
		11	Number of Internet users (per inhab., 2000)
		12	Debt Service (in % of Goods and Services Exports)
		13	External Debt (in % of GDP, 2000)
		14	Credit granted to private sector (in % of GDP)



SYRIA - Main Indicators of Trade Openness

	1990	1995	2001
Openness rate (X+M/GDP)	15,70%	13,70%	11,50%
Exports Orientation (%)			
To the EU	49,6%	69,5%	68,3%
To the MP	7,2%	14,4%	13,9%
To the Rest of World	43,3%	16,2%	17,8%
Imports Orientation (%)			
From the EU	42,8%	44,9%	42,6%
From the MP	12,5%	10,7%	10,5%
From the Rest of World	44,7%	44,4%	47,0%
Rate of Coverage X/M			
With the EU	1,2	1,3	2,0
With the Rest of World	1,0	0,3	0,5
Trade Balance in million of dollars			
With the EU	154	512	1 867
With the Rest of World		-1 202	-1 014
Export concentration indices			
With the EU	0,73	0,63	0,71
With the Rest of World	0,67	0,78	0,84
Terms of trade indices (1990=100) (*)			
Unit value indice of exports	100	90	136
Unit value indice of imports	100	118	105
Terms of trade indice	100	76	130
Purchasing power indices of exports	100	72	113
Intra-trade indices			
With the World	2,0	8,0	6,6
With the EU	3,0	4,9	9,4
With the Rest of World	1,6	14,5	10,9

(*) Source: UNCTAD

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Syria: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS			IMPORTS			BALANCES			EXPORTS			IMPORTS		
	Products (*)	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001
World	0	23	338	346	487	614	621	-464	-276	-275	1%	10%	6%	26%	16%	15%
	1	1	7	5	2	28	34	-1	-20	-29	0%	0%	0%	0%	1%	1%
	2	167	374	248	44	89	129	123	285	119	9%	11%	5%	2%	2%	3%
	3	1 635	2 269	4 142	28	50	116	1 607	2 220	4 026	86%	70%	78%	2%	1%	3%
	4		6	5	23	60	39	-23	-54	-35	0%	0%	0%	1%	2%	1%
	5	2	12	37	241	429	563	-239	-417	-526	0%	0%	1%	13%	11%	13%
	6	48	49	240	455	1 060	964	-407	-1 011	-725	2%	1%	4%	25%	27%	23%
	7	5	36	35	472	1 367	1 465	-468	-1 331	-1 430	0%	1%	1%	26%	35%	35%
	8	23	157	274	73	150	186	-50	7	89	1%	5%	5%	4%	4%	4%
	9	3	2	9	23	41	62	-20	-39	-54	0%	0%	0%	1%	1%	1%
	Total	1 906	3 250	5 340	1 848	3 889	4 180	58	-639	1 160	100%	100%	100%	100%	100%	100%
Rest of the World	0	15	210	217	156	304	324	-141	-94	-107	2%	40%	23%	19%	18%	16%
	1	1	3			22	20		-19	-20	0%	1%	0%	0%	1%	1%
	2	38	65	53	34	63	96	5	3	-43	5%	12%	6%	4%	4%	5%
	3	734	163	450		1	-6	734	162	455	89%	31%	47%	0%	0%	0%
	4		1	3	17	27	23	-17	-26	-20	0%	0%	0%	2%	2%	1%
	5	1	11	16	72	140	224	-71	-130	-208	0%	2%	2%	9%	8%	11%
	6	22	26	52	206	549	513	-183	-522	-461	3%	5%	6%	25%	32%	26%
	7	1	5	13	295	550	687	-295	-544	-675	0%	1%	1%	36%	32%	35%
	8	11	39	140	37	65	78	-26	-27	63	1%	7%	15%	4%	4%	4%
	9	2	1	6	8	5	5	-6	-4	1	0%	0%	1%	1%	0%	0%
	Total	825	525	950	825	1 727	1 964		-1 202	-1 014	100%	100%	100%	100%	100%	100%
EU	0	2	27	18	275	230	178	-273	-203	-160	0%	1%	0%	35%	13%	10%
	1				2	5	14	-2	-5	-14	0%	0%	0%	0%	0%	1%
	2	103	222	103	9	21	26	95	201	77	11%	10%	3%	1%	1%	1%
	3	809	1 863	3 272	27	43	84	782	1 820	3 187	86%	83%	90%	3%	2%	5%
	4		5		4	9	4	-4	-4	-4	0%	0%	0%	1%	1%	0%
	5			3	107	225	305	-107	-224	-302	0%	0%	0%	14%	13%	17%
	6	18	16	127	144	301	296	-126	-285	-169	2%	1%	3%	18%	17%	17%
	7	3	28	10	172	793	714	-169	-765	-704	0%	1%	0%	22%	45%	40%
	8	8	96	111	35	83	101	-27	13	10	1%	4%	3%	4%	5%	6%
	9	1	1	2	14	36	57	-14	-35	-55	0%	0%	0%	2%	2%	3%
	Total	945	2 257	3 646	791	1 746	1 779	154	512	1 867	100%	100%	100%	100%	100%	100%
Med. Partners (**)	0	6	100	111	55	80	119	-49	20	-8	4%	22%	15%	24%	19%	27%
	1		4	5					4	5	0%	1%	1%	0%	0%	0%
	2	25	86	93	2	5	7	23	81	86	19%	18%	12%	1%	1%	2%
	3	91	244	421		6	38	91	238	383	67%	52%	57%	0%	1%	9%
	4			1	2	24	12	-2	-24	-11	0%	0%	0%	1%	6%	3%
	5		1	18	62	64	34	-62	-63	-16	0%	0%	2%	27%	15%	8%
	6	7	6	60	105	210	155	-97	-204	-95	5%	1%	8%	45%	50%	36%
	7	1	3	12	5	25	64	-4	-22	-52	1%	1%	2%	2%	6%	15%
	8	5	23	23	1	2	7	4	21	16	3%	5%	3%	0%	0%	2%
	9						1			-1	0%	0%	0%	0%	0%	0%
	Total	136	467	744	232	416	437	-95	51	307	100%	100%	100%	100%	100%	100%
AC10 (***)	0		2			3	9		-1	-9	7%	4%	0%	7%	3%	10%
	1										4%	0%	0%	2%	0%	0%
	2		3	3		1			2	3	1%	4%	2%	3%	1%	0%
	3		51	158			1		51	157	0%	85%	94%	0%	0%	1%
	4					5	1		-5	-1	0%	0%	0%	2%	4%	1%
	5					12	13		-12	-13	4%	0%	0%	7%	10%	13%
	6	3	1	3		41	27	3	-40	-23	73%	1%	2%	4%	35%	28%
	7			1		47	40		-47	-39	1%	0%	0%	6%	40%	41%
	8		3	2	1	7	5	-1	-4	-2	11%	5%	1%	69%	6%	5%
	9			1		2	1		-2		0%	0%	0%	0%	1%	1%
	Total	4	60	169	2	118	97	1	-57	72	100%	100%	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Tunisia

Tunisia's growth is amongst the most stable in the area and is regularly placed in the 5% to 6% range. However, since Tunisa is one of the most open MC (especially with regard the Union) and since it has developed a strong tourism industry, the shocks of 2001 that extended into 2002 (slowdown of the global economy, decrease in tourism revenues, increase of the oil bill, agriculture) cruelly checked this momentum, which only reached 1.7% in 2002.

Nevertheless, modifications in the productive structure during the past decade allowed Tunisia to araise its capacity sufficiently to protect itself against external and internal shocks. We have observed that between 1991 and 2001:

(i) agriculture, with its highly volatile and torpid performance (average annual growth 2.1% between 1991 and 2001), saw its contribution to the economy decrease by 30.5% during the last decade;

(ii) industry in the broad sense of the word has maintained its share in GDP at 28.8% but we must point out that the manufacturing sector developed from 16.9% to 18.5% of the GDP), which emphasizes an up-market trend in Tunisian products; trade services also underwent a large expansion and reached 59.9% of production in 2001;

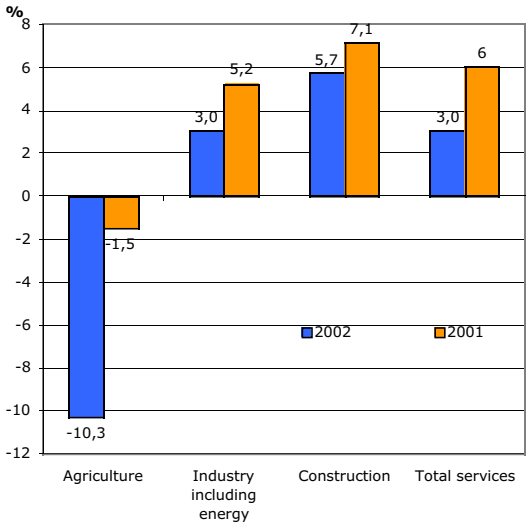
(iii) the sectoral analysis of investments confirms this favorable development in the buoyant sectors. It tends to privilege growing sectors but also those sectors that are capable of generating positive externalities within the economy (energy, collective equipment).

However, the modernisation of the economic structure is still slow in modifying the process of job creation, which remains dominated by traditional sectors such as agriculture and construction.

The dynamics of the process are certainly heading in the right direction, with a high increase of the jobs created in the manufacturing sector (the 8% represented share doubled) and in transports-telecommunications.

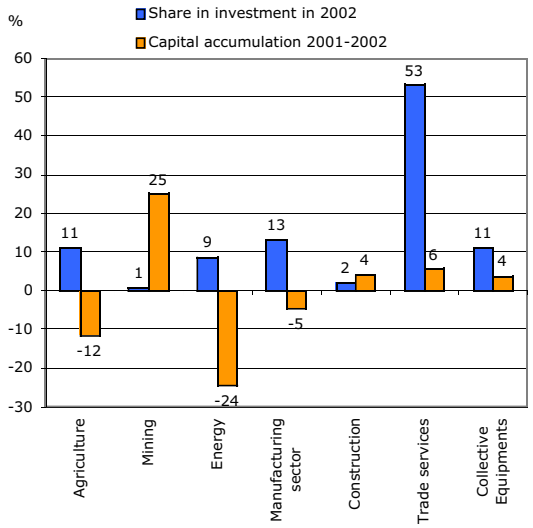
Thus, on the basis of the past decade, Tunisia is the only MC that appears to have reached

Value added share



Sources: Central Bank, Eurostat, Medstat Program

Sectoral investment



Sources: Central Bank, Eurostat, Medstat Program

a sufficient level of job creation to absorb new entrants. In fact, the unemployment rate fell further in 2002, despite the situation, and settled down at 14.9% of the active population against 15.6% in 2000. However, part of this positive tendency can be accounted for by the result of the active employment programmes for young graduates and the unemployed, especially via subsidized projects and tax exemptions, despite the uncertain long term effect of such measures.

Tunisia equally owes this result to its policy of openness and to improvements in its productive structure that allowed it to score high productivity gains throughout the decade (1.9% per year according to Keller and Nabli, 2002). However, to maintain this pace of growth Tunisia will have to make further progress on at least two levels that could constrain growth:

(i) the investment rate still seems too low to reach the growth required to absorb newcomers on the employment market: Kouamé (2000) suggests that the investment rate should reach 30 to 35% of GDP to achieve this goal, while it is normally situated at about 25%;

(ii) a significant effort must be deployed in education and literacy, especially for women. The average illiteracy rate is till 29% (39.4% for women) and only half the classes of the age brackets concerned are enrolled in secondary schools. In this context, the question of workers' capacity to absorb new technologies that come with new investments arises. The present strategy for supplying jobs might limit the progress of global factor productivity, which would reduce the benefits of investment growth in terms of jobs.

At the macroeconomic level, Tunisia is characterized by rigorous management. The stakes lie in its capacity to pursue this sane management style and improve the liquidity of its economy so as not to check the development of the private sector, to increase its external competitiveness and to profit from the positive externalities that it was able to create by carrying out reforms that will place it on a faster growth track.

(i) The main advantages of Tunisia are in the commodities market. At the level of trade in general and of trade relations with the Union in particular, Tunisia shared very positive results with Morocco throughout the decade. However, unlike the latter, most of its structural modifications took place before 1995. The movement slowed down since then, but as the indicators still have a positive trend, we might say that the Partnership Agreements have had a stabilizing effect.

Job creation 1998-2002

	Job creation (units)			Share in the total creation of jobs excluding agriculture sector (%)			Evolution of average annual growth (%)	
	1998	2001	2002	1998	2001	2002	2001-1998	2002-2001
Fishing	900	1200	-599	1	2	-1	10	-150
Mining and energy	-50	500	220	0	1	0		-56
Manufacturing sector	2300	5000	4750	4	7	8	30	-5
Construction	18200	20800	17989	30	30	29	5	-14
Transport et telecommunications	4250	6200	6000	7	9	10	13	-3
Tourisme	2600	3000	1600	4	4	3	5	-47
Other services	25800	25800	25000	42	37	41	0	-3
Administration	7000	6800	6657	11	10	11	-1	-2
Total	**61000**	**69300**	**61617**	**100**	**100**	**100**	**4**	**-11**
Agriculture		164500	112600					-32

Source: Central Bank.

With an openness rate higher than 79% in 2001, Tunisia is the Mediterranean Partner best integrated in trade. It is equally the closest one to the Union in terms of trade, since the 15 represent 80% of Tunisia's exports and more than 70% of its imports (respectively 63% and 58% in 1990; 79% and 71% in 1995).

This intensification of trade with the Union has stabilised the trade deficit which reached 2.3 billion dollars in 2001. The coverage rate of trade with the Union has in fact risen from 69% to 82% between 1990 and 2001 (while it sank from 56% to 46% with the rest of the world at the same period).

The exports structure is equally one of the strong points. Tunisia is not the most diversified country and it is even an average MC. But its relative specialisation is in industrial commodities (items 6 to 8 of the CTCI) that amount today to 72% of Tunisian exports (48% of which are manufactured products). Due to this, over the past decade, Tunisia has avoided any volatility with regard to the terms of trade and has even greatly appreciated its purchasing power for exports. Furthermore, the exports purchasing power index is rising significantly (162 in 2000, base 100 in 1990) while the terms of trade index is stable (97 in 2000, base 100 in 1990), indicates a genuine improvement of the Tunisian products' competitiveness.

This same specialisation has also been observed in Tunisia's exports to the Union. The industrial products' share thus rose from 52% in 1990 to 80% in 2001, thanks to the increase of exported manufactured articles (from 39% to 57%) but also the "transport machines and materials" (from 6 to 17%).

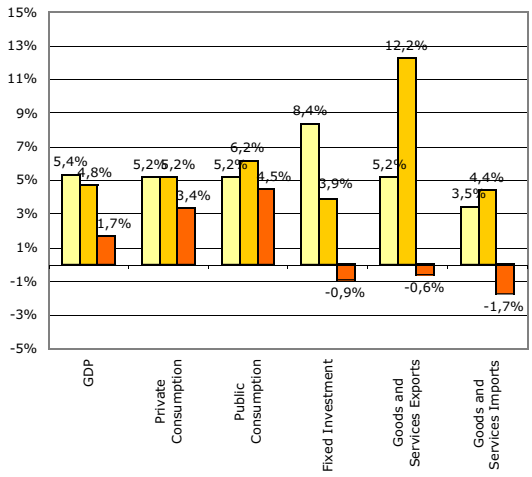
In 2002, according to provisional figures from the Central Bank, the economic slowdown led to a near stagnation of exports (+1.5%). However, imports sank by 1.4% which resulted in a 7.8% reduction of the trade deficit (afer an 11.4% increase in 2001). The other current account items held their ground, especially due to the shock in the field of tourism. Due to this, the deficit has diminished by 14.6% in 2002. Financing needs were covered by loans and other international aid, especially from the Union which amounted to 82.4% of the surplus.

(ii) At the level of internal demand, in 2002, the support to growth provided by public consumption decreased. Restrictive economic policies decreased private consumption which, however, has grown faster than the GDP. In addition to the sagging contribution of exports, investment plummeted in a spectacular manner.

A prudent economic policy that aimed at limiting the situation's impact on external accounts

(iii) The competitiveness of the Tunisian economy began by an increase of its actual effective change between 1990 and 2000 (+4.5%), despite the actual anchorage in real

Decomposition of the GDP growth
(light shade: 1995-2000, medium shade: 2000-2001, dark shade: 2001-2002)



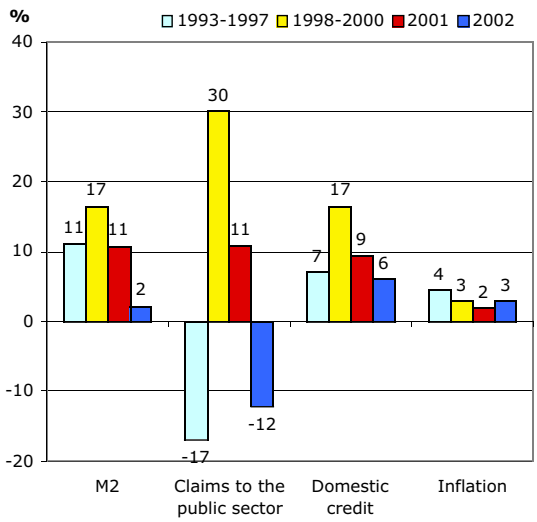
Sources: Eurostat, Medstat Program, Central Bank.

terms of the local currency to a basket of currencies of the main trading partners. The authorities have organized the depreciation of the dinar vis-à-vis the Euro, -5% over the five first months of 2003, against a 7.2% appreciation against the dollar. Tunisia is slowly turning to an increasingly flexible exchange rate. The survey showed, in fact, that this exchange regime has yielded the desired fruits (lowering inflation, increasing exports) and that Tunisia managed quite wisely to avoid an over-evaluation that often derives from this kind of policy, given the difficulty of assessing the equilibrium exchange rate (Fanizza, Laframboise, Martin, Sab, Karpowicz, 2002).

Presently, the country is beginning to learn the limits of its exchange regime which is neither positive nor feasible unless it is accompanied by restrictions on capital movements, by very prudent currency and budget policies and by controlling the evolution of domestic salaries. The growing openness of the Tunisian economy, especially vis-à-vis the Union, complicated the assessment of a balanced exchange rate and multiplied the risks of evaluation errors that are damaging to the expansion of Tunisian trade. Furthermore, the need to finance the economy is significant and the country must be able to have recourse to foreign capital on broader basis and, at the same time, to diversify the sources of external financing so as to reduce the risk of fragile growth. This requires a greater convertibility of the financial account and a greater flexibility of the exchange rate. Finally, the debt is mainly defined in dollars and in yens (30% and 22% respectively in 2000), while the main trading partners are the European countries, which justifies anchorage to a basket of currencies or to a freer floating, but not a rapprochement with the Euro.

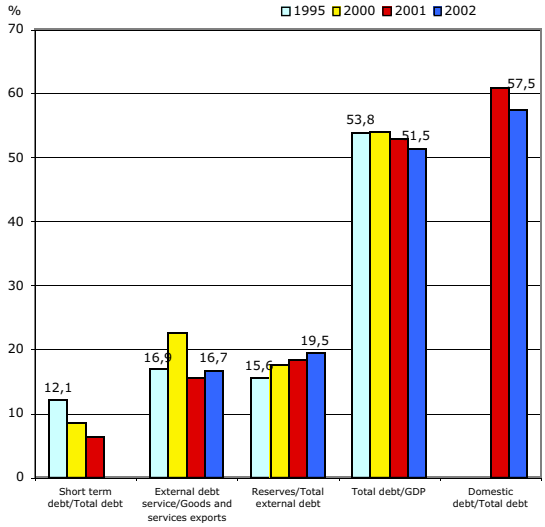
(iv) The money market is watched very closely by the Tunisian authorities so as to control inflation and to preserve external competitiveness. Despite its economic difficulties, the government did not have recourse to seigniorage, with some exceptions. The budget is financed by loans. On the short term, the debt is not exercising a heavy pressure on the government since only 6.5% of the total debt had a short term maturity in 2001 and the service of the external debt only amounts to 16.7% of the exports in goods and services in 2002, which is relatively moderate (but nevertheless weighs heavily on the budget margins; see following part). However, the

Monetary policy



Sources: International Monetary Fund, April 2003, Central Bank.

Debt indicators



Sources: International Monetary Fund, April 2003, Central Bank.

reserves only cover 19.5% of the external debt, the total debt amounts to 51.5% of the GDP (composed for the most part of the internal debt at 57.5%). Over the past ten years, Tunisia did not succeed in setting up the conditions for a gradual reduction of the debt which requires that the primary surplus growth be generated by the conjunction of low real interest rates and a strong growth. Therefore, to be credible on the international financial markets and to easily find the means to refinance its debt, Tunisia must preserve its currency reserves and healthy macroeconomic management. In 2001, despite a rating that has remained unchanged, the spread of the sovereign debt has increased, going from 130 base points in 2000 to 170. On the other hand, because of its difficulties in increasing and stabilising its reserves, Tunisia is faced with a structural lack of foreign currencies that constrains the development of the private sector's operations (the reserves are equal to 3.5 months of imports).

(v) The austere budget policy made it possible to limit the budget deficit to 1.8% of the GDP in 2002, against 2.5% in 2001. The tax revenues amount to 73.5% of the 2002 budget revenues, which shows that the reforms are well underway. The indirect taxes are preponderant (34.7% of the revenues) but VAT is still behind (33.9% of indirect taxes) in comparison with the developped countries. This is a good candidate for the replacement of customs duties revenues which still amount to 9.8% of total revenues.

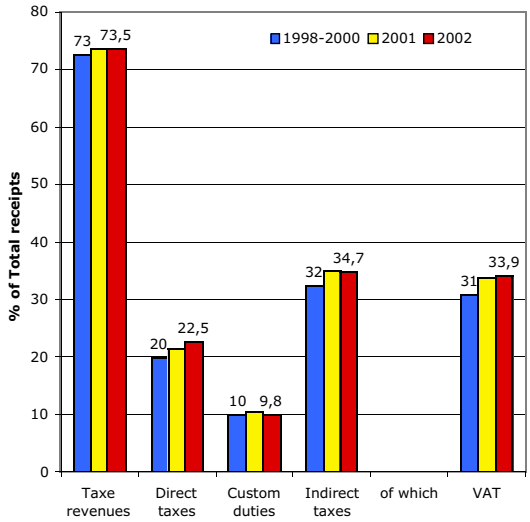
As regards expenditure, the rigidities are significant due to the size of the salary mass and the debt servicing which respectively absorb 50% and 10.1% of expenses.

In 2002, despite the reduction of revenues due to the unfavourable economic situation, it is important to note that the government succeeded in preserving capital expenses, which still lie at 22.3% of total expenses against 24.1% in 2001.

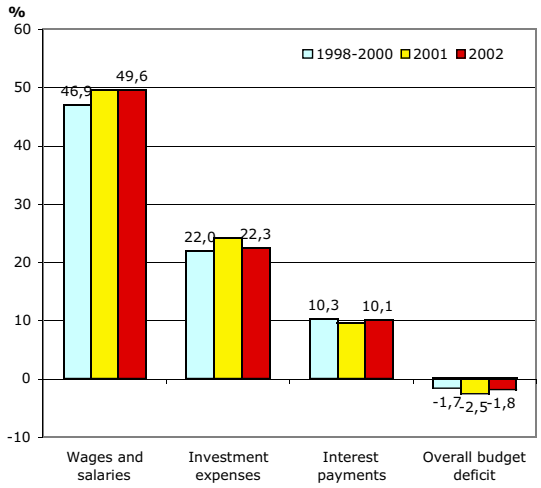
A bad perception of the Tunisian economy despite its good objective performances

Tunisia is the archetype of all the MC. From an objective point of view, its position is intrinsically good. In the first part of the average class, this classification indicates that,

Budget revenues



Budget expenses 1/



1/ Expenses in % of total expenses, except for salary expenses, in percentage of current expenses and the budget balance in GDP percentage.
Sources: International Monetary Fund, GDF, November 2002, Central Bank, Ministry of Finance.

from the point of view of the adopted criteria, the Tunisian economy delivered a better performance than the majority of other economies, including the developped countries. In fact, it surpasses those countries in process of joining the Union.

At the same time, its classification on the basis of the subjective criteria is mediocre, in the class before last, which places nearly two thirds of the economies ahead of it.

This strong disconnection shows, on the one hand, that the perception of Tunisia's economy, and that of the Mediterranean partners in general, does not reflect the extent of the effort undertaken and, on the other hand, that there is probably a lack of support, at the level of international organisations, to enhance and build upon the reforms that have been accomplished.

As shown by the details of the position according to the subjective criteria, Tunisia's position is similar to that of the accession countries, except for:

(i) trade barriers: not only are the applied tariffs high, in comparison with other MC and accession countries, but also non-tariff barriers;
(ii) limits to residents' access to foreign currencies, which diminishes their capacity to trade;
(iii) a lack of transparency in administrative procedures, which are in addition lengthy.

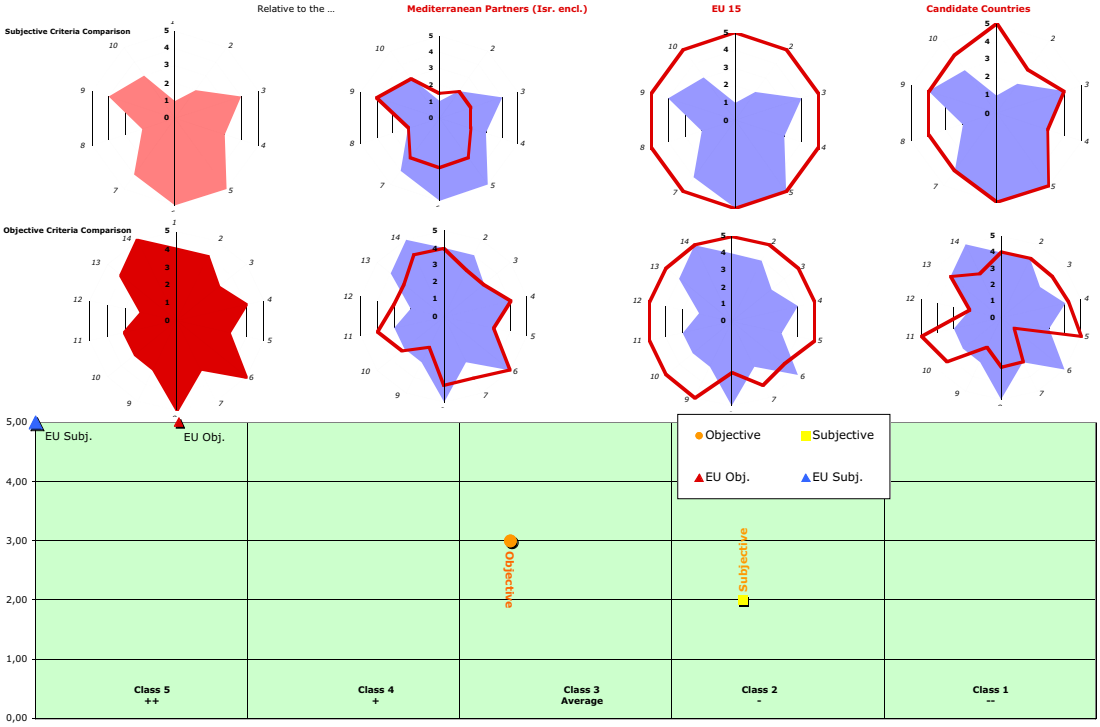
As regards the objective criteria, Tunisia provides a contrast with:

(i) austere macroeconomic management, which allows control of the major equilibriums (inflation and budget, relative to other Mediterranean Countries or Accession Countries).
(ii) A precarious current account balance. There still are restrictions to financial flows, for residents in general but also for non-residents, especially as regards the capital account. Although this might have prevented a massive ouflow of capitals at times of volatility, the same restrictions curb trade flows that appear slight in comparison to the population size, and to accession countries. This also reinforces the dualism between a sector which is officially directed towards exports and the traditional sector with its much more limited possibilities of openness.

In fact, although the present growth performance is better than other MC and accession countries, sustainability is not to be taken for granted in the medium term, especially because the burden of debt servicing reinforces constraints on financial flows on the one hand, while the relative weakness of the telecommunications infrastructure and the low number of internauts might mean that the economy missed out on appropriating the new technologies, on the other hand.

Tunisia

2001 or more recent data	Subjective Indicators		Objective Indicators
	Tariff and non-tariff barriers	1	Life expectancy
	Free use of currencies	2	FDI (GDP percent)
	Property rights	3	Openness (per capita sum of exports and imports)
	Free trade in capital markets	4	Per capita GDP ($ PPP)
	Regulation of foreign investments	5	Human Development Indicator (UNDP HDI, 2000)
	Regulation	6	Inflation (CPI)
	Black market control	7	Current account balance as % of GDP
	Accountability & Transparency	8	GDP growth rate
	Corruption control	9	Budget deficit as % of GDP
	Moody's rating	10	Number of telephone lines (per inhab., 2000)
		11	Number of Internet users (per inhab., 2000)
		12	Debt Service (in % of Goods and Services Exports)
		13	External Debt (in % of GDP, 2000)
		14	Credit granted to private sector (in % of GDP)



TUNISIA - Main Indicators of Trade Openness

	1990	1995	2001
Openness rate (X+M/GDP)	72,90%	74,20%	79,10%
Exports Orientation (%)			
To the EU	62,7%	79,0%	80,0%
To the MP	4,8%	5,7%	3,5%
To the Rest of World	32,5%	15,4%	16,5%
Imports Orientation (%)			
From the EU	57,8%	71,4%	70,5%
From the MP	5,0%	5,4%	3,9%
From the Rest of World	37,3%	23,2%	25,6%
Rate of Coverage X/M			
With the EU	0,69	0,77	0,82
With the Rest of World	0,56	0,46	0,46
Trade Balance in million of dollars			
With the EU	-970	-1 318	-1 157
With the Rest of World	-904	-991	-1 236
Export Concentration Indices			
With the EU	0,21	0,22	0,22
With the Rest of World	0,26	0,27	0,26
Terms of trade indices (1990=100) (*)			
Unit value indice of exports	..	..	..
Unit value indice of imports	100	122	102
Terms of trade indice	100	97	97
Purchasing power indices of exports	100	127	162
Intra-trade indices			
With the World	21,2	25,8	28,9
With the EU	19,1	22,6	23,0
With the Rest of World	20,5	24,6	27,3

(*) Source: UNCTAD

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Tunisia: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS			IMPORTS			BALANCES			EXPORTS			IMPORTS		
	Products (*)	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001
World	0	234	247	314	474	788	666	-239	-541	-352	7%	5%	5%	9%	10%	7%
	1	29	57	58	33	65	56	-4	-8	3	1%	1%	1%	1%	1%	1%
	2	82	116	129	421	486	399	-338	-370	-270	2%	2%	2%	8%	6%	4%
	3	604	464	485	493	572	379	112	-108	106	17%	8%	7%	9%	7%	4%
	4	121	230	149	71	128	56	50	103	93	3%	4%	2%	1%	2%	1%
	5	508	652	676	487	719	874	21	-67	-198	15%	12%	10%	9%	9%	10%
	6	357	560	496	1 480	2 228	2 464	-1 123	-1 668	-1 968	10%	10%	8%	27%	28%	27%
	7	273	516	1 057	1 554	2 048	2 975	-1 282	-1 531	-1 917	8%	9%	16%	28%	26%	33%
	8	1 288	2 632	3 116	458	854	1 060	830	1 778	2 056	37%	48%	48%	8%	11%	12%
	9	1		3	5	16	66	-4	-16	-63	0%	0%	0%	0%	0%	1%
	Total	3 498	5 475	6 484	5 476	7 903	8 995	-1 978	-2 428	-2 511	100%	100%	100%	100%	100%	100%
Rest of the World	0	48	86	137	269	385	386	-221	-299	-249	4%	10%	13%	13%	21%	17%
	1	21	42	48	23	49	39	-2	-7	9	2%	5%	4%	1%	3%	2%
	2	31	35	51	304	216	177	-273	-181	-125	3%	4%	5%	15%	12%	8%
	3	56	63		59	189	244	-2	-126	-244	5%	7%	0%	3%	10%	11%
	4	6	8	26	24	17	36	-18	-9	-11	1%	1%	2%	1%	1%	2%
	5	271	301	352	169	180	189	102	121	163	24%	36%	33%	8%	10%	8%
	6	149	161	167	496	285	313	-347	-124	-146	13%	19%	16%	24%	16%	14%
	7	134	46	155	548	417	687	-415	-371	-532	12%	6%	15%	27%	23%	30%
	8	420	98	130	145	78	195	275	20	-65	37%	12%	12%	7%	4%	8%
	9			2	4	16	38	-4	-16	-36	0%	0%	0%	0%	1%	2%
	Total	1 138	841	1 067	2 042	1 831	2 303	-904	-991	-1 236	100%	100%	100%	100%	100%	100%
EU	0	174	147	162	198	330	215	-24	-183	-53	8%	3%	3%	6%	6%	3%
	1	6	9	9	10	14	13	-4	-5	-3	0%	0%	0%	0%	0%	0%
	2	46	68	68	93	236	197	-48	-168	-130	2%	2%	1%	3%	4%	3%
	3	541	399	472	295	175	70	245	225	402	25%	9%	9%	9%	3%	1%
	4	113	221	122	47	111	20	66	110	102	5%	5%	2%	1%	2%	0%
	5	177	247	216	311	528	666	-133	-281	-450	8%	6%	4%	10%	9%	10%
	6	146	285	288	915	1 874	2 044	-768	-1 589	-1 756	7%	7%	6%	29%	33%	32%
	7	125	426	870	990	1 607	2 240	-865	-1 181	-1 370	6%	10%	17%	31%	28%	35%
	8	864	2 521	2 980	304	767	853	561	1 754	2 126	39%	58%	57%	10%	14%	13%
	9	1		1	1		27			-26	0%	0%	0%	0%	0%	0%
	Total	2 193	4 324	5 187	3 163	5 642	6 344	-970	-1 318	-1 157	100%	100%	100%	100%	100%	100%
Med. Partners (**)	0	13	14	16	7	73	65	6	-58	-50	8%	5%	7%	3%	17%	19%
	1	1	6	1		2	4	1	4	-3	1%	2%	1%	0%	0%	1%
	2	6	13	10	23	34	25	-17	-22	-15	4%	4%	4%	9%	8%	7%
	3	7	1	13	139	208	66	-131	-207	-53	4%	0%	6%	51%	48%	19%
	4	1	1	1				1	1	1	1%	0%	1%	0%	0%	0%
	5	60	104	108	7	11	20	52	93	89	35%	34%	47%	3%	3%	6%
	6	62	114	41	69	69	107	-8	45	-66	37%	37%	18%	26%	16%	31%
	7	14	44	32	16	24	48	-2	20	-16	8%	14%	14%	6%	5%	14%
	8	4	13	7	9	9	12	-6	4	-5	2%	4%	3%	4%	2%	3%
	9										0%	0%	0%	0%	0%	0%
	Total	168	310	230	271	430	347	-103	-120	-118	100%	100%	100%	100%	100%	100%
AC10 (***)	0		2	1	8	10	12	-7	-8	-11	11%	9%	6%	10%	11%	15%
	1										5%	0%	0%	0%	0%	0%
	2	2	15	12	33	17		-31	-2	12	45%	61%	57%	44%	19%	0%
	3		2		4	21		-4	-19		0%	8%	0%	5%	22%	0%
	4				1			-1			1%	0%	0%	2%	0%	0%
	5				9	4	5	-9	-4	-5	7%	1%	1%	12%	4%	6%
	6	1	2	1	13	28	17	-12	-27	-16	19%	7%	5%	17%	31%	20%
	7		2	1	7	10	43	-7	-8	-42	10%	8%	7%	10%	11%	53%
	8		2	5		2	4				1%	7%	24%	1%	2%	5%
	9										0%	0%	0%	0%	0%	0%
	Total	3	24	21	75	92	82	-72	-68	-61	100%	100%	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

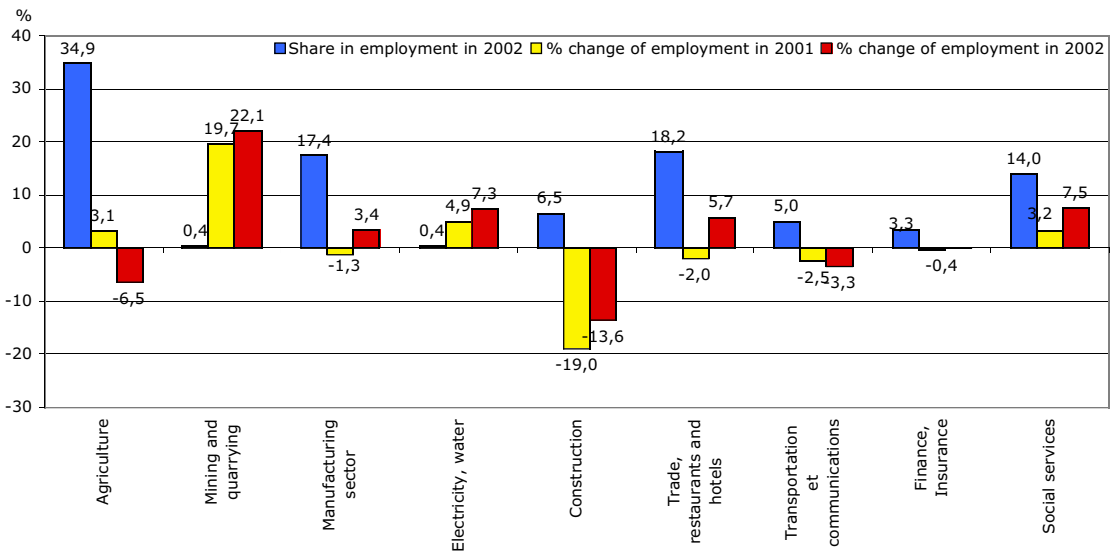
Turkey

Turkey resumed growth in 2002 (+7.8% against -7.5% in 2001) and this seems to hold good in 2003 with forecasts higher than 5%. The progress realized by the Turkish economy in reducing its vulnerability to external and internal shocks must be analysed according to two points of view, (i) the sectoral structure of the GDP, which underwent a great change in ten years, especially in favour of the manufacturing sector which passes on new technologies; (ii) the employment structure, because jobs move from the low productivity sectors to sectors where productivity is higher and where it can rapidly gain ground. Such developments have provided the economy as a whole with sources of growth for productivity and competitiveness and the possibility of profiting from positive externalities:

(i) the traditional sectors, which employ unskilled manpower, are falling back. They create relatively few new jobs, which reduces their share in total employment. This is essentially true of construction and agriculture. The former amounted to 5% of the GDP in 2002. Its growth in 1995-2000 was low (0.5%) and became negative in 2001 and 2002 at about -5%. Construction equalled only 6.5% of total employment and lost jobs (-19% in 2001 and -13.6% in 2002). As to agriculture, it amounted to 15% of the GDP and as yet 34.9% of the total manpower. However, it was also subjected to a negative employment trend in 2002 (-6.5%). This evolution might have been favourable in the medium term under certain conditions. The reallocation of resources it implies might in fact contribute to increase the productivity if it privileges the more dynamic sectors and jobs allowing for the acquisition of knowledge. As these are also cyclical activities that are highly vulnerable to risks, this allows for a reduction of the economy's dependence on exogenous factors.

(ii) The high value-added sectors and/or the sectors working with imports and the diffusion of technical progress inversely reinforced their GDP position and absorbed a growing part of the active population. Such are the manufacturing and

Jobs growth by branch



Source: Central Bank.

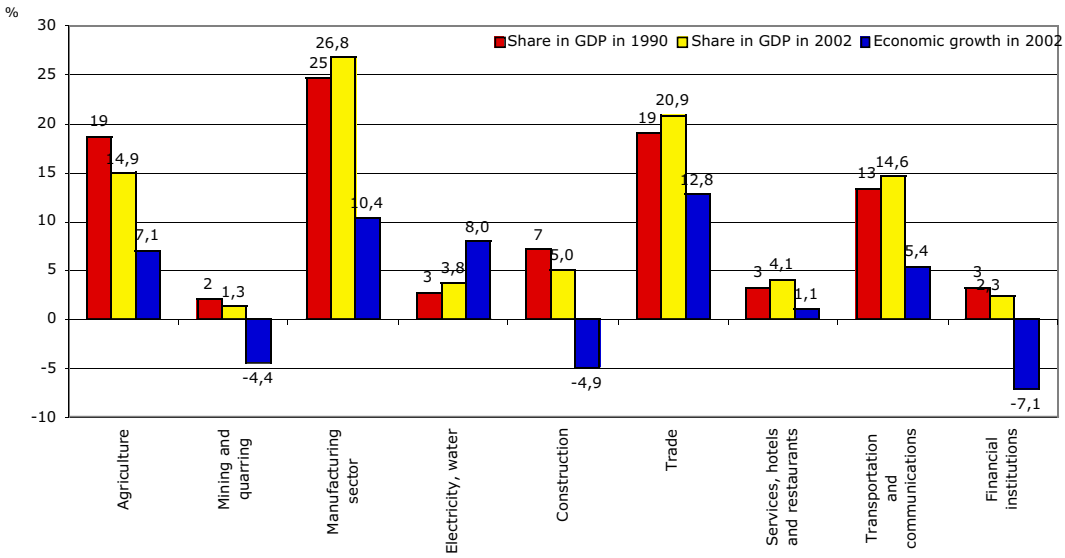
trade sectors whose growth in 2002 was 2.5 times higher than that registered between 1995 and 2000: 10.4% in the manufacturing sector (26.8% of the GDP in 2002) and 12.8% for the trade sector (21% of the GDP) against respectively 3.9% and 5.3% in 1995-2000. The share of the manufacturing sector in total employment rose from 14.2% to 17.4% and that of trade and tourism from 11.6% to 18.2%. Furthermore, the activities related to exports and tourism (the only sector that scored a high growth in 2001, 9.9%) protected the country against some domestic shocks and this is certainly what limited job losses in 2001.

(iii) The financial sector, despite the activities mainly directed to financing the government's debt, was very profitable until last year's crisis. Restructuring is costly, but the growth potential in this sector is significant if it manages to diversity its activities in the direction of the private sector. A better financial intermediation would particularly be of help to adjust the budget of existing enterprises and could consolidate growth by improving the allocation of resources. The development of this sector is a key element of Turkey's future competitiveness because it generally lies at the heart of the articulation between the existence or supply of externalities and their use by the private sector.

(iv) The strong dynamics of the sectors of electricity-water and transports-telecommunications (+8% in 2002 for the former and 5.4%) while the traditional construction sector is falling back, which points to an intense effort to set into place the externalities required to improve growth.

Despite all these apparently favorable trends, global factor productivity was disappointing during the nineties due to the numerous crises endured by Turkey in 1994, 1999 and 2001. However, the factors that allow for an increase of the efficiency of production seem to have played a predominant role in the registered progress (Karadag, Onder, Deliktas, 2002). Throughout the nineties in fact, the Turkish economy always rapidly caught up with growth and such is the case again. The structural effort needs

GDP share and growth by branches (constant prices)



Source: Central Bank.

to be pursued intensely at any rate, because the trend is dipping at the jobs level. For two years, the unemployment drop registered in this country during the past decade was reversed and it rose from 6.6% in 2000 to 8.4% in 2001 and to 10.6% in 2002 (with more than 6% of under-employed). Unemployment is a worry with regard youth (29%). But Turkey has relied on its solid foundation. Although the illiteracy rate still amounts to 15%, the young generations have been spared, which gives Turkey the capacity to deal with the entry in the labour market of about 30% of the "below 15 years" age bracket in 2000.

At the macroeconomic level, there was insufficient rigour and austerity so that growth and manpower are more strongly conditioned by salaries than by profits (Onaran and Stockhammer, 2001). This tends to put a break on the capacity to fully take advantage of the restructuring efforts to increase competitivity and resistance to shocks. There also is a clear need to improve the pace of reform, especially in the banking sector, so as to support the development of the private sector more efficiently.

(i) Contrary to macro-economic developments, the evolution of Turkey's openness indicators has been positive during the past decade. The openness rate has doubled, going from 23.4% fo the GDP in 1990 to 46.6% in 2001. The balance of trade is still in deficit (by about 10 billion dollars in 2001, which is close to the deficit of -9.5 billion observed in 1990) but this apparent stability conceals two contradictory trends: from 1990 to 1995, while Turkey's trade increased, the rate of coverage was not modified and the deficit was automatically deepened and surpassed 14.5 billion dollars in 1995; then, during the second part of the 90, the rate of coverage was clearly rehabilitated thanks to a significant increase of exports (+45% although at the same period the imports increased by 16%) which led to a reduction of the deficit of about 29%.

Trade was highly directed to the european Union, but this movement essentially took place between 1990 and 1995. Since 1995, the geographic orientation of trade has been stable, but the structure is being modified to a great extent in a positive sense. Thus, most of the improvement of the balance of trade is generated by the relations with the Union: Turkey's deficit with the 15 was diminished by a half since 1995, but it is still as high as 2.1 billion dollars.

From the sectoral point of view, the industrial products share did not stop growing and rose from 65% in 1990 to 79% in 2001 (83% in Union exports). Meanwhile, the agricultural products dropped from 18% to 11%. This diversification of the trade structure was generated by the development of the " transport machines and materials" exports (7% in 1990, 23% in 2001), a development in which the impact of foreign investments in the nineties is evident.

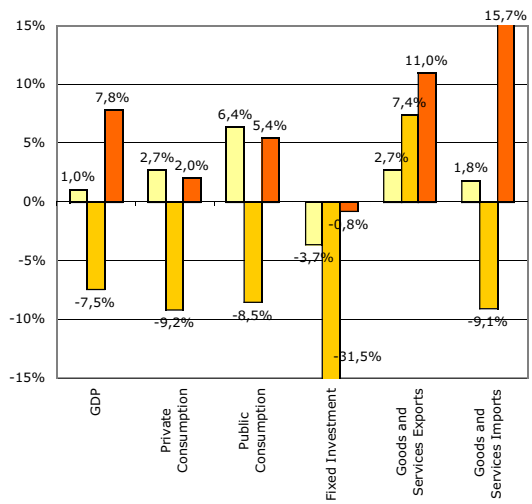
As a consequence of this modification of the export structure, intra-branch trade increased a great deal. The development of the terms of trade was stabilised for the whole decade. At the same time, the exports purchasing power index rose in sustained and stable manner, as in Tunisia, which tends to indicate a greater competitiveness of Turkish exports.

In 2002, the balance of trade deficit increased in comparison with 2001 (practically double to reach 8 635 million dollars). This movement is nevertheless positive in the light of its origin: a greater increase of imports than exports. The imported intermediary goods are an essential input of local

production and its strong increase in 2002 increased the demand for imported products (+22.8%). This factor acted positively on the non price competitiveness of exports in the medium term and might help the exporters to eschew the reduction in demand and in domestic investment. This was in fact the case in 2002: exports increased by 13% and constitute, as in 2001, the engine of growth. Private consumption recovered (which equally had an impact on imports), but public consumption no longer reinforces the activity and most of all fixed investment went on diminishing.

(ii) The real effective exchange rate soared until mid 2002. It then fell due to the nominal depreciation of the currency - due to political uncertainties - and the unfavourable inflation differential. After the elections, the real exchange rate began to rise again (8.3% at the end of 2002) thus reducing the external competitiveness of Turkey. This adequately illustrates the nefarious repercussions that can result from a disconnection of exchange rate movements and the fundamental economic ones provoked by speculation. The Central Bank has precious little power over such behaviour. Its interventions, in spite of the considerable amounts involved (280 million, 242 million and 273 million dollars in April, May and June 2002) were not successful. It therefore let supply and demand come into play and the volatility of the exchange rate relented after the elections. It is still difficult for agents to protect themselves against the risk represented by transactions with foreign countries under such circumstances. Coupled with the lack of credibility of the macroeconomic programme, these events provoked a massive outflow of capital, especially in 2001, but that has been sustained in 2002, despite the recovery of growth. Portfolio investments remained negative in 2002 (-694 million dollars against +1022 million in 2000).

Breakdown of GDP
(light shade: 1998-2000, medium shade: 2000-2001, dark shade: 2001-2002)



Source: Eurostat, Medstat Program.

(iii) The monetary policy set an inflation target for itself in 2002 foreseeing that the base currency would not surpass 40%. This objective was dealt with as a priority performance criterion. In this respect, the Central Bank raised the interest rates at the end of the year, despite the fact that it honoured its target in order to throttle the inflation forecasts. Inflation was still as high as 45% in 2002, but it was reduced by 22% in comparison with 2001 and by 90.5% in comparison with 1997. The authorities hope to contain it at 20% in 2003, which seems ambitious. We must hope that the new Turkish economic programme and the IMF's assistance will succeed in helping the country to go out of the vicious circle of self-sustained financing of the public debt through seigniorage: the soaring inflation led to a greater dollarisation (Bahmani-Oskooee, Domac, 2002).

In fact, in 2002, the dollarisation was reduced (49% of the deposits in March 2003 against 55% in 2002) and the subscriptions

to public bonds by households and foreign investors are increasing, which will reduce the burden of the debt. The structure of the debt is in fact another consequence of the accumulation of deficits that heavily weighed on the development of the private sector by creating a significant eviction effect. Thus, although the structure of the debt is relatively favourable since the short term debt only amounts to 11% of the external debt, its burden is still a great problem. The total debt amounts to 131.2% of the GDP (mostly made up of internal loans, 78.2%) and the service of the debt absorbs 47.2% of exports in goods and services. However, the reserves only cover 28.6% of the external debt. The improvements are slow, but the government hopes to simultaneously set into place the conditions of a strong growth and to refinance itself at low real rates which is the golden rule if the debt is to be gradually written off.

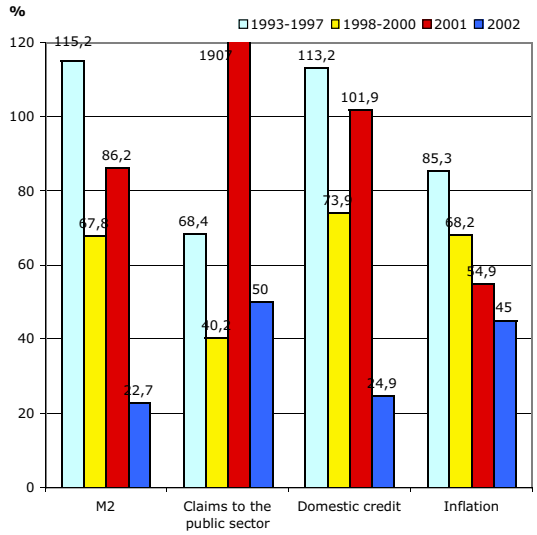
(iv) The budget policy is unable to regain balance. The deficit culminated at 15% of GDP in 2002. This is due to unfavourable conditions that lowered revenues (23% increase of income taxes in 2002 against 60% in 2000) while commitments are not very flexible.

As regards revenues, Turkey still depends on international trade taxes: 11.6% of its revenues in 2002. The VAT has made less progress than during the previous years (+58.3% against +84% in 2000). Taxes on goods and services (+65% in 2002 against +59% in 2001) and VAT on imports (+72% against +32%) are the two important items that grew in 2002.

As regards expenditure, salaries (20% of total expenses but 74.6% of current expenses in 2002) and the service of the debt (44.9% of total expenses) left very little margin for manoeuvers. The government had a difficult time maintaining its investments (6% of total expenses in 2002 against 8% in 1997). However this is the item that underwent the clearest increase in 2002 (+66.4%).

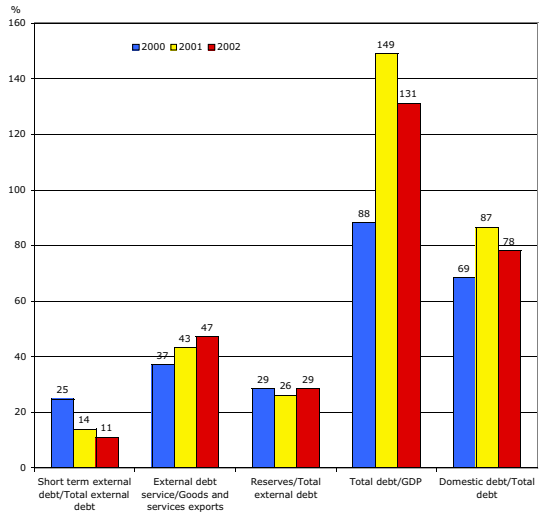
Now, the economy seems to be going through a phase of deep change: revising the priorities in economic policy to reduce inflation and to control the debt, searching for positive externalities in order to set the economy on higher growth path. But one issue must be resolved: consolidating the banking sector so that it might play a greater role in restucturing the economy.

Monetary policy



Sources: Eurostat, Medstat Program, International Monetary Fund, IFS April 2003.

Debt Indicators



Sources: International Monetary Fund, GDF, November 2002, Central Bank.

A costly restructuring of the banking system

The restructuring of the banking sector will cost the economy a very high direct price (the cost of recapitalising the banks is estimated at 2.15 billion dollars) and indirectly since it is partly responsible for the economic crisis of 2001. There is still a great deal to do, inasmuch as:

(i) the sector is small (the total assets amount to 65% of GDP, that is a quarter of the European average).

(ii) The segmentation of the banking sector does not allow it to play its role efficiently as a financial intermediary and makes it very risk averse, so that activities are essentially directed towards the public sector (40% of the banking assets in 2002),

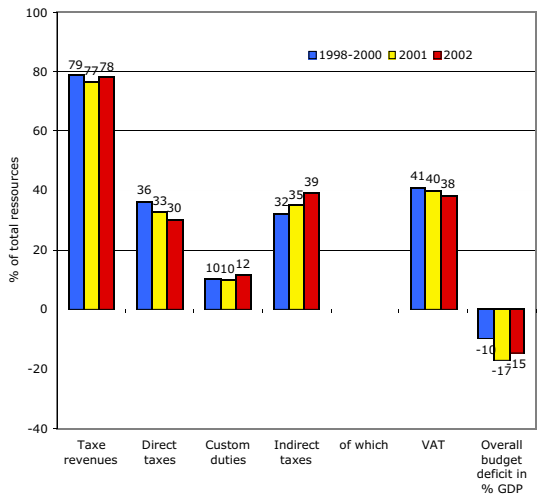
(iii) Finally, although after the July 2002 restructuring, the irrecoverable loans were reduced by 62.5% and only amounted to more than 9% of bank assets, the structure of assets highly limits their activity/ they are essentially made up of short term deposits (2.8 months) which limits the duration of the loans that might be granted.

The excessive exposure to the risk of default as well as recent experience has made the Turkish banks very vulnerable and prevented them from fulfilling their role as financial intermediaries adequately and in good conditions. In addition, the present modifications of the environment in which they operate, such as lowering the interest rates, decreasing the financial needs of the government and increasing competition might lead to numerous failures (Karacabey, 2001).

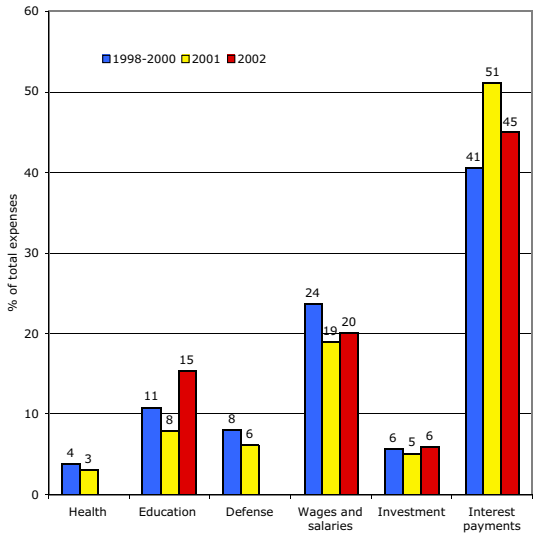
An urgent need to improve macroeconomics and the social dimension to gain from the advantages provided by the prospect of membership

Turkey's condition is not brilliant, from the point of view of both the objective and the subjective criteria. However, unlike other MC, the subjective situation is better than the one apprehended on the basis of the objective criteria (in conformity with what has been observed in most of the accession countries).

Budget revenues



Budget expenses



Sources: International Monetary Fund, GDF November 2002, Central Bank.

From the subjective point of view, Turkey is perceived as a fundamentally open economy. The Customs Union Agreement with the EU is certainly related to this, although we should not fail to point out that it has only partially been set into place so far, especially as regards trade in agricultural products, pharmaceutical products and iron and steel products. However, although the economy appears attractive, governance in general is the Achille's heel at the regulatory, transparency and corruption levels.

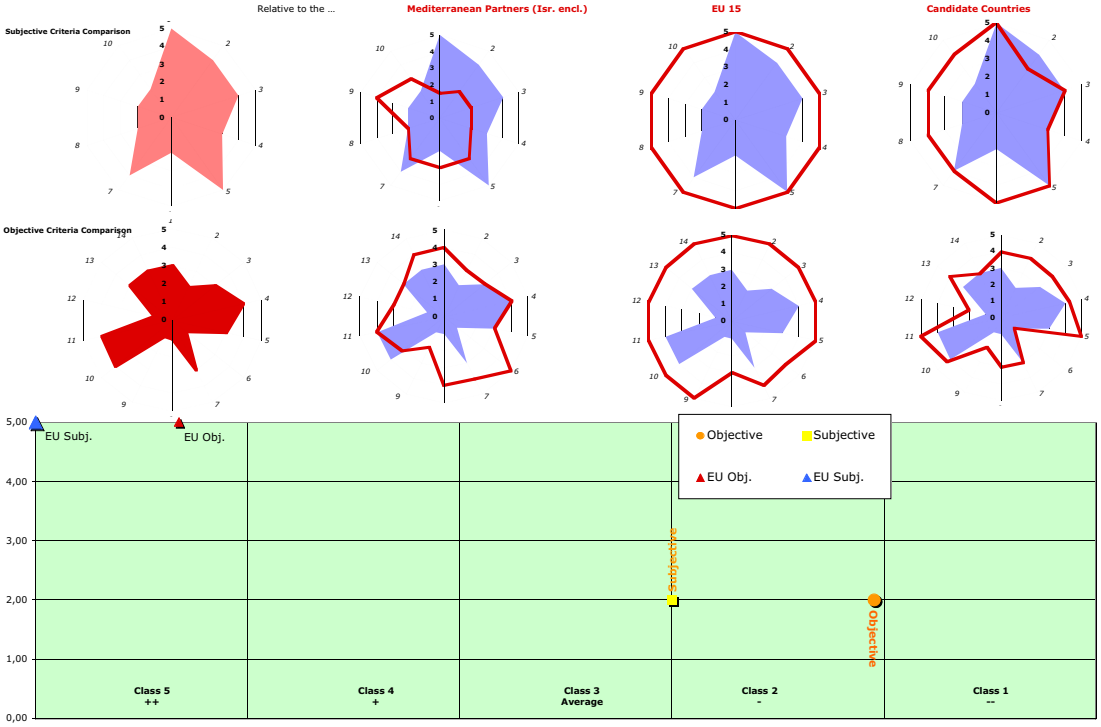
With regard to the objective indicators, Turkey is behind in all the criteria, in relation to the other accession countries as well as to the MC (except for the telephones infrastructures vis-à-vis the latter). However, what might seem astonishing is that this delay is not only related to the management of macroeconomic equilibrium (inflation, current account, budget), but equally to:

(i) the level of openness, whether it be trade in goods and services, measured in relation to the population, or foreign investment inflows in comparison with domestic product.

(ii) The social sphere: life expectancy is still lower than in the other MC and the human development indicator is well below the level of the other AC.

Turkey

2001 or more recent data	Subjective Indicators		Objective Indicators
	Tariff and non-tariff barriers	1	Life expectancy
	Free use of currencies	2	FDI (GDP percent)
	Property rights	3	Openness (per capita sum of exports and imports)
	Free trade in capital markets	4	Per capita GDP ($ PPP)
	Regulation of foreign investments	5	Human Development Indicator (UNDP HDI, 2000)
	Regulation	6	Inflation (CPI)
	Black market control	7	Current account balance as % of GDP
	Accountability & Transparency	8	GDP growth rate
	Corruption control	9	Budget deficit as % of GDP
	Moody's rating	10	Number of telephone lines (per inhab., 2000)
		11	Number of Internet users (per inhab., 2000)
		12	Debt Service (in % of Goods and Services Exports)
		13	External Debt (in % of GDP, 2000)
		14	Credit granted to private sector (in % of GDP)



TURKEY - Main Indicators of Trade Openness

	1990	1995	2001
Openness rate (X+M/GDP)	23,40%	33,80%	46,60%
Exports Orientation (%)			
To the EU	29,5%	51,3%	51,4%
To the MP	6,2%	6,9%	7,9%
To the Rest of World	64,3%	41,8%	40,7%
Imports Orientation (%)			
From the EU	26,2%	47,2%	44,2%
From the MP	2,9%	3,4%	5,6%
From the Rest of World	71,0%	49,3%	50,3%
Rate of Coverage X/M			
With the EU	0,66	0,66	0,88
With the Rest of World	0,53	0,51	0,61
Trade Balance in million of dollars			
With the EU	-2 002	-5 786	-2 163
With the Rest of World	-7 499	-8 599	-8 072
Export Concentration Indices			
With the EU	0,13	0,12	0,10
With the Rest of World	0,13	0,16	0,14
Terms of trade indices (1990=100) (*)			
Unit value indice of exports	100	107	83
Unit value indice of imports	100	111	91
Terms of trade indice	100	96	91
Purchasing power indices of exports	100	150	225
Intra-trade indices			
With the World	18,6	22,1	30,4
With the EU	15,4	18,0	28,1
With the Rest of World	17,7	20,8	25,5

(*) Source: UNCTAD

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Turkey: Value and structure of trade with it's main partners by large categories of products (in millions of dollars and in %)

		EXPORTS			IMPORTS			BALANCES			EXPORTS			IMPORTS		
	Products (*)	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001	1990	1995	2001
World	0	2 304	3 417	3 316	1 180	1 482	736	1 124	1 935	2 580	18%	16%	11%	5%	4%	2%
	1	455	467	471	346	173	296	110	294	175	4%	2%	2%	2%	0%	1%
	2	750	775	691	1 684	3 536	2 435	-934	-2 761	-1 744	6%	4%	2%	8%	10%	6%
	3	296	288	445	4 622	4 619	6 141	-4 326	-4 330	-5 696	2%	1%	1%	21%	13%	15%
	4	139	325	180	298	638	321	-159	-314	-141	1%	2%	1%	1%	2%	1%
	5	747	888	1 272	2 850	5 342	6 243	-2 103	-4 454	-4 971	6%	4%	4%	13%	15%	15%
	6	3 833	6 217	9 453	3 351	6 675	6 643	482	-458	2 810	30%	29%	30%	15%	19%	16%
	7	855	2 402	7 152	7 036	11 492	12 636	-6 182	-9 090	-5 483	7%	11%	23%	32%	32%	31%
	8	3 579	6 817	8 099	933	1 750	2 533	2 646	5 068	5 566	28%	32%	26%	4%	5%	6%
	9		2	253	1		3 415		2	-3 162	0%	0%	1%	0%	0%	8%
	Total	12 959	21 599	31 334	22 301	35 707	41 399	-9 341	-14 109	-10 065	100%	100%	100%	100%	100%	100%
Rest of the World	0	1 497	1 523	1 504	740	828	484	757	695	1 020	18%	17%	12%	5%	5%	2%
	1	393	325	326	332	152	272	61	172	55	5%	4%	3%	2%	1%	1%
	2	456	315	331	1 254	1 985	1 547	-799	-1 671	-1 215	5%	3%	3%	8%	11%	7%
	3	76	80	186	4 127	3 668	4 902	-4 050	-3 588	-4 716	1%	1%	1%	26%	21%	24%
	4	114	202	55	206	515	270	-93	-312	-215	1%	2%	0%	1%	3%	1%
	5	464	512	795	1 648	1 936	2 075	-1 184	-1 424	-1 280	6%	6%	6%	10%	11%	10%
	6	2 199	3 018	4 316	2 179	3 576	3 359	21	-558	957	26%	33%	34%	14%	20%	16%
	7	546	849	2 633	4 741	4 332	4 355	-4 195	-3 483	-1 722	7%	9%	21%	30%	25%	21%
	8	2 587	2 197	2 470	604	630	1 013	1 983	1 567	1 457	31%	24%	19%	4%	4%	5%
	9		2	131	1		2 542	-1	2	-2 412	0%	0%	1%	0%	0%	12%
	Total	8 332	9 022	12 748	15 831	17 622	20 819	-7 499	-8 599	-8 072	100%	100%	100%	100%	100%	100%
EU	0	593	1 629	1 441	436	638	222	157	991	1 219	15%	15%	9%	7%	4%	1%
	1	62	136	115	14	21	24	48	115	91	2%	1%	1%	0%	0%	0%
	2	270	413	321	359	1 403	773	-89	-990	-453	7%	4%	2%	6%	8%	4%
	3	207	194	203	128	148	207	80	45	-4	5%	2%	1%	2%	1%	1%
	4	16	95	98	86	124	50	-71	-29	48	0%	1%	1%	1%	1%	0%
	5	198	292	337	1 060	3 231	3 968	-862	-2 939	-3 630	5%	3%	2%	18%	19%	22%
	6	1 229	2 440	4 169	1 133	3 049	3 220	95	-610	949	32%	22%	26%	19%	18%	18%
	7	274	1 301	3 940	2 291	7 139	7 974	-2 017	-5 837	-4 034	7%	12%	24%	39%	42%	44%
	8	980	4 578	5 374	324	1 111	1 498	656	3 467	3 877	26%	41%	33%	6%	7%	8%
	9			119			344			-225	0%	0%	1%	0%	0%	2%
	Total	3 829	11 077	16 118	5 832	16 862	18 280	-2 002	-5 786	-2 163	100%	100%	100%	100%	100%	100%
Med. Partners (**)	0	213	264	371	3	16	29	210	248	341	27%	18%	15%	1%	1%	1%
	1		7	30					7	29	0%	0%	1%	0%	0%	0%
	2	24	47	39	70	148	115	-46	-101	-76	3%	3%	2%	11%	12%	5%
	3	13	15	56	368	803	1 032	-355	-787	-976	2%	1%	2%	58%	66%	45%
	4	9	27	28	5		1	5	27	26	1%	2%	1%	1%	0%	0%
	5	85	85	139	143	176	200	-58	-91	-61	11%	6%	6%	22%	14%	9%
	6	405	760	968	39	50	64	366	710	905	51%	51%	39%	6%	4%	3%
	7	35	252	579	5	22	306	30	230	273	4%	17%	23%	1%	2%	13%
	8	12	42	255	5	9	23	6	33	232	1%	3%	10%	1%	1%	1%
	9			4			528			-525	0%	0%	0%	0%	0%	23%
	Total	798	1 500	2 468	638	1 223	2 299	160	276	169	100%	100%	100%	100%	100%	100%
AC10 (***)	0	48	64	91	80	58	11	-32	6	80	16%	8%	10%	24%	14%	2%
	1	8	23	20	1			7	23	20	3%	3%	2%	0%	0%	0%
	2	21	11	12	8	27	11	13	-16	1	7%	1%	1%	2%	7%	2%
	3	31	53	46	3	23		28	30	46	10%	6%	5%	1%	6%	0%
	4	1	2	2	1	1		1	1	2	0%	0%	0%	0%	0%	0%
	5	21	40	67	47	41	95	-26	-2	-28	7%	5%	7%	14%	10%	14%
	6	64	164	291	71	125	125	-7	39	166	21%	20%	31%	21%	31%	19%
	7	46	94	292	118	114	407	-72	-20	-115	15%	11%	31%	36%	28%	60%
	8	65	388	110	4	16	25	62	372	85	21%	46%	12%	1%	4%	4%
	9			5							0%	0%	1%	0%	0%	0%
	Total	305	840	937	331	407	675	-26	434	257	100%	100%	100%	100%	100%	100%

(*) - 0 = Food & Animals; 1 = Drinks, tobacco; 2 = Raw materials, excl oil; 3 = Comb.Min.;
4 = Oils, fats; 5 = Chemicals; 6 = Manufactured Products; 7 = Mach & Transport Mat.;
8 = Manufactured articles; 9 = Unclassified Products.
(**) Algeria, Morocco, Tunisia, Egypt, Jordan, Syria, Turkey, Lebanon, Israel
(***) Poland, Hungary, Lituania, Latvia, Estonia, Slovakia, Slovenia, Czech Rep., Malta, Cyprus.

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Notes

[1] The participation rate of the country in question is replaced by that of the target zone when it is less than the latter.
[2] This indicator is based on four components: trade policy, fiscal policy, level of real exchange rate, and privatisation.
[3] This analysis is developed in the FEMISE 2003 report on enlargement.
[4] The agreements on textiles and clothing extended the multifibre agreements for 30 years, concluded in 1974, for a period up till 1st January 2005.
[5] Turkey, with more than 73% of production in the Mediterranean, is the principal producer in the region, ahead of Tunisia (9%), Morocco (7%) Egypt (5%) and Syria (5%).
[6] Calculted from UNIDO Industrial Demand Supply Balance Data Base 2002.
[7] DREE (2003)
[8] Belghazi (2002).
[9] DREE (2003).
[10] Note that MC have better statistics - in terms of differences between high and low revenues relative to other developing regions.
[11] Measuring the proportion of the population under the poverty line,
[12] In the Paris Conference II aid from the international community amounting to 4.4 billion dollars was given to Lebanon, of which low interest long term loans of 3.1 billion dollars which must go towards restructuring the public debt and 1,3 billion dollars towards infrastructure projects.
[13] At present, only Arab banks have benefitted from this new policy.
[14] MIGA is part of the World Bank Group. Its mission is to guarantee international investments against non-commercial risks (expropriation, conflict, etc).
[15] Members of the Council include the Governor and Vice Governor of the Central Bank, Vice Ministers of Industry and Finance and Agriculture, and the President of the Planning Commission.

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FEMISE REPORT ON THE EURO-MEDITERRANEEN PARTNERSHIP 2003

September 2003

lIST OF ANNEXES

Methodological Notes on the PC-TAS Database

I- Problems inherent in the creation of the commercial exchanges database and its annual updating: PC-TAS

The database on commercial exchanges is a compilation of PC-TAS Data, edited by the ITC/UN statistics division and updated annually. Since all Mediterranean countries do not report or do not report regularly, a certain number of problems appear when we want to compile the series over several periods. These are related, in part, to the approximations made to recompose the missing values at a given time (and where the values reported are published the following year) and in part, to the fact that new participating countries whose exchange values were - until then - approximated, appear on the database.

In the case of countries that never report, we use mirrors statistics, which means the importation or exportation amounts (if we estimate the importation and the exportation) reported by the partner countries .

It is notably the case for Syria, Lebanon, Algeria until the 1999 edition of the database, and for Jordan whose results have been published since 2001, (with missing data, nevertheless, for the 1996 and 1999 edition, which is why we continue to use the mirror approach for this country as well).

It is systematically applied for Syria, Lebanon. For other countries, one or more year are missing; it is the case of Algeria in 1992, 1993 and 1998, Morocco in 1992,1998 and 1999, Jordan in 1996 and 1999, Egypt in 19992 and 1993 and Malta in 1992 and 1993. Out of concern for the cohesion of the time series 1992-1999, and relative to previous results, we have opted to work on mirror data for Algeria , and Jordan. Morocco also did not report its results for 1998 and 1999, and we had to work for the present report on mirror data .

When certain years are missing, we use the same mirror method to reconstitute the exchanges of the none available years. But we find important differences between what is reported by the countries and what is reported by partner countries. Our decision then has been to use the data provided by the countries and to complete the picture by using mirror values to which we have applied a correction coefficient. obtained from the declared ratio of value on the mirror value for the most recent year when the country has reported. If many values are missing, we only use the mirror values.

These estimations allow the completion of the database, but they present a few limitations: (i) the data obtained is expressed FOB for imports and CAF for exports (since estimated after import declarations), that is to say, costs of insurance are included, on average 10% more than the FOB value ; (ii) moreover the mirror statistics only include the exchange between reporting countries and hence a part of the exchange inside the PPM zone cannot be accounted for.

Finally, the constituted database is the result of the accumulated data series which is annually updated. Every year, corrections can be made to the results previously obtained:

- √ *retroactive data updating for every version of the database;*
- √ *introducing new reporting countries to the database and taking them into account;*
- √ *successive non-declaration for the old reporting countries which can oblige us to change the estimation methods*
- √ *reporting at the coming period of an estimated value of a previous one; this is the case for Algeria which did not report for 1998 in 2000 , but which, in the following year, year reported for 1998 and 1999.*

II- The accounting problems between the commercial balance as calculated by the Comtrade, PC-Tas and as calculated by the balance of payments by the IMF

The commercial data contained in the database PC-TAS edited by the ITC/UN Statistics Division are custom tariffs statistics, generally from the system called "general commerce". Most of the time these data are different from those published in the balance of payments of goods. A minimum of three definition divergences can explain these differences.

First it is about the difference in term of coverage of the transactions: for example the commercial data of the balance of payments include adjustments for certain exchanges of goods that we do not find in the data provided by customs.

Then it is about the difference in the date of the registered data: in the balance of payments, accounting transactions takes place at the moment of the property change, while for customs data generally at the moment when the goods cross the borders.

Finally, its about the difference noted in the classifications used: hence, for example, the repair of goods is a goods transaction in the balance of payments, but not in the customs data.

Details of the clasification method used

To compare the performance of various economies, we have applied a particular multicriteria method based on the concept of "outranking" and using the concept of tri: the "electre-tri" method developed at LAMSAD, University of Paris-Dauphine.

In concrete terms, it means assigning each country of the sample selected to classes of predefined categories sorted in a hierarchy so that class n°5, for example, gathers the best performing economies with regard to the criteria chosen, class n°4 covers those economies less powerful than class n°5, but more powerful than class n°3,and so forth. The assignment of an economy to a class rests on the comparison of the performances of this economy to previously established and hierarchical profiles. The comparison uses the principle of "outclassing"; which means that for thecriteria chosen, economy A outclasses profile i when it obtains, in a majority of cases (fixed at 70%in the analysis) at least as good a result as that of the profile considered. If the economy in question outclasses profile no. 1, it is assigned to class n°5. In the contrary case, it is compared with profile no.2 with, in the event of a positive result, assignment to class n°4 or acomparison with the following profile, etc. If the economy is surclassed by all the profiles, it isassigned to the last class. In order to have robust results, the outclassing must be without ambiguity.

In addition to the imprecision of statistical measurements, it is advisable to know when the value of a statistical indicator must be judged better than another value. Does an indicator of human development of 0,910 really outclass a rate of 0,908? To face these problems, we use the possibility offered by theelectre-tri method based on the use of pseudo-criteria: the definition of thresholds of indifference (Sa) and strict preference (Sp).

The threshold of indifference makes it possible to define, for a criterion, a minimal value Sa belowwhich the difference between an economy and a profile, for this criterion, will be judged nonrelevant. Compared to the previous example, if one fixes the threshold of indifference Sa at 0,02, one considers the two values (0,910 and 0,908) like equivalent. If the threshold is fixed at 0,005 avalue of 0,908 is judged worse than 0,910, while a value of 0,909 is equivalent to 0,910.

Thethreshold of strict preference Sb defined also for each criterion indicates the value beyond which, for this criterion, there is a clear outclassing in the comparison. Sb is generally higher than Sa. Inour example, by fixing Sa at 0,02 and Sb at 0,03, we consider that a value of 0,908 is equivalentto 0,910, but that a value of 0,907 (0,910-Sb) is worse than the two others.

Provided with these thresholds, the method calculates, for each economy, a degree of outclassingcompared to each profile taking into account all the criteria; the degree varies between 0 and 1and could be perceived as the relevance of the assertion: "this economy outclasses this profile". If, for a profile, this index is higher than a given value (70% in our analysis), the economy outclassesthis profile. It is this degree, which fixes the position of the point on the graphs.

The procedure used to establish the profiles of comparison and the thresholds is crucial – so as tobe able to have confidence in the posted results. In order to obtain the most objective possibleresults, we have applied systematic methods. We chose as a norm the 80th centile of thedistribution for profile 1, the 60th centile for profile 2, the 40th centile for profile 3 and the 20thcentile for profile 4. One can thus translate into simple terms the significance, for a criterion given, of the comparison between the performance of an economy and the norm of its associated profile. On 100 economies, if, for an indicator, the economy considered outclasses profile n°l, it is that it islocated in the 20 first economies in terms of performance. If the economy, on the contrary, issurclassed by profile n°4, it is that 80% of the economies in the sample (203 countries of theWorld Bank) do better than it for the criterion given. The centiles of the distribution are also at thebase of the calculation of the thresholds. Thus, the threshold Sa is equal to 5% of the distribution (and the threshold Sb is 7,5%): for example for profile 1, it is concerned with the differencebetween the 80th and the 75th centile. The principle is that in a classification of 100 economies, when a threshold has been placed at the nth place, the fact of being between the nth and the n+5th place is equivalent.

Subjective criteria:

- √ *Tariff and non tariff barriers (The Heritage Foundation-The Wall Street Journal),*
- √ *The free use of foreign currency (The Fraser Institute),*
- √ *Property rights (The Heritage Foundation-The Wall Street Journal),*
- √ *The freedom of exchange on the capital market (The Fraser Institute),*
- √ *The regulation of foreign investments(The Heritage Foundation-The Wall Street Journal),*
- √ *The regulation (The Heritage Foundation-The Wall Street Journal),*
- √ *Black market control(The Heritage Foundation-The Wall Street Journal),*
- √ *Participation and transparancy (Kaufmann D., Kraay A., Zoido-Lobaton P.),*
- √ *Corruption control(Kaufmann D., Kraay A., Zoido-Lobaton P.),*
- √ *Moody's Ratings*

Objective criteria:

- √ *Life expectancy(World Bank),*
- √ *Share of FDI in GDP (IMF),*
- √ *Openness measured by the exports+imports ratio per habitant (IMF and World Bank),*
- √ *GDP per capita(IMF and World Bank),*
- √ *Human Development Indicator(HDI, 2000, UNDP),*
- √ *Inflation (CPI, IMF and World Bank),*
- √ *Current account % of GDP (IMF and World Bank),*
- √ *GDO growth(IMF and World Bank),*
- √ *Budget deficit % of GDP(IMF and World Bank),*
- √ *Number of phone lines for each 1000 habitants (World Bank),*
- √ *Number of internet users for each 1000 habitants (World Bank),*
- √ *Debt Servic as % of exports of goods and services (World Bank),*
- √ *External debt as % of GDP (World Bank),*
- √ *Banks credit to private sector as % of GDP (IMF and World Bank).*

FDI inflows million US $

(1)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Annual Average (mios $) (A) 1990-95	(B) 1996-99	(C) 2000-01
Algeria*		12	10	-59	18	5	*270*	*260*	*501*	*507*	*438*	*1 196*	-3	385	817
Egypt	734	253	459	493	1 256	596	636	887	1 065	2 919	1 235	510	632	1 377	873
Israel	101	350	539	429	432	1 337	1 387	1 628	1 760	2 889	4 392	3 044	531	1 916	3 718
Jordan	38	-12	41	-34	3	13	16	361	310	158	*39*	*169*	8	211	104
Lebanon						*10*	80	150	200	250	*298*	*249*	10	170	274
Morocco	165	317	423	491	551	335	357	1 079	333	850	201	2 658	380	655	1 430
Syria	71	62	67	176	251	100	89	80	82	*263*	*270*	*205*	121	129	238
Tunisia	76	125	526	562	566	378	351	365	668	368	779	486	372	438	633
Turkey	684	810	844	636	608	885	722	805	940	783	982	3 266	745	813	2 124
Mediterranean Partners	1 869	1 917	2 909	2 694	3 685	3 659	3 908	5 615	5 859	8 987	8 634	11 783	2 789	6 092	10 209
World	211 425	158 936	175 841	219 421	255 988	331 068	386 140	478 082	694 457	1 088 263	1 491 934	735 146	225 447	661 736	1 113 540
Developing Countries	34 689	41 696	51 108	78 813	104 920	113 338	152 685	191 022	187 611	225 140	237 894	204 801	70 761	189 115	221 348
Latin America and Carribean	8 989	15 356	17 611	20 009	30 091	32 311	52 856	74 299	82 203	109 311	95 405	85 873	20 728	79 667	90 639
Central and Eastern Europe	300	2 448	4 439	6 757	5 932	14 268	13 547	19 113	22 608	25 363	26 563	27 200	5 691	20 158	26 882
South and East Asia (excl. China, incl. HK)	10 670	16 862	16 527	22 283	32 167	37 790	47 663	52 101	42 501	59 671	90 351	47 519	22 717	50 484	68 935

Source: United Nations: World Investment Reports 1995 to 2002 ; UNCTAD Web Site and WIR 2002 for 1999 to 2001

(1): Last updates 1996-2001 according to WIR 2002

*According to the update of previous previsions UNCTAD, WIR 2002

Annex B1: Share of MP in world exports of textiles and clothing (%)

	Total textile exports		Clothing articles exports		Threads and fabrics exports	
	1995	2001	1995	2001	1995	2001
Algeria	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Egypt	0,30%	0,40%	0,20%	0,40%	0,40%	0,30%
Israel	0,30%	0,30%	0,50%	0,40%	0,30%	0,30%
Jordan	0,00%	0,10%	0,00%	0,20%	0,00%	0,00%
Lebanon	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Morocco	0,30%	0,70%	0,50%	1,50%	0,10%	0,10%
Syria	0,10%	0,20%	0,10%	0,10%	0,00%	0,10%
Tunisia	0,70%	0,90%	1,60%	1,60%	0,10%	0,10%
Turkey	2,40%	3,00%	4,20%	4,20%	1,70%	2,90%
MP	**4,20%**	**5,50%**	**7,10%**	**8,40%**	**2,70%**	**4,00%**

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Annex B2: Relative share of exports from the PanEuromediterranean zone in %

	1995	2001		1995	2001
Algeria	0,20%	0,10%	Cyprus	0,40%	0,10%
Egypt	3,90%	4,20%	Czech Rep.	9,10%	7,30%
Israel	4,40%	3,40%	Estonia	1,10%	0,00%
Jordan	0,30%	1,10%	Hungary	6,40%	6,80%
Lebanon	0,30%	0,30%	Latvia	0,90%	1,00%
Morocco	4,30%	8,60%	Lituania	1,70%	2,50%
Syria	1,60%	1,90%	Malta	0,90%	0,60%
Tunisia	10,50%	10,20%	Poland	12,40%	10,40%
Turkey	34,20%	34,80%	Slovakia	3,00%	3,90%
			Slovenia	4,70%	2,80%
MP	59,40%	64,60%	*AC10*	40,60%	35,40%

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Annex B3: EU imports of textile products (excluding intra-european trade) in millions current dollars and in %

	Textile Products	1990	1995	2000	2001
Imports extra EU	Travel articles	1 398	3 036	3 932	3 815
	Shoes	3 406	7 206	9 498	10 290
	Leather	2 715	3 032	2 816	3 209
	Thread & fabrics	17 435	17 654	20 262	19 108
	Clothing	17 686	42 911	50 016	51 316
	Raw Materials	2 701	2 931	1 841	1 640
	Tot. textiles imports	45 341	76 771	88 365	89 377
The 8 Non-Mediterranean and Enlargement Countries	Travel articles	20	115	81	88
	Shoes	81	913	866	907
	Leather	24	267	220	249
	Thread & fabrics	128	1 710	2 202	2 378
	Clothing	384	5 283	4 699	4 884
	Raw Materials	15	70	47	56
	Tot. textiles imports	652	8 357	8 115	8 561
Mediterrannean Partners	Travel articles	46	80	60	72
	Shoes	148	426	525	561
	Leather	16	77	162	184
	Thread & fabrics	1 124	2 256	2 598	2 601
	Clothing	3 463	10 237	10 547	11 003
	Raw Materials	213	303	228	188
	Tot. textiles imports	5 010	13 380	14 120	14 609
China	Travel articles	349	1 576	2 357	2 335
	Shoes	209	1 123	1 829	2 026
	Leather	87	98	149	231
	Thread & fabrics	700	1 338	1 830	1 846
	Clothing	1 077	5 348	7 803	8 216
	Raw Materials	222	148	142	132
	Tot. textiles imports	2 644	9 632	14 110	14 786
Share of AC10 textiles imports from the EU in %					
The 8 Non-Mediterranean and Enlargement Countries	Travel articles	1,4%	3,8%	2,1%	2,3%
	Shoes	2,4%	12,7%	9,1%	8,8%
	Leather	0,9%	8,8%	7,8%	7,8%
	Thread & fabrics	0,7%	9,7%	10,9%	12,4%
	Clothing	2,2%	12,3%	9,4%	9,5%
	Raw Materials	0,5%	2,4%	2,5%	3,4%
	Tot. textiles imports	**1,4%**	**10,9%**	**9,2%**	**9,6%**
Share of MP textiles imports from the EU in %					
Mediterrannean Partners	Travel articles	3%	3%	2%	2%
	Shoes	4%	6%	6%	5%
	Leather	1%	3%	6%	6%
	Thread & fabrics	6%	13%	13%	14%
	Clothing	20%	24%	21%	21%
	Raw Materials	8%	10%	12%	11%
	Tot. textiles imports	**11%**	**17%**	**16%**	**16%**

Sources : Comtrade et Eurostat, programme Medstat - Calculs Institut de la Méditerranée.

Annex B4: Comparative advantage of MP in textile industry

Mediterrannean Partners		Textile Fibers	Threads and Fabrics	Clothing
Egypt	1990	5.2	2.5	1.2
	2001	14	4.3	5.2
Jordan	1990	-	0.7	0.4
	2001	-	0.8	2
Lebanon	1990	0.35	-	3
	2001	1.6	-	1
Syria	1990	8.65	0.4	0.4
	2001	15.6	0.9	1.08
Israel	1990			
	2001			
Morocco	1990	-	-	11
	2001	-	-	11.5
Tunisia	1990	-	1.03	11.8
	2001	-	0.96	11.7
Turkey	1990	3.3	3.6	9.5
	2001	1.9	4.7	7
AC10		Textile Fibers	Threads and Fabrics	Clothing
Cyprus	1995	-	-	5.9
	2001	-	-	2.7
Czech Rep.	1995	0.87	2.08	-
	2001	0.91	1.61	-
Malta	1995	-	-	2.9
	2001	-	-	2.7
Estonia	1995	0.2	2	2.6
	2000	1.76	1.72	1.83
Hungary	1995	-	-	2.63
	2001	-	-	1.5
Latvia	1995	-	3.6	1.8
	2001	-	2.4	3.15
Lituania	1995	2.8	2.2	2.65
	2001	1.52	1.8	3.9
Poland	1995	-	0.75	3.23
	2001	-	0.9	1.8
Slovakia	1995	-	1.5	0.99
	2001	-	1.09	1.54
Slovenia	1995		1.29	2.53
	2001		1.44	1.39

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Annexe B5: Share of textile product by categories in MP exports

	Textile categories	1990	1995	2000/2001
Algeria	Natural fibers	27%	76%	28%
	Synthetic threads and fabrics	63%	5%	7%
	Fabric products	1%	0%	11%
	Clothing	10%	19%	54%
Egypt	Natural fibers		59%	50%
	Synthetic threads and fabrics		2%	0%
	Agricultural raw material		0%	0%
	Fabric products		5%	1%
	Clothing		35%	49%
Israel	Natural fibers	16%	8%	6%
	Synthetic threads and fabrics	11%	12%	15%
	Agricultural raw material	0%	0%	0%
	Fabric products	10%	11%	14%
	Clothing	63%	69%	64%
Jordan	Natural fibers	14%	12%	1%
	Synthetic threads and fabrics	35%	26%	4%
	Agricultural raw material	0%	0%	0%
	Fabric products	9%	18%	8%
	Clothing	43%	44%	88%
Morocco	Natural fibers		5%	2%
	Synthetic threads and fabrics		5%	1%
	Agricultural raw material		0%	0%
	Fabric products		6%	2%
	Clothing		84%	95%
Syria	Natural fibers			70%
	Synthetic threads and fabrics			5%
	Clothing			25%
Tunisia	Natural fibers	5%	8%	3%
	Synthetic threads and fabrics	2%	3%	2%
	Agricultural raw material	0%	0%	0%
	Fabric products	2%	2%	1%
	Clothing	92%	87%	95%
Turkey	Natural fibers	15%	8%	10%
	Synthetic threads and fabrics	8%	10%	10%
	Agricultural raw material	0%	0%	0%
	Fabric products	9%	7%	10%
	Clothing	68%	75%	71%

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Annexe B6: Complementarity of Eu-MED relations

Imports	Synthetic Fiber	Natural Fiber
MOROCCO	EU 79% (France, UK) Turkey 3% - China 3%	EU 79% (France, Spain) China 2%, MP 4%
TUNISIA	EU 87% (France, Italy, Germany) China 2%	EU 89% (France, Italy)
EGYPT	Turkey 17% Saudi Arabia 11% China 4% - EU 5%	Syria 44% EU 7% (France)
JORDAN	MP 23% - Syria 9% Israel 8% - Turkey 6%	EU 22% (UK) MP 21% -Syria 5% Turkey 5%
SYRIA	Turkey 20% EU 15% Bulgaria 13% Slovakia 5% -China 11% - Japan 11%	EU 55% (It) China 11% United Arab Emirates 10%
LEBANON	EU 23% (Italy) China 15% MP 10% - Turkey 8%	EU 23% (Italy) China 18% - US 12% MP 9% (Syria)
TURKEY	EU 39% (Italy, Germany) China 8% -Korea 16% India 6% AC10 2%	EU 35% (Italy) – US 20% China 4% MP 6% - Syria 3%
ISRAEL	EU 15% (UK) US 12% - China 7%	EU 27% (Italy) – China 8% US 5%
Exports	**Clothing articles**	**Synthetic or natural threads, fibers and fabrics**
MOROCCO	EU 95% (France, UK)	
TUNISIA	EU 97% (France, Italy)	
EGYPT	US 53% EU 41% (UK, Germany)	Natural fibers: EU 45% -US 14%
JORDAN	US 69% Israel 22%	
SYRIA	EU 14.5% (Germany) - US 12.5% Saudi Arabia 12% - MP 7.5% - Jordan	Natural fibers : EU 44% (Italy) MP 30% - Turkey 20%
LIBAN	EU 42.9% (France, Finland) –US 5.5% Saudi Arabia 11% United Arab Emirats 5% - Kowait 3.1%	
TURQUIE	EU 72.3% (Germany) US 16.6%	Synthetic fibers : 46% EU – 13.4% MP (Syria) 4.5% AC10
ISRAEL	US 61% EU 33%	

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée

Annexe B7: Complemetarity of EU-Candidate countries (AC10) relations

Imports	Synthetic Fiber	Natural Fiber
ESTONIA	EU 78.2% (Sweden, Finland) AC10 4.5%	UE 34% (All, Fr) AC10 3.4%
HUNGARY	EU 72% (Italy, Germany) AC10 5.8% - Turkey 2.7%	UE 74.2% (It, All, Autriche) Turquie 4.3% - AC10 3.8%
LATVIA	EU73% (Germany, Sweden, UK) AC10 16.2% - Poland 8% Lituania 4.5%	UE 59.9% (It, All) AC10 12.3% - Estonie 6.2% Lituanie 5% - Chine 2.8%
LITUANIA	EU 88% (Germany, UK, DK, Sweden) AC10 5.5% - Poland 3%	UE 74% (All, Belgique) AC10 12.2% - Lettonie 7.7%
POLAND	EU 67% (Germany, Italy, France) AC10 6.9% - Czech rep. 2.4% MP 3.2% - Turkey 2.6%	UE 74.3% (It, All) AC10 7.3% - Tchéquie 4.1% P Med 4.9% - Turquie 4.5%
SLOVAKIA	EU 70% (Germany, Italy) AC10 12.8% - Czech rep. 8.8% Poland 1.7%	UE 63.7% (It, All) AC10 13.3% - Tchéquie 12.3% P Med 1.1% - Turquie
SLOVENIA	EU 81.1% (Italy, Germany) AC10 4.4% MP 2.1%	UE 50.6% (It) AC10 8.8% - Tchéquie 5% P Med 7.8% - Egypte 4% Turquie 3,4%
CZECH REP.	EU 62.9% (Germany) AC10 15.6% - Slovakia 11.7% MP 3.5% - Turkey 3.4%	UE 50.7% (All, It) Pmed 3.4% - Turquie 1.5% AC10 2.7% - Slovaquie 1.4%
MALTA	EU 83.4% (Italy, Germany, UK) China 2.2% - MP 0.6%	UE 53.1% (It) Pmed 30% - Turquie 25.4%

Exports	Clothing	Synthetic and natural threads, fibers and fabrics
ESTONIA	EU 81% (Sweden, Finland) AC10 9%	EU 82%
HUNGARY	EU 83% (Italy, Germany)	EU 66% (Italy) natural fibers EU 70% (Italy) Synthetic fibers %
LATVIA	EU 86% (Germany, Sweden, Denmark)	EU 68% (Italy) natural fibers EU 43% (Italy) Synthetic fibers AC10 21%
LITUANIA	EU 92% (Germany, UK, Denmark)	EU 70% (Italy) natural fibers AC10 14% EU 71% (Germany, France) synthetic fibers AC10 10%
POLAND	EU 90% (Germany 47%- Denmark)	EU 86% (Germany, Italy) natural fibers EU 68% (Germany) Synthetic fibers
SLOVAKIA	EU 79% (Germany, Italy)	EU 76% (Germany) natural fibers AC10 17% EU 47% (Germany) Synthetic fibers AC10 39% (Czech Rep.)
SLOVENIA	EU 83% (Germany)	EU 78% (Italy) natural fibers EU 65% (Italy) Synthetic fibers
CZECH REP.	EU 84% (Germany)	EU 62% (Germany, Italy) Natural fibers EU 69% (Germany) Synthetic fibers AC10 19%

Sources: Comtrade and Eurostat, Medstat program, calculations Institut de la Méditerranée