Economic Development of the Arab Countries in the Middle East and North Africa

Determinants, Constraints, and Implications for EU-Arab Relations

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List of Acronyms

ACP	African, Caribbean and Pacific countries
AGR	Agriculture
AMC	Arab Mediterranean Countries: Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, West Bank and Gaza Stripe
AMENA	Arab countries of the Middle East and North Africa: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza Stripe, Yemen
BSC	Black Sea countries
BSS	Black Sea Synergy
CAP	Common Agricultural Policy
CC-13	Central and East European Candidate countries
EDA	epxloratory data analysis
EFP	Economic and Financial Partnership (Euro-Mediterrane Wirtschafts- und Finanzpartnerschaft)
EFTA	European Free Trade Area
EMAA(s)	Euro-Mediterranean Association Agreement(s)
EMFTA	Euro-Mediterranean Free Trade Area
EMP	Euro-Mediterranean Partnership (Europäische Mittelmeerpolitik)
ENI	European Neighborhood Instrument
ENP	European Neighborhood Policy
EU	European Union
EX	Exports
FDI	foreign direct investment

GAFTA	Greater Arab Free Trade Area
GCC	Member Countries of the Gulf Co-operation Council, includes: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GOS	Global Opinion Survey
HDI	Human Development Index
IEF	Index of Economic Freedom
IM	Imports
IND	Industry
IV	instrumental variables
MED	dummy for Arab Mediterranean Countries
MEDA	MEDA-Programm: French abbreviation: Mesures d´accompagnement financiers et techniques à la réforme des structures économiques et sociales dans le cadre du partenariat euro-mediterranéen.
MENA	Middle East and North Africa
MP	Mediterranean Partners: AMC plus Cyprus, Malta, Israel, and Turkey
NATO	North Atlantic Treaty Organization
NC	neighbor countries
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
OECE	Organization for European Economic Cooperation
OLS	Ordinary least squares
SERV	Services
TFP	total factor productivity
WEF	World Economic Forum
WTO	World Trade Organization
2SLS	Two-stage least Squares

List of Symbols

i	country
k	number of exogenous explanatory variables
n	total number
u	residual
x	explanatory variable
y	endogenous variable
y_1	dependent variable
y_2	endogenous explanatory variable
$\hat{y}_2$	fitted value of y_2
y_3	endogenous explanatory variable
z	exogenous explanatory variable
Cov	covariance
N	sample size
Z	set of control variables
R^2	coefficient of determination
β_0	intercept
β	regression coefficients
ϵ	random error term
π	IV estimators
$\hat{\pi}$	IV estimators of fitted value

Deutsche Zusammenfassung

Die vorliegende Arbeit analysiert zum einen die Chancen und Perspektiven nachhaltiger wirtschaftlicher Entwicklung der arabischen Mittelmeerländer. Zum anderen untersucht sie die Notwendigkeit und das Potential bestehender Politikmaßnahmen der Europäischen Union, insbesondere der Wirtschafts- und Finanzpartnerschaft des Barcelona-Prozesses, wirtschaftliche Entwicklung in diesen Ländern zu unterstützen und anzuregen.

Die Analyse bezieht sich insbesondere auf die Länder Algerien, Tunesien, Marokko, Ägypten, Jordanien und Syrien, geht aber auch auf Parallelen und Unterschiede zu den arabischen Golfstaaten (Bahrain, Kuwait, Katar, Vereinigte Arabische Emirate, Saudi-Arabien und Oman) ein. Der Libanon, der Irak, die Palästinensischen Autonomiegebiete und Libyen bleiben auf Grund mangelnder Datenlage und auf Grund der instabilen wirtschaftlichen und politischen Verhältnisse von der Analyse ausgeschlossen.

Das Ziel der Dissertation ist nicht, eine umfassende Länderstudie jedes einzelnen Landes und seiner speziellen wirtschaftlichen und politischen Hemmfaktoren auf Mikro-Ebene herauszuarbeiten und zu präsentieren. In dem hier verfolgten Ansatz geht es vielmehr darum, grundsätzliche Strukturen und Bereiche herauszuarbeiten, die diese Länder trotz aller Unterschiede gleichermaßen charakterisieren und u.U. von anderen Regionen unterscheiden. Dabei wird insbesondere ein impliziter Vergleich mit anderen Entwicklungsregionen wie Lateinamerika, Südostasien, Osteuropa und Zentralasien und dem subsaharischen Afrika zu Grunde gelegt.

Vergleicht man das Tempo und Ausmaß wirtschaftlicher Entwicklung in diesen Weltregionen, so fällt sofort das unterdurchschnittliche Abschneiden der arabischen Länder im Allgemeinen und der arabischen Mittelmeerländer im

Speziellen auf. Dieses überrascht insbesondere, da diese über eine vergleichsweise gute geographische Lage verfügen. Als Schnittstelle verbinden die arabischen Mittelmeerländer drei Kontinente, haben eine optimale Anbindung an See- und Wasserwege und befinden sich in unmittelbarer Nähe zur weltwirtschaftlichen Drehscheibe EU. Des Weiteren spielen negative Faktoren wie ethnische Zersplitterung oder extreme gesundheitliche Belastung durch Malaria oder AIDS in diesen Ländern kaum eine Rolle: Es herrscht trockenes, Mediterranes Klima und die arabischen Mittelmeerländer stellen einen in sich relativ homogenen gemeinsamen Sprach- und Kulturkreis dar.

In der öffentlichen Wahrnehmung der Region dominieren, nicht zuletzt durch eine entsprechende Berichterstattung der Medien, zwei Faktoren: Erstens, die weltweit größten Vorkommen an Erdöl und Erdgas, die sich in der Region befinden. Und zweitens der Israelisch-Palästinensische Konflikt, bzw. Krieg und Terror generell. Ohne Zweifel sind dies die offensichtlichsten Charakteristika, die sowohl innergesellschaftliche Strukturen als auch die Beziehungen der arabischen Länder mit dem Rest der Welt prägen. Dennoch ist keiner der beiden Faktoren für sich betrachtet, noch sind beide Faktoren zusammen in der Lage, die wirtschaftliche und sozioökonomische (Nicht)Entwicklung erschöpfend zu erklären.

Lösungsansätze oder Erklärungsversuche, die die Region dennoch auf diesen kleinsten gemeinsamen Nenner reduzieren, sind, dies zeigt die Vergangenheit, nicht in der Lage, Lösungs- und Politikansätze zu generieren, die die Wachstums- und Entwicklungsdefizite dieser Länder verringern könnten. Im Gegenteil:

Der Erdölreichtum ist ein Faktum in der Region, aber nicht für alle Länder gleichermaßen. Während sich das Ressourcenreichtum vor allem auf die kleinen Golfmonarchien konzentriert, sind die Bodenschätze der bevölkerungsreicheren Mittelmeerländer, so überhaupt vorhanden, eher gering. Ausnahmen bilden nur die Länder Syrien und Algerien. Dennoch hat auch die arabische Mittelmeerregion durch die immense Kaufkraft der Golfstaaten und die tatsächliche umfassende Umverteilung durch staatliche und private Transferzahlungen eine gewisse Teilhabe am Wohlstand.

Anders als viele Arbeiten, die sich mit den Ländern der Region beschäftigen,

konzentriere ich mich in dieser Arbeit nicht auf diese vordergründigen Faktoren, auch nicht auf die durchweg autoritäre Natur der herrschenden Regime an sich, die ohne Zweifel einen nicht unbeträchtlichen Anteil daran haben, dass sich Widerstand nicht in politischer Opposition, sondern zunehmend in religiös motiviertem Fanatismus und Extremismus artikuliert. Die Mitgliedsländer der EU sehen sich in zunehmendem Maße mit den negativen Folgen dieser Entwicklungen konfrontiert, die nicht nur die Sicherheit und Stabilität an Europas Außengrenzen betreffen, sondern auch, regionale Probleme immer stärker in die EU hineintragen.

Aus wirtschaftspolitischer Perspektive lässt sich argumentieren, dass fehlender materieller Wohlstand und mangelnde Perspektivlosigkeit diese Tendenzen eher noch verstärken, eine florierende nationale Wirtschaft hingegen massgeblich dazu beitragen kann, Konfliktpotenzial entschärfen und wirtschaftliche Perspektiven zu schaffen. Bereits 1995 hat sich die Europäische Union im Rahmen der Euro-Mediterranen Partnerschaft (EMP) dazu bekannt, wirtschaftliche Entwicklung, Wohlstand und Stabilität im Mittelmeerraum zu fördern und zu unterstützen.

Im Zentrum der Arbeit stehen deshalb zwei Fragestellungen, die auf einander aufbauen: Erstens, welches sind die zentralen Hemmfaktoren, die wirtschaftliche Entwicklung in den arabischen Mittelmeerländern behindern? Zweitens, wie kann die EU in Zukunft dazu beitragen, ihre selbst gesetzten Ziele besser zu realisieren?

Als solches ist diese Arbeit ein wichtiger Beitrag und Versuch, Lösungsansätze nicht ausgehend von der Disziplin aus abzuleiten, sondern durch eine komplexe und mehrschichtige Analyse. Ausgehend von der Annahme, dass sowohl die Regierungen der arabischen Mittelmeerländer als auch die Europäische Union nur begrenzte finanzielle und personelle Kapazitäten haben, ist es wichtig, zunächst die wichtigsten Hemmfaktoren zu identifizieren, um dann mit Nachdruck deren Behebung und schrittweisen Abbau vorantreiben zu können.

Die Analyse erfolgt in vier Schritten, die in den folgenden Kapiteln dokumentiert sind:

Kapitel 2 stellt die Europäische Mittemeerpolitik (EMP) und insbesondere

deren wirtschaftliche Dimension, die Euro-Mediterrane Wirtschafts- und Finanzpartnerschaft (EFP) vor. Dabei wird in einer ausführlichen Analyse der Strukturen und Politikmaßnahmen die hervorgehobene Stellung und zentrale Bedeutung der EFP, die sich über die EMP hinaus auch auf die neuere Europäische Nachbarschaftspolitik ausdehnt, herausgearbeitet und diskutiert. Darüber hinaus dokumentiert dieses Kapitel einerseits die Diskrepanz zwischen hohen Erwartungen und tatsächlich realisierten Ergebnissen, und weist andererseits kritisch daraufhin, dass unrealistisch hohe Erwartungen keinen geeigneten Maßstab für eine objektive Evaluierung der EFP darstellen.

Kapitel 3 konzentriert sich auf die Determinanten und Hemmfaktoren wirtschaftlicher Entwicklung in den arabischen Mittelmeerländern. Dabei wird versucht, unter unterschiedlichen Faktoren, die in der wirtschaftstheoretischen Literatur und/oder MENA Regionalstudien diskutiert werden, diejenigen heraus zu arbeiten, die wirtschaftliche Entwicklung am stärksten, bzw. stärker behindern als andere. Dabei benutze ich modernste ökonometrische Verfahren, um den Einfluss der verschiedenen erklärenden Variablen zu quantifizieren. Die Ergebnisse stützen die Eingangshypothese, dass insbesondere mangelnde technologische Kapazitäten und Fähigkeiten sowie politökonomische Strukturen die wirtschaftliche Entwicklung in den arabischen Mittelmeerländern behindern.

Kapitel 4 präsentiert zum einen Gemeinsamkeiten und Charakteristika dieser Strukturen der arabischen Länder. Zum anderen werden die Veränderungen und Herausforderungen Europäischer Außen- und Nachbarschaftspolitik, insbesondere durch die veränderten Rahmenbedingungen seit der EU-Osterweiterung, diskutiert. Basierend auf einem integrierten theoretischen Rahmen unterstreicht und spezifiziert dieses Kapitel die Interaktion und gegenseitigen Abhängigkeiten zwischen der Politik der EU und regionalen politökonomischen Strukturen.

Während in den vorherigen Kapiteln die arabischen Mittelmeerländer im Mittelpunkt stehen, konzentriert sich Kapitel 5 auf die Beziehungen der EU mit den arabischen Golfstaaten, insbesondere den Mitgliedern des Golf Kooperationsrates (GCC). Hier werden zunächst Unterschiede und Gemeinsamkeiten zwischen den arabischen Mittelmeer- und den arabischen Golf-

staaten herausgearbeitet. Darüber hinaus wird geprüft, ob und inwieweit die etablierten Strukturen der EFP als Blaupause für vertiefte EU-GCC Beziehungen dienen können.
Jedes Kapitel hat die Form eines geschlossenen Aufsatzes. Diese sind z.T. bereits veröffentlicht oder zur Publikation eingereicht. Dennoch handelt es sich hier nicht um eine Sammlung loser, unzusammenhängender Texte, sondern vielmehr unterschiedlicher Teilaspekte und Perspektiven. Deshalb bietet die geschlossene Darstellung der Dissertation mehr als nur die Summe der einzelnen Argumente, die in Kapitel 6 miteinander ins Verhältnis gesetzt und diskutiert werden. Darüber hinaus präsentiert Kapitel 6 konkrete Politikempfehlungen und skizziert Bereiche und Felder für zukünftige Forschungsvorhaben.

Die Europäische Mittelmeerpolitik wird seit dem Beginn des Barcelona Prozesses 1995 kontrovers diskutiert und es mangelt nicht an kritischen Beiträgen. Dennoch hat sich die EMP seitdem sowohl verstetigt als auch gefestigt. Darüber hinaus stand und steht insbesondere die Wirtschafts- und Finanzpartnerschaft (EFP) Pate für alle neueren Ansätze einer gemeinsamen und konzertierten Außenpolitik gegenüber den Nachbarländern, die keine Beitrittsperspektive haben. Dieses gilt für die Europäische Nachbarschaftspolitik seit 2003 ebenso wie für die Kooperation mit den Anrainern des Schwarzen Meeres seit 2007.
In aller Kürze zusammengefasst implizieren die Ergebnisse dieser Arbeit, dass der mäßigen Erfolg der EU-Mittelmeerpolitik bezüglich wirtschaftlicher Entwicklung in den arabischen Mittelmeerländern zu einem wesentlichen Teil darin begründet liegt, dass Strukturanpassungsmaßnahmen und Anstrengungen nicht auf die Beseitigung die wesentlichsten Entwicklungshemmnisse zielen.
Fast auf den Tag genau vier Wochen vor Abgabe dieser Arbeit, am 14. März 2008, hat der Europäische Rat die Europäische Kommission damit beauftragt, bis zum Gipfeltreffen am 13. Juli 2008 die Details für die neue EU-Mittelmeerkooperation "Barcelona Prozess - Union für das Mittelmeer" auszuarbeiten. Es scheint mir ein faszinierender Zufall zu sein, dass meine Ar-

beit gerade zu einem Zeitpunkt fertig wurde, in dem nicht nur die Beziehung der Europäischen Union zu den arabischen Mittelmeerländern (endlich) in der Öffentlichkeit und der Politik Beachtung findet, sondern es gerade darum geht, die bestehenden Strukturen zu reformieren und auf dieser Basis die Weichen für die zukünftige Zusammenarbeit und damit auch ihrer Prioritäten und Erfolgsaussichten zu stellen.
Im Hinblick auf dieses sehr konkrete und zeitnahe Datum gilt es, keine Zeit und Kapazitäten zu vergeuden, sondern die Chance zu nutzen, dass sich die Aufmerksamkeit der Staats- und Regierungschefs in konstruktive Energie umsetzten lässt, um Euro-Mediterrane und interne europäische Beziehungen gleichermaßen zu reformieren und zukunftsfähig zu machen. Eine reine Umbenennung der Euro-Mediterranen Zusammenarbeit wird vorhandene Defizite nicht lösen und vergibt die vielleicht historische Chance, nach der Osterweiterung auf Augenhöhe mit den arabischen Nachbarn zu verhandeln. Im folgenden Abschnitt werden deshalb Politikempfehlungen präsentiert, die sich aus der Arbeit für die Ausdifferenzierung der neuen "Barcelona Union" ableiten lassen.
Eine erfolgreiche Neuaufstellung der Beziehungen der Europäischen Union zu den arabischen Ländern der Mittelmeerregion durch die Etablierung der Mittelmeerunion setzt voraus, dass sich die Mitglieder der Europäischen Union, die Europäische Kommission und die beteiligten arabischen Mittelmeerländer in einen konstruktiven Dialog zu begeben. Dabei sind folgende Punkte zu beachten:

- Der Prozess sollte ergebnisoffenen sein. Trotz eindeutiger Erwartunghaltungen ist damit zu rechen, dass diese Erwartungen in der kurz- bis mittelfristigen Perspektive nur zum Teil oder gar nicht erfüllt werden (können). Das heißt, am Anfang des Dialoges muss es darum gehen zu klären, was erreicht werden soll. Eine Art Zielvereinbarung, nicht eine Zielvorgabe qua Erwartungen bzw. qua Antizipation der Interessen der jeweils anderen Seite, ist notwendig.

- Die Beteiligung der arabischen Mittelmeerländer an der Definition der Modalitäten für eine Mittelmeerunion gehört nicht nur als vertrauens-

bildende Maßnahme zu einem Dialog dazu. Ein gemeinsamer Vorsitz ist ein wichtiges Signal, viel wichtiger ist jedoch die gleichberechtigte Involvierung der arabischen Länder von Anfang an.

- Neue, innovative Lösungs- und Entwicklungsstrategien sind notwendig, da die Bahnen, in denen bisher gedacht wurde, nicht die passenden Lösungen hervorgebracht haben, sonst wäre die sozioökonomische Situation in den Ländern und die Beziehung zwischen der EU und den arabischen Ländern heute eine andere. Vielleicht gelingt es aber, gemeinsam neue Konzepte und Strategien zu entwickeln, die dann von beiden Seiten getragen und durchgesetzt werden.

- Eine Verbesserung und Erneuerung vorhandener Strukturen setzt voraus, dass hinreichend geklärt ist, warum die bestehenden Strukturen nicht die gewünschten Ergebnisse liefern. Ob ihrer zentralen Rolle in EMP und ENP gilt dieses insbesondere für die EFP.

Da es jedoch im Vergleich zur EU keine institutionalisierte gemeinsame Interessenvertretung auf Seiten der südlichen Mittelmeerländer gibt, gilt es für diese Länder zu klären,

- auf welcher Basis der arabische Vorsitz in der Lage ist, Entscheidungen zu treffen, die für alle arabischen Mittelmeerländer eine Verbindlichkeit darstellen. Dazu bedarf es Konsultationen der EU mit den arabischen Mittelmeerländern, aber vor allem auch der arabischen Mittelmeerländer untereinander, denn selbst wenn der Vorsitz nur eine koordinierende und keine ausführende Verbindlichkeit innehaben soll, muss es eine Art Mandat geben.

Aus europäischer Sicht gilt es, folgende Punkte zu klären:

- Beim Verhältnis der ENP zur Mittelmeerunion muss es ein klares Signal für eine gemeinsame Politik gegenüber allen Nachbarschaftsländern geben. Ansonsten wird die ENP und damit die Errungenschaft einer einheitlichen Außenpolitik in der Nicht-Europäischen Nachbarschaft untergraben und weitgehend rückgängig gemacht.

- Verhandlungsführer und Ansprechpartner eingesetzt werden, die Arabisch sprechen und sich eingehend mit der Region beschäftigt haben, sollten eingesetzt werden. Dies ist nicht vordergründig eine Maßnahme zur besseren Verständigung, da die meisten Verandlungspartner fließend Englisch und/ oder Französisch sprechen. Vielmehr geht es darum Regional- und cross cultural management-Kompetenzen der EU unter Beweis zu stellen.

- Ein dringendes Interesse Europas ist, dass wirtschaftliche Entwicklung der arabischen Mittelmeerländern zur Chefsache erklärt wird. Anders als innerhalb der EU und auch anderer Entwicklungsregionen wie etwa Südostasien, ist dies in den arabischen Mittelmeerländern nicht der Fall. Dies ist zum Teil in den politischen und politökonomischen Strukturen begründet, und deshalb auch nur von oben zu lösen. Die bestehenden Strukturen sind auf zweifache Art und Weise ineffizient: Erstens, Leistung lohnt sich nicht oder nur bedingt, dadurch sinkt die Produktivität. Zweitens, Projekte werden nicht anhand der eigenen Einschätzung von Nachhaltigkeits- und/oder Wirtschaftlichkeitsgesichtspunkten ausgewählt, sondern häufig der Antizipation, wofür die Geldgeber am meisten Mittel zu geben bereit sind. Dadurch entsteht ein hochgradig unproduktiver Kreislauf.

- Das heißt für die EU Staaten: notwendigerweise eine Entbürokratisierung der gesamten Mittelmeer- und Nachbarschaftspolitik. Die EU-Mittelmeerpolitik hat sich inzwischen als feste Größe institutionalisiert. Heute gibt es eine fast unüberschaubare Vielzahl von Gremien, Foren, Arbeitsgruppen und Projekten. Eine Mittelmeerunion, zumal als Komplementär zusätzlich zu EMP und ENP, führt zwangsläufig zu einer Überinstitutionalisierung und noch verwirrenderen Zuständigkeiten, insbesondere auf Seiten der EU. Dabei ist schon heute der auf Arabischer Seite mit am häufigsten geäußerte Kritikpunkt, dass es oftmals schwierig bis unmöglich sei "eine EU-Mittelmeerpolitik" zu erkennen.

- Von dem nächsten europäischen Gipfeltreffen sollte deshalb ein mög-

lichst eindeutiges Bekenntnis der Europäer zur gemeinsamen Außenpolitik gegenüber den Nachbarschaftsländern und eine klare Abrenzung dieser gegenüber bilateralen Zuständigkeiten ausgehen.

- Offenlegung und Transparenz aller Haushaltsmittel, die für die Region verwendet werden, bzw. zur Verfügung stehen ist notwendig: Eine Art Inventur auf nationaler, bilateraler und EU-Ebene. Die bereits vorhandenen Budgetlinie MEDA bzw. das neu geschaffene European Neighborhood Instrument (ENI) und die Mittel der Europäischen Investment Bank (EIB) berücksichtigen nicht die bilateralen Zahlungsströme, sondern sind eben nur Teile der erfassten Mittel.

Mit Hinblick auf die mangelnden technologischen Fähig- und Fertigkeiten, sowie der hohen Arbeitslosigkeit besonders bei den jüngeren Kohorten, sollten folgende Punkte beachtet werden:

- Der gegenseitige Austausch von Studenten durch Programme wie "Erasmus" sollte nicht nur auf Israel, sondern auch die arabischen Mittelmeerländer und die Türkei ausgeweitet werden. Gleiches gilt für Programme wie Sokrates und die Partizipation an Forschungsvorhaben. Bislang schicken die Eliten ihren Nachwuchs hauptsächlich in die USA und an amerikanische Universitäten.

- Regionale Universitäten spielen eine wichtige Rolle, scheinen aber in zunehmendem Maße die Studenten nicht richtig auf den Arbeitsmarkt vorzubereiten. Traditionell hat der Staat die meisten Hochschulabgänger als Beamte eingestellt. Inzwischen sind die Jahrgänge so geburtenstark und die Kapazitäten der Bürokratie weit überdehnt, dass nur noch ein Bruchteil der Abgänger einen solchen Arbeitsplatz bekommt. Intensive Universitätskooperationen reichen nicht. Der Aus- und Aufbau von Europäischen Universitäten sollte verstärkt werden, nicht zuletzt, um eine eigene Europa-orientierte Elite selbst mit auszubilden.

- Technologische Kapazitäten sind sehr begrenzt, d.h., es sollten zunehmend auch technische Studiengänge angeboten werde. Die Unterrichtssprache sollte mindestens eine weitere Sprache neben Englisch

oder Französisch umfassen. Ähnlich wie das Angebot an deutschen und französischen Schulen ausgebaut werden kann, könnten Europäische Universitäten und Fachhochschulen Garanten für Zuverlässigkeit, Qualität und unabhängige Lehre sein.

- Das Engagement auf dem Schwarzmarkt ist nicht zuletzt deshalb so groß, weil sich Leistung hier lohnt. Die Nischen, die der Staat nicht regulieren kann und neue Strukturen, die erst im Entstehen sind und auf die es noch keine eingesessenen Ansprüche gibt, sind am dynamischsten. Bereits existierende Monopole sind sehr schwer aufzubrechen. Ein wichtiger Schritt ist es deshalb, junge Industriezweige zunehmend der Eigendynamik zu überlassen.

- Trotz wachsender Aufmerksamkeit sind die Länder des Nahen und Mittleren Ostens sowohl in den unterschiedlichen Disziplinen, als auch der regionalspezifischen wirtschaftswissenschaftlichen Forschung unterrepräsentiert. Es sollten verstärkt Anstrengungen unternommen werden, die Regionalforschung zum Nahen und Mittleren Osten wieder stärker mit den Fachdisziplinen zu vernetzten und diese Forschung auszubauen. Da es zwischen englisch- und französischsprachiger Nahostforschung immer noch relativ wenig Austausch gibt, sollte es ein zentrales Anliegen sein, europäische Forschungsschwerpunkte zur Regionalforschung auszubauen, die dann auch in dieser Richtung eine Schnittstellenfunktion übernehmen.

Chapter 1

Introduction

> *The European Council approved the principle of a Union for the Mediterranean which will include the Member States of the EU and non-EU Mediterranean coastal states. It invited the Commission to present to the Council the necessary proposals for defining the modalities of what will be called "'Barcelona Process: Union for the Mediterranean"' with a view to the Summit which will take place in Paris on 13 July 2008.*[1]

Almost exactly four weeks ago on March 13, 2008, the European Council invited the European Commission to redefine the relationship between the European Union and its Arab Mediterranean neighboring countries on the basis of the already institutionalized Euro-Mediterranean Partnership, or Barcelona Process. The front pages of various international newspapers (Süddeutsche Zeitung, Frankfurter Allgemeine, Le Figaro, Le Monde, Al-Hayat) covered the topic of this dissertation. And looking back on the past years of this research, it seems like a fascinating coincidence that the submission of this dissertation coincides with this period when Euro-Mediterranean relations are not only (finally) at the center of public and political attention, but when there is an official appointment from the European Council to rethink Euro-Mediterranean relations at the basis of existing structures.

This dissertation presents a two-fold analysis of the chances and perspectives of sustainable economic development of the Arab countries of the Middle East and North Africa on the one side, and an investigation of the necessity and the potential of existing EU policies to support and trigger economic development in these countries on the other. Special emphasis is given to the economic and financial dimension of the Barcelona Process.

This research focuses on the six Arab Mediterranean countries: Algeria, Tunisia, Morocco, Egypt, Jordan and Syria.[2] It also, however, includes differences and implications for EU relations with the Arab Gulf countries. Rather than presenting a comprehensive micro-level analysis of economic

[1] Council of the European Union, Brussels European Council 13/14 March 2008, Presidency Conclusions, CONCL 1, 7652/08, Brussels, 14 March 2008

[2] Lebanon, Iraq, Palestinian Territories and Libya are excluded from the analysis due to data limitations and their political and economic instable situations.

and political constraints of each individual country, the approach of this thesis is to work out more general and common underlying structures that equally apply to the Arab Mediterranean countries. And that differentiate Arab MENA countries, despite their internal heterogeneity, from other developing regions such as Latin America, Southeast Asia, Central Asia, and Sub-Saharan Africa.

Comparing the speed and extent of economic development in different geographic regions of the world over the past 20 years, the under-average performance of Arab countries in general and Arab Mediterranean countries in particular is striking. This is despite an overall favorable geo-strategic situation at the crossroads of three continents, with excellent connections to sea and waterways, and direct vicinity to the world economic hub European Union. Other negative factors such as a high burden of tropic disease or high ethnic fractionalization are of minor importance. The Mediterranean climate is dry, and Mediterranean and the Arab countries form a comparatively homogeneous language and cultural area.

The perception of the Middle East and North Africa (MENA) region in the countries at the northern shores of the Mediterranean Basin, is dominated by two factors. First, it has the world's largest resources of oil and subterranean gas, and second is the Israeli-Palestinian conflict, or rather war and terrorism in general. These two factors are, without any doubt, the most obvious contemporary characteristics that shape the structure within the region as much as its relationship with the rest of the world. And yet neither the threat of war and terrorism nor the presence of abundant oil resources can sufficiently explain deficits in economic and socio-economic development vis a vis other developing regions. Policies and strategies that draw on either or both of these factors as central arguments were and are, as the past shows, not able to generate coping and adjustment strategies that unleash growth and development in the region.

In contrast to the bulk of literature on the Middle Eastern countries that focuses on conflict and oil, this research does not focus on these supposed ostensible characteristics. The aim of this dissertation is to combine different fields of economic and regional studies to generate new policy and adjustment

strategies through innovative explanation approaches and fresh perspectives. The persistently weak economic performance of the Arab Mediterranean countries increasingly shows negative consequences: Limited prosperity and a lack of economic perspective; Emigration to the EU and rising religious fanaticism directly affects Europe's internal and external security, are thus to a large extent individual answers to economic grievances in the region; Unrestrained high population growth intensifies the problem as more and more young people seek work and employment in already problematic labor markets. Even those with higher education or university diplomas increasingly suffer unemployment. This unemployment trend will continue in future, unless flourishing national economies will be able to create jobs and ease urging problems through growing economic capacities and perspectives.
The dissertation is, on the one side, based on the notion that the European Union and its member states have a genuine interest in sustained economic development and the prosperity of its southern Mediterranean neighbors. On the other side, there is the realist insight that neither the EU nor the Arab governments have unlimited financial and personnel capacities to address economic structural adjustment in the region. This research concentrates on a combined analysis of constraints to economic development in the Arab Mediterranean Countries (AMC) and EU policies aimed at supporting AMC economic structural adjustment. The aim is to identify the most urgent constraints and explore if and how EU policy could be improved to successively and successfully help abolish these constraints and unleash economic development.

The dissertation is organized in four substantive chapters and a shorter chapter of synthesis. It actually presents a collection of essays written by myself that either have already been published or are submitted for publication. Therefore, the reader might think of it as an edited volume although this is not a loose collection of essays. The chapters directly relate to, build on, and complement each other despite being individual papers. For this reasons, there is an inevitable minimum amount of repetition, because the individual chapters can also be presented separately and mark different topics. And yet,

presenting the entire collection allows provides the opportunity to elaborate on the underlying common theme, and integrate the individual papers to a more comprehensive and innovative framework to analyze the relationship between the European Union and the MENA Arab countries.

Chapter 2 introduces the Euro-Mediterranean Partnership (EMP or Barcelona Process) and provides a detailed analysis of its economic dimension, and the Economic and Financial Partnership (EFP). In particular, this paper discusses and explains the pivotal role of the EFP within the broader framework of the EMP and the more recent European Neighborhood Policy. This chapter also documents the gap between high expectations and actual outcomes but also criticizes the inappropriateness of overly high expectations as a benchmark for evaluation.

Chapter 3 focuses on identifying the most important constraints on Arab-Mediterranean economic development. This chapter uses state-of-the-art econometric tools to quantify constraints that have been identified through economic theory and the studies of political economy characteristics of the region. The empirical results offer support for the central hypothesis that lacking technological capacities and political economy structures are primarily constraining economic development. In this chapter, it is also argued that the limited success of the Euro-Mediterranean policy to stimulate economic development of the Arab Mediterranean countries might be, because structural adjustment efforts do not, or at least not sufficiently, tackle these constraints.

Chapter 4 provides a combined analysis of the characteristics of political economy in the countries of the Middle East and North Africa, on the one side, and the changes and challenges of EU external and neighborhood policies after the most recent EU enlargement on the other. Based on a comprehensive theoretical background, this chapter highlights and specifies the interactions between EU policy and regional Arab MENA political economy. In this way, this chapter provides important implications for EU support of economic development in these countries and complements and substantiates the empirical findings presented in the previous chapter.

The first four chapters deal almost exclusively with the Arab Mediterranean

countries that are integrated into the broader framework of EU common external policies. In contrast, chapter 5 concentrates on the relationship between the European Union and the countries from the Arab Peninsula, in particular the members of the Gulf Cooperation Council (GCC). This chapter highlights differences and similarities between the Arab Gulf and the Arab Mediterranean countries, and reviews the appropriateness of the structure and tools of the Euro-Mediterranean Economic and Financial Partnership in view of deepening EU-GCC relations.

Finally, chapter 6 provides a more general discussion of findings and arguments presented earlier in this book. It summarizes the different perspectives of each chapter and how the issues contribute to understanding the big picture. The chapter concludes by providing policy implications and outlining some important and potential fruitful areas for future research.

Chapter 2

The Euro-Mediterranean Partnership: The Role and Impact of the Economic and Financial Dimension

published in: European Foreign Affairs Review 12: 555-579, 2007.[1]

[1] An earlier version of this paper was presented as GIGA Working Paper, No. 36, 2006.

2.1 Introduction

The EU-15 and 12 countries of the Middle East and North Africa (MENA) (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey and - though not a state - West Bank/Gaza Strip) launched the first common European policy in the Mediterranean by signing the Barcelona Declaration in 1995. The aim of the Euro-Mediterranean Partnership (EMP), also called the Barcelona Process, is ambitious: to create a zone of shared prosperity, stability and peace around the Mediterranean Basin based on a strategic process of cooperation in political, economic and cultural matters [Euromed 1995]. The end of the 1991 Gulf war and the successfully concluded Oslo agreements created a favorable geopolitical environment. There was optimism about the establishment of peace and a normalization of the security situation in this region.

Celebrating its 10th anniversary in 2005, the performance of the EMP is vividly discussed in specialized literature. Many contributions concentrate on its cultural and security dimensions, but few scholars focus on the economic and financial dimension encompassed in the Economic and Financial Partnership (EFP). This is especially surprising as the EFP plays a central role in the design, rationale and implementation of the EMP: economic integration has proven to be a major source of continuous interaction between the Euromed partners in recent times of severe political tensions and institutional changes. Moreover, the EFP has developed the most dynamic and advanced implementation of the Barcelona Process. Over 90 per cent of the funds provided for the EMP are allocated to the EFP. Finally, and most importantly, the EMP takes economic and trade integration as a starting point for and an anchor of socio-economic development in the Mediterranean region. The EMP is centered on the EFP and on the expected positive effects of the establishment of the Euro-Mediterranean Free Trade Area (EMFTA), which will be the world's largest market entity comprising over 800 million people, who operate more than 60 per cent of total trade among each other. Reflecting the strategic nature of the Barcelona Process, the ambitious aim of the EFP is not free trade itself, but acceleration of the pace

of sustainable socio-economic development in the region, through improvement of living conditions, an increase in employment levels, a reduction of the development gap and the encouragement of regional cooperation and integration [Euromed 1995]. Therefore, the EFP complements trade liberalization with measures of economic cooperation and financial assistance. The EFP has three pillars: Euro-Mediterranean Association Agreements (EMAAs) between the EU and each one of the Mediterranean Partners (MP); economic cooperation; and finally, financial assistance through MEDA[2] (cf. Figure 2.1). Both of the latter pillars aim to smooth consequences from economic reforms and alleviate adjustment costs. The EMP and EFP distinguish between two levels of cooperation. The regional level, on the one hand, involves all 15+12 partners. The Euro-Mediterranean conference takes place every two years on the foreign minister level. Following the principles of 'one-nation, one-vote' and a strict unanimous voting procedure, equal rights for all participants are institutionalized. The bilateral level, on the other hand, only includes the EU and one MP (15+1). Consequently, measures that have been agreed upon bilaterally are only binding for the EU and one respective MP. These bilateral activities concerning different MPs are operated simultaneously (cf. Figure 2.1).

The recent eastward expansion of the EU and the introduction of the European Neighborhood Policy (ENP) in 2003 changed the international and regional setting in which the EMP was placed ten years ago and represent a thorough challenge to Euro-Med relations: after the enlargement, the EU today consists of 27 Member States (including the former MPs Malta and Cyprus). Turkey is a nominated candidate country, although negotiations have not yet started. The remaining 9 MPs are now a subgroup of 16 neighbor countries at the EU's new borders. The present paper argues that in order to provide a proper and constructive evaluation of the EMP, it is important to consider the economic and financial dimensions in the design and rationale of the Euro-Med Partnership. EFP tools need to be assessed in relation to the high expectations, but also in relation to the high costs of economic

[2]French abbreviation: Mesures d'accompagnement financiers et techniques à la réforme des structures économiques et sociales dans le cadre du partenariat euro-mediterranéen.

adjustment on the side of the MPs. Against this background, this paper reviews the past performance of the EFP by analyzing the association agreements, economic cooperation and financial assistance through MEDA. Based on this analysis, it outlines the major obstacles that impede full benefits on both shores of the Mediterranean. Finally, the results of the evaluation will be discussed with respect to the role and opportunity of the EFP in shaping the recently introduced European Neighborhood Policy.
The remainder of the paper is organized as follows. Section 2.2 describes the provisions, measures and tools of the EFP and its past performance. Section 2.3 relates these findings to the high expectations raised in the course of the EMP, which commonly serve as a benchmark in literature, to the anticipated mechanism, and to the actual economic and institutional situation in the Arab Mediterranean partner countries. Section 2.4 discusses major obstacles, future challenges and the necessity of appropriate benchmarks in this context. Finally, section 2.5 outlines the research perspectives and concludes the paper.

2.2 Euro-Mediterranean Economic and Financial Partnership

Three circumstances account for the enforced EU engagement with the Middle East and North Africa, leading to the establishment of the EMP and the signature of the Barcelona Declaration in 1995. First, the euphoria after the successfully concluded Oslo Agreements, in 1993 and 1995, and the anticipated end of the Middle East conflict, as already mentioned above. Secondly, the completed northbound expansion of the EU stoked fears of marginalization of the southern EU Member States. Spain, France and Italy only agreed to accession talks with Eastern European countries after the European Council resolved upon a common European policy towards the non-candidate Mediterranean countries. Thirdly, with the end of the cold war, the risk perception of the EU shifted towards the soft or new risk of the politically and economically unstable MENA region [Jünemann 2005]. In the

past decade, the relations between the EU and the MPs suffered from new and persistent escalations and violence between Israelis and Palestinians, terrorism (September 11, bomb attacks, hostage dramas) and conflict in Iraq. To date, the EU is confronted increasingly with economic immigration from MENA countries due to large-scale unemployment and the lack of economic perspectives at home. Regional problems, such as growing fundamentalism and terrorism, are penetrating the EU itself. Increasing agitation among citizens with an immigrant background (the Öcalan Affair in Germany, riots in France), as well as misperceptions and disinformation (the cartoons of the Prophet Muhammad), cause additional tensions. Although the EMP was to a large extent motivated by European security concerns, it is based on an economic rationale, which is partially resulting from the EU's own positive experience with economic integration as the basis for national integration and regional stability. Supporting economic growth to accelerate the pace of socio-economic development to improve regional stability and prosperity became a key objective of EU policy in the MENA region. The EMP is based on the anticipation that trade functions as an anchor of regional integration, with economic cooperation as the necessary catalyst. This mechanism is derived from economic theory on innovation and growth, as well as on international trade. Economies committing themselves to more openness and increased integration into international markets will benefit from increased foreign direct investment (FDI) and technology transfer. With the help of recent technologies, industries and products become more productive and thus increasingly competitive on international markets. Growing economies contribute to socio-economic development of their country because jobs are created, salaries raise and living conditions generally improve. Figure 2.2 visualizes this mechanism and illustrates the pivotal role of the EFP. A healthy degree of interaction and prosperity is considered to be the basis also for regional stability. Drawing on this mechanism, the EFP is based on three pillars in order to achieve a socially and economically sound integration and transition of the MPs: 1) the progressive conclusion of Euro-Mediterranean Association Agreements (EMAAs) and the establishment of EMFTA; 2) economic cooperation and concerted action, as well as; 3) financial assistance.

2.2.1 Economic Liberalization: Trade and Openness

The first pillar of the EFP is to foster trade and openness in the region in order to improve competitiveness and foreign investment inflows, by spurring international exchange, and by locking the MP economies into the world market. The central instrument for achieving this goal is the establishment of an EMFTA. The target date to establish this free trade area is 2010, providing a 12-year transition period for MPs. According to the General Agreement on Tariffs and Trade (GATT), free trade areas, together with customs unions, are an important exemption to the most favored nation treatment. In contrast to WTO trade liberalization, the negotiations of the EMAAs are led bilaterally between the EU and one MP (15+1 negotiations), in order to be able to take the special economic situation of each MP (i.e. speed of structural adjustment and/or liberalization and commitment to the process) into account. Thus, the EMFTA is gradually established through a network of 'pluri-bilateral' EMAAs [Jünemann 2001]. These take the traditional trade flows between the EU and the MPs as the starting point for progressively eliminating tariff and non-tariff protection [Euromed 1995]. With the incompatibility of the pre-Barcelona unilateral system of preferences with current WTO rules, it became especially important to stress the principal of reciprocity, which is also delineated in the EMAAs. To date, negotiations on the EMAAs are concluded and have been signed with all remaining MPs, except Syria. EMAAs with Tunisia, Israel, Morocco, Jordan, Lebanon and Egypt have been ratified and have entered into force (in the respective order given). The first EMAA, which was signed in 1995[3] between the EU and Tunisia and entered into force in 1998, is considered to be the archetype of all EMAAs and has served as a point of reference in subsequent negotiations [Zaim 1999]. The EMAAs reflect the comprehensive approach of the Barcelona Process and comprise provisions that go beyond traditional WTO free trade agreements, including clauses dealing with basic principles such as the respect for human rights, political dialogue and cultural or social matters [Ghesquiere 1998].

[3]The impact and challenges due to institutional changes within the EU such as the enlargement or European Neighborhood policy will be discussed in section 2.4.

Economic cooperation and especially financial aid from the EU side are conditional with respect to these clauses. Bilateral trade relations between the EU and the MPs traditionally have been strong. Today they are solid: the EU is the main partner of the MPs, accounting on average for almost 50 per cent of the MPs' total trade. Maghreb countries especially are intensely connected to the EU, in particular Tunisia where the EU accounts for over three quarters of its total trade. With an average of around a third of their total trade being directed at the EU, Jordan, Egypt and Israel are the least focused on trade with the EU in the Mediterranean region (cf. section 2.3 and Table 2.1). Already existing trade links have been strengthened over the past ten years: the annual growth of exports between 1994 and 2004 was 7.7 per cent and 10.3 per cent from the EU to the MPs and vice versa. The MPs have a structural trade deficit towards the EU [World Bank 2006]. MPs import almost double the value of what they export to the EU, particularly machinery and transport equipment [Handoussa and Reiffers 2002]. In 2005, MPs accounted for 8.5 per cent of total EU-25 external trade. Thus, the Mediterranean region as a whole is the fourth most important trade partner of the EU, ranking after the USA, EFTA and China, and ahead of Russia and Japan [EUROSTAT 2006]. Turkey, Israel and Morocco are the main trading partners of the EU from the MPs: together they make up a little more than 60 per cent of the total EU-MP trade volume.

2.2.2 Economic Cooperation: Productivity and Competitiveness

Economic cooperation is the EFP's second pillar. Its objective is to increase productivity and competitiveness in each MP, as well as in the region as a whole, by opening communication channels and building capacities for technology transfer. Bilateral cooperation is oriented towards upgrading the MPs' infrastructure and providing support for restructuring [Hoekman 1999]. The measures of the bilateral economic cooperation are defined in the EMAAs and are expected to support the MPs' own efforts to achieve sustainable socio- economic development. The range of methods is manifold, providing

inter alia for information exchange through expert exchange, expert services and technical assistance. Economic dialogue is established in more than 18 fields of collaboration, including industrial cooperation, investor-friendly climates, transport, telecommunications, and customs matters, but also money laundering and drug trafficking. Regional economic cooperation provides for all-party cooperation in eight economic sectors: industry, environment, water management, information society, energy, trade, transport and agriculture. The objectives are to strengthen sensitivity of the MPs to common problems, institutionalize cooperation and agree on tangible regional programs. Given the special situation in the Mediterranean, establishing a positive experience of win-win situations, collaboration and trust is a complex task (cf. section 2.3). The interconnection of infrastructures, concerted reforms and a harmonization of legal and administrative frameworks are preconditions for the region becoming more competitive and attractive as compared to other developing regions. Although (bilateral) trade links between the EU and the Mediterranean have been, as mentioned earlier, traditionally solid, regional cooperation has only gained momentum from 2001. Special working groups aimed at facilitating trade and investment among the partners work on an action plan for the convergence of competition and customs legislation[4]. This covers important issues such as the convergence of norms, industrial standards and intellectual property rights. In 2002, EMP members agreed to the general participation of MPs in the pan-European cumulation of origin [Euromed 2002]. However, cumulation of origin is still only possible among Tunisia, Morocco, and Algeria, because the EMAAs have not yet been amended (cf. section 2.4).

2.2.3 Financial Assistance: MEDA

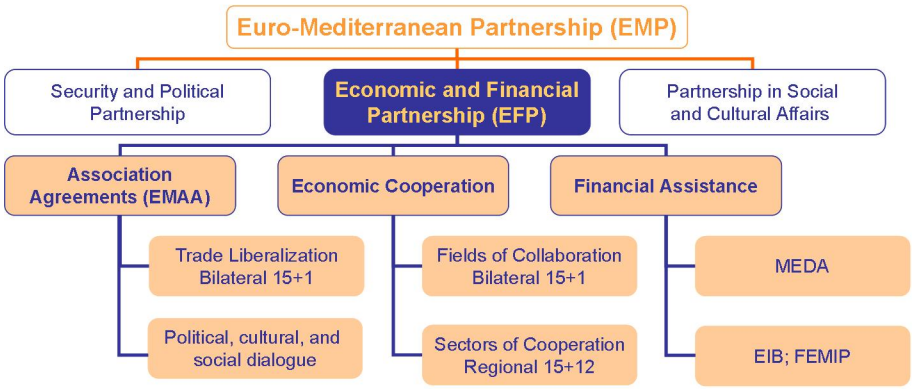
The EFP's third pillar is financial assistance. Its purpose is twofold. The first is to encourage economic transformation by creating incentives. The second is to alleviate adjustment costs. By providing such funds, the EU stresses

[4]Such as the working group on Rules of Origin or the working group on Trade Measures Relevant for Regional Integration.

its commitment to turn abstract EMP objectives into tangible projects. The assistance is mainly provided through the MEDA Program and by support from the European Investment Bank (EIB), which together account for almost 90 per cent of the EUR 14.58 million committed to the Mediterranean region between 1995 and 2006. All MEDA funds are grants from the EU and, as such, do not have to be paid back. MEDA's financial support generally applies to all three chapters of the EMP, but over three quarters of the funds are allocated for activities within the EFP. In contrast to the pre-Barcelona Financial Protocols, the MEDA program is a global fund without fixed percentages or amounts per MP [Parfitt 1997]. The amount that each MP receives depends on its efforts and progress, i.e. the allocation of funds is based on competition between countries, between projects in the same country, and between regional projects. MEDA Regulation provides two other very important details. First, beneficiaries of MEDA support do not necessarily have to be states or regions. This provision allows immediate and decentralized support to all levels of hierarchy. It also requires a high degree of capabilities on site, in order to ensure equal access. Secondly, Article 3 supplies a political conditionality of MEDA funds; i.e. payments can be frozen or canceled when the principles or details of the EFP or the Political and Security Partnership (cf. Figure 2.1) are violated. This clause stresses the interdependency of all three chapters of the EMP and reflects its comprehensive approach. But it is also controversial, because the clause is not further specified. This may be a reason why Article 3 has never been invoked. Originally, the amount of EMP resources was related to the funds granted to the thirteen Central and East European Candidate countries (CC-13), in preparation of the EU's eastward expansion, at a ratio of 40:60. This translates into EUR 3.435 million for the period 1995-1999, the MEDA I program [European Commission 2001a]. From 1995 to 2000, 86 per cent (EUR 2.954 million) of the MEDA I resources were allocated to bilateral support, in contrast to 12 per cent (EUR 418 million) spent on regional cooperation [European Commission 2001b]. As mentioned above, about 90 per cent of all committed funds were dedicated to measures of the EFP. However, on average, only one third of committed funds were disbursed (cf. Figure 2.3). Whereas the Palestinian Territories,

Jordan and Tunisia had implementation rates of approximately 40 per cent and the commitment/payment ratio for regional assistance reached nearly 48 per cent, Syria did not receive any of the committed means. Turkey managed to activate only 5 per cent of possible payments. This poor performance can be explained partially by the complex and bureaucratic structures and procedures within the EU that led to delays and hindered efficiency [Joffé 2001]. At the same time, capacities in the MPs were not sufficiently developed to benefit from EU grants. MEDA II (2000-2006) is an extensively revised version of MEDA I and more program oriented than its predecessor. MEDA II is supplied with extended financial resources: EUR 5.35 million for the period 2000-2006 in addition to MEDA I leftovers that were committed but not implemented [European Commission 2002]. The original key of distribution in relation to the CC-13 is not retained. Since the MEDA revision, the average implementation rate has almost tripled from 26 per cent in 1999 to 74 per cent in 2002. Administration costs of technical assistance are reduced by half, leaving more means for projects. Additionally, regional support gained importance. The share of measures committed to regional projects rose from 12 per cent to 41 per cent of total MEDA II funds in the year 2001 (EUR 311.5 million). Thus the effectiveness of the financial assistance has significantly improved. However, Figure 2.3 also reveals differences across countries. Payments match or even exceed commitments in Egypt, Jordan or Lebanon. Syria activated again only a small portion of the committed funds. MEDA II still does not sufficiently link actual compliance with action plans and reform progress to committed MEDA funds: the most active reformer MPs are not necessarily the ones who receive the highest per capita amount of MEDA funds [Tovias and Ugur 2004].

Figure 2.1: The Structure of the Economic and Financial Partnership

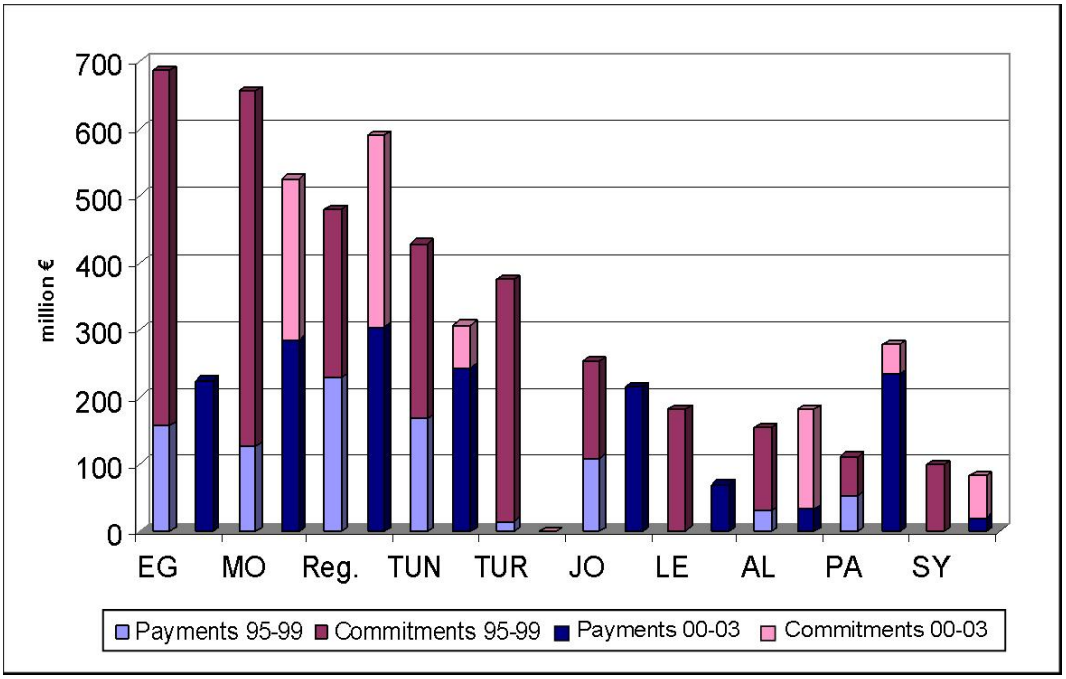


Source: author's illustration.

Figure 2.2: Anticipated Mechanism: From Trade to Development

Source: author's illustration

Figure 2.3: MEDA I and II: commitments vs. payments by Mediterranean Partner



Source: Author's calculations based on Euromed 2000; European Commission 2002, 2003; EuropeAid 2005.

2.3 Mediterranean Realities: Radical Changes and High Adjustment Costs

The structures of the EFP are designed to support the aforementioned anticipated mechanism, which will lead from trade liberalization and economic integration to increased competitiveness, attractiveness and prosperity in the Mediterranean region. However, there is neither guarantee nor automatism to this mechanism. In academia the nexus of openness and trade is discussed as contradictory. Insights on the role of FDI in spurring development, the nexus between trade and growth, as well as the impact and nature of international technology spillovers derived from economic models and mostly

underlie very restrictive assumptions. Nevertheless, both the EU and the MPs communicated positive outcomes of the EMP almost as a matter of course. From the beginning both the EU and the MPs placed high expectations in the EFP. They presumed that inter- and intra-regional trade would increase substantially, that regional competitiveness would rise, that joined ventures would emerge, and also a 'natural' rise in FDI would occur [European Commission 1995]. This section provides a brief introduction to the economic and regional situation in the MENA region in order to assess the appropriateness of these expectations as a benchmark for EFP and EMP performance between 1995 and 2005. The countries centered around the Mediterranean Basin - the EU Member States on one side and the 12 MPs on the other - are very different with respect to the degree of subregional integration, culture and economic development. However, they share a common history, religious roots and past attempts at closer cooperation. EU countries are today the home for many immigrants and guest workers from the MPs (especially Turkey, Tunisia, Algeria and Morocco). Guest-worker remittances sent back to their home countries are economically important, making up an average of 5 per cent of GDP in Egypt, Morocco and Tunisia [World Bank 2006]. Culturally, the MPs are close to each other. The majority of the population are Semites (Arabs and Jews), Arabic is the common language and Islam is the prevailing religion. However, in contrast to the EU Member States who share a common identity, common institutions and a degree of national integration that is unique is the world, there is no shared Mediterranean identity.[5] The MPs share general problems and difficulties of the region: the shortage of water and arable land. The high population growth is coupled with high rates of unemployment and widespread environmental damage. Despite these similarities and common concerns, politically concerted actions between the MPs barely exist. Economic and trade relations among the MPs are also limited. Table 2.1 tries to give a detailed overview of the region's variety. Not only does population (400 000 in Malta

[5]As such the term Mediterranean Partners (MP) is misleading. This term was first introduced and established by the EU, referring to the fact that all MPs (except Jordan) are bordering the Mediterranean Sea.

compared with over 71 million in Turkey) and territory (Malta is 320 sqkm while Egypt is over 1 million sqkm) differ significantly, but so do economic structures as well as economic performances: whereas the share of industry is close to 30 per cent of the GDP in all MPs (except in Algeria at 55 per cent), the share of agriculture varies from about 20 per cent in Egypt and Syria to less than 3 per cent of the GDP in Israel and Malta.

The nature of industry at sector level also varies across the MPs. Algeria and Syria almost entirely depend on hydrocarbons, Egypt on hydrocarbons and fibers. The Jordanian economy is technologically more advanced. It successfully exports chemical fertilizers and medicaments. The economies in Morocco and Tunisia also have a diversified profile of exports (phosphorus, electrical applications or semiconductors), but with a stronghold in textiles.[6] The Lebanese economy has to recover from the summer 2006 conflict with Israel, but previously exports in print products, tobacco and phosphorus were growing. Services account for a relative high share of the GDP, ranging from between 50 per cent and 75 per cent in all MPs except Egypt, Syria and Algeria. A look at the GDP per capita reveals the development gap between the MPs and Europe on the one hand, and among the MPs on the other hand: Israel's GDP per capita (USD 18 406) is higher than those of the southern European countries Greece, Portugal and Spain, whereas Jordan and Algeria barely touch USD 2000. Syria does not even reach USD 1000. The Human Development Index (HDI) ranking stresses this observation. Only Cyprus, Malta and Israel are classified with high human development, the others are only rated medium to lower-medium human development. The political systems in the region are manifold; the forms of government vary from republic, monarchy and democratic structures, with a wide scope of interpretation to each term. Centralist structures, extended bureaucracies and authoritative elements are common in all MPs. The new generation of leaders, educated at European and American universities, which took over the power from their fathers in Morocco (1999), Jordan (1999), and Syria (2000) cautiously consider new solutions to old problems. The economic linkages between the EU and the MPs are traditionally strong and solid.

[6]For more details on MP key products, refer e.g. World Economic Forum (200a).

Table 2.1: Mediterranean Partners: selected general statistics, 2005

	ALG	CYP	EGY	ISR	JOR	LEB	MAL	MOR	SYR	TUN	TUR	WB/G
Form of Government	Rep.	Rep.	Rep.	Parl. Dem.	Const. Mon.	Rep.	Rep.	Mon.	Pres. Rep.	Rep.	Parl. Dem.	
Area (1000 km^2)	2,381.7	9.25	1,001.5	22.2	89.3	10.4	0.3	458.7	185.2	163.6	769.6	6.0
Population (millions)	31.8	0.8	68.1	6.7	5.3	4.5	0.4	30.1	17.4	9.9	70.7	3.1^d
growth rate (%)	1.5	0.6	2.0	2.3	2.9	1.4	0.7	1.6	2.4	1.2	1.7	4.3^d
Unemployment (%)	23.7	3.4	9.9	10.7	13.9	8.5^c	4.8	13.1	9.5^e	14.3	9.4	14.1d
under 25 years	53.6	3.0	20.4^f	16.9	26.6	22.0^f	6.3	19.9	–	31.3f	13.0	20.0^f
GDP (EUR million)	67,866	10,273a	123,039	127,167	11,312	20,125	3,881	40,853	22,109	24,231	246,224	4,648f
growth rate (%)	5.3	3.7^a	4.9	5.2	7.2	1.0	2.5	1.6	4.2	4.2	7.4	–
per capita (USD)	2,066	12,439a	1,662	18,406	2,091	5,627	9,604	1,354	1,161	2,418	3,390	1,640^f
Economic Structure												
Agriculture (% of GDP)	8.3	3.8e	13.9	1.7^e	2.2	7.3	2.8^c	13.3	21.4	12.6	11.9	7.8^d
Industry (% of GDP)	62.3	19.9e	38.7	25.0^e	28.9	20.9	26.2^c	31.2	26.1	28.2	23.7	17.4^d
Services (% of GDP)	29.4	76.3e	47.4	73.3^e	68.8	71.7	68.71^c	55.5	52.5	59.2	64.5	74.9^d
Trade												
Total imports (USD million)^b	13,533	4,466	10,893	34,211	5,653	71,767	2,727	13,731	5,111	10,147	69,340	2,440
Total exports (USD milion) USD^b	24,612	923	6,161	31,783	3,082	1,524	1,959	8,777	5,731	7,354	47,253	349
Merchandise (% of GDP)^a	59.7	26.0	104.9	69.6	104.9	51.2	–	54.7	46.7	79.6	53.1	–
Services (% of GDP)^a	–	–	28.2	23.5	36.9	–	–	20.3	19.1	19.9	11.7	–
Imports from EU (% of GDP)^b	59	56	26	41	10	43	64	61	19	72	46	16^f
Exports to EU (% of GDP)^b	59	56	33	27	3	9	41	76	57	80	52	0.2^f
HDI rank/177	103	29	119	23	90	81	32	124	106	89	94	102

Sources: [Euromed 2002, World Bank 2006, Radwan and Reiffers 2005, UNDP 2005]
Notes: The small superscript letters indicate the year, if no 2005 data was available: a=2004; b=2003; c=2002; d=2001; e=2000; f=1999

The EU is by far the most important trading partner of the region, and accounts on average for over 50 per cent of the total MP trade, as already mentioned. The economic systems of the MPs are partially shaped through the development policies, such as import substitution and disintegration, that they have pursued in the past. The industries are to a large extent specialized in import substitution industries with little integration into the world market. The MPs trade engagement in sectors with high international demand is low. Capacities to penetrate those markets remain insufficient and productivity is low [Handoussa and Reiffers 2002]. Despite a constant decrease in tariffs throughout the years, the average tariff rate is still 6 per cent higher than in Latin America and 5 per cent higher than in the CC-13 [Handoussa and Reiffers 2002]. Major parts of the domestic industries have little to no international experience, and many firms are not capable of competing internationally. Thus, increased competition and trade creation in the course of import liberalization will initially lead to an increase in unemployment. Additionally, the dismantling of tariffs on imports from Europe leads to revenue losses. In the MPs' state revenues, income taxes are of secondary importance, while indirect trade-related taxes remain the most important components [Economic Research Forum 2000]. Lebanon and the Maghreb countries suffer most from these losses, because they have high trade deficits and obtain 50 per cent to 75 per cent of their imports from the EU. For these countries, the losses are estimated to be between 16 per cent and 31 per cent of the GDP [Nienhaus 1999]. An exact estimation of the extent of the revenue losses, as well as of the increase in unemployment, is difficult to forecast, due to the back-loaded character of tariff dismantling and because the liberalization of the products with the highest tariffs has only recently begun. Revenue losses of such a size are difficult to compensate. Tax reforms are needed. MP governments are forced to avoid expenditures and to cut subsidies. As a result, social services and investment outlays that are needed to alleviate the social hardships for the populations decline [Ghesquiere 1998]. However, structural attributes and sectoral strengths of MP economies are vast and vary significantly. Therefore, it is difficult to generalize the nature or impact of shock across the MPs. The economic structures reflect the mentality and

cultural background of the region. Traditionally the state interferes actively in the economic process. Governments directly influence the performance of the national economy, e.g. through the administration of extensive subsidies. Most states have huge and inefficient bureaucracies. In addition, state-owned firms or highly subsidized private companies are important elements of the employment policy and are often the bodies responsible for social services [Nienhaus 1999]. As such, the role of the government in the EMP is controversial [Tovias and Ugur 2004]. With the signature of the partnership, the national governments have accepted the role of implementing an environment that is conducive to increased performance, efficiency, competitiveness and transparency [Rhein 1999]. Furthermore, the informal economy is estimated to be equivalent to as much as 40 per cent of the formal economy [Joffé 1998]. Private networks and *wasta* (personal connections) play a prominent role in all areas of life and business. In certain branches, economic success seems to be based as much on connections as on merits [Joffé 1998]. Corruption is regarded to be a major constraint to the investment climate, ranging between 17 per cent in Morocco and Turkey, up to 35 per cent in Algeria and over 50 per cent in Egypt and Syria [World Bank 2006]. Thus, liberalization of the domestic markets, competition, privatization, structural adjustment and reforms of the institutional framework (independent courts, harmonization of standards and norms, etc.), in short the principles of a market economy and success based on merits, stand in sharp contradiction to the prevailing economic systems of most of the MPs. All MPs, albeit to different extents, have to reorganize their economic systems. These radical changes cause essential adjustment costs. As such, the EMAAs' obligations constitute a very thorough internal and external challenge for each MP and impact considerably on their economies, economic systems and beyond. Structural adjustment breeds a chain reaction that affects not only the economic but also the judicial and political structures. As mentioned above, it is difficult to generalize the nature and impact of the shocks as well as of the adjustment costs because they affect MP countries differently. However, this section gives an idea about the general situation and difficulties with which the Mediterranean is confronted.

2.4 Evaluation: Obstacles of the Past and Future Challenges

There are two prevailing strands of argumentation in literature on the EMP. One strand concludes that the EMP has more or less failed because it was not able to materialize its aims and communicated expectations within the first decade.[7] The other strand, found especially in official EU documentation, emphasizes that it is already a success that the process did not collapse, despite the difficult geopolitical context in which it is placed. In contrast, this paper aims to provide constructive and less generalist criticism, with special respect to the EFP.

When analysing the performance and importance of the economic dimension within the Barcelona Process, it becomes obvious that the EFP accounts for most of the visible progress. The EFP is the most effective realization of the Barcelona Process. Economic interaction is a major source of continuity in Euro-Mediterranean relations throughout politically difficult times. The EFP has shown many positive results. It has become a dynamic process that institutionalizes exchange, as well as bilateral and regional communication channels. The EFP essentially contributes to establishing the EMP as a stable and lasting framework of regional cooperation. The mere number of conferences, working groups, meetings and activities undertaken on a regular basis indicate the continuity of this process; expanding the dialogue on important regional concerns despite difficult regional and international settings (an escalation of Middle East conflict, the events of September 11). The Barcelona Process is the only forum outside the United Nations where the conflicting parties continue to meet. Furthermore, the regional and international integration of the Mediterranean region has improved since the establishment of the EFP. All MPs (except Syria) are now members of the WTO or are negotiating accession (Algeria and Lebanon). Economic and institutional reforms have gained momentum in the MPs [Handoussa and Reiffers 2001]. MPs are undertaking considerable efforts to create a more investor-friendly business

[7] For example: Bessis (2005), I. Weipert (2006), or C. Masala (2000)

environment. Sizable regulatory framework reforms for investment are already implemented. Most MPs currently show comparatively stable macroeconomic situation: inflation rates are relatively small (less than 10 per cent), budget deficits have been reduced, and even the high burden of debt is declining slightly. Financial assistance from the EU to MPs has been extended in comparison to the pre-Barcelona Financial Protocols. Thus, the Economic and Financial Partnership contributes to preventing the MPs falling into international economic isolation in this difficult environment. Furthermore, economic cooperation and structural adjustment activities are preparing the region for greater benefits in more peaceful times. It also provides a firm foundation for intensified cooperation between the EU and the MPs. The EFP shows significantly more progress than the other two EMP baskets (political and cultural matters). But EFP performance stays behind its own benchmarks, when being judged on the accomplishment of its, above mentioned, explicit aims. Nevertheless, it is wrong to conclude that EFP has failed, because, as this paper shows, these expectations were from the beginning overly ambitious.[8] The aims stated in the Barcelona Declaration are not the appropriate benchmark for a short- to medium-term evaluation of the past performance. Given the unrealistic nature of expectations towards the EFP, this paper argues that the impact of the EFP should not be judged only by these expectations. Its context and construction as well as the economic situation of the MPs need to be considered. The central importance of the EFP for the EMP makes it especially important to provide an adequate evaluation of EFP performance. An objective assessment of its instruments and structures is a precondition to using the experience of the past ten years and to meeting the new challenges of Euro-Mediterranean relations. I now point out improvements that are necessary in order to exploit the possibilities that are at stake better. These adjustments can help to overcome past shortcomings and to come to terms with challenges, such as the enlarged EU and the introduction of ENP.

[8]These high expectations are also considered to be a burden on Euro-Mediterranean relations, because the constant disappointment of expectations reduces the commitment; see Brach (2002).

2.4.1 Capacity-Building and Commitment

Despite the sizable implementation of a regulatory framework for investment, the business environment is still not satisfactory. Investment codes are an important, but not sufficient, condition for attracting investment. Independent juridical systems that guarantee the enforceability and transparency of commercial administration, as well as political stability, are as important for investor decisions as are labour, input or transportation costs. None of the MPs sufficiently meets these conditions. This reduces the efficiency of progress in single areas. Some structural adjustment measures even undermine other reforms. MP governments primarily privatize profitable parts of state-owned enterprises in order to increase government income and keep the unprofitable parts in order to preserve jobs. As stated earlier, the state is often the most important employer in the MPs, accounting for over 50 per cent of the jobs in Jordan or Algeria, and more than 35 per cent in Egypt, Morocco and Tunisia [Loewe 2004]. 40 state-owned enterprises constantly create jobs, even if many of these jobs are redundant. Privatizing these enterprises on a large scale would put an extra strain on the already tight labour market. In addition, privatization in the MPs often leads to a partial transfer of state monopolies to private monopolies rather than competitive market structures [Handoussa and Reiffers 2001]. In this manner privatization neither modernizes economic structures by improving competitiveness, nor does it counter investor distrust. Seen in this context, the distribution criteria for MEDA financial assistance do not give sufficient emphasis to limit the rent-seeking behaviour of the beneficiaries [Ghesquiere 1998]. Furthermore, analysts continue to give too little attention to the fact that the economic structure in the MPs is based on small, family-run businesses that have little knowledge of EU standards and procedures. Although the share of high-technology exports has increased within the past ten years, they account for an average of less than 5 per cent of the total manufactured outputs (cf. Table 2.2). Jordan and Tunisia are the only Arab MPs showing a technological readiness which is slightly above the international average of 3.7 (cf. Table 2.2). The attractiveness of the Mediterranean region to FDI has recently made some

Table 2.2: Technological competitiveness of the Mediterranean Partners

	High-technology exports (% of manufactured exports)		Foreign direct investment (net inflows % of GDP)		Technological readiness (index)	
	1995	2005	1990	2005	1996	2005
Algeria	0.5	1.1_{04}	0.1	1.1	-	2.7
Egypt	0.4	0.6_{04}	1.7	6.0	3.7	3.7
Israel	15.8	13.9	0.3	4.5	4.8	6.2
Jordan	5.9	5.2	0.9	12.1	2.6	4.3
Lebanon	-	2.0_{04}	0.2	1	1.7	-
Morroco	0.5	10.1	0.6	3.0	-	2.8
Syria	-	1.0_{04}	0.6	1.6	-	-
Tunisia	1.6	4.9_{04}	0.6	2.5	-	4.1
Turkey	1.3	1.5	0.5	2.7	3.4	3.8
West Bank/ Gaza	-	-	-	-	-	-

Sources: World Development Indicators 2006; Global Competitiveness Report 1996, 2006.
Notes: where 2005 data are not available, the available year in subscript is presented.

visible progress, but the regional level of worldwide FDI inflows remains low. With an average of 5 per cent, the MPs rank a little bit better than South Asia and sub-Saharan Africa (4 per cent). But only Jordan and Lebanon are about to catch up with the regional average of FDI inflow in Latin America, which is 13 per cent of GDP [World Bank 2006], cf. Table 2.2. Both the EU and the MPs do not attach enough importance to the need for building technological and administrative capacities. On the one hand, more measures need to be taken to improve MPs' capacities to adapt existing technologies to their specific needs and to ensure a better diffusion of such technologies. On the other hand, better education and more training is necessary to increase administrative capacities, e.g. to handle mandatory European standards on food safety. Small and family-run businesses will significantly improve their chances of success in European and international markets.

2.4.2 Trade in Agricultural Products

EMAAs are negotiated bilaterally in order to take the special situation of each MP into account, but de facto there is very little variance across the agreements [Hoekman 1999]. Trade in agricultural products accounts for 6 per cent of the total trade between the MPs and the EU. The MPs are therefore the second most important extra-EU trading partner after the USA [Quefelec 2004]. Still, agricultural goods were from the beginning excluded. This led to a deadlock in EMAA negotiations with MPs that are heavily dependent upon agricultural products, such as Morocco. Only since 2003 is a revision of the market access for agricultural products on the Euromed agenda, but any success depends on an internal reform of the European Common Agricultural Policy (CAP), as well as the ongoing the WTO negotiations. Trade in services is regulated within a limited scope, only referring to the provisions of the GATS. Although agricultural products are an important source of revenues in many MPs today, services are increasingly gaining importance as a more promising source of economic growth. Because the EMFTA is de facto limited to trade in industrial goods, the MPs cannot expand their access to the European agricultural market far beyond the preferential treatment they were already granted in the 1970s. In this respect, the EMFTA establishes a preferential unilateral opening on the side of the MPs for European exports, rather than reciprocal trade liberalization. The import of industrial goods from the MPs to the EU is also not generally free of customs, but is only granted if a 60 per cent local content requirement is met. This provides that 60 per cent of the value added must originate from the exporting MP in order to enjoy duty-free treatment [Licari 1998]. So far, only EMAAs with Tunisia and Morocco allow an accumulation of origin among each other and with Algeria. All other MPs have to produce the demanded value added themselves. These limitations of the EMAAs can be explained adequately by the inner structures and concerns of the EU. Trade in agricultural products and services are two very sensitive issues for the EU. The problems of the CAP are widely discussed and a solution is not within reach at this point in time. As for trade in services, the EU Member States

fear further waves of immigration from the MPs to the EU if the freedoms of settlement and movement are granted within the EMFTA. Although trade in agricultural products is an important feature to many MPs, especially in the Maghreb, the impact may well be overestimated on both sides. The EU, in particular its southern Member States such as France, Spain, Portugal and Greece, do not seem to realize that the EU already exports more agricultural products to the MPs than it imports [Quefelec 2004]. The MP governments should also consider carefully that agricultural production is not a pioneer sector that offers much future growth or development prospects. The reluctance of the EU to tackle a reform of its CAP and the difficulties of the ongoing WTO round demonstrate how little progress liberalization in this sector is to be expected in the short to medium range.

2.4.3 South-South Integration

The development of Tunisia during the partnership is widely regarded a success story. Tunisia has gone the furthest on the way of structural adjustment, showing a positive development in important fields such as macroeconomic stabilization, economic liberalization and increased openness. Tunisia managed to increase industrial diversification, as well as institute legal and institutional framework reforms [Handoussa and Reiffers 2002]. However, the positive dynamic gains made, such as an increase in FDI inflows, do not match the expectations. The fact that the developments in a model country like Tunisia do not generate the expected results renders two important points. First, that benchmarks and expectations should be reconsidered, as already discussed. Secondly, one well-performing MP cannot on its own compensate for the disadvantageous regional setting. Economic integration and political cooperation among the MPs is indispensable for future development. With substantially failing multilateral liberalization on the most-favored-nation basis, South-South integration represents a key element for the success of the region as a whole [Ghesquiere 1998]. Linkages between the MPs can compensate partially for the small domestic markets and facilitate economies of scale to increase productivity [Handoussa and Reiffers 2002]. But also from

a political point of view, the creation of agreements among the MPs would be a signal for fostering habits of cooperation and a normalization of relations between the MPs [Tovias and Bacaria 1999]. The benefit of creating the EMFTA is especially increased for the MPs when they manage to link to each other through free trade agreements. Obviously this is no easy task. Trade links between the MPs have traditionally (not including the medieval era) been very low, accounting on average for less than 5 per cent of the total trade flows [Radwan and Reiffers 2005]. In contrast, trade relations with Europe account on average for 45 per cent of the MPs' external trade. Previous attempts of intra-regional economic cooperation and concerted action, e.g. the Arab Maghreb Union (AMU) in 1989 and the Greater Arab Free Trade Area (GAFTA) in 1998, were not successful. However, there is significant potential for development: trade within the region in 2003 accounts for less than 1 per cent of the total trade in Israel, but 14 per cent in Lebanon and Syria, and 8 per cent in Jordan [Radwan and Reiffers 2005]. The annual average growth rate between 1994 and 2004 for exports among the MPs was 14 per cent in comparison to 7.7 per cent with the EU [World Bank 2006]. Thus, the MPs willingness to open up between themselves increased during the partnership. With the recent Agadir Process, the progress of economic cooperation gained a new momentum. Egypt, Jordan, Morocco and Tunisia signed a free trade agreement among each other in March 2001, which is scheduled to enter into force in 2006. This initiative is more promising than the past attempts. As opposed to the AMU, it comprises MPs from the Maghreb (Tunisia and Morocco) and the Mashreq (Egypt and Jordan). The Agadir Process extends the regional impact and includes more complementary economies. Compared to GAFTA it has a manageable size. Although regional and intra-regional cooperation is a declared focus of the EFP, the possibilities for enhancing South-South cooperation have not been exhausted. The EU only recently started to create more incentives. Considerations to include the MPs into the pan-European system of origin are concluded, and the EMAAs can be amended. The share of MEDA funds dedicated to regional cooperation and projects have been increased. MP economies cannot separately compete with other emerging regional blocks (e.g. Latin Amer-

ica and Eastern Europe). Each individual MP market is too small and is located in an uncertain environment. In times of an increasing global economy and decreasing transaction costs, proximity to the market is only one aspect among others that contribute to attracting FDI. The general regional circumstances are at least as important as the performance of an individual country.

Clearly, South-South, or intra-regional, cooperation is needed to improve the MPs' performance, to improve their bargaining power and, above all, as a signal for normalization and cooperation in the region. However, the anchorage of reforms and liberalization in the MPs through cooperation and deeper economic integration with the EU is already an asset that should not be underestimated, especially against the background that there is neither mutual political interest nor substantial economic incentive for intra-regional trade as compared to the possibilities the EU has to offer. In the framework of the EFP, a unique degree of economic integration is achieved between industrialized economies and their neighboring developing countries. Finally, recent economic research stresses the importance of high-performing trade partners for domestic growth and performance of developing countries.[9]

2.4.4 European Neighborhood Policy and Enlargement

In addition to the deterioration of the Middle East Peace Process, the EU's eastward enlargement (2004) and the ENP (2003) affect the EFP fundamentally. In 1995, the EMP comprised 15 EU and 12 Mediterranean Partners. Today, the MPs are confronted with a different situation. The EU comprises 27 Member States (including the former MPs Malta and Cyprus).[10] The ENP addresses the relations between the EU and its bordering countries, the 16 neighbors: Ukraine, Belarus, Moldova, Libya, Armenia, Georgia and Azerbaijan as well as the remaining 9 MPs.[11] The aim of the EMP to 'create a zone of

[9]For example Arora and Vamvakidis (2005).

[10]Croatia and Turkey are candidate countries. Nominated potential candidates are Albania, Bosnia-Herzegovina, Serbia including Kosovo, Montenegro and Macedonia.

[11]Russia refused the participation in the ENP and holds the special status of a strategic partnership.

shared security, peace and prosperity' has been recycled for the formulation of the goal of the ENP [Euromed 1995, European Commission 2004]. However, the ENP's geographical basis is much broader and the EU has shifted from a comprehensive regional approach to a policy of bilateral differentiation. In contrast to the MPs who share (despite all differences) a common culture, history and geographic proximity, the neighbor countries (NCs) only have two things in common: they are direct neighbors of the enlarged EU, and they have, other than the CC-13 and potential candidates, no prospect of joining the Union. The ENP centers more directly on economic issues than the EMP and provides no social or cultural conditionality on cooperation. Whereas the EFP addresses socio-economic development as a key objective, the ENP wants to avoid factions between Europe and its bordering countries. The closer economic integration of NCs to the European common market is the central objective. Compliance and progress of bilateral negotiated action plans will be the new benchmarks (positive conditionality). Although the EU stresses the complementary character of the ENP - to supplement existing policies such as the EMP - the ENP is also intended to streamline EU relations with the NCs. From 2007, all funds and budget lines providing financial assistance to these countries (e.g. MEDA and TACIS) will be melted together under the umbrella of the European Neighborhood Instrument (ENI). But until now, the ENP remains an emerging concept, and one which is not well defined in its details. The outlines of the ENP resemble the provisions, goals and tools of the EFP. Therefore the experience and evaluation of ten years of EFP are valuable assets, which should be used to model the ENP in detail. The ENP is often criticized for two points. First, because it offers more value added to the former USSR republics than to the MPs, and secondly, because it partially abandons the idea of regional identification [Del Sarto and Schumacher 2005]. Nevertheless, there is a lot at stake for the MPs to gain, because the ENP provides new possible solutions and remedies to some of the past obstacles. The ENP outlines an integration of NCs in the EU common market, which in contrast to the EMFTA is not restricted to the flows of goods, but includes all four freedoms (goods, services, people, and money) and participation in the pan-European accumulation of

origins, presented above. Furthermore, NCs are included in the 7th European framework for research and innovation. Finally, given the limited subregional integration among the MPs and the missing regional identity, the introduced positive conditionality can be a chance for each individual country to make visible progress. In contrast to the Eastern European and Caucasian NCs, the MPs can look back on more than ten years of EMP experience and long-grown intensive relations with the EU. Therefore, MPs can play a central and active role in shaping the ENP. In the years to come, MPs might also be important mediators for bridging EU relations with potential neighbor countries such as Iraq and Iran, if Turkey joins the EU at some point.

2.5 Conclusion

With a focus on its economic dimension, called the EFP, I investigated why EMP performance has been below potential in the past. I presented changes that are necessary to compensate for some of its past deficiencies and to adjust the policy to a changed geopolitical context and new challenges. The EFP plays a pivotal role in both the implementation and design of the EMP. Even though the EMP was to a large extent motivated by European security concerns, it rests upon an economic rationale and draws upon economic policy measures. Trade liberalization is considered a starting point for socio-economic development in the Mediterranean region, with economic integration as the anchor. Throughout the past decade, economic integration has proven to be a major driving force of continuous Euro-Mediterranean interaction. EFP progress and its positive results are thus crucial for the overall development of the EMP. The economic and institutional deficits of the Arab Mediterranean countries are essential elements. Fundamental reorganizations of the prevailing structures are necessary in order to achieve the Barcelona goals, even though they cause high adjustment costs within the MPs. Europe's own positive experience with regional cooperation and regional stability started from economic matters, but is only partially transferable in this context. European integration was from the beginning built upon mutual economic interest, the political will to cooperate and the convic-

tion that each Member State profits from regional integration. In contrast, political tensions among the MPs and repeatedly escalating regional conflicts create an environment in the Mediterranean region that is far from optimal. In order to improve its performance and impact on socio-economic development in the Mediterranean region, the EFP needs to focus more on building and improving capacities. Only then can MP businesses profit better from gains in trade and openness. At present, the majority of firms are neither able to apply nor to adapt recent technologies, although these are increasingly available in MP countries. However, the ability to run technologies and adapt them to country- and sector-specific needs is a precondition for enhanced productivity. This does not only include technologies in terms of machinery or tools, but also administratively mastering EU norms, rules and procedures. The EMP and especially the EFP provide a framework for interaction and economic integration that is unique between industrialized and neighboring developing countries. Since 2004, the institutional changes in the course of the recent EU enlargement and the introduction of the ENP challenge the EFP, but they also offer solutions to some of its essential shortcomings. The ENP outlines, for example, the opening of European technology and innovation funds for MPs, as well as positive conditionality. Yet, the value added of the ENP will not be as high for the remaining MPs as for the Eastern European and Caucasian states which engage in their first structured relations with the EU. However, the ENP is not yet very well defined and still needs to be filled with details. Therefore it is important to provide a thorough analysis and evaluation of the EFP's past performance. The experiences of the MPs with economic integration and economic assets as the major sources of motivation for deeper cooperation can be crucial for the establishment and formulation of the ENP. International experience with economic transition indicates that the MPs' transition is likely to be gradual. In the case of the southern European countries Spain, Portugal and Greece, the economic transition took more than 20 years. Preparing themselves to join the EU as full members, they received substantially larger amounts of financial assistance from the EU than the MPs do today. The situation with the CC-13 is similar, and after ten years it is still too early to say how long the transition will

take. In both cases, EU membership is an essential incentive that most of the MPs do not and will never have. Against the background of the difficult economic situations and the far reaching institutional changes with which the MPs are confronted, the EFP and EMP will take decades rather than years to bear fruits. Communicating realistic short to medium goals and modest expectations can be essential to prevent constant disappointment and frustration. As such, this paper shows that commonly applied benchmarks are important obstacles in themselves: the goals stated in the Barcelona Declaration raised high expectations due to a favorable international and regional setting at the beginning of the EMP in 1995. Given the changed geopolitical context, these expectations are unrealistic and do not reflect Mediterranean realities. Therefore, they are not an appropriate benchmark for the evaluation of EFP performance, especially not in the short to medium term. The EFP is an ambitious long-term strategy, which is important beyond the scope of the EMP, and using the experience of the past ten years is critical to meeting the challenges of both Euro-Mediterranean and European Neighborhood policies.

Chapter 3

Constraints to Economic Development and Growth in the Middle East and North Africa

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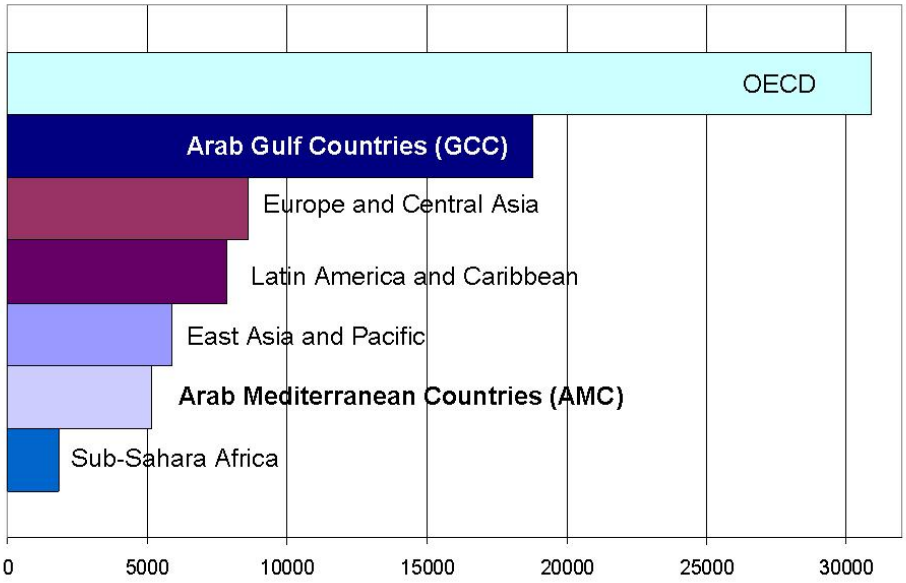
3.1 Introduction

During the past 20 years, the Arab countries of the Middle East and North Africa have displayed an overall weak economic performance and are less economically attractive compared to other developing regions.
Despite the plethora of scholarly articles and publications of international organizations on economic development and growth, the contributions on the economic performance of the Middle East and North Africa (MENA) in general and the Arab MENA (AMENA) countries in particular remain limited. Much of the literature uses the aggregate "MENA region", which comprises both Arab and non-Arab economies, such as the EU member and candidate countries Malta and Turkey, and the highly developed countries Israel as well as Iran [Sala-I-Martin and Artadi 2003, Aubert 2004]. This article concentrates on the Arab countries of the Middle East and North Africa (AMENA) and further differentiates between Arab Mediterranean countries (AMC) and Arab Gulf countries. The final sample comprises 77 countries, including the five AMC Algeria, Egypt, Jordan, Morocco, and Tunisia.[1]
Figure 3.1 shows the per capita income of AMENA countries in an international comparison and indicates a huge income gap between AMC and Arab Gulf states that is hidden in the MENA aggregate. The countries of the Gulf Council (GCC) have the second highest per capita income of the world, topped only by the high-income OECD countries. In contrast, Arab Mediterranean countries have the second lowest per-capita income, only Sub-Saharan Africa performs worse.
In a regional comparison, AMENA countries show relatively low rates of economic growth, which are coupled with high rates of population growth, as depicted in Figure 3.2. Tight labor markets in the region face major challenges because average population growth between 2000 and 2010 is estimated to be more than double that in all other regions [Dasgupta 2003].

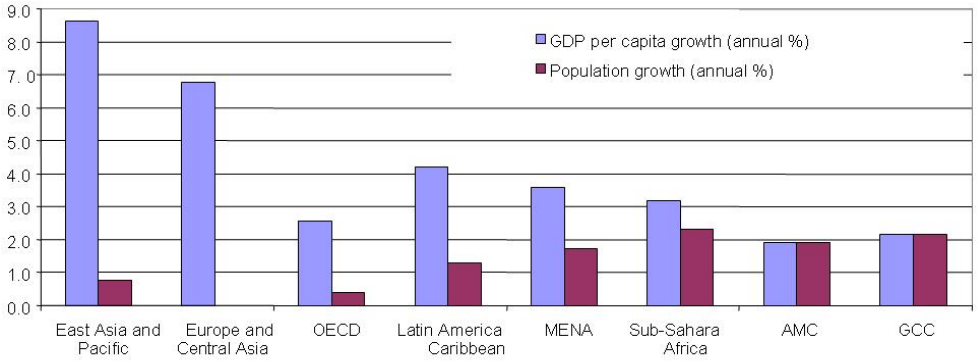
[1] I collected data for a total number of 173 countries. A detailed list of countries is provided in appendix A.1.

Figure 3.1: GDP per capita (PPP, USD)



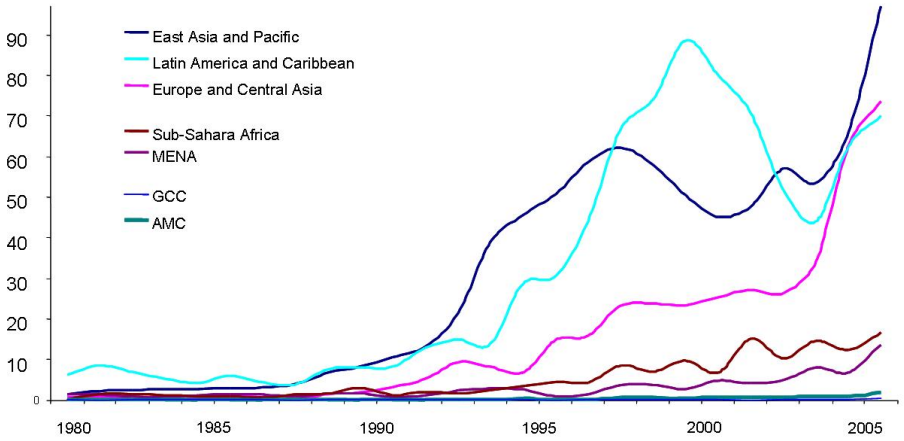
Source: author's calculations based on WDI 2007

Figure 3.2: GDP growth by regions



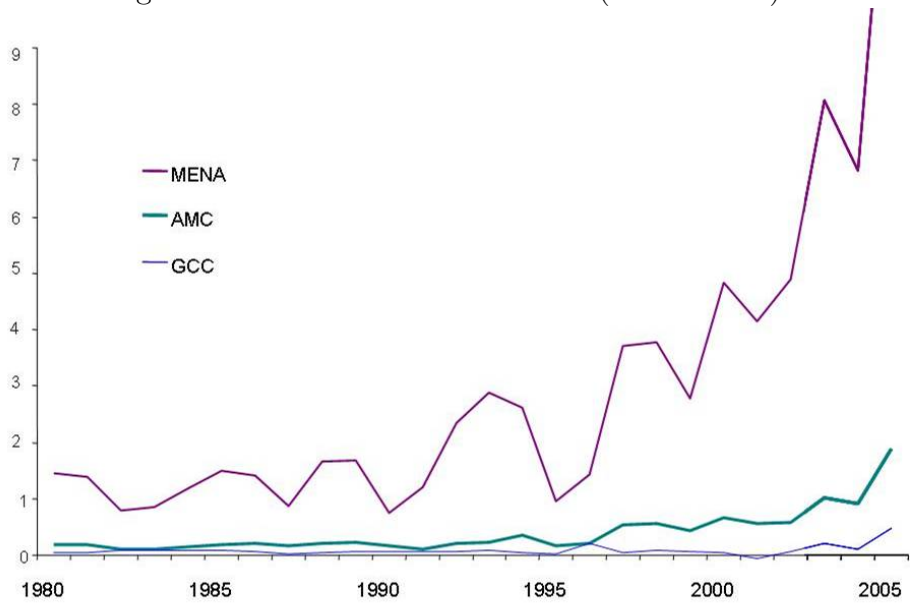
Source: author's calculations on WDI 2007

Figure 3.3: FDI net inflows by regions (billion USD)



Source: author's calculations based on WDI 2007

Figure 3.4: MENA net FDI inflows (billion USD)



Source: author's calculations based on WDI 2007

Figures 3.3 and 3.4 depict the low attractiveness of AMENA countries in a regional comparison: These countries profit least from net inflows of foreign direct investment (FDI). Less than five percent of worldwide FDI is directed toward this region. Despite a gradual increase of FDI net-inflows, the level is significantly below other developing regions. Even Sub-Saharan Africa performs better. As for the GCC countries, it must be noted that they are massively exporting FDI. This is, however, not true for AMC.

The oil-dependent Gulf-Monarchies are an important example of countries in which the high-income level is not an adequate proxy for technological progress and sustainable intensive growth. Despite the large discrepancy of per capita income in Arab Mediterranean and Arab Gulf countries, all Arab countries face similar problems although at different levels of urgency.

Ample economic literature recognizes the existing growth deficit and weak economic performance of MENA countries. However, little research investigates the constraints on economic development of the AMENA countries that might explain why they perform below their potential. Understanding the most binding constraints to economic development and growth is a prerequisite for identifying effective structural adjustment measures, both nationally and internationally. National governments as well as international organizations have only limited financial and administrative resources, dedicated to structural adjustment and development support. And rarely, if never, is it possible to tackle all possible constraints. Policy makers have to make choices and set priorities, and it is important to make sure that efforts and available resources are directed toward alleviating the most binding constraints.

This paper aims to partially fill this void. Two-stage cross-country regression models are used to identify the importance of different theoretical economic and political economy explanatory variables. This discussion draws on regional political economy and insights from MENA regional studies to contextualize and interpret the empirical results.

Two main hypotheses guide the analysis: i) MENA economic development is significantly constrained by a lack of technological capacity and a highly inefficient allocation of resources. ii) The inefficient allocation of resources of MENA countries is based on domestic political economy and results in part

from the prevalent socioeconomic and political systems of the region.

The relatively limited body of available literature stresses the poor economic performance and development of the Arab world, especially when compared with other developing regions. Despite high oil prices and worldwide increases in energy demand, Arab Gulf countries have not been able to channel capital accumulation to intensive sources of growth. Productivity remains low and total factor productivity (TFP) hampers rather than advances economic growth and development in these countries (Bisat et al. 1997; Abu-Qarn and Abu-Bader 2007).

There is, however, little agreement as to why Arab countries have mastered globalization so poorly. Why are there some highly competitive sectors such as in the oil industry, with hardly any positive effects on local businesses and social structures, as in the Arab Gulf States, or why does the "formal" private sector remains limited despite an active and successful "informal" sector in the MENA region?

To date, international structural adjustment programs and recommendations to support Arab Mediterranean economic development have been primarily inspired of the Washington Consensus. In principle, the IMF, World Bank, the United States (Broader Middle East and North Africa Initiative) and the European Union (Euro-Mediterranean Partnership or European Neighborhood Policy), have championed programs to increase competition from within and outside national borders through privatization and trade openness, respectively. What we know today is that neither national nor international structural adjustment measures and programs in the Middle East and North Africa render satisfactory results: AMENA have witnessed a de facto decline of GDP over the past 20 years. In order to develop suitable and appropriate strategies for economic development and growth from an international as well as a national perspective, it is necessary to specifically target the constraints that are hampering economic development the most. Unfortunately, it seems that the constraints to economic development in the MENA region have yet to be better identified, and support and reform efforts may therefore be targeted in the wrong direction.

To provide a comprehensive and fresh look at MENA economic develop-

ment, this paper draws on different disciplines and integrates insights from economics, political science, and regional studies into a broader analytical framework. The aim of this paper is to test whether and to what extent technological capacities and characteristics of MENA political economies have explanatory power with respect to economic development and income levels. The next section introduces the relevant literature from both economic and regional studies perspectives and summarizes the explanatory variables championed in the different strands of literature. Section 3.3 discusses the indicators used for measuring the dependent and independent variables, the model specifications, and the data. Ordinary least squares (OLS) regressions yield a sense of the magnitude of the estimated coefficients. In addition, Two-Stage Least Squares (2SLS) based on instrumental variables (IV) are used to address reverse causality, omitted variable bias, possible endogeneity and measurement problems that restrain the accurate interpretation of relationships identified by the OLS regressions. The two stages of the estimation procedure will be elaborated in different subsections. Section 3.4 presents the empirical results as well as their interpretation and discussion. Special emphasis is given to the Arab countries of the Middle East and North Africa. Section 3.5 provides a conclusion and outlines implications for further research.

3.2 Related Literature

3.2.1 Economic Theory

Innovation and Growth Neoclassical growth theory focuses on physical and human capital accumulation as the ultimate sources of growth. In contrast, endogenous growth theorists champion technological progress and factor productivity. As a result, growth research has a stronghold on technological innovations and high-technology research and development. However, domestic high-technology industries and sectors are virtually non-existent in the context of developing countries. Eighty-five per cent of innovations have been developed in OECD countries. Even in the USA, high-technology man-

ufacturing accounts for small 5 per cent of the GDP. The question of how to optimize the innovation process in high-technology sectors is subordinate to the more fundamental questions of how to trigger and how to accelerate growth in a sustained manner. Due to the lack of domestic high-technology sectors in developing countries, the priority of research has shifted from generating technology to accessing foreign technology, in particular technology from the highly industrialized OECD countries. This is demonstrated by trade economists concentrating on the importance of economic integration and free trade (Frankel and Romer 1999). Some authors, such as Sachs and Warner (1999) or Dollar and Kraay (2004), argue that trade integration is the major determinant of growth in poor countries because there are no domestic sources for technology. This view has been challenged by a relatively new strand of literature originally triggered by the seminal paper of Basu and Weil (1998).

Technology adoption and growth Basu and Weil (1998) point to the technology-bias towards the needs and framework conditions in highly developed countries where these technologies have been developed. They argue that capacities of developing countries to adapt and adopt foreign technologies are as important as access to technologies, since existing technology are not appropriate for use in developing countries. Recent studies empirically validate this model and further emphasize the importance of this concept [Acemoglu and Zilibotti 2001, Los and Timmer 2006].
Hausmann and Rodrik (2003) compare the process of technology adoption in developing countries to the innovation process in industrialized countries. They show that there is no 'off-the-shelf technology' available to developing countries and that learning about technology and problem solving using the knowledge acquired in mastering technology is not without cost.

Efficient allocation of resources and growth Traditionally, inefficient allocation of resources has been identified as a lack of competition caused by monopolistic market structures, high protection against foreign competitors and state-domination of sectors or industries.

Structural adjustment championed by the Bretton Woods organizations, was and still is, despite certain limitations to this approach (cf. e.g. Kappel 2003), principally based on the exposure of formally closed economies to international competition through trade openness and wide-spread privatization to increase competition and concomitantly the competitiveness of developing economies (World Bank 2006).
However, a rapidly growing strand of literature supports the view that differences in growth and prosperity originally depart from differences in institutions. Institutions are generally described in this paper as the rules and norms of human behavior, following the definition provided by North (1989 and 1990).
Acemoglu et al. (2004) focus on the importance of economic institutions for economic growth. They argue that economic institutions that facilitate and encourage factor accumulation, innovation, and efficient allocation of resources are necessary for societies to be able to prosper.
Easterly et al. (1997) and more recently Alesina et al. (2003) point to cultural and ethic fractionalization as further external sources of differences in economic growth in addition to geography and climate.
In a widely cited paper Rodrik et al. (2004) integrate these diverse arguments into an integrated model and conclude that 'institutions rule' over geography and trade integration for economic development.

Political economy and growth Krueger (1974) was the first to theoretically and empirically outline the economic phenomenon of rent seeking and its negative consequences. Her findings point to: 1) high deadweight loss, 2) a negative perception of the economic system and market mechanism as rewarding the rich and well-connected, 3) economic activity that is increasingly devoted to capturing gains from rents rather than adopting new technologies and taking entrepreneurial risks.
Olson (1982) identifies vested interests among individuals specialized in the old technologies as a major source for slowdown in technological progress. He argues that these individuals are tempted to collude and exert political pressure in order to delay or prevent innovations that might erode their rents.

Inefficient bureaucratic organizations are also regarded as an important factor in retarding economic development. In a recent paper, Acemoglu et al. (2006) present an economic theory to explain why certain societies end up with such structures. Their findings suggest that an inefficient state structure 1) allows the rich to use patronage, 2) creates more rents for bureaucrats than an efficient state would, and 3) creates its own constituency and tends to persist over time.

Economic theory identifies certain political economy structures that are more likely to hamper economic development than others. It is important to note that rent-seeking in this context describes the behavior of individual economic and political actors, not the behavior of the state. In functioning market structures, individuals direct their effort in order to create and expand individual profit margins. This can be done in both economic and political spheres. Merits and economic profit increase individual prosperity, political influence and responsibility. In contrast, rent-seeking activities have the same intention, increasing individual profit and/or political influence, but draw on a completely different mechanism. Instead of profitability and innovativeness, rent-seeking requires long-standing, personal relations. Rent-seeking is thus not a productive activity, no "value added" is created but rather a form of redistribution. The efforts of individuals are thus channeled to activities such as establishing and maintaining complex socio-political networks (Buchanan et al. 1980).

Economies with a high degree of rent-seeking activities are sometimes described as rentier economies and also dubbed "crony capitalism". As such this economic concept directly links to the political science neo-patrimonial state literature (Lewis 1994, Schlumberger 2005, Erdmann and Engel 2007), but is not identical to the rentier-state approach which will be discussed in the next section.

3.2.2 MENA Regional Studies

In this paper, rent-seeking has been defined as the individual effort to personally appropriate funds e.g. state subsidies, transfer payments or economic

rents generated through state intervention and/or monopolistic market structures. I have also presented the negative consequences of such a "rent-seeking culture" (Erdmann and Engel 2007). These rent-seeking structures outlined above in the theoretical framework are reported to exist in all AMCs by recent country studies based on field research by the authors.[2]

MENA polity, politics, and political economy structures are characteristically different from European or 'northern' economies and political systems, which are generally based on competition, equality of chances, market mechanism, and representation. MENA economies are better described as rentier-economies, where individual economic success depends on personal networks and successful rent-seeking. A large body of MENA regional studies on political and economic structures have investigated 1) where these funds/rents stem from, and 2) why they are widely available. This strand of literature has established that the AMENA countries also display a rent dependency at the level of the state.

Beblawi and Luciani (1987) developed the concept of the rentier state, in which the nature of the state and the legitimation of the government is essentially determined by the nature and sources of its revenues. The originally narrow definition of oil-rents,[3] has since been broadened. Different rents or non-productive revenues play an important role in the region. The Arab Mediterranean Countries which are scarcely endowed with oil and gas resources,in contrast to the Arab Gulf countries, depend on official development aid (ODA) and transfer payments at the level of the state and workers remittances. Some might argue that foreign direct investment (FDI) is also a form of external revenues. However, FDI is an investment, as opposed to ODA and transfer payments that are grants. While FDI is allocated to potentially profitable markets and segments ODA is granted for humanitarian or in the case of the AMC, geo-political and conflict situations. While the

[2]Algeria (Nili and Rastad 2007, Lowi 2004), Egypt (Schlumberger 2004, Dobronogov and Iqbal 2005), Jordan (Schlumberger 2004, Loewe et al. 2006), Morocco (Cherouki and Ben Ali 2007, Cammett 2007) Syria (Bolbol 2002, Zorob 2006), Tunisia (Bechri and Naccache 2007, Bellin 1994, Cammett 2007)

[3]understood as the revenues above the opportunity costs in the oil sector

AMC are underachievers with respect to FDI, more ODA is allocated to the MENA region than to any other region in the world (World Bank 2007).
The remittances that workers who live and work abroad send home to their (extended) families directly increase the purchasing power of these individuals, independent of their actual labor income. These personal transfers constitute rents, but these have little or no effect on government revenues because this money is difficult to tax. This is different for rent revenues (such as monopolistic and oil rents of state-owned companies) or external revenues and transfer payments (such as official development aid). Since these revenues make up an important part of their revenues, MENA governments are endowed with significantly more revenues that are neither extracted from their societies by taxation nor through economic productivity than governments in other developing regions. Governments do not need to justify the consumption or use of their revenues vis a vis the tax payer, nor reinvest in production and economic processes to guarantee high revenues in future. This characteristic however, is very different from the obligations to and constraints on democratic European governments to their tax paying constituencies with respect to their use of tax-based revenues.
Polity and politics of the AMENA countries are described as a neo-patrimonial political rule of authoritarian regimes, based on a patron-client relationship and an informal exercise of power (Pawelka 1993). Recent research confirms the actuality of this political characterization as well as the importance of the special link between economic and political decision making in MENA countries, stating that perpetuation of regime stability is possibly the superordinate objective of political and economic policies in these countries [Beck 2003]. Specific ways in which politics and institutions have interacted with rents are shaping the patterns of economic performance in the region (Esfahani 2007; Beck 2007).

Empirical Studies on MENA Growth Despite the plethora of scholarly articles and international organizations' publications on economic growth in various countries and regions of the world, the contributions on economic growth performance in MENA countries remains limited. Important parts

of the actual literature on MENA growth use the aggregate 'MENA region' [Sala-I-Martin and Artadi 2003, Aubert 2004, Dasgupta 2003]. The regional definition varies significantly from study to study, but generally covers around twenty countries, including Iran, Turkey and Israel. Consequently, these studies yield only very general and generic observations.

A few papers investigate MENA economic growth at a more disaggregated level. Bisat et al. (1997) provide a detailed analysis of economic growth rates of ten AMENA countries based on a growth accounting exercise (for the years 1971-96). They find that the investment process that took place throughout these years was not accompanied by sufficient improvement in total factor productivity (TFP). In fact, the opposite was found. The average annual TFP growth was negative over the whole period.

Recently, Abu-Qarn and Abu-Bader (2007) have revisited sources of MENA growth and have attempted to determine the key factors that lead to economic growth in MENA countries over the period 1960-1998. They found that MENA growth performance was essentially determined by physical capital accumulation and, to a lesser extent, by the accumulation of human capital. The contribution of TFP to economic growth was negligible; all six AMENA countries exhibit negative TFP growth.

Nabli and Véganzonès-Varoudakis (2007) address the empirical link between economic reform, human capital and physical infrastructure on MENA economic growth. They find a strong positive impact of advances in physical infrastructure and human capital and a negative impact of structural reform on growth in six MENA countries over the period from 1970-80 to 1999.

3.2.3 The value added of quantitative analysis

The two disciplines of economics and regional studies on the Middle East have coexisted thus far with very little interaction. This paper attempts to bridge these disciplines and combine insights for a more comprehensive understanding of possible constraints and factors hampering economic development in Arab countries.

Although economists have recognized the difficult economic situation in these

countries, it seems that they have not been able to sufficiently explain that poor economic performance. Economists point to the inefficient allocation of resources as a major clue. Despite considerable wealth and capital accumulation in the region, this potential was not sufficiently directed to create intensive sources of growth and proved insufficient to support sustainable development. The answer was (and partially still is) increased competition among domestic economic actors through privatization and increased openness and exposure to international competition through trade and integration into the world market. In brief, this mechanism describes the logic behind the structural adjustment measures, programs, and recommendations introduced by international actors such as the Bretton Woods organizations International Monetary Fund and the World Bank, as well as those championed by the European Union in the course of the Euro-Mediterranean Partnership or European Neighborhood Policy. However, the past years have shown that the situation in the Arab Mediterranean countries has not changed significantly. The value added of this paper is to combine MENA regional studies and economics in order to better explain their development difficulties. The cross-country regression analyses are an important complementary tool for quantifying and weighing the importance of several explanatory variables from regional science and economics.

3.3 Methodology

The two hypotheses are tested with two-stage cross-country regressions, based on a sample of 173 countries. All data are from the year 2005, if not reported otherwise.
The base year for constant US dollar prices in purchasing power parity is 2000. The quantitative data analysis is based on cross-country regressions and benchmark comparisons.

Cross-country regressions use the correlation between dependent and independent variables. In my analysis, log GDP per capita is confronted with different variables identified as important for economic development from an

economic theory perspective. The aim is to analyze their general relationship and find out whether these factors have a positive or negative influence on long-run economic development. In addition, the regressions help to quantify the degree to which the respective variables matter and to understand the explanatory power of the variables (R^2).

A Benchmark comparison allows for an inter and intra-regional country-by-country comparison, based on country rankings and regional comparisons. This is an important step to identify the level to which MENA growth is affected by constraints.

3.3.1 Instrumental Variables Estimation and Two Stage Least Squares

The reason why I do not apply panel data analysis is two-fold. The most important constraint is the availability of data concerning the key variables such as quality of economic institutions and technological readiness. On the one hand, neither time series nor panel data analysis is possible, because important indicators such as the technology or institutional parameters are only available after 1995 and 2003, respectively. On the other hand, MENA countries did not show significant changes in the institutional variables over the past ten years [Heritage Foundation 2007, CIDCM 2006] which renders both techniques less attractive and I rely on multiple regression analysis.
Standard Ordinary Least Squares (OLS) regression, as described above, give us an idea on the goodness-of-fit and the degree of explanatory power of the variables concerned. However, due to endogeneity, mulitcollinearity[4], and heteroscedacity[5] concerns, possible measurement and omitted variables bias the coefficients are not accurate. I use instrumental variable methods such as Two-stage Least Squares (2SLS) regressions to provide better estimates.

[4]Multicollinearity generally refers to the correlation among the regressors. In 2SLS context, a special form of multicollinearity might arise. Correlations between $\hat{y}_2$ and the exogenous variables are often higher than the correlation between y_2 and these variables.

[5]In contrast, for homoscedacity variance of u_1 cannot depend on any of the exogenous variables, i.e. $Cov(z_1, ..., z_n, u_1) = 0$

In this section I outline the concept of Instrumental Variables (IV) and 2SLS regressions, which will be employed in the next section.

2SLS is a state-of-the-art instrumental variable method to solve the problem of endogeneity of one or more explanatory variables, that is, for multiple regression models with single or multiple endogenous explanatory variables. In applied econometrics, the method of 2SLS is currently the second most popular after OLS estimations.

When dealing with omitted variable bias, i.e. a bias due to unobserved variables that are not included, the least satisfactory option is to ignore the problem and accept biased and inconsistent estimators. In some cases, the problem can be solved by using suitable proxy variables for the unobserved variable.

However, in many cases it is not possible to find a suitable and good proxy. IV offers a different approach to solving this problem: the unobserved variable is left in the error term, but at the same time recognizes the presence of the omitted variable.

For illustration consider a linear model with four explanatory variables:

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon \tag{3.1}$$

This equation describes a simple regression model which regresses the dependent variable y on the independent variables x_i, $i = 1, 2, 3$, with β_0 being the intercept and ϵ the random error term. In this straightforward case, the coefficients β_1, β_2, and β_3 can be estimated with an OLS regression.

Often when dealing with empirical problems such as the identification of determinants of long-run economic development, we find that one or more identified explanatory variables are in fact endogenous rather than exogenous. Rather than using x to describe explanatory variables in general, I rewrite equation (3.1) where z and y represent exogenous and endogenous variables, respectively.

$$y_1 = \beta_0 + \beta_1 y_2 + \beta_2 z_1 + \beta_3 z_2 + u_1 \tag{3.2}$$

Testing for Endogeneity For those cases where all explanatory variables are exogenous, OLS regressions provides the most efficient estimates. If, however, this assumption is violated, we need to apply 2SLS since the OLS coefficient will not be accurate in this case. The test for endogeneity shows whether 2SLS is necessary and appropriate.
Thus, we need to test whether or not the endogenous explanatory variable y_2 correlates with the error term u_1. In case y_2 is uncorrelated ($Cov(y_2, u_1) = 0$), OLS estimation is appropriate. If y_2 and u_1 are correlated ($Cov(y_2, u_1) \neq 0$) we need to estimate by 2SLS. The Hausman-Test directly compares OLS and 2SLS estimates and determines whether these differences are statistically significant. If all explanatory variables are exogenous, OLS and 2SLS estimates are consistent. The test is whether the hypothesis that they are correlated is rejected at a small significance level. In this case we conclude that y_2 is endogenous.
If an endogenous explanatory variable is identified, the next step is to find an instrumental variable.

Instrumental Variable Since y_2 and u are correlated we need additional information in order to obtain consistent β estimators. This information is provided through additional exogenous, observable variables z. z is called an instrumental variable for y_2 if two assumptions are satisfied: First, z is uncorrelated with u ($Cov(z, u) = 0$). Rather than through rigorous testing, this assumption in the majority of cases must be maintained by appealing to economic behavior.[6] Second, the assumption that z is correlated with y_2 ($Cov(z, y_2) \neq 0$) needs to be satisfied. This correlation can be tested easily with a simple regression. Because the correlation is complicated by the presence of the exogenous explanatory variables, partial correlation are tested ($\pi_2 \neq 0$ or $\pi_3 \neq 0$).
Both assumptions serve to better identify the regression coefficients β. To obtain the parameters π the reduced form 3.3 is estimated by OLS and yield

[6] In cases with more than one instrumental variable, overidentification tests provided by some statistical programs such as STATA, that can effectively test the correlation with the structural error. Unfortunately, SPSS does not offer this feature and other programs such as STATA were not available. Tests will be performed as soon as possible.

the fitted values.

$$y_2 = \pi_0 + \pi_1 z_1 + \pi_2 z_2 + \pi_3 z_3 + \pi_4 z_4 + v_2 \tag{3.3}$$

IV estimators with multiple instruments are called two-stage least squares. At the first stage, the regression is run to obtain the fitted values $\hat{y}_2$ of y_2.

$$\hat{y}_2 = \hat{\pi}_0 + \hat{\pi}_1 y_2 + \hat{\pi}_2 z_1 + \hat{\pi}_3 z_2 + u_1 \tag{3.4}$$

The following second stage is an OLS regression which uses the fitted values $\hat{y}_2$ in place of y_2.

$$y_1 = \beta_0 + \beta_1 \hat{y}_2 + \beta_2 z_1 + \beta_3 z_2 + u_1 \tag{3.5}$$

The simple model presented here can be easily extended to a multiple case by either adding more exogenous explanatory or endogenous explanatory variables. Consider equations 3.6 and 3.7, respectively.

$$y_1 = \beta_0 + \beta_1 y_2 + \beta_2 z_1 + ... + \beta_k z_{k-1} + u_1 \tag{3.6}$$

.

$$y_1 = \beta_0 + \beta_1 y_2 + \beta_2 y_3 + \beta_3 z_1 + \beta_4 z_2 + u_1 \tag{3.7}$$

.

In order to estimate a case with the two endogenous explanatory variables y_2 and y_3, we would need at least two additional exogenous variables, possibly z_3 and z_4.

3.3.2 Model Specifications

The challenge in every empirical or quantitative paper is manyfold.
Empirical econometric analysis is a very dynamic discipline and, from a regional studies perspective, the state-of-the-art analytical tool to support and complement qualitative and theoretical research.
The aim of this cross- or interdisciplinary paper is to combine state-of-the-art

methodology, presented in the previous section, with insights and evidence from MENA regional studies, and especially from political science.

So far, I have (in section 3.2) described the implications form economic theory literature on development and economic growth. I have discussed the limits of these conceptualizations against the background and situation in developing versus highly industrialized countries (cf. subsection 3.2.2). Then I have identified political economic characteristics that hamper economic development and growth in general and I have outlined their importance and prevalence in MENA countries in particular.

The remainder of this paper is dedicated to systematically combining these insights and shedding light on the constraints to economic development in the AMENA countries.

Prior to presenting the empirical results in the next section, I will use this section to comment briefly on the individual methodological steps of the empirical analysis: model specification, choice of variables, and robustness check.

The specification of the regression model is an important step, critical to the quality and consistency of the empirical results. The challenge of model specification is twofold: first, confronting theory with data; second, learning from data, within the boundaries of the chosen model.

The theoretical background outlined in section 3.2 sets the general analytical framework. The variables were chosen on the grounds of a solid and well established theoretical framework.

Economic development in the developing country i depends on the quality of its economic institutions, its technological capacities, the degree of integration with the world economy, the size of the domestic market, and its endowment with natural resources such as oil and gas. In addition, economic development in country i is affected by war, internal as well as cross-border armed conflicts, and finally by its geographic location.

Generally speaking, the present paper attempts to estimate the following equation, which formally presents and summarizes arguments of the theoretical discussion:

$$\begin{aligned} ECDEV_i = \beta_1 &+ \beta_2 EconInst_i + \beta_3 Technology_i + \beta_4 Openness_i + \\ &+ \beta_5 Marketsize_i + \beta_6 Oildependence + \beta_7 Conflict_i + \\ &+ \beta_8 Geography_i + \beta_9 Region_1 + \epsilon_i \end{aligned} \tag{3.8}$$

The economic development (ECDEV) of country i is the dependent variable and thus is written on the left side of the equation. The idea is to find out *if* (statistical significance), *how* (positive or negative sign) and to *what extent* (magnitude of coefficient) variations of independent variables are able to explain cross-country differences of economic development. β_1 is the intercept and ϵ_i the random error term.

The important independent variables with a potential positive effect, as identified through theoretical and empirical contributions are: The quality of economic institutions (ECONINST), technological progress (technology), trade integration (Openness), and market size (Market). In contrast, war and conflict (conflict) as well as geography is, particularly in developing countries located close to the equator, to have a negative impact. In order to control for regional differences, a set of regional dummy variables is also included.

The key variables of interest are Economic Institutions and Technology. Therefore, summarizing a set of control variables in Z_i yields the core or benchmark specification, equation 3.9, which stresses that the analysis focuses on our independent variables of particular interest: Economic institutions, technology, and regional characteristics.

$$\begin{aligned} logGDP_i = \beta_1 &+ \beta_2 Z_i + \beta_3 EconInst_i + \beta_4 Technology_i \\ &+ \beta_5 Region_i + \epsilon_i \end{aligned} \tag{3.9}$$

To estimate the coefficients, we first need to find out how to actually measure the variables. In some cases, this is straightforward. Variables such as regional identification are directly observable. In other cases well established proxy variables exist. Economic development is, by and large, proxied by the per capita gross domestic product (GDP). While the GDP per capita is

Table 3.1: Control Variables and their measures

Variable	Measure	Variable Name
Size of Economy	total population in million, 2006	POPUL
Trade Integration	the ratio of nominal imports plus exports to GDP (PPP) in US dollars	TRADE
Armed Conflict	Number and intensity of internal and external conflicts	CONFL
Latitude	Distance of capital city from equator, measured as the absolute value of latitude	DISTEQ
Oil Dependency	Dummy variable taking the value 1 for a country being a major oil exporter, 0 otherwise.	OILDEP

not only an indicator for the level of economic development, under the assumption that per-capita income levels were more or less similar in the very distant past, differences in current income levels reflect the diverging growth performance in the long-run [Bormann et al. 2006].

Throughout the literature, there are widely accepted proxy variables for all chosen control variables, which are summarized in Table 3.1. The first variable relates to the mere size of a national economy, measured as the total population. Since a larger domestic market is generally associated with increased business opportunities and a broader basis of human capital, I expect a positive sign. The next two variables introduce an international dimension of economic development. The integration into the global economy as an important determinant of development both as it enlarges markets and as it is an important channel for technology transfer has been discussed in section 3.2. I use here the real openness of a country as calculated by Summers and Heston (2006) as the proxy.[7]

Internal and external conflicts of a country increase the uncertainty for investors and restrict the living conditions, and is therefore expected to have a

[7](EX+IM)/GDP per capita (ppp)

negative sign [Collier and Hoeffler 2004]. The last two variables control for the impact of geographic location on development. Distance from the equator is a proxy for climate. Economic development in a country with a tropical climate is, on the one hand, likely to be constrained due to the high burden of tropical diseases and high morbidity rates [Diamond 1999, Sachs 2001]. On the other hand, extreme hot or cold temperatures, or temperature changes (as the night/day change in deserts) as well as a high humidity are challenging conditions for specialized machinery, sensitive technologies and research, and thus seem to hamper technological progress. Finally, oil dependency relates to the discussion on rent-seeking, rentier state, dutch disease, and not at last also the resource curse literature.

Key Variables

For both our key variables, economic institutions and technology, there are no established proxies. Nevertheless, there are some suitable possibilities. The most common approach is to measure the quality of economic institutions by the extent of existing property rights, as these are generally viewed as an important indicator of a reliable and stable economic situation, where investors are protected against arbitrariness and expropriation. However, this indicator yields a very narrow definition of economic institutions. In a widely cited contribution, [North 1990] provides a much broader interpretation of economic institutions, which he describes as "humanly devised constraints that shape human interaction" and which "as a consequence structure incentives in human exchange whether political, social, or economic".

Following this approach, I use a set of indicators to measure economic institutions. Rather than developing my own index, I draw partially on the Index of Economic Freedom (IEF) provided by the Heritage Foundation, which will be briefly introduced in section 3.3.3. The quality of economic institutions is presented as a set of eight indicators which are summarized as a simple average.[8]

[8] Originally, the IEF encompasses ten freedoms. However, in this paper I will use similar indicators, corruption and allocative nature of government, as instrumental variables.

$$
\begin{aligned}
ECONINST_i = \; & 1/8 \; \sum (Propertyrights + BusinessRegulation + \\
& + \; TariffOpenness + Fiscalburden + \\
& + \; monetaryregime + capitalmarketsrestrictions + \\
& + \; goodsmarketsrestrictions + \\
& + \; labormarketrigidity) \qquad (3.10)
\end{aligned}
$$

Technology is often used as a synonym for innovativeness, and, therefore, standard measures are the number of patents filed by residents, the number of scholarly articles, the number of scientists per 10,000 inhabitants or expenditures for research and development (R&D). While these measures may be appropriate in the context of highly industrialized countries, I have already discussed why they are not appropriate when dealing with developing economies, cf. section 3.2. Therefore, there is little sense in applying these indicators.

Instead, I use technological readiness rather than innovative capacity as a proxy. This choice reflects the fact that technological progress in developing countries does not a priori stem from technological advances, but from the efficient use and adaptation of already existing technologies. The Global Opinion Survey (GOS) published by the World Economic Forum is one of the few sources that allow for a cross-country comparison of international competitiveness. Even if technological readiness is not directly observable, the GOS question 5.7 "Your country's level of technological readiness (1 = generally lags behind most other countries, 7 = is among the world leaders)" is a valuable proxy.

Table 3.2 briefly summarizes how the key variables are measured in the first step of the empirical analysis of this paper. OLS regressions with the above specified variables are will yield important insights on the relationship between these and the dependent variable, economic development.

Economic institutions are endogenous since they are man-made and, to a large extent, chosen by the ruling elites. We know from economic and po-

Table 3.2: Key Variables

Variable	Measure	Variable Name
Economic Institutions	Quality of economic institutions is measured as an index of the degree of freedom of eight indicators	ECONINST
Technological Readiness	Country average of executive opinion survey	TECHREAD

litical economy literature that economic institutions matter. In contrast to geography or market size, which are clearly exogenous variables, economic institutions themselves depend on different factors, and therefore are endogenous rather than exogenous variables. In order to specify economic institutions, I again draw on several important determinants that potentially shape national economic institutions, as identified in political economy and MENA regional studies literature.

Economic institutions (ECONINST) of country i depend on the nature of its political institutions and political rule (Polity), the extent of rent-seeking behavior (RENTSEEK), the allocative nature of the state (ALLOSTA), workers remittances received (REMITAN), the endowment with natural resources (OILDEP), and possibly the regional context. Equation 3.11 yields the benchmark specification for the analysis of economic institutions. The proxy variables that I use for the chosen independent variables are summarized in Table 3.3.

$$\begin{aligned} ECONINST_i = \pi_1 &+ \pi_2 Polity_i + \pi_3 Rentseek_i + \\ &+ \pi_4 Allosta_i + \pi_5 Remitan_i + \\ &+ \pi_5 Oildep_i + \pi_5 Region_i + \epsilon_i \end{aligned} \tag{3.11}$$

Some might argue that neither of these explanatory variables, except the endowment with natural resources, are exogenous, especially from a political

Table 3.3: Economic Institutions: Instrumental Variables

Variable	Measure	Variable Name
Political Institutions	Nature of political rule, measured on a scale ranging from authoritarian (-10) to democratic (10)	POLITY
Allocative State	subsidies as per cent of government expenditures	ALLOSTA
Oil dependency	Fuel exports as percent of GDP	OILDEP
Rent seeking	corruption as a major constraint to investment	RENTSEEK
Remittances	Workers remittances received	REMITAN

science perspective. This is true, however, all of these variables tend to change only very slowly and with respect to the AMENA countries did not change significantly over the past decades. In the short to medium-term perspective, the assumption of these factors being exogenous holds true.

The first two variables relate to the rentier-state debate and literature. Both authoritarian rule and large scale allocation of resources to subsidies are expected to hamper the effectiveness and the quality of economic institutions. The next two variables introduce the rentier-economy aspect. Whether or not individual economic effort is directed toward non-productive activities, affects by the amount of remittances inflows and the extent to which personal networks matter in economic and business life. The dependence on oil controls for the source of rents that has received the most attention. But this variable is expected to have a small or minimum impact since the AMC at the center of the analysis in this paper are for the most part scarcely endowed with oil and gas resources.

In line with the methodology discussed above, for the empirical analysis, economic institutions need to be viewed as part of the residual. The specification

equation 3.9 needs to be rewritten as:

$$\begin{aligned} logGDP_i = \beta_1 &+ \beta_2 Z_i + \beta_3 Technology_i + \\ &+ \beta_4 Region_i + u_i \end{aligned} \tag{3.12}$$

Where, certeris paribus, Z_i is the set of control variables and u_i is the residual error term. Rather than being able to estimate the endogenous variable ECONINST directly, we need to use the above presented instrumental variables to obtain further information.
Introducing the relevant interaction terms yields the following extended core specification which will be the two baseline model in subsequent OLS regression analysis, combined in the Two-Stage Least squares analysis:

$$\begin{aligned} logGDP_i = \beta_1 &+ \beta_2 Z_i + \beta_3 EconInst_i + \beta_4 Technology_i \\ &+ \beta_5 Openness_i + \beta_6 MED_i + \\ &+ \beta_7 EconIns_i * Technology_i + \epsilon_i \end{aligned} \tag{3.13}$$

$$\begin{aligned} ECONINST_i = \pi_1 &+ \pi_2 Polity_i + \pi_3 Rentseek_i + \\ &+ \pi_4 Allosta_i + \pi_5 Remitan_i + \\ &+ \pi_6 Oildep_i + \pi_7 Region_i + \\ &+ \pi_8 MED * Allosta + \\ &+ \pi_9 MED * Rentseek + \\ &+ \pi_{10} MED * Polity + \\ &+ \pi_{11} MED * Remittances + \epsilon_i \end{aligned} \tag{3.14}$$

where β_1 is the intercept and ϵ_i the random error term. Throughout the paper I am interested in the sign, magnitude, and significance of the coefficients $\beta_j, j = 2, ..., 7$. A positive (negative) sign identifies a positive (negative) impact of the respective variable on economic development. A negative sign is thus an important indicator for a constraining factor, a constraint to economic development or the quality of economic institutions, respectively. The

Table 3.4: Variable Description

Variable	Description	Kind	Source
economic development	log GDP per capita	hard data	WDI
technological readiness	country's level of technological readiness, values ranging from 1 to 7	survey	WEF 7.01
economic institutions	index of economic freedom, including ten parameters, values ranging from 0 to 100	survey and hard data	Heritage Foundation
rent-seeking	corruption as a major constraint to investment	survey	WDI
authoritarian rule	10= democratic, -10= authoritarian	index	CIDCM
robustness check			
technological capacity	index of science and technology capacity, including 7 parameters, values ranging from 5.03 to -0.51	survey and hard data	RAND
technological adoption	companies ability to absorb new technologies, values ranging from 1 to 7	survey	WEF 7.02

magnitude of the coefficient hints at the economic or practical importance of the variable and is interpreted as the percentage to which it is able to explain differences in economic development across countries. Finally, the significance level is important to get the right idea on the explanatory power of the variable. The standard significance levels at the one, five and ten percent level are reported. The lower the significance level, the higher are the chances that the coefficient is not robust against sample changes.[9] The aim is to identify whether a variable has a positive or negative impact and to weigh the impact and effect of the determinants relative to each other.

[9]For my analyses, I operate at the standard one to ten per cent level of significance, however, in cases where the coefficient shows a large economic importance, I also check the significance at a 15 per cent level, as suggested by Wooldrige (2003).

3.3.3 Data

Despite substantial improvements, the quality and quantity of data from the Arab countries pose important obstacles to advances in research and this partially explains why this region remains marginalized in academic literature. For this reason, I have chosen to only use disclosed sources and reports that have been internationally recognized for their reliability.

World Development Indicators (WDI) (World Bank 2007) provide the most reliable and comprehensive set of hard data on the MENA countries. They document the problem of insufficient and unsustained MENA economic growth performance over the past twenty years. All of the below-presented indices draw on WDI hard data to complement their survey data.

Global Competitiveness Index (GCI) (World Economic Forum 2007). The World Economic Forum is based on an executive opinion survey (Global Opinion Survey, GOS) of over 10,000 enterprises worldwide. In 2003, the GCI, for the first time covered 5 AMENA countries. The most recent edition includes 12 AMENA countries. Rather than taking the whole index, I draw on individual indicators which are undisclosed, but were provided to me by the WEF. These comprise the categories technological readiness, process sophistication, innovative capacity, quality of education, quality of universities. These are used mainly as alternative measures for technological readiness. The sub-index technological readiness is also used as a measure of robustness. The GOS is one of the most comprehensive and detailed sources which provide insight into national competitiveness viewed from inside the country. The attractiveness of these data sets is uncontested. However, interpretations of the results need to take some important methodological shortcomings into account: The country averages are calculated on the basis of the answers from executive officers of firms with more than 100 employees only (World Economic Forum 2007b). This limits the representativeness of the results, especially in the case of the Arab countries, where the vast majority of firms consists of small and medium enterprises (SME) with less than 10 employees. Keeping this in mind, the WEF data are nevertheless valuable, because, in

contrast to other sources, the definition of technological readiness directly reflects the theoretical discussion on the importance of technology adoption rather than innovation. WEF data is an important complement to WDI data, which focuses on indicators such as R&D expenditure, patents filed and scientists employed to reflect the technological dimension of development. These indicators, are often not applicable in the case of developing countries and are either insignificant or not available, as described in the section on technological adoption above.[10]

Index of Economic Freedom (Heritage Foundation 2007). Property rights are widely used as an indicator of economic institutions. However, this definition is not appropriate for two reasons: International experience from Latin American and East Asian countries, respectively, shows that, on the one hand, advances in property rights are no guarantee for economic success and, on the other hand, economic success is not conditional on property rights. For the analysis of the quality of economic institutions in MENA countries, I therefore draw on the index of economic freedom (IEF) which is based on ten areas of economic freedom (government, fiscal, finance, monetary, trade, property rights, investment, labor, business, and corruption) compiled from ninety indicators. The Index is a non-weighed average which draws on the Transparency International Corruption Perception Index to measure the freedom from corruption.
The Index of Economic Freedom claims to be the first comprehensive study of economic freedom. Its first volume was published in 1995. Despite some criticism, mainly due to its simple average nature, the IEF provides a unique tool for comparing economic institutions across countries. Some of its shortcomings can be countered by not relying on the aggregate index itself, but using the individual subindices, which I do in the analysis presented here.

Polity IV Database (Center for International Development and Conflict Management). Polity IV contains semi-annually coded information on regime

[10]For an elaborate discussion of the explanation power of GCI for competitiveness, especially in the Arab Mediterranean countries, see Brach (2007b).

and authority characteristics for all independent states (with greater than 500,000 total population) in the global state system and covers the years 1800-2004. Polity IV codes regime characteristics as the authority patterns of effective polity in the arena of conventional politics. Along the twenty-point polity scale, which ranges from authoritarian (-10) to democratic (+10), polity scores are reliable and accurate within one or two points along this scale. The Polity IV database provides a classification of regimes and facilitates the study of regime persistence. Polity IV classification is based on the three general categories of authority patterns executive recruitment, executive constraints and political competition. All variables are in detail explained in the Polity Users' Manual (CIDCM 2006).

Kaufmann et. al (2005) Mainly for the usage of their control variables such as distance of equator, and landlocked, I used the Kaufmann et al. data as a basis, which I partially updated and where possible extended.

CSCW Data Set The Center for the Study of Civil War (CSCW 2005) provides informations about the number of conflicts between 1970 and 2004 for every country.

Penn World Table 6.2 (Summers and Heston 2006) Purchasing power parity (PPP) is the number of currency units required to buy goods equivalent to what can be bought with one unit of the base country. OPENNESS is calculated as the total trade as percentage of GDP:

$$OPENNES = \frac{EX + IM}{realGDPpercapita} \tag{3.15}$$

RAND Index of Science and Technology (IST) (Wagner 2001). To complement the view on technological and scientific capacities from a MENA perspective (as provided by the WEF), I include the data from the RAND IST, which is based on a survey of American scientists and their perception of scientific standards and capacities of international cooperation partners.

This fairly general description of data sources is complemented by a more detailed presentation of the variables in Table 3.4 and Appendix A.2.
For the robustness check, I partially complement the indicators using additional sources of data. A full specification of the alternative measures is provided in section 3.4.4.
In total, I collected data for a total of 173 countries. Due to data restrictions in some countries and variables and listwise exclusion of variables, I have N=103 for OLS and N=77 for 2SLS regressions, respectively. The final sample of 77 countries comprises seven Arab countries: The Five AMC Algeria, Tunisia, Morocco, Egypt, and Jordan, and the two Arab Gulf States Oman and Yemen. The full list of countries and is provided in annex A.1.

3.3.4 Verifying the Assumptions and Descriptives

The quality of any regression results depends on whether the models assumptions are (sufficiently) met. The assumption of normal distribution and cross-correlations is verified for all variables under interest. In some cases, monotonous data transformations were used to reduce skewness. These transformations only change the shape, and not the order or dimensions of the data.
If these assumption were not fulfilled, neither the ordinary least squares (OLS) nor Two-Stage Least Squares (2SLS) estimates would yield reasonable results.
A combination of exploratory data analysis (EDA) and more rigorous tests was performed for each variable separately and bivariate relationship prior to the multivariate analysis will be presented in detail in the next section.
Table 3.5 provides descriptive statistics for the key variables of interest. The first row presents the dependent variable per capita GDP as the measure for economic performance and development. *LOGGDP*, calculated as the natural logarithm of GDP per capita (purchasing power parity) in 2000. In the following rows five explanatory variables are introduced, four of which are considered exogenous.
OPENNESS is measured using the Penn World Tables ratio (Exports plus

Imports divided by real GDP per capita Laspeyres) in constant 2000 prices. Given the demonstrated differing characteristics of highly industrialized and developing countries with respect to innovation vs. technology adoption, I chose to measure technological readiness *TECHREAD*, which is in the Global Opinion Survey provided by the World Economic Forum. Controlling for per capita prosperity heavily based on the export of natural resources rather than technological progress, *OILDEP* is a measure of the oil dependence of a country, measured in fuel exports as a percentage of merchandise exports. Finally, and as I focus primarily on economic institutions, with *ECONINST* I take the composite index of economic freedom as provided by the Heritage Foundation as the measure of institutional quality.

Table 3.5: Descriptive Statistics

	Mean	Std. Deviation	N
LGGDP	3.9000	0.44946	77
ECONINST	65.6802	9.28532	77
TECHREAD	4.065	1.1905	77
OPENNES	87.868	43.5229	77
POP05	48.2295	153.39450	77
FUELEX	15.55	24.524	77
LGCONFL	0.5849	0.71410	77
DISTEQ	32.81	17.515	77
POLITY	531.74	435.103	77
CORRUPTI	54.44	24.005	77
ALLO_SUB	42.69	19.018	77
REMITTAN	3.76	5.827	77

3.4 Empirical Results

Simple bivariate relationships between income and its determinants, on the one side and the quality of economic institutions and their possible determinants, on the other side, showed a clear positive (or negative) relationship, as suggested by the theoretical framework. Any or all of them have the potential to explain the level of economic development and economic insti-

tutions. These analyses are not reported, but scatter plots are provided in the appendix. This section presents the empirical results of the more formal tests of these relationships in three steps. First, simple OLS regressions of equation (3.8) reported in Table 3.6. Second, a simple OLS regression of equation (3.11) provided in Table 3.7. Third, a 22SLS estimation procedure of equation (3.13) which is documented in Table 3.8.

3.4.1 Determinants of Development: Results from simple OLS regressions

All explanatory variables, key and control variables, show the expected signs consistently throughout the different models.

Technological readiness has a highly significant, positive impact and a large economic importance. The coefficients suggest that two thirds of the variation in economic development can actually be explained by a country's technological readiness. Even after the inclusion of all dummy variables, the importance remains above 50 per cent.

When first being introduced in model 7 the dummy for Arab Mediterranean countries (MED) displays a negative sign, but is positive thereafter. The explanation is reasonably straight forward: Model 7 points out that the generally positive impact of economic institutions, technological readiness and the control variables might not hold true when analyzing economic development in AMC as compared to other regions of the world, without being able to explain why. Models 8 and 9 are able to specify this finding: negative impact from the MED dummy on economic development, stems from the negative impact of lacking technological readiness. While the MED dummy now has a positive sign, the interaction term MED*Technological readiness has a negative sign, and both significant economic and statistical relevance (-0.52** and -0.46**, in column eight and nine, respectively).

In contrast, the impact of economic institutions (ECONINST) changes from positive (columns 1-7) to negative (columns 8 and 9). They also lose significance and magnitude with the successive inclusion of more variables. This may be puzzling at first, but it supports the hypothesis that economic insti-

tutions matter and that they are endogenously dependent on several determinants, the impact of which can be either in support of or an obstacle to economic development. This initial indicative finding needs further investigation and interpretation that will be provided in the next section 3.4.2.

With respect to identifying the most binding constraints to economic development of the AMC, the magnitude of the coefficients yields a sense of the potential impact. The benchmark model 9 which includes the regional dummies as well as the interaction term reveals within a specification with a solid explanatory power of 84 per cent (Adjusted R square) that both technological readiness and distance from equator in general have a 53 per cent and 24 per cent return on economic development. Both findings are in line with the importance of these two variables as noted in the theoretical section. With respect to the Arab Mediterranean countries, the positive impact of technological readiness almost diminishes. Adding the interaction term to the TECHREAD coefficient gives the more precise estimate of as little as 0.07 or seven percent.

However, when looking at the correlation of the residual and ECONINST it becomes obvious that the measure for the quality of economic institutions ECONINST is in itself is an endogenous variable.[11] In order to take this interdependence into account and, at the same time, to clarify the importance of its components, I use a two-stage rather than a simple ordinary least squares regression. First, I present the results of simple OLS regression on economic institutions and their determinants, to once again clarify the impact and relative importance of different variables.

3.4.2 Political Economy and Economic Institutions

ECONINST is identified as an endogenous variable. For several technical reasons, it is not appropriate to rely on ECONINST values for the overall regression, but to use a two-stage estimation strategy instead. Due to technical reasons 2SLS results do not yield information on the impact of different

[11] The simple, part, and partial correlations are reported in the appendix and show a positive correlation with the residual.

instrumental variables on the endogenous explanatory variable, I use this section to shed light on the determinants of economic institutions from an political economy perspective. In a simple OLS analysis, I regress the measure for institutions ECONINST on political and political economy variables. Such as the nature of a country's polity measures POLITY. The value ranges between 10 (democratic) and -10 (autocratic) rule. RENTS measures the prevalence and importance of rent-seeking mentalities and structures, drawing on WDI corruption data. Finally, the effect of an inefficient allocation of resources is tested using ALLOSTA as a measure for the allocative nature of the government (subsidies and other transfers as percent of government expenses). The regression is based on the equation (3.8).

Introducing the interaction terms allows an analysis of the effect of an independent explanatory variable on the nature of another independent variable. I look at the interaction terms $RENTSEEK * MED$, $ALLOSTA * MED$, $POLITY * MED$, and $REMITTAN * MED$. One could also look at differences of economic institutions in OECD and non-OECD countries, using the OECD dummy and, alternatively, a separate non-OECD sample (which is not reported).

A summary of the results is presented in Table 3.7.

The benchmark model which has the largest and most satisfying explanatory power of 69 per cent, includes all four political economy variables, and as well as the MED dummy, is presented in column 6. Polity structures (0.17), rent-seeking structures (0.21) and the MED dummy (-0.19) all display a similar magnitude of approximately 20 per cent. However, rent-seeking structures are economically larger than any other coefficient (-0.71) and thus significantly hamper the efficiency of economic institutions, far more than non-authoritarian structures positively influence ECONINST.

After introducing the interaction terms in column 7 and 8, neither the MED dummy nor the interaction terms are significant and adjusted R square is decreasing. Therefore, the coefficients must be interpreted with care, even though they support the methodological analysis of the previous section.

3.4.3 Two-Stage Least Squares Regression

In this section, I present the results from Two-stage Least Squares regression analyses. As described above, 2SLS allows for the synthesis of the individual OLS regressions. The instrumental variables (rent-seeking, polity, allocative state functions, etc.) help to identify the economic institutions more precisely. The results from the 2SLS regression are summarized in Table 3.8.

The explanatory power of the regression analyzes ranges around satisfying 70 per cent. Due to differences in measurement, the 2SLS adjusted R-squared does not directly compare to the adjusted R-squared of the simple OLS regressions.[12] However, the changes of the adjusted R-squared indicated the gain or loss of explanatory power throughout the different models.

All explanatory variables show the expected signs, although not all of them are statistically significant. Columns (1) to (6) represent the general importance of both key variables economic institutions and technological readiness for all countries in the sample. Both variables are constantly significant at 1 or 5 per cent significance level and are economically important, as indicated by the magnitudes of 45 and 37 per cent of the coefficients of technological readiness and economic institutions, respectively in column (6). The economy's dependency on oil as measured in fuel exports is also statistically significant and economically important, but loses importance with the successive introduction of further variables. In contrast, the distance from the equator remains important in all models. The inclusion of armed conflict (LGCONFL) as a control variable slightly raises the explanatory power from model (5) to (6), even though the coefficient is not significantly different from zero.

When the dummy variable for the Arab Mediterranean countries (MED) is added in model (7) and included in every subsequent specification, several changes in data need further explanation: The first thing that becomes obvious is that once I control for Arab Mediterranean Economic development,

[12] A Shea partial test is necessary to identify the adjusted R-squared which compares to the values of simple OLS regression. This test is beyond the scope of SPSS analysis and no other statistical program such as STATA was available at the point of writing, but will be appended as soon as possible.

economic institutions lose both statistical significance and importance. In those cases, where the control variable for armed conflict is included (columns 6, 7, 9, and 11), the effect of economic institutions switches signs and remains negative. For the interpretation I focus more on the models that omit conflict rather than those that are particularly affected by open conflict. West Bank and Gaza, Lebanon and Iraq are not included in the sample due to data restrictions.

Like the results of the simple OLS regressions, the Arab Mediterranean Dummy has a negative coefficient, if the interaction is not further specified (columns 7 and 13). The interaction terms which, as explained above, accounts for the negative impact of technological readiness and economic institutions in economic development is these countries. This implies that the AMC are lagging technologically behind other countries. Adding the MED*TECH interaction term to the TECH coefficient yields the factual contribution of technological readiness to economic development in these countries. A similar and yet less powerful effect also appears for economic institutions.

3.4.4 Robustness Check

Several robustness checks have been performed, but are not reported. Table 3.9 provides an overview of the alternative measures use.

3.5 Conclusion

In this paper, I tested different determinants of economic development with respect to political economy characteristics and technological capabilities. The aim of this paper was to contribute to a better understanding of determinants and constraints to economic development of the AMC in general, and Algeria, Tunisia, Morocco, Jordan and Egypt in particular.

The results of the quantitative analysis support the notion that especially the lack of technological readiness and economic institutions that are dominated by rent-seeking behavior constitute are the most acute or most binding

constraints to economic development in these countries. The results also indicate that other factors, that in the past have dominated the literature on the prospects of Arab Mediterranean economic development in the past, such as conflict and trade openness are clearly secondary.

The empirical evidence suggests a validation of the second hypothesis which implies that an economically inefficient allocation of resources in the Middle East and North Africa is rooted deeply in the political economy structures and is therefore beyond the reach of traditional structural adjustment measures that aim to reduce market inefficiencies. Structural adjustment in the region will only be successful when it is able to reduce these main constraints to economic development. The reason international adjustment programs in the region remain unsuccessful may lie in the fact that they are simply targeted at symptoms rather than causes of low MED economic development. The findings of this paper also imply that in contrast to successfully developing countries, especially in Asia, MED governments are not dedicated enough to develop their own approaches to structural adjustment, based on the authoritarian polity and the activation of productive potential that is so far channeled to rent-seeking structures.

In the short to medium-run perspective neither the authoritarian nature nor the prevalent rent-seeking networks will change dramatically. Structural adjustment efforts therefore must take them into account. However, economic development will only gain momentum if it is possible to close the productivity and technology gap between the AMENA countries and the rest of the world, which will continue to widen unless urgent measures are taken.

The analysis performed here adds an important argument for researchers, any national and international policy makers to direct more efforts toward understanding and fostering technology diffusion within and into these countries, and to investigate in depth the technological capacities .

Table 3.6: OLS 77 Countries

	Economic Development (lgGDPPC)								
	1	2	3	4	5	6	7	8	9
ECONINST	0.67***	0.23***	0.21**	0.26***	0.19*	0.05	0.01	-0.03	-0.04
	(7.72)	(2.62)	(2.23)	(2.65)	(1.91)	(0.58)	(0.11)	(-0.30)	(-0.52)
TECHREAD		0.65***	0.65***	0.63***	0.65***	0.62***	0.63***	0.67***	0.53***
		(7.37)	(7.24)	(7.12)	(7.53)	(8.50)	(8.65)	(8.96)	(6.57)
OPENNES			0.08	0.10	0.06	0.03	0.03	0.02	0.02
			(1.17)	(1.43)	(0.87)	(0.43)	(0.46)	(0.42)	(0.30)
MARKET			0.03	0.05	0.07	-0.01	-0.02	-0.02	-0.01
			(0.42)	(0.65)	(0.97)	(-0.12)	(-0.32)	(-0.35)	(-0.24)
OILDEP				0.12*	0.10*'	0.06	0.06	0.02	0.00
				(1.79)	(1.52)	(0.98)	(1.05)	(0.30)	(-0.03)
LGCONFL					-0.17**	-0.04	-0.03	-0.06	-0.09
					(-2.32)	(-0.59)	(-0.46)	(-0.96)	(-1.41)
DISTEQ						0.38***	0.40***	0.39***	0.24**
						(5.56)	(5.75)	(5.63)	(2.26)
MED							-0.08	0.43*'	0.39*'
							(-1.34)	(1.51)	(1.50)
INTM_TE								-0.52*	-0.46*
								(-1.81)	(-1.72)
GULF									0.07
									(1.30)
SSA									-0.19**
									(-2.41)
LAC									0.02
									(0.30)
EAP									0.00
									(0.04)
OECD									0.22***
									(2.87)
Adjusted R^2	0.44	0.67	0.67	0.67	0.70	0.78	0.79	0.80	0.84
N	77	77	77	77	77	77	77	77	77

Notes: ***, **, *, and *' denote a significance at the 1, 5, 10 and 15 per cent level, respectively.

Table 3.7: OLS 77 Countries

	Economic Institutions (ECONINST)								
	1	2	3	4	5	6	7	8	9
POLITY	0.650***	0.280***	0.293**	0.292***	0.193**	0.170*	0.187**	0.146*'	0.280***
	(7.402)	(3.174)	(3.150)	(3.272)	(2.072)	(1.773)	(1.958)	(1.492)	(3.174)
RENTSEEK		-0.598***	-0.607***	-0.653***	-0.716***	-0.709***	-0.733***	-0.731***	-0.598***
		(-6.780)	(-6.698)	(-7.360)	(-8.107)	(-8.007)	(-7.903)	(-7.961)	(-6.780)
ALLO_SUB			-0.037	0.013	-0.002	0.010	-0.016	-0.003	0.00***
			(-0.458)	(0.168)	(-0.030)	(0.124)	(-0.199)	(-0.40)	(23.913)
REMITTAN				0.197***	0.226***	0.208***	0.235***	0.213***	0.293***
				(2.670)	(3.158)	(2.829)	(3.084)	(2.772)	(3.150)
MED					-0.195***	-0.186***	-0.352	-0.233	-0.037
					(-2.680)	(-2.535)	(-0.247)	(-0.165)	(-0.458)
FUELEX						-0.073		-0.115*'	-0.607***
						(-1.029)		(-1.511)	(-6.698)
INTM_RE							0.316	0.451	
							(0.517)	(0.737)	
INTM_PO							0.110	0.154*'	
							(1.076)	(1.462)	
INTM_AL							-0.109	-0.395	
							(-0.079)	(-0.285)	
INTM_RM							0.028	0.115	
							(0.058)	(0.245)	
Arab GULF									0.00***
									(24.209)
SSA									0.292***
									(3.272)
LAC									-0.653***
									(-7.360)
EAP									0.013
									(0.168)
OECD									0.197***
Adjusted									(2.670)
R^2	0.41	0.63	0.63	0.66	0.69	0.69	0.67	0.68	0.68
N	77	77	77	77	77	77	77	77	77

Notes: ***, **, *, and *' denote a significance at the 1, 5, 10 and 15 per cent level, respectively.

Table 3.8: Two-Stage Least Squares Regressions

	Economic Development (lgGDPPC)												
	1	2	3	4	5	6	7	8	9	10	11	12	13
ECONINST		0.50***	0.57***	0.72***	0.46***	0.37**	0.16	0.53	-0.63	0.59*	-0.51	0.20	0.23
		(3.87)	(3.82)	(4.14)	(2.80)	(1.99)	(0.91)	(1.33)	(-1.20)	(1.66)	(1.18)	(1.03)	(1.28)
TECHREAD	0.82***	0.49***	0.44***	0.35***	0.42***	0.45***	0.55***	0.39*	0.99***	0.35*	0.93***	0.43***	0.40***
	(15.32)	(4.66)	(3.88)	(2.70)	(3.85)	(3.95)	(5.16)	(1.17)	(3.43)	(1.75)	(3.90)	(3.47)	(3.52)
OPENNES			-0.01	0.02	-0.01	0.01	0.02	0.00	0.04	-0.02	0.05	0.01	0.00
			(-0.18)	(0.26)	(-0.10)	(0.14)	(0.32)	(-0.03)	(0.51)	(-0.20)	(0.64)	(0.13)	(0.05)
POP05			0.08	0.12	0.06	0.42	0.01	0.07	-0.12	0.08	-0.10	0.00	0.01
			(1.05)	(1.48)	(0.86)	(0.62)	(0.12)	(0.72)	(-1.07)	(0.89)	(-1.02)	(0.04)	(0.11)
FUELEX				0.20***	0.15**	0.12*	0.09	0.15*	-0.12	0.17**	-0.09	0.08	0.10*
				(2.55)	(2.34)	(1.72)	(0.18)	(0.10)	(-0.85)	(2.10)	(0.76)	(1.32)	(1.73)
LGCONFL						0.00	-0.02		-0.13		0.13		
						(0.02)	(-0.24)		(-1.26)		(1.31)		
DISTEQ					0.26***	0.31***	0.36***	0.24**	0.53***	0.23***	0.50***	0.21**	0.21*
					(3.44)	(3.66)	(4.43)	(2.00)	(3.52)	(1.99)	(3.98)	(1.97)	(1.94)
MED							-0.04	0.61	-0.08	0.05	0.68*	0.23	-0.01
							(-0.67)	(0.75)	(-0.09)	(0.47)	(1.69)	(0.37)	(-0.16)
MED*TECH								-0.05	-1.07*		-0.86*	-0.19	
								(-0.11)	(-1.78)		(-1.91)	(-0.63)	
MED*ECON								-0.53	0.94			-0.06	
								(-0.56)	(0.87)			(-0.09)	
GULF												0.05	0.05
												(0.94)	(0.36)
SSA												-0.17**	-0.17**
												(-2.08)	(-2.10)
LAC												0.03	0.03
												(0.35)	(0.34)
EAP												0.02	0.03
												(0.29)	(0.37)
OECD												0.20***	0.20***
												(2.41)	(2.47)
Adjusted R^2	0.66	0.67	0.65	0.64	0.74	0.76	0.78	0.72	0.70	0.71	0.73	0.80	0.80
N	77	77	77	77	77	77	77	77	77	77	77	77	77

Notes: ***, **, *, and *' denote a significance at the 1, 5, 10 and 15 per cent level, respectively.

Table 3.9: Alternative Variables

	Alternative Measures	Description	Source
LGGDP	PCGCP	GDP per capita	WDI
	Growth10	average annual growth 1995-2005	WDI
	Growth5a	average annual growth 1995-2000	WDI
	Growth5b	average annual growth 2000-2005	WDI
OPENNES	OPENH	Freedom of trade	IEF
	OPENKK	fitted trade openness	Kaufmann et al. (2005)
MACROST	MACROSH	monetary freedom	IEF
ECONINST	PROP	property rights	WDI
TECHREAD	Sciedev	ISTC	RAND
	Procsoph	process sophistication	WEF
	Innocap	Innovative capacity	WEF
	Patents	number of patents filed by residents	WDI
	TEchnic	number of technicians and researchers	WDI
	Techabs	technology absorption	WEF
RENTSEEK	RENT_-ODA	total amount of ODA	WDI
	Rent_Rem	Remittances as percent of GDP	WDI
ALLOSTA	ALLO_Em	Compensation of Employees as percent of government expenses	WDI
	ALLO_-Sub	subsidies and other transfers as percent of government expenses	WDI
DUMMY	D_LAC	Latin America and Caribbean	
	D_EAP	East Asia and Pacific	
	D_ECA	Europe and Central Asia	
	D_SSA	Sub-Saharan Africa	
	D_OECD	OECD countries	
	D_GCC	Members of the Gulf Cooperation Council	
	D_MED	Arab Mediterranean Country	

Chapter 4

Economic Development in the Middle East and North Africa: The Relation between EU Policy and Regional Political Economy

under review at: European Journal of Political Ressearch.

4.1 Introduction

In the course of realizing the EU's eastward-enlargement, much of the scholarly attention has turned to the pressing problems of internal organization, majority voting, reform of the common agricultural policy, and reducing bureaucracy, just to name a few. However, the EU also faces fundamental challenges with respect to its external policies and foreign relations. The EU possesses new boundaries and the challenges associated with new neighbors in close geographic proximity. The geopolitical situation has, literally over night undergone a major transformation with the accession of the 12 new members. The EU now borders countries that neither have nor will seek membership in the future. In 2004, the EU, recognizing the fundamental challenges of its external relations, launched the conceptual framework of a new European Neighborhood Policy (ENP). Its aim is to streamline and coordinate EU external relations with all close geographic neighbor countries after the enlargement. The ENP covers 16 countries, 9 of which border the Mediterranean Basin and 7 of which border the Black Sea.[1]

It is important to note that, already in 1995, the EU institutionalized its relation to non-candidate countries in the form of a common policy by establishing the Euro-Mediterranean Partnership (EMP) with 12 neighboring countries on the southern and eastern shores of the Mediterranean Basin, the majority of which did not have a membership perspective.[2] These past thirteen years have proven to be valuable assets and a rich source of experience. Both the structure and formulations of the ENP draw heavily on the EMP and, in particular, on its economic dimension, also called the Euro-Mediterranean Economic and Financial Partnership (EFP).[3] The objective of

[1] As such all direct land and littoral non-candidate countries except Russia and Turkey are included in the ENP. While EU-Russia relations are dubbed a strategic partnership, Turkey holds the status of a potential candidate, even though negotiations have not yet started.

[2] I focus primarily on Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia. An analysis of the war-driven economies of Lebanon and the Palestinian Territories (West Bank and Gaza) is not possible due to a lack of data. Libya is excluded from the analysis since it was not part of the EMP.

[3] Only a few days ago, at its 13/14 March summit in Brussels entrusted the European Council the European Commission with the definition of yet an new initiative that will be

the EFP is to promote growth and development in the Mediterranean region and to achieve a higher degree of integration of the Mediterranean partners into the world economy.

Therefore, the EFP draws on three underpinning pillars, as shown in Figure 2.1. The first pillar is the establishment of a Euro-Mediterranean Free Trade Area (EMFTA) for trading goods. The EMFTA is to be established through a network of bilateral Euro-Mediterranean Association Agreements (EMAAs) between the EU and each of the Mediterranean partner countries. Integration among the EMAAs is not a precondition (as is the case of EU-GCC negotiations), but is highly encouraged. The target date for the EMFTA to enter into force is 2010. After a slow initial start up, the negotiation process gained momentum. To date all EMAAs, except the one with Syria, have been signed; seven have been ratified and have entered into force, indicating that the target date is a realistic one. However, as transition periods of up to 12 years after ratification have been granted, the full impact of the EMFTA will only gradually materialize. In addition, EMAAs are in the process of being complemented by neighborhood association agreements, which are generally open to negotiations in all four freedoms. The second pillar of the EFP is economic cooperation, which addresses different subjects on a bilateral and/or regional level. Clearly, economic cooperation is designed to tackle regional weaknesses and common problems such as insufficient transportation and communication infrastructures as well as environmental damage and organized crime. Special emphasis is given to the harmonization of rules and procedures to facilitate the integration of Arab Mediterranean Countries (AMC) into the global economy. The third pillar is financial assistance. This has increased compared to the pre-Barcelona protocols, but only a small portion of funds is provided in the accession process. After initial disastrous rates of payments that ranged below 20 per cent of the commitments, a streamlined financial and technical assistance with leaner administration costs has achieved a satisfying commitment/payment ratio of 80 per cent. The EU financial commitment is primarily dedicated to the alleviation of social hardships arising in the course of structural adjust-

called "'Barcelona Process: Union for the Mediterranean"'(European Council 2008).

ment. However, it also stresses the (long-term) strategic interest of the EU in these countries (in market access free trade agreements, there is normally no financial support offered), in which economic cooperation functions as a vector for inducing institutional changes at the economic level. The prospect of creating the EMFTA is the incentive that the EU offers for non-candidate countries to, at least partially, restructure and adjust economic structures and institutions. The institutional change in itself is the most important effect. Monetary compensation, provided through grants, is an additional incentive. The combination of participation in the European single market and diffusion of technology and knowledge with the immediate provision of funds develops the grounds for a softer form of compulsory impact. The EMFTA should therefore be regarded as a tool rather than an aim of EU-Mediterranean relations (cf. Chapter 1).[4]

Little more than a decade after the launch of the EMP, the gap between the expectations and outcomes is still significant. The expectations of significantly higher inflows of foreign direct investment, higher rates of growth, and a substantial increase in standards of living did not sufficiently materialize, despite a considerable effort of resources and time allocated to the situation in the Mediterranean. Many economic analyses stress the problematic growth and development performance of MENA countries, pointing to the low level of growth (Abu-Qarn et al. 2007, Cornelius and Warner 2003), knowledge economy (Aubert 2004), investment (Dasgupta 2002, Sala-I-Martin and Artadi 2003), total productivity (Bisat et. al. 1997), and international competitiveness (Nabli and Véganzonés-Varoudakis 2007). In addition, MENA countries, in general, and Arab Mediterranean countries, in particular, are facing a dramatic and persistent rise in labor force. The average annual growth in labor force from 2000-2010 is estimated to be twice that in all other developing countries (Dasgupta 2003). Without higher and especially sustained higher rates of growth, Arab Mediterranean economies will experience a further increase in social tensions attendant upon escalating

[4]Brach (2007a) provides a detailed analysis of the structure, past performance and challenges of the EFP, and explains the anticipated economic rational and mechanism underlying the EMP.

rates of unemployment (Gasiorek 2004). Today, even more than ten years ago, economic development of the AMC is of utmost importance for the enlarged EU.

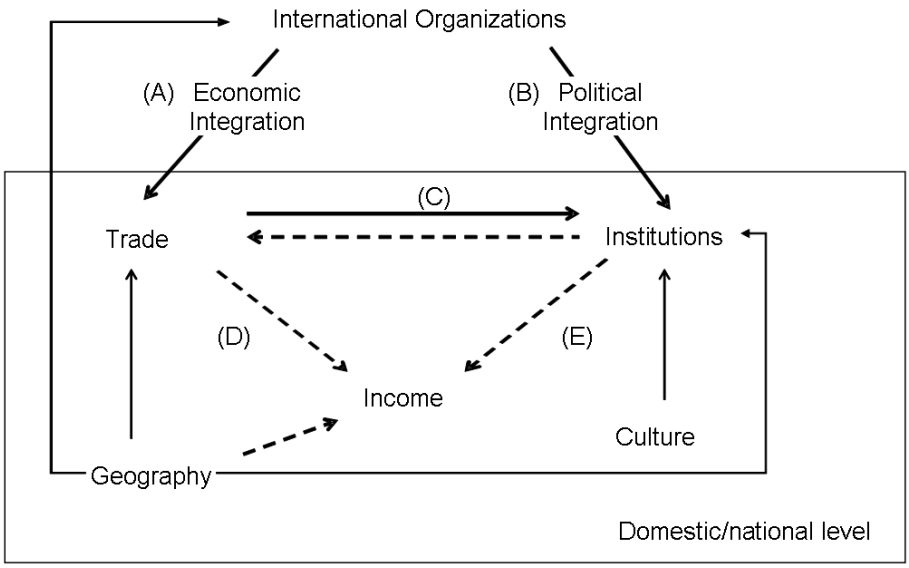
Not surprisingly, therefore, the main questions that this paper attempts to answer is: How can the EFP be improved in order to support AMC socioeconomic development more effectively? Recent evaluations of the EMP focus on the amount of money provided (ADE 2003), the development of foreign investment flows (Joffé 2005, Schumacher 2005), the degree of political reform through economic reform (Schlumberger 2000a, Kienle 2005), and the degree of south-south integration (Zorob 2006). All of these analyses focus on different aspects of economic development, primarily market expansion and free trade agreements. In contrast, this paper champions that knowing how to improve the EFP requires an understanding of why the outcome has been so modest and this directly relates to identifying the determinants and constraints of economic development of the AMC. This paper studies economic development in the Middle East and North Africa in the context of the relationship between EU policy and regional differences of political economy. The main hypothesis is that structural adjustment measures championed by the EU in the EFP framework ambitiously attempt to reform MENA economies, without sufficiently taking into account differences in political economy between MENA and the EU.

The paper is organized as follows: section 4.2 provides the general theoretical background of the analysis and section 4.3 discusses its application to AMC-EU relations. Section 4.4 presents an alternative interpretation as to why the characteristics of MENA political economy are not sufficiently taken into account, provides possible implications for the ENP, and draws conclusions for future research.

4.2 Theorectical Framework

A vivid scholarly review of the determinants of economic development and prosperity has identified important national and/or domestic determinants, such as geography, culture (Easterly et al. 1997, Alesina et al. 2003), trade

Figure 4.1: Determinants of Economic Development



Source: Author's illustration. The dotted arrows indicate the interrelationships described by Rodrik et al. (2004).

(Frankel and Romer 1999, Dollar and Kraay 2004), and technology (Acemoglu and Zilibotti 2001, Basu and Weil 1998, Los and Timmer 2006). Another, rapidly growing, strand of literature supports the view that differences in growth and prosperity originally derive from differences in institutions (Hausmann and Rodrik 2003, Grossman and Helpman 2006, Acemoglu 2005).[5] Rodrik et al. 2004 combine these strands of argumentation in a comprehensive model, comparing the importance of institutions, geography and trade integration for economic development. Acemoglu et al. (2004) focus on the importance of economic institutions for economic growth. They argue that economic institutions that facilitate and encourage factor accumulation, innovation, and efficient allocation of resources are necessary for societies to be able to prosper. The national determinants and their interrelationships are depicted in the lower part of Figure 4.1.

[5]Institutions are here generally defined as the rules and norms of human behavior, according to the definition provided by North (1989 and 1990).

4.2.1 The Importance of Political Economy

Traditionally, inefficient allocation of resources has been identified as a lack of market competition caused by monopolistic structures, high protection against foreign competitors, and state-domination of sectors or industries. However, this paper focuses on political economy structures and possible origins of their inefficiencies and how they hamper economic development. Krueger (1974) was the first to theoretically and empirically outline the economic phenomenon of rent-seeking and its negative consequences on economic performance. She pinpoints three contributory effects: a significant overall welfare (deadweight) loss; a negative perception of the economic system and market mechanism which rewards the rich and well-connected rather than the innovative and productive; and the tendency of individuals to capture gains from rents rather than adopt new technologies and take entrepreneurial risks. To date several empirical contributions have validated the importance of these effects (Lusztig 1998, Murphy and Shleifer 1993). Olson (1982) identified vested interests among individuals specialized in out-dated technologies as a major source for slowdown in technological progress because under such circumstances individuals are tempted to collude and exert political pressure in order to delay or prevent innovations that might destroy their rents. More recently, Aghion and Howitt (1999) prove that vested interests are an important source of technological and economic stagnation. Inefficient bureaucratic organizations are also regarded as an important factor in retarding economic development. Acemoglu et al. (2006) present an economic theory explaining why certain societies end up with such structures. Their findings suggest that an inefficient state structure allows the rich to use patronage; creates more rents for bureaucrats than an efficient state would; creates its own constituency and tends to persist over time, and is more likely to arise when individuals are sufficiently forward-looking. Rodrik (1993) stresses the positive economics of policy reform that overcome such hampering structures.

4.2.2 International Influence on Economic Development

While this important part of economic literature concentrates on the nature and extent of various national and internal dimensions of supporting prosperity and economic growth, there is also an international dimension to this challenge. Third parties may have their own reasons for pursuing policies and/or strategies that support, trigger or sustain development beyond their own borders. This effort can be bilateral or within the framework of an international organization, and it can be directed either to individual countries or to groups. Since geography and culture are exogenous variables[6], there are theoretically two possible channels for external influence on national economic performance and prosperity: $\overrightarrow{A}$ trade and economic integration, $\overrightarrow{B}$ political integration, both of which are depicted in Figure 4.1.

External or international influence and guidance to the development of national institutions is, however, a sensitive issue. The nature of national institutions is chosen by national authorities and elites or regimes and has developed successively in response to national (political and economic) power structures. As a result, international policy generally can only target trade and economic institutions, whereas the quality of domestic political institutions has to be treated, by and large, as an exogenously given fact. The role of international organizations on economic development is mostly discussed in the context of what influence the membership or accession to international organizations has on the economic institutions and economic performance of candidate and new member countries (e.g. WTO membership, IMF and World Bank structural adjustment programs).[7] In contrast, relatively few studies address the special situation of international organizations seeking to influence the economic development of non-member countries.

[6] Although some researchers might argue that neither culture nor geography are generally static, both change only very slowly within the time frame of several centuries. Thus, this assumption is valid in the short to medium time range.

[7] Pevehouse (2002), a noteworthy exception, finds that becoming a member of a regional international organizations can have direct positive effects on the process of democratization.

4.2.3 EU External Policy

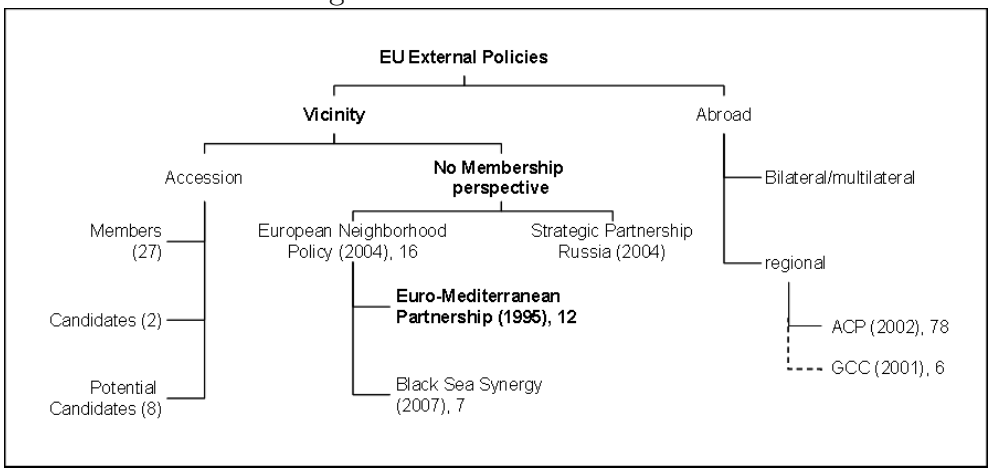
The EU remains a special case because it is the only international organization that is able to actively impose changes in both economic and political institutions: During the process of accession to full EU membership, it is compulsory for the candidate country to accept and adapt the *acquis communautaire* with its legal and normative framework into national legislation. As such, a substantive set of common political and economic institutions is guaranteed within the EU. Referring to Figure 4.1, EU accession policy thus encompasses both economic and political integration ($\overrightarrow{A}+\overrightarrow{B}$, Figure 4.1). Accession is the most direct and the most powerful leverage used by the EU to influence development in its vicinity.

Where a compulsory impact through deep political integration is not an option, the EU can draw on economic integration to partially compensate for this deficit. Offering economic incentives and developing a conditionality could be dubbed to be a softer form of compulsory impact which is restricted to the economic sphere. However, this overlaps and interacts with the political dimension. Figure 4.1 illustrates that trade and economic integration have, from the perspective of the EU, three effects, all of which appear simultaneously, but can also be targeted separately. The first is the direct effect of developing a foreign market $\overrightarrow{A}$. Attracted by high rates of economic growth, dynamic and/or large potential export markets, or strategic import goods, the EU seizes significant business opportunities. To achieve this objective, a potential free trade agreement is designed to open the market that is best for EU entrepreneurs, by reducing barriers to trade. This is the classic free trade agreement. These free trade agreements are concluded either bilaterally or within the framework of the WTO. The second effect supports economic development in the third country $\overrightarrow{AD}$. This effect works through indirect channels such as trade that facilitates technology transfer and knowledge diffusion, which positively affects growth. Aiming at development in the target county, this strategy is the least motivated by business opportunities. These free trade agreements are typically bundled in country groups or WTO general preference negotiations. The third effect is even more indi-

rect and works through improving the quality of economic institutions $\overrightarrow{ACE}$, which positively effects economic performance. The objective is to encourage structural and institutional adjustment at the national economy level by offering participation in the global economy. The rationale is that to be successful in the globalized economy, the country has a strong incentive to adjust its economic institutions. Improved domestic institutions will then ease the participation in the global economy and increase competitiveness and economic success. The objective is to pave the road for sustained development; economic interest exists, but is certainly subordinate. Free trade agreements that support this effect will, therefore, be embedded in a strategy which has a clear regional dimension, coping with a homogenous group of countries, and which follows a comprehensive approach. This implies, that non-economic issues are given a substantive significance, eventually political conditionality.

Figure 4.2 provides an overview of current EU common external policies which differentiate between geographically close countries that either do or do not have a prospect of accession to the EU and other countries abroad. With respect to different drivers for intensified cooperation, EU policies can then be classified in three stylized groups: First, general commitment to development and poverty reduction (as in the case of EU cooperation with African, Caribbean and Pacific (ACP) countries), where there is no immediate security concern and little economic interest. Second, threats to EU internal and external security are no longer primarily hard security risks as they were in times of the cold war. Today the risk perception has shifted to soft security risks such as economic migration and dangers of domestic violence and conflict spilling from neighboring countries into the EU (Joffé 2005). In a way, many aspects of political and economic underdevelopment can be attributed to domestic economic failure and a concomitant lack of economic perspectives, low standards of living, and high-unemployment. Additionally, the close proximity of countries with a high degree of relative poverty and authoritarian governments may not only represent a developmental but also a moral challenge (Dannreuther 2006). EU vicinity engagement in developing countries is to a large extent motivated by security concerns and takes various forms of cooperations for economic development (partnership agree-

Figure 4.2: EU External Policies



Source: Author's illustration. The year of the policy and the number of countries covered are indicated in brackets and after the comma, respectively.

ment etc.). EU economic interest in its neighborhood is a given, especially due to the advantageous geography and energy supply channels; however, economic interest in these countries is limited and subordinate to a security and stability interest to sustain socio-economic development.

Finally, EU external policies are also attracted by high rates of economic growth, dynamic and/or large potential export markets, or strategic import goods. Economic interest and the seizing of significant business opportunities are today especially prominent in EU non-vicinity relations with Asian, Arab Gulf, and certain Latin American countries, and mostly take the form of bilateral free-trade agreements.

It seems, that the EU draws the more on regional embedded economic integration, which is aimed at the adjustment of domestic economic institutions rather than poverty reduction, the higher the security concern, the closer geographic proximity and the less there is a membership option: The European Neighborhood Policy (ENP) with its subordinate policies, Euro-Mediterranean Partnership (EMP) and Black Sea Synergy (BSS), are designed to be alternative strategies to enlargement for those countries that have no prospect of membership. There is an economic interest from the EU perspective: The countries of the Mediterranean and the Black Sea re-

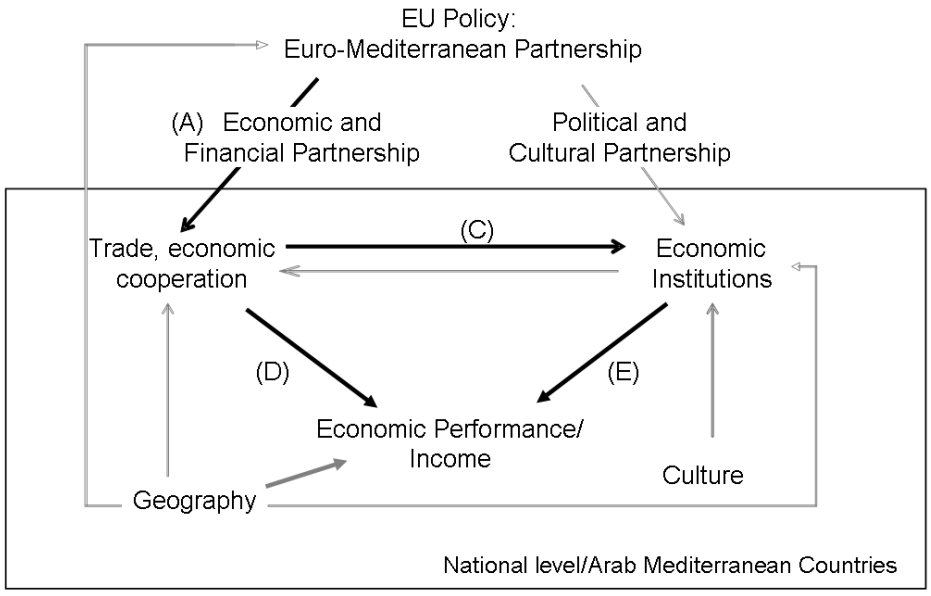
gion are important hubs for EU energy supply. Additionally, developing new markets totaling over 100 million consumers is an additional asset. However, business opportunities of other developing and emerging economies are manifold of what the neighborhood countries have to offer. As such EU enforced engagement in this region cannot be explained by economic interest and market access. Instead, security and strategic considerations are critical factors in the development of common policies towards neighboring countries (Dannreuther 2006, Nonnemann 2001). As mentioned above, the ENP was introduced in 2004 as an umbrella policy. The policy aims to achieve a greater coherence and consistency of policies towards non-member countries. The design and structural outset of the ENP draws very much on EMP and especially EFP (which will be presented in detail in the next section) relations. Official documents use the exact wording originally stemming from the Barcelona Declaration to express e.g. the aim, scope and structures (Euromed 1995, European Commission 2003a, European Commission 2004). The most important innovation is that the EU offers the countries involved in the ENP the prospect of participation in the EU common market, including the four freedoms of persons, goods, services, and capital. In contrast, the EFP aims at establishing a free trade area in goods only. The regional approach of the EMP which was thought to be lost or abandoned is translated into the ENP in two sub-policies: The EMP deals with the remaining (Arab) Mediterranean countries on the one hand and the Black Sea (BSC) countries on the other. This differentiation allows two relative homogeneous regional entities to be included and takes into account the unique nature of their past relations with the EU as well as their own political and economic structures. The Mediterranean countries possess a long tradition of cooperation with the EU. These relations have been institutionalized throughout the past 12 years of cooperation in political, security, economic, financial, cultural, and humanitarian matters. In contrast, the BSC are engaging, for the first time, in structured relations with the EU. For the BSC is the participation in the ENP a lot more attractive and more advantageous, in comparison to the AMC, because the BSC engage in their first deeper cooperation with the EU. However, especially AMC experience and importance of grown structures of

EU-AMC cooperation is very valuable to a successful ENP.

4.3 Application to EU-AMC Relations

In previous sections, I have established the theoretical background for my analysis of EU-AMC relations. In sections 4.3.1 and 4.3.2 I will discuss AMC characteristics that determine AMC economic development at the domestic level. Section 4.3.3 evaluates the EU-AMC partnership (cf. upper part of Figure 4.3) against this backdrop.

Figure 4.3: EU-Arab Mediterranean Cooperation



Source: Author's illustration.

4.3.1 Trade, Geography, and Culture

My analysis of the AMC is guided by the important national determinants of economic development: trade, geography, culture, and institutions and their interrelationships outlined in the section on theoretical framework above, and depicted in the lower part of Figure 4.3.

With respect to trade, AMC are closely linked to Europe: Exports to and imports from the EU account for an average of 53 percent of AMC-GDP. Maghreb countries, in particular, depend largely on trade with the EU (almost 80 percent of GDP in Tunisia). In contrast, Jordan engages very little EU trade (only 6.5 per cent of GDP). Trade among the AMC has increased in recent years, but remains at a low level, with an average of less than 5 percent. The level of tariff protection has decreased as well, but is still significantly higher than in Latin America or Asia. Several recent studies link AMC trade and economic performance ($\overrightarrow{D}$, Figure 4.3), focusing e.g. on the relation of limited integration into the global economy (Sekkat and Varoudakis 2002) or the role of neighboring countries (Abderrezak 2006). Other studies focus on geography and the abundant endowment of the region with natural oil and gas resources (e.g. Smith 2004). The Dutch Disease literature explores their effects on economic performance, focusing on the biased allocation toward oil-sector industries with high profit margins and away from actual productive activities. Mehanna (2003) and Nienhaus (2002) relate institutional characteristics to culture and religion, and find that neither one is able to explain poor economic performance or inefficient allocation of resources.

4.3.2 Institutions and Political Economy

Polity and politics of the AMENA countries are well described as neo-patrimonial authoritarian regimes, based on patron-client relationships and an informal exercise of power (Pawelka 1993). Ruling elites in Arab Mediterranean countries are strong and well established. There is no polity vacuum to be filled (as in the CC-13) nor any democratization process to be manifested and rewarded (as in Spain or Greece in the early 1980s). The authoritarian regimes in the region display a priority of economic policy to serve regime stability and the perpetuation of existing power structures rather than an adjustment of national economic industries, rising productivity, and economic development. The super-ordinate objective of political and economic policies in these countries seems to be the perpetuation of regime stability (Beck 2003). There are no serious signs of top-down democratization tendencies nor

Table 4.1: AMC Selected Indicators

Country	International Competitiveness	Authoritarian State	Economic Institutions	Rent-Seeking	Inefficient State
	GCI rank of 125	Polity IV value[a]	IEF value/rank of 157	WDI[b] in %	WDI[c] in %
Algeria	76	2	53.4/ 128	34.3	82
Egypt	63	-6	52.2/ 133	50.3	51
Jordan	52	-2	63.8/ 56	n.a.	61
Lebanon	n.a.	–	58.5/ 91	64.9	49
Morocco	70	-6	53.0/ 131	16.9	67
Syria	n.a.	-4	50.5/ 135	57.1	–
Tunisia	30	-7	59.2/ 87	n.a.	73

Sources: WDI 2007, WEF 2006, Polity IV database
Notes: a) Values range from 10=democratic to -10=authoritarian, b) corruption as a major constraint to investment, c) compensation of employees, subsidies, and other transfers as percent of government expense

are there independent civil societies who could pressure the current regimes in this direction (e.g. Shahanawaz and Nugent 2004). Table 4.1 provides some indicators for this: All AMC (with the exception of Algeria) have authoritarian regimes (Polity IV Index, Center for International Development and Conflict Management 2007) and systematically low degrees of economic freedom (Index of Economic Freedom, Heritage Foundation 2007). Freedom deficits and the government gaps are larger than in any other developing regions (Shahanawaz and Nugent 2004, Badawi and Makdisi 2007).

The rentier- or allocative-state literature explains the emergence and persistence of authoritarian regimes with the output and government budget structure. Beblawi and Luciani (1987) developed the rentier state concept

and established the idea that the nature of the state and the legitimation of the government is essentially determined by the nature and sources of its revenues. Despite the fact that AMC (except Algeria and, to a lesser extent, Syria) are not oil-rich countries, non-merit income in the form of economic rents, workers remittances, and high amounts of official development assistance (ODA) together comprise a substantial part of the GDP. This literature also links the determinants of economic performance and institutions ($\overrightarrow{E}$, Figure 4.3). Neo-patrimonialistic structures of political power emerged as a result of the relative fiscal freedom of governments whose legitimization is built on redistributive capacities rather than the taxpayer accountability. Understanding these structures can help to explain why resources are used inefficiently instead of being directed more effectively towards growth. Most AMC governments rely on some form of public support or acquiescence, but do not have a majority mandate. Allocations, which are regarded as being inefficient from an economic and economic development perspective are, however, efficient in a political economic sense as an investment in political regime support, if not for survival. Within this system, the public is likely to prefer upfront transfers through inefficient subsidies or expenditures, enjoying instant utility rather than uncertain long-term advantages (Esfahani 2007).

Three mechanisms or systems play important roles for running and perpetuating the current structures of political economy which hamper economic performance, productivity, and growth: rent-seeking, clientelism, and the role of *wasta*. Rent-seeking and clientelistic structures with the negative effects outlined in the section on the theoretical framework, as presented above, have been reported for all AMC in studies based on field research by the authors[8]. *Wasta*, which literally translates to mediation or intercession, is a concept of personal networks which describes a way of life and doing business. It emphasizes the importance of personal connections, which are helpful, if not necessary in daily and business life. Knowing the one in charge or knowing

[8]Algeria (Nili and Rastad 2007; Lowi 2007), Egypt (Schlumberger 2004; Dobronogov and Iqbal 2005), Jordan (Schlumberger 2004; Loewe 2006), Morocco (Cherouki and Ben Ali 2007; Cammett 2007) Syria (Bolbol 2002; Zorob 2006), Tunisia (Bechri and Naccache 2007; Bellin 1994; Cammett 2007)

the one who knows the one who is in charge is essential. *Wasta* is thus only equivalent with corruption or bribery if one of the involved agents acts at the detriment of a third person. And of course, the step from knowing the right person to paying him a little extra to speed up the process or to help refresh memories is essential. However, people who extensively practice *wasta* also recognize how harmful this practice is to productivity and general economic performance (Cunningham and Sarayrah 1994; Loewe 2007).
MENA polity, politics, and political economy structures are characteristically different from European or 'northern' economies and political systems, which are generally based on competition, equality of chances, market mechanism, and representation. Specific ways in which politics and institutions have interacted with rents are shaping the patterns of economic performance in the region (Esfahani 2007).

4.3.3 EU Policy towards the AMC

The countries of the southern and eastern Mediterranean Basin have been on the agenda of the EU from the very beginning in 1957. However, it was only after the southern European states of Spain, Greece and Portugal joined the Union and after a common European Policy towards the central and eastern European countries emerged, that the EU members agreed on a common policy. With the end of the Cold War, the European perception of the generally poor and/or unsteady economic performance and the rapid growth in population in the AMC was increasingly perceived as a threat to both external and internal EU security and stability. Today, due to massive economic migration and a truly explosive mixture of economic underdevelopment, limited political freedom, growing socioeconomic problems and unresolved regional conflicts, the perception of a problematic neighborhood in the southern Mediterranean is confirmed. Supporting economic growth to accelerate the pace of socioeconomic development in the AMC is considered a key to regional stability. In order to achieve this, the EMP employs a comprehensive approach and stresses the need for political and economic reform based on mutual acceptance and the appreciation of cultural diversity to

achieve this goal and draws on cooperation in three explicit areas: Political and Security Partnership, Economic and Financial Partnership (EFP), and Partnership in Humanitarian and Cultural Affairs (cf. Figure 4.3), as mentioned in the introduction. Even though political integration ($\overrightarrow{B}$, Figure 4.1) is ruled out because AMC have no membership perspective, both the political and cultural dimensions of the EMP are designed to partially compensate for this deficit. In contrast to the accession procedure, this cooperation has no compulsory impact.

Several authors have pointed out the predominant position of the EFP in contrast to the other two dimensions, because of either the large share of funding allocated to it or the dynamic progress in contrast to stagnation. However, the EMP centers even more on the EFP because of its pivotal role in the design and implementation of the EMP (Brach 2007a). This directly links to the fact that economic and trade integration are, from an EU perspective, the best possible channels to exert influence on economic development in non-candidate countries ($\overrightarrow{A}$, Figure 4.1 and Figure 4.3).

The Economic and Financial Partnership is a slightly modified version of the strategy that the EU used for more than half a decade to appease and stabilize a significant number of countries on the European continent and which was built on two fundamental concepts: economic integration and political integration. On one hand, economic integration of the AMC follows a similar economic rationale as the structural adjustment recommendations of the World Bank and the International Monetary Fund (IMF), which are based on trade liberalization and privatization in order to increase competition. This is true even though a strong emphasis is placed on the interdependence of the political, cultural and economic dimensions of international cooperation and understanding. But, in contrast to other developing regions, structural change in MENA countries has been slow, not continuous, and without a significant impact on economic achievement. Despite this fact, little attention, especially from an economic viewpoint, has been paid to political reasons for a comparatively inefficient allocation of resources rather than an efficient one, which would direct them effectively towards sustainable growth and economic development enhancing factors. On the other hand, EU-AMC

policy draws on Europe's own success story, which started with economic cooperation and later expanded into political and economic integration of nations and is partially based on the same assumptions that underpin the accession process: Accession to the EU as a full member is not a fusion of equals, but a unilateral political and economic adjustment from the side of the applicant. The EU assists this process with generous financial and technical assistance. Thus, EU vicinity-external policy in recent decades has relied on similar structures of political economy and priorities such as the importance of economic integration, a healthy economy to provide jobs, and a high standard of living, in all bordering countries[9]. The same applies on the political dimension. Democratic rule and a functioning market economy are the two pillars on which accession, pre-accession and neighborhood relations have been built in the past. EU membership was perceived as both an incentive and a reward for successful market economies and democratization of the bordering countries. Despite their desolate economic situations Spain and Greece were granted with full EU membership, partially to reward the democratization progress after overcoming their dictatorial regimes and to ensure political stability and accountability in the neighborhood. In a way, the same holds true for the new EU members. Membership is or was the reward for embracing democracy and to compensate for crumbling market structures left after the collapse of socialism and central planning. This strategy was and still is unique in the world and is a tremendous success story. Fifty-one years ago, in 1957, six countries signed the Roman Treaties and established the European Community for Coal and Steel. Today, the European Union numbers 27 member states who share common legislative, executive, and judicative organs, a common market and a common currency. This development, however, is not to be taken for granted. It is the result of dedication, effort, debate, conflict resolution and compromise. Moreover, this success is neither self-perpetuating nor path dependent.

The slow progress of AMC structural adjustment as compared to the countries of central and eastern Europe reveals two insights that have not sufficiently been taken into account. So far, EU strategy was based on two central

[9]except Russia

assumptions that are no longer fulfilled in EU-AMC relations: 1) Countries in the immediate EU vicinity successively complied with EU political economy structures, values and principles themselves, because they had a self interest in joining the EU and 2) reform and structural adjustment is compulsory for all candidate countries and to a large extent not negotiable (Copenhagen Criteria). In contrast, today's EU neighbor countries neither have nor seek EU membership. For the first time, the EU finds itself bordering countries that do not "naturally" comply with or adjust to EU political economy standards and principles, but operate at a fundamentally different understanding of political economy.

4.4 Conclusion

In this paper, I classify the Euro-Mediterranean Partnership, in general, and its economic and financial dimension (EFP), in particular, as an EU external policy which aims to accelerate development in its immediate vicinity. In this context, free trade association is a tool to achieve economic development rather than an objective in itself. Analyses and evaluations that benchmark EMP and EFP against other free trade agreements touch upon one important aspect of the partnership, but do not encompass its comprehensive nature and objective. Numerous studies have shown, after more than a decade of Euro-Mediterranean Partnership, AMC economic development has not gained significant momentum. Yet the EU today, as much or more than ten years ago, is interested in maintaining economically well functioning and prospering Arab Mediterranean neighbor countries. Not only because of the EU´s general commitment to development and poverty reduction, but also for the sake of its own internal and external stability and security. The EU continues, for the most part, to draw on her standard repertoire to organize external relations, because it has proven successful for the past five decades. Analyzing present day EU-AMC relations with the Arab Mediterranean countries reveals that European policy towards non-candidate vicinity countries has failed to significantly accelerate and sustain the growth process because it does not sufficiently address differences between the European policy EFP

and the political economies of theses countries. Regional political economy is one of the most binding constraints to economic development in the AMC (cf. Chapter 3). Efficiency deficits are deeply rooted and thus beyond the reach of traditional adjustment measures. What economists identify as market inefficiencies are in fact dubbed by political scientists as governmental legitimization and regime survival strategies. Non-market competitive structures (such as rent-seeking, vested interests and redistributive policies) and accordingly redistributive and interventionist economic institutions are opportune, if not necessary to run the AMC the way they are governed. The application of previously successful EU-vicinity cooperation and integration strategies is, by and large, not possible because many of the underlying assumptions of this policy design no longer hold true. The question as to why political economy differences were not considered more explicitly remains subject for further research. Alternative explanations are possible: 1) The EU was well aware of such difficulties, but ignored them. 2) The EU simply underestimated their importance. 3) No other programs and structures were possible because this is already the smallest common denominator among the EU member states and supranational institutions. 4) The EU did not want to challenge the power structures within the Arab partner countries which favor ruling elites and authoritarian regimes for the sake of stability in the region. 5) There is no effective leverage and the EU has no right to interfere with internal state affairs. Most probably, it is a combination of all of the above.

Against this backdrop, the outcome of the EFP to date is within the scope of what realistically should have been expected given the structure and form of the EFP as it present stands. In order to increase the success of its own policy and to achieve its developmental objective in this region, the future challenge in EU-AMENA relations will be to i) address the differences and bridge the gaps between EU and MENA political economies, ii) raise awareness for the importance of economic structural adjustments in these countries, and iii) support the development of an individual adjustment strategy which builds on established power and political economy structures. Future results of the EFP significantly depend on the EU´s ability to engage the AMC in

a national discourse on economic development and provide support to the process of self-discovery.

These conditions are important beyond the scope of EU-AMC relations. The Euro-Mediterranean Partnership was the first common EU external policy with a region in which the majority of the countries do not have a membership perspective and thus the concomitant need for economic or political reform. The economic dimension is pivotal for successful EU-AMC cooperation and, with the completion of the eastward enlargement, the EU faces new boundaries and challenges in the form of its non-candidate vicinity countries. The EFP, as the conceptual role model of the European Neighborhood Policy, should be applied to all EU external relations with non-candidate neighbor countries.

Chapter 5

Beyond free trade: The Euro-Mediterranean Economic and Financial Partnership as a blueprint for EU-GCC cooperation?

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5.1 Introduction

The Euro-Mediterranean Partnership (EMP) is a comprehensive and well-equipped common European policy towards eight Arab and four non-Arab Mediterranean countries. EMP is built on three areas of partnership: Security and Political Partnership, Economic and Financial Partnership, and Partnership in Social and Cultural Affairs (cf. Figure 2.1) and aims at creating a zone of shared prosperity, stability and peace around the Mediterranean Basin (Euromed 1995). Arab Mediterranean countries (AMC) have been on the European agenda since the Roman Treaties, but their relation with the EU was first institutionalized when signing the Barcelona Declaration in 1995.

From a European perspective, the EMP was, to a large extent, motivated by security concerns. The Mediterranean region and especially the markedly unstable situation in the AMC was and continuous to be perceived as a soft risk to European internal and external security (Jünemann 2001, Dannreuther 2006). However, the EMP is based on an economic rationale: the EMP takes economic and trade integration as a starting point for and an anchor of socioeconomic development in the Mediterranean region (Brach 2007a). Expectations were high from the beginning: improvement of living conditions, increase in employment level, reduction of the development gap, and encouragement of regional cooperation and integration (Euromed 1995). Therefore, the Economic and Financial Partnership (EFP) plays a central role in the design and implementation of the EMP: EFP shows the most dynamic and visible progress of the Barcelona Process; economic integration has proven to be a major source of continuous interaction between the Euro-Mediterranean partners in times of severe political tensions and institutional changes; and over 90 per cent of the funds provided for the EMP are allocated to the EFP. The EFP aims at the modernization industries and economic structures of the AMC and provides three tools to counter growth hampering factors: 1) establishing a Euro-Mediterranean Free Trade Area; 2) economic cooperation; and 3) financial assistance. From the beginning, the EMP has been criticized for artificially dividing the Arab world. The EMP does only address the Arab Mediterranean countries (AMC) and excludes

other Arab countries, such as the countries of the Gulf Cooperation Council (GCC). Despite the imminent need of an EU-GCC policy (Luciani and Neugart 2005; Koch 2005), EU-GCC relations continue to consist of a loose concept of differing national interests and priorities. Arab Gulf States have been on the European agenda since 1974. But the nature of the relationship remains until today to a large extent at a bilateral level between the individual EU and Gulf states. In 1981 the six Gulf monarchies Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates established the Gulf Cooperation Council (GCC) with the aim of intensified regional cooperation and integration. Seven years later, GCC and EU (at that time still EC) started negotiating a EU-GCC free trade area. The cooperation agreement entered into force in 1990. From the beginning the EU made a customs union among the GCC countries a precondition for the conclusion of any EU-GCC trade agreements. However, progress quickly stalled and both the EU and the GCC are to blame for this stalemate: On the one hand, several EU internal problems, such as differing national interests and a reluctance of EU members to compromise national energy supply policies in favor of a common EU policy, and due to a lack of EU champions, EU-GCC relations were never made a top priority. On the other hand, GCC collective action remained at a low level. It regained momentum only after 2001 and amounted in the formulation of ambitious target dates for a GCC customs union (2003), monetary union (2005), and a single currency (2010) (Baabood 2006). Despite some progress, none of these plans met their deadlines. The customs union officially started, but a full implementation is still pending. Shortly after the launch of the GCC customs union, Bahrain signed an individual free trade agreement with the United States in 2004 and others followed this example in the course of 2005. The target date for the monetary union is now 2010. In contrast to the Arab Mediterranean countries, GCC countries are until today included neither in the Euro-Mediterranean Partnership nor the European Neighborhood Policy. There is no common European policy towards the GCC countries and economic cooperation does not expand beyond free trade.

The objective of this paper is to review the applicability and the potential

of the EFP as concept for EU-GCC relations. Two research questions guide the analysis: 1) Do the determinants and motivation of EU-GCC relations sufficiently match the determinants of EU-AMC relations? 2) Are the tools of the EFP appropriate within the GCC context? Section 5.2 and 5.3 present the AMC and GCC countries, with special attention given to economic structures and performance, and regional structures of economic policy, respectively. Section 5.4 analyzes the mechanism of the EMP and focuses on the role and tools of the EFP. Section 5.5 examines the EMP concept within the context of the GCC countries and analyzes its appropriateness and potential leverage. Section 5.6 summarizes the results and concludes.

5.2 Economic Differences within MENA: Mediterranean versus Gulf Region

This section briefly introduces the eight AMC (Algeria, Tunisia, Morocco, Egypt, Jordan, Syria, Lebanon, and the Palestinian Territories West Bank and Gaza) on the one hand and the six member countries of the GCC on the other hand. The aim is to highlight similarities and differences across Maghreb, Mashreq, Levant, and the Gulf (cf. Table 5.1). Arab countries obviously display a broad variety with respect to their geographic position, population (715,820 Bahrain vs. Egypt, over 72 Mio.) and surface (Bahrain, 700 sqkm vs. Algeria, 2.4 Mio. sqkm). But economic structures of AMC and GCC countries also vary significantly at the sector level and with respect to the endowment of natural resources. The average share of industry is 30 per cent of the GDP in all AMC, but 55 per cent in GCC countries. Whereas agriculture accounts for a share of 15 per cent in Morocco and Egypt and 23 per cent in Syria, the average share is less than three per cent in GCC countries. The nature of industry at sector-level also varies. Algeria and Syria are the only AMC that almost entirely depend on hydrocarbons. The other AMC display a greater diversification of products. Egypt depends on hydrocarbons and fibers. The Jordanian economy is technologically more advanced. It successfully exports chemical fertilizers and medicaments.

Table 5.1: AMC and GCC Countries - Selected General Statistics, 2005

	ALG	EGY	JOR	LEB	MOR	SYR	TUN	WB/G	BAH	KUW	OM	QAT	SAU	UAE
Form of Government	Rep.	Rep.	Const Mon.	Rep.	Mon.	Pres. Rep.	Rep.		Mon.	Mon.	Mon.	Mon.	Mon.	Mon.
Area (1000) km^2	2,382	1,002	89	10	459	185	164	6	0.7	18	310	11	2,150	84
Population (millions)	32.4	72.6	5.4	3.5	29.8	18.6	9.9	3.5	0.7	2.5	2.5	0.8	24.0	4,3
Growth rate (%)	1.5	1.9	2.5	1.0	3.4	2.5	0.9	4.1	1.4	2.6	0.9	5.8	2.6	6.7
Unemployment (%)	23.7	9.9	13.9	8.5d	13.1	9.5e	14.3	14.1e	–	–	–	3.9d	5.2c	2.3d
Under 25 years	53.6	20.4f	26.6	22.0f	19.9	–	31.3f	20.0f	–	–	–	–	–	–
GDP (million USD)	67.9	123.0	11.3	20.1	40.9	22.1	24.2	4.6f	11.0	55.7	24.3	28.5	250.3	104.2
Growth rate (%)	5.3	4.9	7.2	1.0	1.6	4.2	4.2	–	5.4	6.2	3.1		5.3	8.5
per capita (1000 USD)	2.1	1.7	2.1	5.6	1.4	1.2	2.4	1.6f	13.9	19.6	9.0	–	9.0	22.2
HDI rank/177	102	111	86	78	123	107	87	100	39	33	56	46	76	49
Economic Structure														
AGR (% of GDP)	9.8	15.1	2.8	6.9	15.9	23.0	12.6	7.8d	–	0.5b	1.9	–	4.0	2.7
IND (% of GDP)	56.6	36.9	28.9	20.8	30.4	27.2	27.8	17.4d	–	52.9b	56.0	–	56.0	55.1
SERV (% of GDP)	33.6	48.0	68.4	72.3	53.8	49.5	59.7	74.9d	–	46.7b	42.1	–	37.2	42.2
Trade														
Total IM (million USD)^b	13.5	10.9	5.7	71.8	13.7	5.1	10.1	2.4	7.1	18.5	10.4	–	62.3	68.0
Total EX (million USD)^b	24.6	6.2	3.1	1.5	8.8	5.7	7.4	0.3	9.1	33.5	13.8	–	131.8	85.8
Merchandise (% of GDP)^a	59.7	104.9	104.9	51.2	54.7	46.7	79.6	–	12.7	75.1	91.4	86.8	68.0	138.5
Services (% of GDP)^a	–	28.2	36.9	–	20.3	19.1	19.9	–	22.6	19.6	14.7	–	12.6	–
Fuel EX % of merchandize EX	96.1	33.6	0.0	0.5	2.8	72.2	9.4	–	68.3	–	77.3	87.1	86.4c	–
IM from EU (% of GDP)^b	59	26	10	43	61	19	72	16f	–	–	–	–	–	–
EX to EU (% of GDP)^b	59	33	3	9	76	57	80	0.2f	–	–	–	–	–	–

Sources: [Euromed 2002, World Bank 2006, Radwan and Reiffers 2005, UNDP 2005, EUROSTAT 2006]
Notes: The small letters indicate data from the following years: a=2004; b=2003; c=2002; d=2001; e=2000; f=1999

The economies in Morocco and Tunisia also have a diversified profile of exports (phosphorus, electrical applications or semiconductors), but with a stronghold in textiles. Lebanon's economy is still recovering from the summer 2006 conflict with Israel, but has been strong in print products, tobacco and phosphorus in the past. In the AMC services account for a relative high share of the GDP, on average 58 per cent, especially due the importance of tourism. Trade relations between the EU and the AMC have traditionally been strong. Today they are solid: the EU is the main partner of the AMC, accounting on average for almost 50 per cent of the AMC's total trade. Especially Maghreb countries are intimately connected to the EU, in particular Tunisia where the EU accounts for over three quarters of its total trade. With an average of around a third of their total trade being directed at the EU, Jordan and Egypt are the least EU-focused.

The picture in the GCC is different: The Gulf economies are highly specialized in the exploitation and exportation of crude and non-crude petroleum oils and petroleum gases. The GCC countries own 45 per cent of the world's oil reserves and currently supply around 20 per cent of global crude production. Seventy per cent of EU imports from the GCC countries are fuels and derivatives, which amount to nearly 10 per cent of EU world mineral fuel imports (EUROSTAT 2006). The GCC is currently the EU's sixth largest export market, while the EU is the GCC's main trading partner: 33 per cent of GCC imports originate in the EU and 11 per cent of GCC exports are EU bound. The main GCC imports from the EU are machinery and transport equipment (56 per cent). A look at the GDP per capita and the human development index (HDI), reveals the gap of income and living standards between the AMC and Europe on the one hand, and between the AMC and the GCC countries on the other hand: All GCC countries are classified as high human development on the HDI. The Kuwaiti GDP per capita (US Dollar 19,551) is higher than the southern European countries of Greece, Portugal, and Spain. AMC are only rated medium to lower medium HDI human development; Jordan and Algeria barely touch a GDP per capita of US Dollar 2,000. Syria does not even reach US Dollar 1,000. Thus, liberalization of the domestic markets, competition, privatization, structural adjustment, and

reforms of the institutional framework (independent courts, harmonization of standards and norms etc.), in short the principles of a market economy and success based on merits, stand in sharp contradiction to the prevailing economic systems of both AMC and GCC countries. All countries face the challenge of reorganizing their economic structures. Such radical changes cause essential adjustment costs. In contrast to the GCC countries, which profit from booming oil prices, AMC have more difficulty to alleviate short-term social hardships arising from economic modernization.

5.3 Political and Polit-Economic Similarities across MENA

This section emphasizes similarities of the AMENA countries that reach beyond a common socio-cultural background such as Arabs counting for the majority of the population in these countries, Arabic as the common language and Islam as the prevailing religion. Political and political economy structures are important determinants of socio-economic development and Arab countries clearly show common characteristics in these respects. The prevailing form of government in the AMC is republic, while it is monarchic (including sultanates and emirates) in the GCC countries. However, the political structures (polity and politics) are similarly shaped through a neo-patrimonial political rule of authoritarian regimes, based on a patron-client relationship and an informal exercise of power (Pawelka 1993). Table 5.2 summarizes the negative Polity IV values that classify all the regimes of all Arab countries as authoritarian rule, and the systematically weak economic institutions. Freedom deficits and the government gaps are larger than in any other developing regions (Shahanawaz and Nugent 2004, Badawi and Makdisi 2007). Despite the fact that AMC (except Algeria and to a lesser extent Syria) are not oil-rich countries, non-merit income in form of economic rents, workers remittances, and high amounts of official development assistance (ODA) together amount to a substantial part of GDP. Neo-patrimonial structures of political power emerged in response to the relative fiscal freedom

Table 5.2: Characteristics of MENA Political Economy

	Country	Authoritarian State Polity IV value	Economic Institutions IEF value/ rank of 157	Rent Seeking WDI[b] in %	Inefficient State WDI[c] in %
AMC	Algeria	2	53.4/ 128	34.3	82
	Egypt	-6	52.2/ 133	50.3	51
	Jordan	-2	63.8/ 56	–	61
	Lebanon	–	58.5/ 91	64.9	49
	Morocco	-6	53.0/ 131	16.9	67
	Syria	-4	50.5/ 135	57.1	–
	Tunisia	-7	59.2/ 87	–	73
GCC	Bahrain	–	68.4/ 39	–	68
	Kuwait	-7	63.7/ 57	–	63
	Oman	-8	63.9/ 54	11.9	–
	Qatar	-10	60.7/ 72	–	–
	Saudi Arabia	-10	59.1/ 85	–	–
	UAE	-8	60.4/ 74	–	–

Sources: WDI 2007, WEF 2007, Polity IV database, data from 2006 or the latest possible year
Notes: a) 10=democratic, -10=authoritarian, b) corruption as a major constraint to investment c) compensation of employees, subsidies and other transfers as percent of government expense

of governments, and whose legitimization is build on their redistributive capacities rather than the accountability to taxpayers. Most Arab governments rely on some form of public support or acquiescence, but do not have a majority mandate. State allocations, which are regarded as being inefficient from an economic and economic development perspective, are, however, efficient in a political economic sense as an investment in political regime support, if not survival. Governments directly influence the performance of the national economy, e.g. through the administration of extensive subsidies. Most states have huge and inefficient bureaucracies. In addition, state-owned firms or highly subsidized private companies are important elements of employment policy and are often the bodies responsible for social services (Nienhaus 1999;

Yousef 2004). As a result, the role of government in the EMP is a controversial one (e.g. Tovias and Ugur 2004). With the signature of the partnership, national governments have accepted the role of implementing an environment that is conducive to increased performance, efficiency, competitiveness (Rhein 1999) and transparency. The informal economy is estimated to be equivalent to as much as 40 per cent of the formal economy (Joffé 1998). Private networks and wasta (personal connections) play a prominent role in all areas of live and business. In certain branches, economic success seems to depend on personal connections as much as on merits (Joffé 1998; Schlumberger 2000). Corruption severely hampers business and investment climate, which ranges e.g. from under 15 per cent in Morocco and Oman to over 35 per cent in Algeria and over 50 per cent in Egypt and Syria (World Bank 2006). Rent-seeking structures (cf. Table 5.2) play an important role for running and perpetuating the current structures of political economy which hamper economic performance, productivity and growth, and these are also reported from all Arab countries by various recent studies. But although they are extensively using *wasta*, people recognize how harmful this practice is to productivity and general economic performance (Cunningham and Sarayrah 1994, Loewe et al. 2006).

The authoritarian regimes in the region display a priority of economic policy to serve regime stability and a perpetuation of power structures rather than an adjustment of national economic industries, rising productivity, and economic development. The superordinate objective of political and economic policies in these countries seems to be the perpetuation of regime stability and regime stability (Beck 2003). There are no serious signs of top-down democratization tendencies nor are there independent civil societies who could pressure the current regimes in this direction (e.g. Shahanawaz and Nugent 2004). Therefore, MENA polity, politics, and political economy structures are characteristically different from European or 'northern' economies and political systems, which are generally based on competition, equality of chances, market mechanism, and representation. Specific ways in which politics and institutions have interacted with rents are shaping the patterns of economic performance in the region (Esfahani 2007). Yet, with

the signature of the Euro-Mediterranean Partnership, national governments have accepted the role of implementing an environment that is conducive to increased performance, efficiency, competitiveness, and transparency.

5.4 Economic and Financial Partnership

The stated aim of the EMP, as mentioned in the introduction, is to accelerate the pace of sustainable socioeconomic development in the region through improvement of living conditions, an increase in employment level, reduction of the development gap, and encouragement of regional cooperation and integration (Euromed 1995).[1] Even though the EMP is, to a large extent, motivated by European security concerns, the mechanism which the EMP draws on in order to achieve this aim has an economic rationale which is reflected in its design and the choice of the policy measures. The EMP considers economic cooperation as the anchor of regional integration and trade liberalization as its starting point. The confidence in this mechanism is derived partially from economic theory and as the EU's own positive experience with economic integration as the basis for national integration and regional stability. Figure 2.2 visualizes this mechanism and illustrates the pivotal role of the EFP: Economies committing themselves to more openness and increased integration into international markets will benefit from increased foreign direct investment (FDI) and technology transfer. With the help of recent technologies, industries become more productive with their products increasingly competitive in international markets. Growing economies contribute to socioeconomic development of their country because jobs are created, salaries are increased, and living conditions generally improve. A healthy degree of economic interaction and prosperity is also considered to be an important determinant of regional stability. The EFP is centered on the establishment of the Euro-Mediterranean Free Trade Area (EMFTA), although the aim of the EFP is not free trade in itself. The EFP directly reflects the strategic nature of the EMP and regards trade liberation as a support tool to modernize

[1] This section draws on the elaborate discussion of the EFP by Brach (2007a), cf. Chapter 2.

AMC economies.

The EFP complements trade liberalization with measures of economic cooperation and financial assistance and, therefore, has three pillars: 1) Euro-Mediterranean Association Agreements (EMAAs) between the EU and each one of the AMC; 2) bilateral and regional economic cooperation; and 3) financial assistance through the MEDA program. The latter two pillars aim to soften the negative effects of economic reform, and alleviate adjustment costs. On an organizational level, the EMP and EFP distinguish between two levels of cooperation: regional and bilateral. The regional level, on the one hand, involves all partners. The Euro-Mediterranean conference takes place every two years at the foreign minister level. Following the principles of one-nation-one-vote and a strict unanimous voting procedure, equal rights for all participants are institutionalized. The bilateral level, on the other hand, only includes the EU and one Mediterranean Partner (MP)(15+1). Consequently, measures that have been agreed upon bilaterally are only binding for the EU and one respective MP. Bilateral activities concerning different MPs are operated simultaneously (cf. Figure 2.1).

5.4.1 Euro-Mediterranean Free Trade Agreements

The first pillar of the EFP is the establishment of the Euro-Mediterranean Free Trade Area (EMFTA), the objective of which is to foster trade and openness in the region in order to improve competitiveness and foreign investment inflows by spurring international exchange, and by locking the MP economies on to the world market. The central instruments for achieving this goal are the Euro-Mediterranean Association Agreements (EMAAs) which are negotiated bilaterally. The target date for EMFTA to be completed is 2010, providing a 12 year transition period for MPs. Since the European Union's eastward expansion is complete, by the time all EMAAs have entered into force, EMFTA comprises over 40 countries with a total population of about 800 million people. According to the General Agreement on Tariffs and Trade (GATT), free trade areas, together with customs unions, are an important exemption to the most favored nation treatment. In contrast to WTO trade

liberalization, the negotiations of the EMAAs are led bilaterally between the EU and one AMC (15+1 negotiations), in order to be able to take the special eco-nomic situation of each MP (i.e. speed of structural adjustment and/or liberalization and commitment to the process) into account. Thus, the EMFTA is gradually established through a network of "pluri-bilateral" (Jünemann 2001) EMAAs. These take the traditional trade flows between the EU and the MPs as the starting point for progressively eliminating tariff and non-tariff protection (Euromed 1995). To date, negotiations on the Euro-Mediterranean Association Agreements are concluded and have been signed with all MPs, except Syria. EMAAs with Tunisia, Israel, Morocco, Jordan, Lebanon and Egypt have been ratified and are entered into force (in the respective order). The first EMAA, which was signed in 1995 between the EU and Tunisia and entered into force in 1998, is considered to be the archetype of all EMAAs (Zaim 1999) and has served as a point of reference in subsequent negotiations (Ghesquiere 1998). The EMAAs reflect the comprehensive approach of the Barcelona Process and comprise provisions that go beyond traditional WTO free trade agreements, including clauses dealing with basic principles such as the respect for human rights, political dialogue and cultural or social matters. Economic cooperation and especially financial aid from the EU-side are conditional with respect to these clauses.

5.4.2 Economic Cooperation for Productivity and Competitiveness

Economic cooperation is the EFP's second pillar. Its objective is to increase productivity and competitiveness in each AMC, as well as in the region as a whole, by opening communication channels and building capacities for technology transfer. Bilateral cooperation is oriented towards upgrading the MP's infrastructure and providing support for restructuring (Hoekmann 1999). The measures of bilateral economic cooperation are delineated in the EMAAs to support the MP's own effort to achieve sustainable socio-economic development. The range of methods is manifold, providing inter alia for information exchange through expert exchange, expert services and technical

assistance, and encouraging joint ventures. Economic dialog is established in more than 18 fields of collaboration. These include industrial co-operation, investor friendly climate, transport, telecommunications, and customs matters, but also money laundering and drug trafficking. Regional economic cooperation provides for all-party cooperation in eight economic sectors: industry, environment, water management, information society, energy, trade, transport, and agriculture. The objectives are to strengthen sensitivity to common problems, institutionalize cooperation and agree on tangible regional programs. Given the special situation in the Mediterranean, establishing a positive experience of win-win situations, collaboration and trust is a complex task. The interconnection of infrastructures, concerted reforms, and a harmonization of legal and administrative frameworks are preconditions for the region to become more competitive and attractive compared to other developing regions. Although (bilateral) trade links between the EU and the Mediterranean have been, as mentioned earlier, traditionally solid, regional cooperation has only slowly gained momentum from 2001. Special working groups aimed at facilitating trade and investment among the partners, work on an action plan for the convergence of competition and customs legislation. This covers important issues such as the convergence of norms, industrial standards, and intellectual property rights. In 2003, EMP members adopted the Pan-Euro-Mediterranean System of Cumulation of Origin (European Commission 2003).

5.4.3 Financial Assistance: MEDA

The EFP's third pillar is financial assistance. Its purpose is two-fold. The first is to encourage economic transformation by creating incentives. The second is to alleviate adjustment costs. By providing such funds, the EU stresses its commitment to turn abstract EMP objectives into tangible projects. Financial assistance is mainly provided through the MEDA-Program and by support from the European Investment Bank (EIB), which together account for almost 90 per cent of the EUR 14,580 million committed to the Mediterranean region between 1995 and 2006. All MEDA funds are grants from the

EU and as such do not have to be paid back. MEDA's financial support generally applies to all three chapters of the EMP, but over three quarters of funds are allocated for activities within the EFP. In contrast to the pre-Barcelona Financial Protocols, the MEDA program is a global fund without fixed percentages or amounts per MP (Parfitt 1997). The amount that each MP receives depends on its efforts and progress, i.e. the allocation of the funds is based on competition between countries, between projects in the same country, and between regional projects. MEDA-Regulation provides two other very important details: First, beneficiaries of MEDA support do not necessarily have to be states or regions. This provision allows immediate and decentralized support to all levels of hierarchy. It also requires a high degree of capabilities on site, in order to ensure equal access. Second, Article 3 supplies a political conditionality of MEDA funds; i.e. payments can be frozen or canceled when the principles or details of the EFP or the Political and Security Partnership (cf. Figure 2.1) are violated. This clause stresses the interdependency of all three chapters of the EMP and reflects its comprehensive approach. But it is also controversial because the clause is not further specified. This may be the main reason why Article 3 has not been invoked. Originally, the amount of EMP resources was related to the funds granted to the CC-13, in preparation of the EU's eastward expansion, at a ratio of 40:60. This translates into EUR 3,435 million for the period 1995-1999, the MEDA I program (European Com-mission 1995). From 1995-2000 86 per cent (EUR 2,954 Mio) of the MEDA I resources were allocated to bilateral support in contrast to 12 per cent (EUR 418 Mio) spent on regional cooperation (European Commission 2001). As mentioned above, about 90 per cent of all committed funds were dedicated to measures of the EFP. However, on average, only one third of committed funds was disbursed. Whereas the Palestinian Territories, Jordan and Tunisia had implementation rates of approximately 40 per cent and the commitment/payment ratio for regional assistance reached nearly 48 per cent, Syria did not receive any of the committed means. Turkey managed to activate only 5 per cent of possible payments. This poor performance can partially be explained by the complex and bureaucratic structures and procedures within the EU that lead to delays and

hindered efficiency (Joffé 2001). At the same time, capacities in the MPs are not sufficiently developed to benefit from EU grants.

5.5 Conceptual Fit: EFP in the context of the GCC

After presenting the EFP and comparing similarities and differences between Arab Mediterranean and GCC countries, this section proposes why the concept of the EFP, which is designed to match and cope with Arab Mediterranean realities, is, to a large extent, suitable in the context of the GCC countries.

5.5.1 Match of socio-cultural and political structures

The EMP is the European policy toward its neighboring AMC, but a policy that has so far excluded the Gulf States. AMC socio-cultural background, political structures (polity and politics) and economic structures, all interact, and are important determinants of the EFP. These special characteristics are very different when compared with European socio-cultural, political and economic structures (cf. Sections 5.2 and 5.3). Yet, for AMC and GCC countries, such structures are characteristically similar. All of these countries are part of the Arab world; all share a common language and religion. Political and regime structures resemble each other, despite the fact that AMC regimes are secular, revolutionary republics or constitutional monarchies, whereas GCC countries are all well described as traditional patrimonial monarchies. The role and influence of the bureaucratic AMC elites is comparable to those of the members of the royal families in the GCC. There is no other region in the world where these determinants of the EFP would fit as easily, also because the business environment is basically the same.

5.5.2 Building Capacities for sustainable sources of growth

Economic structures at the sector level, factor endowment and the economic situation are different in AMC and GCC countries, as already discussed in section 5.2. GCC countries are abundantly endowed with natural oil resources and are net payers of remittances and transfers. AMC, in contrast, depend heavily on transfers of workers remittances and official development assistance from both Europe and the GCC. GCC countries are partially integrated into the world market when it comes to the exports of fuels and hydrocarbons. However, their economies are highly specialized in crude oil and oil-based production. The degree of industrial diversification remains minimal. Technologies and labor are imported. Around 11 million people from abroad are employed in GCC countries (Cornelius and Warner 2003): highly educated expatriates from Europe, the US or Australia and blue-collar workers form Asian and Arab countries. The resident population relies heavily on generous state allocations. This concept developed in times of high oil prices in the early 1980s and is of course today again nourished by historical peaks in barrel prices of crude oil. However, the development process has reached certain limits (Dahlmann 2002). Dramatic population growth since the 1980s is coupled with the increasingly high expectations for state allowances. The oil wealth was mainly consumed and not sufficiently used to develop internationally competitive domestic industries or sectors outside the oil business. In addition, the efficiency of investments in e.g. human capital remains generally not satisfactory. In the long-run, sustained economic growth cannot be achieved by factor accumulation. Instead, economic theory, and especially endogenous growth models, stresses the importance of technological progress as the major engine of growth. Technologies are necessary in order to improve the quality of products and to be internationally competitive. This directly applies to the GCC countries. Since the first boom in oil prices, growth rates and productivity have consistently declined over the past 20 years. Despite recent record-breaking oil prices, productivity has not recovered and income per capita in fact declined. GCC countries lack

adequate human capital and internationally competitive products apart from crude oil. Although the need for structural adjustment is less urgent than in the AMC, GCC countries face similar structural economic problems. In countries, such as Bahrain, Oman or the United Arab Emirates, oil reserves are expected to be depleted in approximately ten years, and therefore the reform pressure is growing (Cornelius and Warner 2003). Other GCC countries also face challenges of investing their revenues more efficiently and in a sustainable way, in order to balance short-term welfare, job creation and long-term structural adjustment (Galal 2002).

5.5.3 Security dimension of EU-GCC economic relations

The EFP targets at a modernization of industries and a fundamental adjustment of economic structures in the AMC, which allows them to successfully use technological progress. The objective is to support the economies by becoming internationally competitive and achieving stable and higher economic growth. This is part of a comprehensive security strategy, which draws on an economic rationale. Economic interests in the Mediterranean region, such as market access, are subordinate. The reduction of migration pressure, fundamentalism, and poverty are more important. This is certainly different in EU-GCC relations. GCC countries provide more than 25 per cent of the EU´s total energy. However, as the stability and continuity of European oil and energy supply is directly linked to an inner stability of the Gulf countries, these developments should be incentive enough to take action in form of cooperation. Of course, other states do depend on Gulf oil, however, the EU is a major provider of technology and machinery for the Gulf region. Thus, the interest would be to secure oil supply and technology demand at the same time. Another argument should be added: GCC and European states have common interests with respect to the development of the AMC because the Mediterranean region is a core concern to security and regional stability (Al-Khouri 2000). Concerted action in this direction could multiply the effect. Large investment inflows into the Mediterranean originate in

the Gulf or the EU, yet Arab investors or even Mediterranean nationals do not find business opportunities interesting enough to go back and use their skills in their homelands. A common socio-cultural background does help to understand both pros and cons. Thus, a security-based, long term-strategy, such as the EMP, could be an appropriate approach of EU engagement in the Gulf region.

5.5.4 Can the tools of the EFP help to modernize Gulf industries?

As long as economic growth is driven by factor endowment with natural resources, as in the case of Gulf oil, a competitive business environment plays a subordinate role. Recent technologies ensure higher profit margins, but monopolistic market structures and personal connections even more so. In order to compete successfully in international markets, the quality of products needs to improve. This section evaluates the leverage of EFP tools (EMAAs, economic cooperation and financial assistance) in the GCC context. First, Euro-Mediterranean Association Agreements (EMAAs): Modernizing industries and business structure is a prerequisite for a successful participation. EU-GCC free trade negotiations have been on the table for over 20 years. The entering into force of the GCC customs union in 2005 is a major step forward. So far, the EU is insisting on sub-regional trade liberalization as a precondition. However, considering the loose character of the GCC, as compared to the EU, and the ambiguous signals from the GCC side, bilateral negotiations should not be ruled out as an option; especially, when embedded in WTO negotiations from WTO membership. Second, economic cooperation: Today, EU-GCC cooperation focuses primarily on energy and economic issues. This cooperation could be expanded to include other important issues such as infrastructure, education and research cooperation. Expert and academic exchange could be fostered. Including the GCC countries in knowledge sharing and innovative infrastructures, e.g. to the extent that is planned for the European Neighborhood Policy, would be a considerable asset. The FEMISE or EUROMESCO research networks could be expanded out to include GCC

research centers. Improving quality and quantity of data from AMC and GCC countries are important preconditions for and a major obstacle to advances in research. Third, financial assistance: The potential leverage of this tool is limited and there is no need to alleviate social hardships in this context. GCC countries all range in higher HDI human development and are extraordinarily well endowed financially. More important would be assistance and insights in organizing supra-national cooperation and integration an area in which the EU is considered a role model for the GCC (Wilson 2000). Increased financial support from the EU could be provided to further this objective.

5.6 Conclusion

The EMP is a security driven strategy aimed at an appeasement and stabilization of the Mediterranean region with an economic rationale: Socioeconomic development and regional as well as national prosperity are important determinants of stability in the Middle East and North Africa. Although economic performance and GDP per capita vary significantly across Arab Mediterranean and GCC countries, both parts of the Arab world share common problems of lacking technological progress, very low level of total factor productivity and unsustainable, extensive sources of economic growth. All respective countries show low diffusion of technology, low research and development activities, insufficient human capital and insignificant high-technology sectors or production. MENA political economy structures encourage and manifest an economically inefficient, but politically opportune allocation of resources, institutional structures that are ill assorted with market principle and a technological backwardness. Economic theory, backed through empirical evidence from industrialized as well as developing countries, suggests that technological progress is a more sustainable source of growth than natural resources. Natural resources are not a growth engine on their own, they rather should be considered a possible catalyst for other sources of growth. The most important determinants are thus endogenous factors such as the quality of human capital, innovative capacities, the mastering of recent technologies,

integration into the world market and a competitive business environment. However, in economies that rely on growth driven by factor endowment with natural resources, a competitive business environment plays a subordinate role. Often personal connections and a good positioning within the national clientelism and patronage structures ensure higher profit margins than the use of recent technologies or international competitiveness. This paper reveals that two out of three EFP tools have a considerable potential leverage on economic development with respect to GCC countries: First, free-trade association between the EU and individual GCC countries, which is not the aim in itself, but a catalyst for competitive structures and products. Political conditionality on economic cooperation could also increase political commitment. Second, economic cooperation, which opens communication channels and channels for technology diffusion, is especially critical. In contrast, financial assistance yields limited leverage. Considering the better financial endowment, degree of deeper regional integration, and partial integration into the world market, the process of structural adjustment is likely to be faster and adjustment costs are lower as compared to the AMC. However, in analogy to EU-AMC cooperation, positive results cannot be expected to materialize in the short- to medium-run.

Chapter 6

Conclusion

Recent developments in EU politics, including the French led initiative to establish a Mediterranean Union, underline the importance of a better understanding of economic development in the Middle East and North African region and EU-Arab Mediterranean relations. These issues directly affect external and internal EU affairs and balances of power both within EU and between EU and the Arab states.

Each of the chapters presented covers a different aspect of the aforementioned issues, offering different insights and perspectives. Together the chapters present interesting answers to the key questions raised at the beginning of the dissertation: 1) What are the determinants and constraints on economic development in the Arab Mediterranean countries? and 2) What is the potential of EU policy to trigger and support economic development in these countries? This final chapter briefly summarizes some of the more general findings.

The first important result of this dissertation is that the expectations of the Economic and Financial Partnership (EFP) that were formulated in the Barcelona Declaration, and reiterated in the ENP, were from the beginning overly optimistic and unrealistic. Against the backdrop of the design of the EFP, the regional and institutional settings, as well as the characteristics of the political economy, the actual outcomes of the EFP were within the scope of what was realistically possible. These findings contradict and prove the strands of literature wrong that argue the failure of the Barcelona Process because expectations did not materialize.

Does this imply that the economic and financial dimensions of the Euro- Mediterranean Partnership is a success story? The answer is no, not necessarily. The intention of this dissertation, however, is not to generically argue the success or failure of the EFP. On the contrary, this research started from the notion that economic development in the Arab countries of the Middle East (AMENA) in general, and in particular in the Arab Mediterranean countries (AMC), is insufficient to alleviate economic and socio-economic hardship resulting from unemployment and a lack of economic prospects. Low economic development already negatively affects life in, EU external relations to and increasingly the relationship with immigrants from these

countries. As such, prosperity and economic development of Arab Mediterranean countries should be an important subject on Arab national and EU agendas. Therefore, this research argues there is a vital interest to improve AMC economic performance, both from the perspective of the EU as well as that of the Arab states. As such, the objectives here are to: 1) identify the constraints on economic development at a national level; 2) to understand why EFP policy outcomes are below expectations; and 3) to identify constructive criticism that can help improve EU-Mediterranean relations and AMC economic development efforts in future. All three aspects directly relate to one another. They cannot be treated as separate questions, but rather have to be considered different parts of the same research puzzle.

Second, the results imply that Arab Mediterranean countries are not able to upgrade competencies by using and adopting technologies effectively. In fact, lagging technological capacities are an important constraint on economic development. Arab Mediterranean countries undertake just as little original research and development as other developing countries. In contrast to East Asian economies, the AMC did not manage to adopt technologies in the scope and scale necessary to generate positive technological progress.
These findings suggest that more efforts of economic adjustment and cooperation need to be directed toward education, technology transfer and technology diffusion within these countries and across sectors.

Third, the political economy is deeply affected by personal client-patron relationships. Large scale favoritism carved out rent-seeking rather than profit-seeking behavior, which is an important constraint on development in the AMC, second to technological limitations. Although rational at an individual level, rent-seeking is detrimental for economic development: productivity declines, economic effort is not rewarded, and an amalgamation of political and economic power structures leads to an economically inefficient allocation of resources. Rent-seeking, corruption and *wasta* have long been identified as obstacles in MENA regional studies. However, only a systematic combination of economic and political science analyses, as presented in this dissertation, can explain the inefficiencies of MENA economies in depth and

how inefficiencies are more deeply rooted than "traditional" market failures. Structural adjustment recommendations, which prescribe privatization and international competition through trade openness, contributed little to to make MENA economies more competitive. Looking at political and power structures, including neo-patrimonial regimes and their legitimation, it becomes clear that economic ineffectiveness is more closely related to political power rationale and regime survival.

The point made here is that these differences in political economy are not sufficiently taken into account in EU policies toward the AMC. The results of the analyses presented earlier suggest that the EU Neighborhood and Mediterranean policies are based on the false assumption of similar structures and political economy premises in the region and EU. This conviction was correct in the past, when EU neighboring countries had a perspective to become, at some point, a full member of the EU, if only they complied to EU rules, structures and principles. After the completion of the European eastward enlargement, the EU is for the first time bordering countries that neither have nor seek full EU membership. As such these countries have no built-in incentive to comply with or meet the Copenhagen criteria for accession. EU external policy tools based on common underlying norms and political-economic structures are no longer appropriate. In the future, the EU will have to establish neighborhood relations on the basis of significantly differing political economy structures and business mentalities towards economic integration.

6.1 Areas for Future Research

The results of this dissertation also point to fruitful areas for future research. This section outlines three particularly important fields.

First, to date the majority of economic innovation and growth models are still directed toward explaining innovation and growth processes in highly industrialized countries. As explained in Chapter 3, this is reasonable, because around 90 per cent of worldwide frontier research is provided by the G7-countries (European Commission 2003). Looking at developing and transi-

tion countries, domestic high-technology industries and frontier research have comparatively little to no relevance at all. Furthermore, high-technology industries are only a very small component of the industrial make-up of most countries: Even in the USA, the country with the world's largest share of high-technology manufacturing, these industries account only for around 3 per cent of GDP (WDI 2007). Nevertheless, surprisingly little research has been dedicated to study strategies and sources for economic growth in the absence of domestic high-technology research and innovation in developing countries in general, and in the Arab countries of the Middle East and North Africa in particular. Therefore, more theoretical and empirical approaches are necessary to examine the role of adoption and application of frontier technologies across sectors in spurring and explaining total factor productivity. Special attention should be paid to economies that undertake little to no domestic frontier-pushing research, and therefore depend on alternative sources for increases in productivity and growth. By the same token, interesting concepts such rentier-state and rentier-economy literature or firm upgrading (in- and outside transnational value chains) are widely discussed, but lack research and theoretical models to explore the situation.

Second, understanding economic growth and development in the developing countries requires an understanding of firms' technological capacities and potential at both the micro- and macro-levels. With respect to the Arab MENA countries, detailed data that can be used for quantitative analysis is not available. More research efforts should thus be directed to collect the respective data. The quantitative analysis provided in Chapter 3 is a first step in this direction. Using more advanced statistical programs such as STATA or Matlab provides more possibilities for rigorous testing. Necessary steps include the standardization of data, and more rigorous robustness tests with respect to alternative variables, sample size and outliers. In cases were only one or two data points are missing, data can be weighted to consult other datasets and include more countries in the sample. Available empirical data could also be collected to better understand rentier economies and rent-seeking structures. This implies detailed case studies that investigate and trace concrete internal relations between political and economic structures

through networks of individuals and institutions.
Third, with respect to reforming EU policy toward the Arab countries of the Middle East and North Africa, it becomes obvious that more insight is needed in the process of decision and policy making. To investigate the intention of the EU's Mediterranean Policy and its priorities, it may not be sufficient to rely on official documentation, secondary literature and exploratory interviews (see Appendix C.1). Therefore, it would be advisable to complement these sources with a structured analysis of actual competencies and the importance of influencing factors such as: the relationship between the EU Commission and the Council; the interplay of various international policies in the MENA region, including the United States, NATO and OECE; relations between parallel EU policies covering the Arab Mediterranean countries and the EMP; and individual EU member states' engagement in the region. Other interesting aspects would be to perform a similar analysis on the side of the Arab countries that would clarify on priorities, intentions, and possible vested interests. Apart from the direct involvement in Euromed relations 15 years ago and today, the Arab perspective of the relevant initiatives could also be highlighted. Last but not least, much of the previous and current research on EU support for economic development in the Arab countries of the Middle East and North Africa does not consider the perspective of European firms and companies and their actual reasons not to invest in these countries. A more comprehensive coverage of this aspect would be another important task for further research.

6.2 Policy Implications

The Council of the European Union invited the European Commission to define the modalities of the "Barcelona Process: Union for the Mediterranean" [European Union 2008] with a view to the next European Summit that will be held in Paris on 13 July 2008. Given the promptness of the deadline and the attention that the European heads of state (finally) devote to this important subject, nothing less than setting the course of EU-Mediterranean relations is at stake. This next section provides some concrete policy implications for a

possible reform of Euro-Mediterranean relations drawn from this dissertation. A successful redefinition of EU-Arab Mediterranean relations requires the member states of the European Union, the supranational EU institutions and the Arab Mediterranean countries to involve in a constructive dialog. This historical opportunity should be seized to negotiate EU-external relations in its close neighborhood after the eastward enlargement, at eye level with each other.
There are some requirements to be met, however, if the new initiative is to be more successful than those of the past.

- All parties need to acknowledge that supporting and triggering economic development and prosperity in the Arab countries is an important priority of EU relations to this region. And yet, the very concrete expectations that exist and that have been formulated in both EMP and EFP official documentation are not likely to be met in the short to medium term with the existing toolkit of policy measures. Emphasis should thus be placed on engaging all involved parties to clarify what shall and can be achieved in the short to medium time frame.

- Rather than granting the Arab governments a co-presidency, Arab governments should from the beginning be actively involved in defining the objectives and structures of any new Euro-Med reform proposal.

- Structural adjustment efforts suggested to the AMC governments did not show the expected results, partially because governments did not commit themselves to making economic development a higher priority than regime stability and perpetuating power structures. But neither did the Arab economies prosper, nor did the economic performance improve. Therefore, it seems that traditional schools of thought are not able to generate the ideas and concepts needed. A new dialog should thus be aimed at the cooperation to develop together new ideas and concepts.

- Successful improvements or the redefinition of existing and established structures of EU-AMC cooperation requires a thorough understanding

as to why policy measures used in the past did not render the desired results. This was due to the pivotal role of the EFP in both EMP and ENP..

Other than in the European Union, there is no institutionalized cooperation for the common representation of interests among the AMC.

- Therefore, it is necessary to clarify the basis and to what extent the Arab co-presiding country can make decisions on behalf of the other countries. This topic needs special consultations between the EU and the AMC, and in particular among AMC states themselves. Even if the presidency will have a coordinating rather than an executive function, the respective government needs some kind of mandate.

From a European perspective, there are several additional points, which need clarification:

- The relationship between a Mediterranean Union and the European Neighborhood Policy needs to be made explicitly clear. Anything other than a clear signal of commitment to a common EU policy toward all neighboring countries would undermine and reverse the achievements made so far.

- Delegates and representatives involved in EU-AMC negotiations should if possible speak Arabic and have a proven track record of experience in the region and/or regional studies. This is not primarily to improve the conversation and debate, since most of the negotiators are fluent on English and/or French. This is, however, an important confidence-building measure with will underline European regional competence, interest, and cross-cultrual management competencies that will also help to reduce misunderstandings.

- Europe has a vital interest that economic development becomes a top priority of Arab governments, just as much as it is in other successfully developing regions, especially in Asia. Existing political and economic structures are in three ways inefficient. Economic effort and technical

innovativeness does not pay off, and as a consequence productivity is declining. Projects are not evaluated and pursued on the basis of sustainability or economic efficiency considerations, but rather on the basis of the anticipation of which projects donors are willing to provide the most amount of money. Local expertise is thus wasted and a highly inefficient circuit is successively manifested.

- From an EU perspective this directly implies a rigorous de-bureaucratization of its entire Neighborhood and Mediterranean policies. The EMP has successfully institutionalized itself with the number of working groups, committees and projects already difficult to manage. And yet it has arguably had only limited visibility or impact on public debate and economic life in either the EU or the AMC. Another institutional framework in addition to existing structures will potentially only contribute to an over-bureaucratisation and ever more complicated and convulted competencies.

- The most often heard comment in the private and education sectors on the Euro-Mediterranenan cooperation and funding possibilities is that people have not heard about it. And those involved are confused about the competencies and irritated about what they perceive as several EU-Mediterranean policies.

- EU-Mediterranean policy needs to be clearly defined within the framework of common external policies (especially European Neighborhood Policy and Euro-Mediterranean Partnership) and effectively demarcated against bilateral engagement of the member states.

- The transparency and full account of all funds allocated to the countries of the Middle East and North Africa is one important step of streamlining EU engagement in the Mediterranean region, including Arab and non-Arab countries as well as the Palestinian territories. These include the budget lines MEDA or more recently the European Neighborhood instrument, but also the funds of the European Investment Bank and bilateral payments.

With respect to the lack of technological capacities and increasingly high unemployment rates even among young people with higher education, European policy should:

- Open student exchange programs such as ERASMUS not only for students from Israel, but also from the Arab Mediterranean countries and Turkey. Also, programs such as SOCRATES and research projects should increasingly involve students from these countries.

- The elites send their children to American Universities in the region or directly to the US, rather than to Europe. In this way, young people are educated and familiar with US scientific structures and communities, and US-based international organizations, but not familiar with European structures, standards and procedures. For an effective cooperation between the EU and its Arab Mediterranean partners, however, it is especially important to have Arab counterparts that are familiar and comfortable in the EU institutional and scientific environment.

- Regional universities have an important role in educating steadily growing parts of the younger generations, but are not able to educate them to the needs of the labor market. In the past, these universities prepared the majority of their students for jobs in the national administration as civil servants. Due to high population growth and water-head bureaucracies, the states are today only able to employ a very small percentage of the graduates. University cooperations should be increased, but are not sufficient. The development and upgrading of European universities is essential to provide students with solid skills for Europe-oriented work.

- Given the limitation of technological capacities, technical Master and Bachelor education should complement current business administration and economics programs. In order to prepare the graduates also for the larger sectors of the European labor market, courses should be taught in at least in other language besides English and/or French. Just as German, French or International schools are popular and perceived

as guarantors for quality education, so could European Universities complement current satellite campuses of the US universities in the region.

- Breaking monopolies is politically often not wanted in the AMC, but an important step would be to leave new branches and business fields to develop their own dynamics. Black market activities are not popular when economic effort is generally rewarded. Where there are no vested interests this will be an politically easier step.

- Despite growing attention on the countries of the Middle East and North Africa in regional studies, these areas and particularly their economies are under researched. More effort should thus be directed to link MENA regional studies to research in the different disciplines. Furthermore, there is relatively few interaction between English speaking and French speaking research on the MENA region. These two strands should also be linked more closely. The creation or engagement of European research centers could systematically bring European researchers together and operate as an interface interdisciplinary and intra-regional studies.

With respect to the French proposal (e.g. Le Roy 2008) of the establishment of a Mediterranean Union with its own secretariat and a dual presidency of an Arab and a European state simultaneously, there is a great danger of over institutionalizing Euro-Mediterranean relations, deepening the confusion about responsibilities and cooperation partners, and provoking an internal split of EU and furthermore challenging EU-Turkey relations.
However, the discussion on the establishment on a Mediterranean Union brought a new impulse to reform the EMP and ENP and regulate competencies and the relationship among different policies. As such, the French proposal is a very valuable input and trigger for a discussion that should be aimed at reforming and optimizing already existing policies.

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Appendices

Appendix A

Countries and Variables

A.1 List of Countries

Table A.1: Regression sample: N=77

Albania, ***Algeria***, Argentina, Armenia, Australia, Bangladesh, Belgium, Benin, Bolivia, Bulgaria, Burkina Faso, Cambodia, Cameroon, Chile, China, Colombia, Costa Rica, Croatia, Czech Republic, Denmark, ***Egypt***, El Salvador, Estonia, Ethiopia, Finland, France, Georgia, Germany, Greece, Guatemala, Hungary, Indonesia, Ireland, Israel, Italy, Jamaica, ***Jordan***, Kazakhstan, Kenya, Kyrgyz Republic, Latvia, Lithuania, Madagascar, Malaysia, Mauritius, Moldova, ***Morocco***, Netherlands, New Zealand, Nicaragua, Norway, **Oman**, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Russia, Slovak Republic, Slovenia, Spain, Sri Lanka, Sweden, Switzerland, Thailand, ***Tunisia***, Turkey, Uganda, Ukraine, United Kingdom, United States, Uruguay, Venezuela, **Yemen**

Notes: Arab Gulf countries are highlighted in bold, Arab Mediterranean countries in bold italics.

Table A.2: Full Sample N=173

Afghanistan, Albania, ***Algeria***, Angola, Argentina, Armenia, *Australia*, *Austria*, Azerbaijan, Bahamas, **Bahrain**, Bangladesh, Barbados, Belarus, *Belgium*, Belize, Benin, Bhutan, Bolivia, Bosnia, Botswana, Brazil, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, *Canada*, Cape Verde, Central African Republic, Chad, Chile, China, People's Republic of, Colombia, Comoros, Congo Brazzaville, Congo, Democratic Republic of the, Costa Rica, Croatia, Cuba, Cyprus, *Czech Republic*, *Denmark*, Djibouti, Dominican Republic, East Timor, Ecuador, ***Egypt***, El Salvador, Equatorial Guinea, Eritrea, Estonia, Ethiopia, Fiji, *Finland*, *France*, Gabon, Gambia, Georgia, *Germany*, Ghana, *Greece*, Guatemala, Guinea-Bissau, Guinea, Guyana, Haiti, Honduras, Hong Kong, *Hungary*, *Iceland*, India, Indonesia, Iran, **Iraq**, *Ireland*, Israel, *Italy*, Ivory Coast, Jamaica, *Japan*, ***Jordan***, Kazakhstan, Kenya, Korea, Democratic People´s Republic of (North Korea), *Korea, Republic of (South Korea)*, **Kuwait**, Kyrgyz Republic, Laos, Latvia, ***Lebanon***, Lesotho, Liberia, ***Libya***, Lithuania, *Luxembourg*, Macedonia FYR, Madagascar, Malawi, Malaysia, Mali, Malta, Mauritania, Mauritius, *Mexico*, Moldova, Mongolia, ***Morocco***, Mozambique, Myanmar, Namibia, Nepal, *Netherlands*, *New Zealand*, Nicaragua, Niger, Nigeria, *Norway*, **Oman**, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, *Poland*, *Portugal*, Puerto Rico, **Qatar**, Romania, Russia, Rwanda, Samoa, **Saudi Arabia**, Senegal, Serbia and Montenegro, Sierra Leone, Singapore, *Slovak Republic*, Slovenia, Solomon Islands, Somalia, South Africa, *Spain*, Sri Lanka, Sudan, Suriname, Swaziland, *Sweden*, *Switzerland*, ***Syria***, Taiwan, Tajikistan, Tanzania, Thailand, Togo, Trinidad and Tobago, ***Tunisia***, Turkmenistan, *Turkey*, Uganda, Ukraine, **United Arab Emirates**, *United Kingdom*, *United States*, Uruguay, Uzbekistan, Venezuela, Vietnam, ***West Bank and Gaza***, **Yemen**, Zambia, Zimbabwe

Note: The Member countries of the OECD are marked in italics. Arab Gulf countries are highlighted in bold, Arab Mediterranean countries in bold italics.

A.2 Variables: Definition and Data Sources

Table A.3: Variables and Sources

Variable	Description
lgGDP	logarithm of Gross Domestic Product per capita in constant US dollars, purchasing power parity (PPP). Baseline year 2000. [World Bank 2007]
CONFL	Number and intensity of internal and external conflicts [CSCW 2005]
DISTEQ	Distance of capital city from equator, measured as the absolute value of latitude [Dollar and Kraay 2002]
LANDLOCK	Dummy variable taking value 1 for countries without access to the sea, 0 otherwise. [Dollar and Kraay 2002]
OILDEP	Dummy variable taking the value 1 for a country being a major oil exporter, 0 otherwise.
OPENNESS	natural logarithm of real openness, which is given by the ratio of nominal imports plus exports to GDP (PPP) in US dollars [Summers et al. 2006]
POP	Population in million, 2006 [World Bank 2007]
TECHREAD	a country's level of technological readiness, values ranging from 1 to 7 [World Economic Forum 2007b]
ECONINST	Composite index of economic freedom, including a set of six indicators of economic institutions: business regulations, fiscal burden, property rights, restrictions on investment, capital market restrictions, and labor market rigidity. Values range from 0 to 100, combining survey and hard data. [Heritage Foundation 2007]

Table A.4: Variables and Sources, continued

RENTSEEK	corruption as a major constraint to investment, executive opinion survey [World Bank 2007]
ALLOSTA	allocative nature of the state measured as the compensation of employees, subsidies and other transfers as percent of government expense [World Bank 2007]
AUTHOR	authoritarian nature of the state. Composite index of three general patterns of regime authority: executive recruitment, executive constraints, and political competition. The index value ranges on a twenty point scale from 10= democratic to -10= authoritarian rule [CIDCM 2006]

Table A.5: Regional Dummy Variables

Variable	Description
D_LAC	Dummy variable taking the value 1 if a country belongs to Latin America and Caribbean, 0 otherwise.
D_EAP	Dummy variable taking the value 1 if a country belongs to East Asia and Pacific, 0 otherwise.
D_ECA	Dummy variable taking the value 1 if a country belongs to Europe and Central Asia, 0 otherwise.
D_SSA	Dummy variable taking the value 1 if a country belongs to Sub-Saharan Africa, 0 otherwise.
D_OECD	Dummy variable taking the value 1 if a country is member of Organization for Economic Cooperation and Development (OECD), 0 otherwise.
D_GCC	Dummy variable taking the value 1 if a country is member of the Gulf Cooperation Council (GCC), 0 otherwise
D_MED	Dummy variable taking the value 1 if a country is an Arab Mediterranean Country, 0 otherwise

Appendix B

Regression Output

B.1 Simple OLS Regressions: Economic Development

Table B.1: Descriptive Statistics

	Mean	Std. Deviation	N
LGGDP	3,9000	,44946	77
IEFOF8	66,6802	9,28532	77
TECHREAD	4,065	1,1905	77
OPENNES	87,868	43,5229	77
POP05	48,2295	153,39450	77
FUELEX	15,55	24,524	77
LGCONFL	,5849	,71410	77
DISTEQ	32,81	17,515	77
MED	,06	,248	77
INTM_TE	,2469	,96364	77
GULF	,01	,114	77
SSA	,10	,307	77
LAC	,17	,377	77
EAP	,10	,307	77
OECD	,31	,466	77

Table B.2: Correlations: OLS regressions Development

		LGGDP	IEFOF8	TECHREAD	OPENNES	POP05	FUELEX	LGCONFL	DISTEQ	MED
Pearson Correlation	LGGDP	1,000	,665	,805	,276	-,043	-,052	-,364	,673	-,110
	IEFOF8	,665	1,000	,666	,336	-,195	-,289	-,391	,510	-,277
	TECHREAD	,805	,666	1,000	,196	-,022	-,125	-,184	,389	-,059
	OPENNES	,276	,336	,196	1,000	-,190	-,213	-,345	,287	-,065
	POP05	-,043	-,195	-,022	-,190	1,000	-,035	,246	,010	-,031
	FUELEX	-,052	-,289	-,125	-,213	-,035	1,000	,025	-,026	,169
	LGCONFL	-,364	-,391	-,184	-,345	,246	,025	1,000	-,481	,118
	DISTEQ	,673	,510	,389	,287	,010	-,026	-,481	1,000	,003
	MED	-,110	-,277	-,059	-,065	-,031	,169	,118	,003	1,000
	INTM_TE	-,106	-,262	-,023	-,046	-,034	,098	,076	,002	,979
	GULF	,062	-,021	,039	,021	-,034	,245	,018	-,065	-,030
	SSA	-,547	-,256	-,370	-,232	-,054	-,068	,034	-,473	-,090
	LAC	-,142	-,028	-,042	-,242	-,101	-,070	,153	-,387	-,119
	EAP	-,068	-,228	,052	,115	,383	,080	,238	-,307	-,090
	OECD	,728	,612	,612	,134	-,056	-,156	-,355	,567	-,177
Sig. (1-tailed)	LGGDP	.	,000	,000	,008	,357	,327	,001	,000	,170
	IEFOF8	,000	.	,000	,001	,045	,005	,000	,000	,007
	TECHREAD	,000	,000	.	,043	,425	,139	,055	,000	,306
	OPENNES	,008	,001	,043	.	,049	,031	,001	,006	,286
	POP05	,357	,045	,425	,049	.	,381	,015	,466	,396
	FUELEX	,327	,005	,139	,031	,381	.	,414	,410	,071
	LGCONFL	,001	,000	,055	,001	,015	,414	.	,000	,153
	DISTEQ	,000	,000	,000	,006	,466	,410	,000	.	,490
	MED	,170	,007	,306	,286	,396	,071	,153	,490	.
	INTM_TE	,180	,011	,421	,345	,386	,198	,255	,494	,000
	GULF	,295	,429	,367	,428	,383	,016	,437	,288	,397
	SSA	,000	,012	,000	,021	,320	,280	,384	,000	,219
	LAC	,108	,405	,360	,017	,190	,274	,092	,000	,152
	EAP	,280	,023	,327	,160	,000	,244	,019	,003	,219
	OECD	,000	,000	,000	,122	,315	,088	,001	,000	,061

Table B.3: Correlations: OLS regressions Development

		MED	INTM_TE	GULF	SSA	LAC	EAP	OECD
Pearson Correlation	LGGDP	-,110	-,106	,062	-,547	-,142	-,068	,728
	IEFOF8	-,277	-,262	-,021	-,256	-,028	-,228	,612
	TECHREAI	-,059	-,023	,039	-,370	-,042	,052	,612
	OPENNES	-,065	-,046	,021	-,232	-,242	,115	,134
	POP05	-,031	-,034	-,034	-,054	-,101	,383	-,056
	FUELEX	,169	,098	,245	-,068	-,070	,080	-,156
	LGCONFL	,118	,076	,018	,034	,153	,238	-,355
	DISTEQ	,003	,002	-,065	-,473	-,387	-,307	,567
	MED	1,000	,979	-,030	-,090	-,119	-,090	-,177
	INTM_TE	,979	1,000	-,030	-,088	-,116	-,088	-,174
	GULF	-,030	-,030	1,000	-,039	-,052	-,039	-,077
	SSA	-,090	-,088	-,039	1,000	-,153	-,116	-,229
	LAC	-,119	-,116	-,052	-,153	1,000	-,153	-,303
	EAP	-,090	-,088	-,039	-,116	-,153	1,000	-,137
	OECD	-,177	-,174	-,077	-,229	-,303	-,137	1,000
Sig. (1-tailed)	LGGDP	,170	,180	,295	,000	,108	,280	,000
	IEFOF8	,007	,011	,429	,012	,405	,023	,000
	TECHREAI	,306	,421	,367	,000	,360	,327	,000
	OPENNES	,286	,345	,428	,021	,017	,160	,122
	POP05	,396	,386	,383	,320	,190	,000	,315
	FUELEX	,071	,198	,016	,280	,274	,244	,088
	LGCONFL	,153	,255	,437	,384	,092	,019	,001
	DISTEQ	,490	,494	,288	,000	,000	,003	,000
	MED	,	,000	,397	,219	,152	,219	,061
	INTM_TE	,000	,	,399	,224	,157	,224	,066
	GULF	,397	,399	,	,368	,328	,368	,252
	SSA	,219	,224	,368	,	,091	,158	,023
	LAC	,152	,157	,328	,091	,	,091	,004
	EAP	,219	,224	,368	,158	,091	,	,117
	OECD	,061	,066	,252	,023	,004	,117	,

Table B.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,665[a]	,443	,435	,33773
2	,824[b]	,679	,670	,25821
3	,828[c]	,685	,667	,25919
4	,836[d]	,699	,677	,25532
5	,849[e]	,720	,696	,24777
6	,898[f]	,807	,787	,20736
7	,901[g]	,812	,790	,20615
8	,906[h]	,821	,796	,20277
9	,930[i]	,865	,835	,18268

a. Predictors: (Constant), IEFOF8

b. Predictors: (Constant), IEFOF8, TECHREAD

c. Predictors: (Constant), IEFOF8, TECHREAD, POP05, OPENNES

d. Predictors: (Constant), IEFOF8, TECHREAD, POP05, OPENNES, FUELEX

e. Predictors: (Constant), IEFOF8, TECHREAD, POP05, OPENNES, FUELEX, LGCONFL

f. Predictors: (Constant), IEFOF8, TECHREAD, POP05, OPENNES, FUELEX, LGCONFL, DISTEQ

g. Predictors: (Constant), IEFOF8, TECHREAD, POP05, OPENNES, FUELEX, LGCONFL, DISTEQ, MED

h. Predictors: (Constant), IEFOF8, TECHREAD, POP05, OPENNES, FUELEX, LGCONFL, DISTEQ, MED, INTM_TE

i. Predictors: (Constant), IEFOF8, TECHREAD, POP05, OPENNES, FUELEX, LGCONFL, DISTEQ, MED, INTM_TE, GULF, LAC, EAP, OECD, SSA

Table B.5: Coefficients, lgGDP

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,752	,281		6,239	,000
	IEFOF8	3,221E-02	,004	,665	7,720	,000
2	(Constant)	2,153	,221		9,719	,000
	IEFOF8	1,122E-02	,004	,232	2,624	,011
	TECHREAD	,246	,033	,651	7,370	,000
3	(Constant)	2,144	,231		9,302	,000
	IEFOF8	1,019E-02	,005	,210	2,232	,029
	TECHREAD	,245	,034	,650	7,244	,000
	OPENNES	8,583E-04	,001	,083	1,173	,245
	POP05	8,363E-05	,000	,029	,415	,679
4	(Constant)	1,973	,247		8,004	,000
	IEFOF8	1,234E-02	,005	,255	2,652	,010
	TECHREAD	,239	,034	,632	7,116	,000
	OPENNES	1,044E-03	,001	,101	1,433	,156
	POP05	1,308E-04	,000	,045	,653	,516
	FUELEX	2,278E-03	,001	,124	1,787	,078
5	(Constant)	2,263	,270		8,387	,000
	IEFOF8	9,061E-03	,005	,187	1,914	,060
	TECHREAD	,246	,033	,652	7,526	,000
	OPENNES	6,329E-04	,001	,061	,868	,388
	POP05	1,910E-04	,000	,065	,974	,333
	FUELEX	1,899E-03	,001	,104	1,522	,132
	LGCONFL	-,106	,046	-,169	-2,323	,023

Table B.6: Coefficients, lgGDP, continued

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
6	(Constant)	2,444	,228		10,713	,000
	IEFOF8	2,415E-03	,004	,050	,584	,561
	TECHREAD	,233	,027	,618	8,496	,000
	OPENNES	2,650E-04	,001	,026	,432	,667
	POP05	-1,953E-05	,000	-,007	-,116	,908
	FUELEX	1,031E-03	,001	,056	,977	,332
	LGCONFL	-2,406E-02	,041	-,038	-,586	,560
	DISTEQ	9,813E-03	,002	,382	5,563	,000
7	(Constant)	2,537	,237		10,696	,000
	IEFOF8	4,817E-04	,004	,010	,111	,912
	TECHREAD	,240	,028	,635	8,650	,000
	OPENNES	2,801E-04	,001	,027	,459	,648
	POP05	-5,364E-05	,000	-,018	-,317	,752
	FUELEX	1,099E-03	,001	,060	1,046	,299
	LGCONFL	-1,871E-02	,041	-,030	-,456	,650
	DISTEQ	1,028E-02	,002	,400	5,750	,000
	MED	-,140	,104	-,077	-1,345	,183
8	(Constant)	2,639	,240		10,997	,000
	IEFOF8	-1,339E-03	,004	-,028	-,304	,762
	TECHREAD	,254	,028	,672	8,957	,000
	OPENNES	2,534E-04	,001	,025	,422	,674
	POP05	-5,876E-05	,000	-,020	-,353	,725
	FUELEX	3,374E-04	,001	,018	,302	,763
	LGCONFL	-4,017E-02	,042	-,064	-,956	,343
	DISTEQ	9,955E-03	,002	,388	5,634	,000
	MED	,785	,520	,433	1,510	,136
	INTM_TE	-,242	,133	-,519	-1,813	,074
9	(Constant)	3,016	,247		12,205	,000
	IEFOF8	-2,151E-03	,004	-,044	-,524	,602
	TECHREAD	,198	,030	,526	6,569	,000
	OPENNES	1,929E-04	,001	,019	,305	,762
	POP05	-3,965E-05	,000	-,014	-,235	,815
	FUELEX	-3,403E-05	,001	-,002	-,031	,975
	LGCONFL	-5,824E-02	,041	-,093	-1,406	,165
	DISTEQ	6,134E-03	,003	,239	2,264	,027
	MED	,713	,477	,394	1,497	,140
	INTM_TE	-,213	,124	-,457	-1,723	,090
	GULF	,264	,202	,067	1,303	,198
	SSA	-,280	,116	-,191	-2,405	,019
	LAC	2,788E-02	,094	,023	,297	,768
	EAP	4,564E-03	,110	,003	,042	,967
	OECD	,213	,074	,221	2,874	,006

B.2 Simple OLS Regressions: Economic Institutions

Table B.7: Descriptive Statistics

	Mean	Std. Deviation	N
IEFOF8	66,6802	9,28532	77
TR3_POLI	531,74	435,103	77
CORRUPTI	54,44	24,005	77
ALLO_SUB	42,69	19,018	77
REMITTAN	3,76	5,827	77
MED	,06	,248	77
FUELEX	15,55	24,524	77
INTM_RE	3,9740	15,41955	77
INTM_PO	-6,4416	35,23250	77
INTM_AL	2,6577	10,43351	77
INTM_RM	,5315	2,57165	77

Table B.8: Correlations: OLS regressions Institutions

		IEFOF8	TR3_POLI	CORRUPTI	ALLO_SUB	REMITTAN	MED	FUELEX
Pearson Correlation	IEFOF8	1,000	,650	-,771	,368	-,111	-,277	-,289
	TR3_POLI	,650	1,000	-,618	,481	-,266	-,385	-,283
	CORRUPTI	-,771	-,618	1,000	-,436	,345	,075	,147
	ALLO_SUB	,368	,481	-,436	1,000	-,359	-,237	,027
	REMITTAN	-,111	-,266	,345	-,359	1,000	,201	-,161
	MED	-,277	-,385	,075	-,237	,201	1,000	,169
	FUELEX	-,289	-,283	,147	,027	-,161	,169	1,000
	INTM_RE	-,290	-,383	,093	-,213	,167	,984	,214
	INTM_PO	,269	,310	-,083	,203	-,110	-,698	-,040
	INTM_AL	-,247	-,371	,053	-,268	,256	,973	,100
	INTM_RM	-,163	-,298	,014	-,299	,325	,789	-,023
Sig. (1-tailed)	IEFOF8	.	,000	,000	,000	,169	,007	,005
	TR3_POLI	,000	.	,000	,000	,010	,000	,006
	CORRUPTI	,000	,000	.	,000	,001	,259	,102
	ALLO_SUB	,000	,000	,000	.	,001	,019	,407
	REMITTAN	,169	,010	,001	,001	.	,040	,081
	MED	,007	,000	,259	,019	,040	.	,071
	FUELEX	,005	,006	,102	,407	,081	,071	.
	INTM_RE	,005	,000	,210	,031	,073	,000	,031
	INTM_PO	,009	,003	,235	,038	,171	,000	,365
	INTM_AL	,015	,000	,322	,009	,012	,000	,194
	INTM_RM	,079	,004	,453	,004	,002	,000	,422
N	IEFOF8	77	77	77	77	77	77	77
	TR3_POLI	77	77	77	77	77	77	77
	CORRUPTI	77	77	77	77	77	77	77
	ALLO_SUB	77	77	77	77	77	77	77
	REMITTAN	77	77	77	77	77	77	77
	MED	77	77	77	77	77	77	77
	FUELEX	77	77	77	77	77	77	77
	INTM_RE	77	77	77	77	77	77	77
	INTM_PO	77	77	77	77	77	77	77
	INTM_AL	77	77	77	77	77	77	77
	INTM_RM	77	77	77	77	77	77	77

Table B.9: Correlations, continued

		INTM_RE	INTM_PO	INTM_AL	INTM_RM
Pearson Correlation	IEFOF8	-,290	,269	-,247	-,163
	TR3_POLI	-,383	,310	-,371	-,298
	CORRUPTI	,093	-,083	,053	,014
	ALLO_SUB	-,213	,203	-,268	-,299
	REMITTAN	,167	-,110	,256	,325
	MED	,984	-,698	,973	,789
	FUELEX	,214	-,040	,100	-,023
	INTM_RE	1,000	-,736	,928	,707
	INTM_PO	-,736	1,000	-,640	-,482
	INTM_AL	,928	-,640	1,000	,905
	INTM_RM	,707	-,482	,905	1,000
Sig. (1-tailed)	IEFOF8	,005	,009	,015	,079
	TR3_POLI	,000	,003	,000	,004
	CORRUPTI	,210	,235	,322	,453
	ALLO_SUB	,031	,038	,009	,004
	REMITTAN	,073	,171	,012	,002
	MED	,000	,000	,000	,000
	FUELEX	,031	,365	,194	,422
	INTM_RE	,	,000	,000	,000
	INTM_PO	,000	,	,000	,000
	INTM_AL	,000	,000	,	,000
	INTM_RM	,000	,000	,000	,
N	IEFOF8	77	77	77	77
	TR3_POLI	77	77	77	77
	CORRUPTI	77	77	77	77
	ALLO_SUB	77	77	77	77
	REMITTAN	77	77	77	77
	MED	77	77	77	77
	FUELEX	77	77	77	77
	INTM_RE	77	77	77	77
	INTM_PO	77	77	77	77
	INTM_AL	77	77	77	77
	INTM_RM	77	77	77	77

Table B.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	,650[a]	,422	,414	7,10543	,422	54,785	1	75	,000
2	,802[b]	,644	,634	5,61815	,221	45,965	1	74	,000
3	,803[c]	,645	,630	5,64838	,001	,210	1	73	,648
4	,823[d]	,677	,659	5,42524	,032	7,128	1	72	,009
5	,840[e]	,706	,686	5,20634	,030	7,182	1	71	,009
6	,843[f]	,711	,686	5,20415	,004	1,060	1	70	,307
7	,850[g]	,722	,680	5,25438	,011	,667	4	66	,617

a. Predictors: (Constant), TR3_POLI

b. Predictors: (Constant), TR3_POLI, CORRUPTI

c. Predictors: (Constant), TR3_POLI, CORRUPTI, ALLO_SUB

d. Predictors: (Constant), TR3_POLI, CORRUPTI, ALLO_SUB, REMITTAN

e. Predictors: (Constant), TR3_POLI, CORRUPTI, ALLO_SUB, REMITTAN, MED

f. Predictors: (Constant), TR3_POLI, CORRUPTI, ALLO_SUB, REMITTAN, MED, FUELEX

g. Predictors: (Constant), TR3_POLI, CORRUPTI, ALLO_SUB, REMITTAN, MED, FUELEX, INTM_PO, INTM_RM, INTM_RE, INTM_AL

h. Dependent Variable: IEFOF8

Table B.11: Coefficients, ECONINS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	59,308	1,284		46,201	,000
	TR3_POLI	1,387E-02	,002	,650	7,402	,000
2	(Constant)	76,101	2,677		28,429	,000
	TR3_POLI	5,978E-03	,002	,280	3,174	,002
	CORRUPTI	-,231	,034	-,598	-6,780	,000
3	(Constant)	76,908	3,216		23,913	,000
	TR3_POLI	6,251E-03	,002	,293	3,150	,002
	CORRUPTI	-,235	,035	-,607	-6,698	,000
	ALLO_SUB	-1,82E-02	,040	-,037	-,458	,648
4	(Constant)	75,649	3,125		24,209	,000
	TR3_POLI	6,237E-03	,002	,292	3,272	,002
	CORRUPTI	-,252	,034	-,653	-7,360	,000
	ALLO_SUB	6,582E-03	,039	,013	,168	,867
	REMITTAN	,313	,117	,197	2,670	,009
5	(Constant)	78,736	3,212		24,510	,000
	TR3_POLI	4,127E-03	,002	,193	2,072	,042
	CORRUPTI	-,277	,034	-,716	-8,107	,000
	ALLO_SUB	-1,12E-03	,038	-,002	-,030	,976
	REMITTAN	,360	,114	,226	3,158	,002
	MED	-7,306	2,726	-,195	-2,680	,009
6	(Constant)	79,113	3,232		24,479	,000
	TR3_POLI	3,632E-03	,002	,170	1,773	,081
	CORRUPTI	-,274	,034	-,709	-8,007	,000
	ALLO_SUB	4,744E-03	,038	,010	,124	,901
	REMITTAN	,332	,117	,208	2,829	,006
	MED	-6,960	2,746	-,186	-2,535	,013
	FUELEX	-2,75E-02	,027	-,073	-1,029	,307
7	(Constant)	80,346	3,385		23,738	,000
	TR3_POLI	3,124E-03	,002	,146	1,492	,140
	CORRUPTI	-,283	,036	-,731	-7,961	,000
	ALLO_SUB	-1,57E-03	,039	-,003	-,040	,968
	REMITTAN	,339	,122	,213	2,772	,007
	MED	-8,723	52,899	-,233	-,165	,870
	FUELEX	-4,37E-02	,029	-,115	-1,511	,136
	INTM_RE	,271	,369	,451	,737	,464
	INTM_PO	4,071E-02	,028	,154	1,462	,149
	INTM_AL	-,351	1,233	-,395	-,285	,777
	INTM_RM	,416	1,699	,115	,245	,807

B.3 Two Stage Least Squares Regressions

Table B.12: 2SLS:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.816	.665	.662	.291
2	.821	.675	.667	.267
3	.817	.668	.651	.277
4	.815	.664	.641	.291
5	.873	.762	.743	.237
6	.883	.779	.756	.227
7	.898	.806	.783	.211
8	.865	.748	.716	.251
9	.859	.739	.699	.261
10	.855	.731	.705	.258
11	.874	.764	.733	.242
12	.913	.833	.797	.205
13	.911	.829	.798	.205

a Predictors: (Constant), TECHREAD
b Predictors: (Constant), IEFOF8, TECHREAD
c Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05
d Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX
e Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ
f Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ, LGCONFL
g Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ, LGCONFL, MED
h Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ, MED, INTM_TE, INTM_INT
i Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ, LGCONFL, MED, INTM_TE, INTM_INT
j Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ, MED
k Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ, MED, LGCONFL, INTM_TE
l Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ, MED, INTM_TE, INTM_INT, GULF, SSA, LAC, EAP, OECD
m Predictors: (Constant), IEFOF8, TECHREAD, OPENNES, POP05, FUELEX, DISTEQ, MED, GULF, SSA, LAC, EAP, OECD

Table B.13: Pearson Correlation: Two Stage Least Squares

	IEFOF8	TECHREAD	OPENNES	POP05	FUELEX	DISTEQ
IEFOF8	1,0000000	-,9072797	-,6163148	,4492621	,5864513	-,5781303
TECHREAD	-,9072797	1,0000000	,5256057	-,3794961	-,5063157	,4629370
OPENNES	-,6163148	,5256057	1,0000000	-,0826171	-,1476996	,3356285
POP05	,4492621	-,3794961	-,0826171	1,0000000	,3870780	-,4950519
FUELEX	,5864513	-,5063157	-,1476996	,3870780	1,0000000	-,3778498
DISTEQ	-,5781303	,4629370	,3356285	-,4950519	-,3778498	1,0000000
MED	,7305893	-,7095602	-,4050538	,3191361	,3650127	-,3186848
GULF	-,0737140	-,0137840	,0030270	-,1098995	-,2496738	,2504893
SSA	-,2689778	,2365628	,3287316	-,2296819	-,0746930	,7003886
LAC	-,4492585	,3014983	,4514012	-,2635415	-,1950965	,7155065
EAP	,4223860	-,4830839	-,3739176	-,1765311	,1318463	,2292548
OECD	-,5358109	,2848079	,4794709	-,1949622	-,2277186	,2516851
LGCONFL	,1910493	-,2114354	,1085872	-,0922721	,1998084	,2382197

	MED	GULF	SSA	LAC	EAP	OECD
IEFOF8	,7305893	-,0737140	-,2689778	-,4492585	,4223860	-,5358109
TECHREAD	-,7095602	-,0137840	,2365628	,3014983	-,4830839	,2848079
OPENNES	-,4050538	,0030270	,3287316	,4514012	-,3739176	,4794709
POP05	,3191361	-,1098995	-,2296819	-,2635415	-,1765311	-,1949622
FUELEX	,3650127	-,2496738	-,0746930	-,1950965	,1318463	-,2277186
DISTEQ	-,3186848	,2504893	,7003886	,7155065	,2292548	,2516851
MED	1,0000000	,0699160	-,0107297	-,1125938	,4862680	-,2326809
GULF	,0699160	1,0000000	,2176598	,2562059	,2153316	,1566218

Table B.14: Pearson Correlation: Two Stage Least Squares, continued

SSA	-,0107297	,2176598	1,0000000	,6744336	,3239451	,2380955
LAC	-,1125938	,2562059	,6744336	1,0000000	,2413170	,4861694
EAP	,4862680	,2153316	,3239451	,2413170	1,0000000	-,1224346
OECD	-,2326809	,1566218	,2380955	,4861694	-,1224346	1,0000000
LGCONFL	,1413268	,0489727	,2844914	,1505792	,1950733	,0382239

	LGCONFL
IEFOF8	,1910493
TECHREAD	-,2114354
OPENNES	,1085872
POP05	-,0922721
FUELEX	,1998084
DISTEQ	,2382197
MED	,1413268
GULF	,0489727
SSA	,2844914
LAC	,1505792
EAP	,1950733
OECD	,0382239
LGCONFL	1,0000000

Table B.15: 2SLS: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.562	.086		29.650	.000
	TECHREAD	.324	.021	.816	15.315	.000
2	(Constant)	1.514	.311		4.877	.000
	IEFOF8	.024	.006	.492	3.873	.000
	TECHREAD	.186	.040	.490	4.658	.000
3	(Constant)	1.348	.341		3.959	.000
	IEFOF8	.028	.007	.570	3.823	.000
	TECHREAD	.169	.044	.445	3.882	.000
	OPENNES	-.000	.001	-.014	-.181	.857
	POP05	.000	.000	.075	1.050	.297
4	(Constant)	.925	.408		2.266	.026
	IEFOF8	.035	.008	.716	4.143	.000
	TECHREAD	.135	.050	.351	2.704	.009
	OPENNES	.000	.001	.021	.260	.795
	POP05	.000	.000	.117	1.483	.142
	FUELEX	.004	.001	.200	2.550	.013
5	(Constant)	1.473	.380		3.876	.000
	IEFOF8	.022	.008	.460	2.795	.007
	TECHREAD	.161	.042	.421	3.850	.000
	OPENNES	-6.601E-05	.001	-.006	-.095	.924
	POP05	.000	.000	.058	.862	.391
	FUELEX	.003	.001	.154	2.338	.022
	DISTEQ	.007	.002	.264	3.436	.001
6	(Constant)	1.699	.451		3.771	.000
	IEFOF8	.018	.009	.370	1.986	.051
	TECHREAD	.171	.043	.454	3.950	.000
	OPENNES	9.363 E-05	.001	.009	.138	.891
	POP05	.000	.000	.042	.624	.535
	FUELEX	.002	.001	.124	1.724	.089
	DISTEQ	.008	.002	.308	3.658	.001
	LGCONFL	.001	.047	.002	.021	.984
7	(Constant)	2.180	.434		5.018	.000
	IEFOF8	.008	.009	.164	.908	.367
	TECHREAD	.211	.041	.558	5.161	.000
	OPENNES	.000	.001	.019	.319	.751
	POP05	2.189 E-05	.000	.007	.116	.908
	FUELEX	.002	.001	.087	1.348	.182
	DISTEQ	.009	-.002	.361	4.433	.000
	LGCONFL	-.010	.043	-.016	-.240	.811
	MED	-.081	.121	-.045	-.669	.506
8	(Constant)	1.309	.898		1.458	.149
	IEFOF8	.026	.019	.529	1.334	.187
	TECHREAD	.149	.087	.389	1.716	.091
	OPENNES	-2.596 E-05	.001	-.002	-.34	.973
	POP05	.000	.000	.071	.723	.472
	FUELEX	.003	.002	.155	1.647	.104
	DISTEQ	.006	.003	.242	2.008	.049
	MED	1.141	1.531	.613	.745	.459
	INTM_TE	-.023	.211	-.048	-.109	.913
	INTM_INT	-.017	.031	-.532	-.563	.575

Table B.16: 2SLS: Coefficients, continued

9	(Constant)	4.062	1.251		3.248	.002
	IEFOF8	-.031	.026	-.633	-1.197	.236
	TECHREAD	.374	.109	.991	3.433	.001
	OPENNES	.000	.001	.040	.515	.609
	POP05	-.000	.000	-.121	-1.073	.287
	FUELEX	-.002	.003	-.121	-.853	.397
	DISTEQ	.014	.004	.532	3.526	.001
	MED	-.142	1.592	-.078	-.089	.929
	LGCONFL	-.083	.066	-.132	-1.262	.211
	INTM_TE	-.501	.279	-1.075	-1.795	.077
	INTM_INT	.030	.034	.939	.870	.387
10	(Constant)	1.173	.811		1.447	.152
	IEFOF8	.029	.017	.593	1.657	.102
	TECHREAD	.135	.077	.352	1.750	.084
	OPENNES	-.000	.001	-.015	-.203	.840
	POP05	.000	.000	.083	.890	.377
	FUELEX	.003	.001	.168	2.095	.040
	DISTEQ	.006	.003	.230	1.989	.051
	MED	.091	.194	.049	.468	.641
11	(Constant)	3.771	1.021		3.692	.000
	IEFOF8	-.025	.021	-.510	-1.181	.242
	TECHREAD	.350	.090	.926	3.896	.000
	OPENNES	.000	.001	.046	.638	.526
	POP05	-.000	.000	-.098	-1.024	.310
	FUELEX	-.002	.002	-.090	-.759	450
	DISTEQ	.013	.003	.497	3.976	.000
	MED	1.228	.729	.678	1.685	.097
	LGCONFL	-.080	.061	-.126	-1.313	.194
	INTM_ME	-.403	.212	-.865	-1.905	.061
12	(Constant)	2.340	.437		5.353	.000
	IEFOF8	.010	.009	.196	1.027	.308
	TECHREAD	.163	.047	.426	3.470	.001
	OPENNES	9.652 E-05	.001	.009	.133	.894
	POP05	8,074 E-06	.000	.003	.043	.966
	FUELEX	.002	.001	.084	1.323	.191
	DISTEQ	.006	.003	.213	1.971	.053
	MED	.432	1.172	.232	.369	.713
	INTM_TE	-.093	.147	-.194	-.632	.530
	INTM_INT	-.002	.022	-.060	-.088	.930
	GULF	.212	.225	.052	.942	.350
	SSA	-.251	.121	-.167	-2.080	.042
	LAC	.036	.101	.030	.351	.727
	EAP	.037	.126	.024	.290	.773
	OECD	.197	.082	.200	2.410	.019
13	(Constant)	2.274	.413		5.508	.000
	IEFOF8	.011	.009	.230	1.281	.205
	TECHREAD	.153	.043	.398	3.517	.001
	OPENNES	3.290 E-05	.001	.003	.045	.964
	POP05	2.061 E-05	.000	.007	.110	.913
	FUELEX	.002	.001	.100	1.727	.089
	DISTEQ	.005	.003	.209	1.944	.056
	MED	-.020	.124	-.010	-.157	.876
	GULF	.206	.224	.051	.920	.361
	SSA	-.254	.121	-.169	-2.103	.039
	LAC	.034	.101	.029	.340	.735
	EAP	.046	.125	.031	.371	.712
	OECD	.201	.082	.205	2.470	.016

Appendix C

Interview Partners

All interviews were unstructured and often had the character of private conversation. The duration was not fixed and varied between 10 and 90 minutes per partner. The content of the interviews were documented in form of short protocols. The interviews are considered a valuable complementary source of information rather than the research objective.

Table C.1: List of Interview Partners

Name, first name, title	Function	Affiliation	Date
Aarts, Paul W. H.	Lecturer in International Relations	Universiteit van Amsterdam - Faculty of Social and Behavioural Sciences - Political Sciences, Amsterdam, The Netherlands	March 07
Abdel Haleem, Muhammad, Prof.	Director of the Centre of Islamic Studies (CIS)	Centre of Islamic Studies (CIS), School of Oriental and African Studies, University of London, London, UK	June 06
Abdel Jaber, Tayseer, Dr.	Chairman	Jordan Development Center, Amman, Jordan	June 06
AL-Mekaimi, Haila, Ph.D.	Assistant Professor of Political Sciences, Head of Euro-Gulf Research Unit	College of Social Sciences - University of Kuwait, Kaifan, Kuwait	March 07
Alsheikh, Hend M., Dr.	Programs Director	Institute of Public Administration - Riyadh, Saudi-Arabia	March 07
Al-Soudi, Abdel Mahdi, Dr.	Ph.D. Sociology Department	Jordan University, Amman, Jordan	June 06
Baabood, Abdulla S.	Co-ordinator of the Cambridge Arab Media Project of the Centre of Middle Eastern and Islamic Studies	University of Cambridge, Cambridge, UK	March 07
Bin Talal, Hassan, H.M.	Prince of Jordan	Majlis El Hassan, Royal Palace, Amman, Jordan	June 06
Edwards, Geoffrey, Dr.	Reader in European Studies	University of Cambridge - Centre of International Studies, Cambridge, UK	March 07
Khalil, Amjad	Associate Professor - Biotechnology	King Fahd University of Petroleum and Minerals, Dharan, Saudi-Arabia	June 06
Koch, Christian, Dr.	Director of International Studies	Gulf Research Center, Dubai, UAE	March 07

Table C.2: List of Interview Partners, continued

Name, first name, title	Function	Affiliation	Date
Kuitunen, Jorma, Ph.D.	Director of Operations	Fida International - Partnering Jordan for Development, Amman, Jordan	June 06
Maestri, Elena, Dr.	Senior Researcher	Università Cattolica del Sacro Cuore - Dipartimento di Scienze Politiche - Milano, Italia	March 07
Marktanner, Markus, Ph.D.	Assistant Professor, Department of Economics	American University of Beirut, Beirut, Lebanon	June 06
McNulty, Shannon	Student Development Specialist	Texas A&M University at Qatar, Doha, Qatar	March 07
Mina, Wasseem Michel, Ph.D.	Assistant Professor - Department of Economics	United Arab Emirates University - College of Business & Economics, Al Ain, UAE	March 07
Nonnemann, Gerd, Prof.	Professor of International Relations & Middle East Politics	Lancaster University - Department of Politics & International Relations, Lancaster, UK	March 07
Rizzo, Helen, Ph.D.	Assistant Professor - Sociology Department	The American University in Cairo, Cairo, Egypt	June 06
Salamé, Ghassan, Prof.	Research Director CNRS/CERI	Science Po Paris - Centre d'études et de recherches internationales, Paris, France	March 07
Salem, Ahmad, Prof.	President	University of Petra, Petra, Jordan	June 06
Solanilla, Paul	Program Deputy Director	European Institute of the Mediterranean, Barcelona, Spain	June 06
Touq, Muhyieddeen	President	Jordan Institute of Diplomacy, Amman, Jordan	June 06

Appendix D

Curriculum Vitae

JULIANE BRACH

Geboren am 17. Dezember 1975 in Braunschweig, verheiratet mit Dr. Björn Steiniger-Brach, ein Sohn (Lorenz, geb. 26.9.2003)

SCHULE

1995	**Abitur**: Theodor-Heuss-Gymnasium, Göttingen *Prüfungsfächer*: Mathematik, Englisch, Gemeinschaftskunde, Deutsch
1995/96	Freiwilliges Soziales Jahr, Jaunde, Kamerun

STUDIUM

1996-2002	Internationale Volkswirtschaftslehre, *Schwerpunkt*: Vorderer Orient, Eberhard-Karls-Universität Tübingen
1999/2000	Auslandssemester, Damaskus, Syrien
2002	**Diplom-Volkswirtin**: Universität Tübingen *Prüfungsfächer*: Wirtschaftstheorie, Wirtschaftspolitik, Planung und Organisation, Politikwissenschaft, Arabisch
2002/2003	Post-Graduierten Ausbildung: Graduiertenkolleg, Wirtschaftswissenschaftliche Fakultät, Universität Tübingen *Schwerpunkt*: Ökonomische Modellierung, Ökonometrie
2004	Elternzeit

PROMOTION

2005/2006	Forschungsaufenthalt, Ökonomisches Institut, Universität Kopenhagen, Dänemark
2006-2008	**Doktorarbeit**: GIGA German Institute of Global and Area Studies, Hamburg

BERUFLICHER WERDEGANG

1997-2001	Wissenschaftliche Hilfskraft, Institut für angewandte Wirtschaftsforschung (IAW), Tübingen
2001/2002	Werkstudentin, DaimlerChrysler, Foreign Affairs and Public Policy, Middle East, Stuttgart
2002-2005	DFG Stipendiatin
seit Okt. 2007	Wissenschaftliche Mitarbeiterin am GIGA Institut für Nahost-Studien (IMES)