



## The Political Economy of Governance in the Euro-Mediterranean Partnership

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New Challenges: Domestic Reform

### **Overview & Discussion of Impacts of Domestic Reforms in Mediterranean Partner Countries of the European Union**

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# Contents

1. Abstract .....	3
2. Executive Summary .....	4
3. Introduction .....	5
4. Literature Review .....	6
5. Data & Methods of Impact Assessment.....	11
6. Impacts of Reforms .....	14
7. Discussion of results.....	29
8. Perspectives & Recommendations for MPCs and MENA.....	33
9. Conclusion.....	35
10. References .....	36

# 1. Abstract

Reforms are considered under economic, social and political headings. The period of study covers the last 10 to 15 years. Reforms are considered to be changes taking place in economic, social and political components in a given economy. Economic reforms are mainly related to moves from heavy government intervention towards the promotion of market driven economies and free trade. Social reforms consider the promotion of access to effective education, health and knowledge with poverty reduction that accompany the overall social changes. Political reforms are the changes to economies where democratic processes operate at all levels and where human rights are well implemented with a special focus on the increasing roles of women in the economy and politics. This report has attempted to provide answer to the following questions:

How to measure reforms? The implications of the changes that took place in the above three components are captured through series of variables and composite indices. Changes are assumed to be related to the yearly movements in these variables and indices. Most of the indices used are issued by international organizations and are applied using the same framework to the data of each country.

Which reforms are the most crucial for economic growth: This is achieved through an analysis where the most critical sectors are discussed with attempts to link different variables and indices related to economic, social and political components. It is clear though from earlier studies, that there are significant relationships between variables and indices. What is also clear is that reforms in the three components could lead to higher sustainable growth and that growth related to only one of the components may not be relatively that high. As discussed elsewhere liberalization may not lead to sustainable growth if not coupled with openness also to democracy and freedom. The central role of gender, health care and education are important findings in this report.

Impacts of domestic reforms in MPCs and MENA: There are overall impacts that show good economic impacts but social and political effects are limited.

Perspectives & Recommendations: Further reforms are needed but are required to be more integrated and focusing on gender, health and education. Research in social sciences may need to benefit from larger attention in order to satisfy the needs of these reforms.

## **2. Executive Summary**

The objective of this report is to analyze the impact of the domestic reforms that have been undertaken by the Mediterranean Partner Countries (MPCs) and the Middle Eastern and North African countries (MENA) during the period 1995-2005. In the context of this report, reforms include economic, political and social changes that have been carried out in these countries during the above study period. This is to allow for the identification of areas where further reforms are needed as the strengthening of the economies around the Mediterranean area requires continuous investigations that look at different sides of the reforms undertaken. Such research is devoted to ensuring that these economies are responsive to the challenges of development and partnerships with the rest of the world and especially the European Union.

The methods pursued in the assessment of the impacts of reforms are simple descriptive statistics, trend determination and regression analysis with most of the time cross-section and yearly data on international indices that cover economic, political and social reforms and effects.

The results obtained show globally and for the entire region that political and social indicators have not been significantly and positively changed but economic indices have captured minor positive effects. But this overall result exhibits major variations by country. Economies that are non oil-producing and non oil-exporting have been suffering more during the study period while oil exporters have had only political and governance deficiencies. Globally and at the level of each country, gender, health and education have appeared to constitute major deficits. Furthermore, high interdependencies between economic, social and political indices have been shown over the period 1995-2005. This implies that MPCs and MENA countries could benefit from important sources of development under further integrated policies and reforms.

This implies that the reforms undertaken before and during the study period have not contributed to the reduction of the pressure of social issues. As gender, health and education are concerned, the future development of these economies is at risk and more emphasis needs to be placed on reforms that can lead to the improvement of the livelihoods of current and future generations. In this context, the partnership between MPCs and MENA countries with EU is central. Domestic economic, social and political reforms can be accelerated in their implementation so that they can benefit from the partnership and from the positive outcomes of these reforms. The reduction of all types of inertia that negatively affect the promotion of reforms and of their implementation is a necessity in these countries. More competitive and transparent markets and institutional systems are likely to create conditions for the

transformation of situations of rents besides the mobilization and inclusion of more players into the economy and society. Women should be recognized to be major actors in the process. Further directions for future generations of reforms are also discussed at the end of this report.

### **3. Introduction**

This report is devoted to showing the likely impacts of economic, political and social reforms that have been undertaken in South-Mediterranean countries that are engaged in partnership with the European Union (MPCs: Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, the Palestinian Territories, Syria, Israel, Malta, Cyprus and Turkey) during the last 15 years but mostly over the 1995-2006 period. But, given the interferences between the MPCs, the MENA region and the Arab countries, discussions and analyzes are sometimes expanded to countries that are not included in the MPCs. A similar attitude is also related to the absence of data on some countries and availability for others under different regional approaches.

The current document shows that during the above period, the MPCs engaged in reforms with intensities varying from one country to the other. These reforms have been of economic, social and political nature. Economic partial reforms have focused mainly on further openness to trade with internal market transformations such as privatization and relative openness of market opportunities to local and foreign investors. Social reforms are mainly oriented towards poverty reduction and further promotion of education, health care and better living conditions. Political reforms have been centred on the development of regular elections and the relative inclusion of non-governmental agencies with the focus on enhancing governance. But there are variations among MPCs with regard to the level of engagement in different components of each category of reform.

The report starts with a literature review that looks at most of the works that have focused on issues related to reforms in this region. The second part of this report describes the data and methods of impact analysis of reforms before tackling the third part that deals with the results of impact assessment. The fourth and fifth parts are devoted respectively to the discussion of the results and to perspectives and recommendations.

## **4. Literature Review**

The MPCs have been traditionally characterized by their limited integration with the world economy, the predominance of the public sector in their economies, and lack of private investment (Mitha, 2007). Besides their closed economies and the substantial state intervention, MPCs face other challenges in different sectors. The MPCs have difficulties coping with urbanization, attracting foreign investment, restoring economic growth, improving the education system, decreasing unemployment rates, building democracy and saving natural resources (Richards, 2001). Starting in the 1980s, the MPCs have experienced many changes that are described below under political, economic and social reforms.

### ***1.1. Political Reforms:***

The political conflicts have been accompanied by economic changes affecting the financial landscape of the region as well as the society as a whole (Poortman, 2006). For instance MPCs governments gradually adopted policies aiming to achieve the “Washington Consensus” of integration with the world economy, macroeconomic stability, and greater participation of the private sector (Page, 2003).

Mitha (2007) draws attention to a critical issue concerning the limited capacity of MENA states in carrying out reforms. Their weak institutions, corrupted systems, lack of transparency, cumbersome regulations, and resistance to change make it difficult for these countries to implement any reforms. Barry Rubin (2002) states that some MENA regimes believe that economic reforms will eliminate state controls which used to enrich the elites. S. Shehata (2004) identifies two stages of political reforms for the MENA region: Reforms that happened in early 1990s and reforms happening in the 21<sup>st</sup> century. He ascribed both reforms to be consequences of “external shock”. Hawthorne (2004) separated the roots of these reforms to external and internal factors. The interpretation of external factors is quite the same as in Shehata. Hawthorne (2004), however, thinks that there is a multitude of other domestic factors that triggered MENA’s eagerness for reform. The reforms have also concerned domestic human right institutions and mechanisms for reducing corruption.

### ***1.2. Economic and Financial Reforms:***

In their evaluation of the economic reforms undertaken by MENA states, Dasgupta et al. (2001) have identified signs of success related to economic stabilization and investments.

According to John Page (2003), although MENA states were successful in restoring macroeconomic stability, their performance with regard to world economy integration and trade policy reforms was poor. Overall, the performance of MENA in structural adjustments was very limited in liberalizing the economy (Bellin, 2004). Ariel (2007) stated that “the reliance on government hiring has caused MENA to be inflexible in the face of downturns in the business-economic cycle”. MENA governments need to support the private sector in creating and sustaining jobs (Nabli, 2004). Moreover, Ariel (2007) suggests that, in their employment reforms, MENA governments need to consider issues like the minimum wage and labour market characteristics.

### ***1.2.1. Trade Liberalization:***

Among the changes introduced in the MENA trade sector, free trade partnerships have been developed and some of them have started to be implemented. These agreements include those with the European Union, with the USA (Morocco, Jordan) and those between Arab countries (Great Free Trade Area, Agadir agreement...). Several studies have been devoted to the issue of multiplicity of agreements. H. Kheir-el-Din (2006), H. Kheir-el-Din and A. Ghoneim (2006), L. Achy and K. Sekkat (2006) and B. Saif and S. Neaime (2005) identified the importance of involving all stakeholders at different stages of these agreements in order to ensure implementation.

In “Economic Development Reports 2006”, the World Bank analyzed the structural reform progress for long term growth. In relation to trade, the report recognizes progress in bilateral and regional agreements. It also shows the changes from high tariffs, non tariff barriers and high cost of logistics to better trading patterns with lower levels of constraints. For oil producing and exporting countries, the authors recognize the importance of reforming further the governance and diversification of the economy. The other countries have engaged in further reforms including a better re-alignment with GATT requirements and development of a larger level of trade agreements.

### ***1.2.2. Monetary reforms:***

By the mid 90s, Tunisia, Algeria and Morocco have widely liberalized interest rates and the financial repression tool, which consisted of giving priority to public institutions and priority sectors in loans allocation, was completely discarded. In the same period, Egypt followed a similar restructuring scheme though the transition turned out to be more problematic. The Jordanian financial sector has successfully gone through a smooth transition from a direct to

an indirect monetary control paradigm starting from the early 90s as well. Jordan also passed a Public Debt Law in 2001 that “bars any new direct credit facilities to the government and calls for the gradual repayment of outstanding credit”. Concerning the Cooperation Council of the Gulf (GCC), various initiatives have been taken towards the liberalization of the interest rates and the removal of credit ceilings, yet direct monetary control instruments continue to be applied. In Oman, a variety of lending and deposit interest rates were liberalized starting from 1993 and subsequent to the new banking law in 2000 the Central Bank managed to control liquidity through the issuing of certificates of deposits. Kuwait and Qatar delayed similar reforms to the mid 90s. In Yemen, the adoption of market-based monetary instruments was initiated shortly after the unification of Southern and Northern Yemen. Finally, countries such as Syria, Libya, and Iran continue to rely extensively on direct intervention instruments.

### ***1.2.3. Exchange rate reforms:***

The MPCs countries are currently adopting extremely diverse exchange rate regimes ranging from fixed, pegged, and floating. Egypt is probably the country that has revised its exchange rate regime the most frequently (pegged, abandoned the peg and adopted an adjustable currency band) to finally adopt a managed float in 2003. In the mid 1990s both Lebanon and Jordan pegged their currencies to the dollar. Morocco, which for a long time adopted a currency peg to a basket of currency, has adjusted this basket in 2001 as it became necessary to give more weight to the euro in that period. By 2003, all of the GCC countries have pegged their currencies to the dollar and are currently planning for a monetary union by 2010 leading to the adoption of a single currency.

### ***1.2.4. Privatization and Financial liberalization:***

Most MPCs engaged in privatization programs with the progressive reduction of the role of the public sector in some productive sectors of the economy. Egypt and Morocco led this process that started in the 1990s with a larger diversified portfolio for Morocco (Kikeri & Nells, 2002). A series of public monopolies were reformed with partial or total involvement of the private sector (Nells, 2006).

The new Algerian Law of Money and Credit in 1990 has set the grounds for the entry of both private and foreign players and by 2003 the Algerian banking sector comprised 12 foreign-owned banks. Since the late 1980s Tunisia has sought to open its banks’ capital to foreign participation and allowed foreign banks to open branches and operate onshore. Lebanon is

tackling a different type of problem, being the existence of as many as 63 banks and hence the sharp parcelling out of market share which encourages fusions. The current decade has witnessed the nascent opening of the Syrian financial sector initiated in 2001 through the Law no. 28 which sets the ground for the reforms and ends the monopoly of the State over the sector.

#### ***1.2.5. Foreign direct investment:***

Morocco adopted the Investment Charter in 1995 as a national initiative to enhance the country's attractiveness to foreign investments, in addition to the establishment of a network of 16 Centres for Regional Investment in 2002. In Algeria, the investment code was revised in 2001 and resulted in the recognition of the freedom of foreign and domestic investors to invest in any economic activity and the abolishment of ownership restrictions. In Tunisia, the investment incentive code entered in force in 1994. The new code offers an array of legal and fiscal advantages to investors in a number of pre-defined regions known as Regional Priority Development Zones. In Egypt, investments are regulated by the Investment Guarantees and Incentives Law promulgated in 1997 as well as a number of other bylaws issued in 2000, 2002, and 2004. Foreign investments in Jordan are regulated and promoted by the Jordan Investment Board which offers incentives. Lebanon is adopting the A, B, C classification of investment areas and designs fiscal incentives accordingly. In Libya, the lifting of the international sanctions in 2003 was a starting point for the openness of the Libyan economy to foreign capital. In Syria, the economic opening era can be traced back to the early 90s and probably reached its peak in 2006 with the promulgation of the new Investment Law.

#### ***1.3. Social Reforms:***

After the oil crisis many countries in the region were unable to maintain their welfare system which contributed to "crisis of legitimacy" in the region (A. Richards, 2001). As T. Dolorez (1996) explains, "Social reforms are sometimes unexpected gifts that the state gives civil groups to re-establish political legitimacy". Gender equality is one of the social challenges that cannot be ignored anymore in today's reform movements of MPCs. Although some MENA countries started to work more seriously on improving women's rights, there are still many other countries where gender differences remain persistent (MENA Development Report, 2004). Morocco is one of the MPCs that introduced a reform in favour of women rights in family matters (Alterman et al, 2006).

#### ***1.4. Education system reforms:***

All available reports show that most MPCs invest a higher proportion of their gross domestic product in education than other regions in the world. However, the region still faces the challenges of developing performance, quality and a closer relationship with market needs.

According to AHDR (2002), “the number of illiterate people is still increasing to the extent that Arab countries embark upon the twenty-first century burdened by over 60 million illiterate adults, the majority of whom are women”. Females have lower access to education in most countries of the Arab world but there are some exceptions in certain regions (Jordan, Lebanon, Palestine, and oil-producing countries).

Besides, education systems in Arab countries face a very serious problem of declining quality because of weak education policies, poor working conditions for instructors, and inadequate educational methodologies (AHDR, 2002 & 2003). The incompatibility of the education system and the local job market in Arab states has led to decreased productivity, increased unemployment, and distorted wage structures.

In order to improve their education systems, Arab countries need to focus on three areas: enhancing human capabilities, building strong synergy between education and the socio-economic system, and creating a program for education reform at the pan-Arab level (AHDR, 2002).

#### ***1.5. The Situation of Health:***

According to AHDR (2004), there are three basic human entitlements: “to lead a long healthy lifestyle, to acquire knowledge, and to have access to resources needed for a decent standard of living”. Health is among the major deficits the region suffers from (AHDR, 2002). There are remarkable disparities in health care access within countries depending on citizens’ location. The lack of resources and the lack of transportation impede health care development in rural areas. Illiteracy and culture prevent rural citizens from accessing health care facilities (AHDR, 2002).

Regarding life expectancy at birth, “the difference between the two sexes is 2.5 years or less in around two thirds of the countries; for the remainder, the difference is between 3 and 3.5 years”. The low difference in life expectancy between genders in the region can be explained by the high maternal mortality rates (AHDR, 2002). In addition, the years of life lost to

disease in these countries are higher than the average international standard, for comparable countries (AHDR, 2002).

### ***1.6. The problems of unemployment and poverty:***

Another major deficit facing the Arab world is *unemployment*. “Most countries suffer from double-digit unemployment”; mainly because of the slow or negative growth experienced by Arab countries (AHDR, 2002). Unemployment rates exceeded 25% in most Arab states. Fifty million jobs need to be created to keep unemployment at its current level in the Arab world and 70 million jobs are needed to eradicate unemployment (AHDR, 2004). In general, women in the Arab region do not have the same job opportunities, job conditions, and wages as men. Economic participation of Arab women is still the lowest in the world (AHDR, 2005).

The last deficit that will be tackled in this paper concerns *poverty*. Most Middle Eastern countries and Latin American countries experienced a situation of quasi-stagnation that reflects deterioration in the average standard of living in Arab countries compared to the rest of the world (HDR, 2005). Although the region is considered to have one of the lowest poverty rates in the world, it has one of the lowest drops in the percentage of extremely poor people (HDR, 2002). An increase in poverty and inequality in income distribution exists in the region (AHDR, 2003).

Overall, the Arab world lags behind in many indicators but has shown significant progress in many sectors. Arab countries made the fastest progress in health and education: “Since the early 1970s life expectancy at birth has improved by 14 years and the infant mortality rate by 85 per 1,000 live births, and since 1985 the adult literacy rate has risen by 15 percentage points—faster progress than in any other region” (HDR, 2001).

## **5. Data & Methods of Impact Assessment**

As a follow-up to the methods discussed in the literature review, this study considers a series of indices that have been developed internationally to capture economic, social and political matters. The methods used in this study are empirical and mainly based on secondary data covering the last 10 to 15 years. The first part of this section is devoted to the introduction of some indices that are extensively used in this analysis while the second part focuses on the rationale underlying the overall methodology.

## ***II. 1. Description of Databases***

The databases comprise three main axes: political, social and economic indicators and variables. Each axis includes data from major indices, surveys, rates, ratios, percentages, and total amounts from various sources. The World Bank Indicators, Human Development Reports, the Governance Indicators, the Organization of Petroleum Exporting Countries (OPEC), the International Labour Organization (ILO) Statistics, the World Health Organization (WHO) Statistical Information System, the Heritage Foundation, the Environmental Performance Centres, Transparency International (TI), and the Reporters Without Borders (RWB) are the sources of the different indicators used for elaborating the databases.

## ***II. 2. Indices and Variables:***

The database used covers a range of 216 countries. This set of countries is classified geographically and according to oil exporters. The geographical cluster includes all countries in the sample, developing countries, developed countries, the European Union and the Middle East, and North Africa including MPCs. The second group includes the major oil net exporting countries. The range of years that is used is from 1995 to 2005. For those indicators that lack continuity in terms of countries and years, they are considered null and are not included.

The *socio-economic indicators* consist of the following groups of indices: the balance of payments components in current US\$ (Net trade in goods and services and workers' remittances), some economic parameters such as GDP per capita PPP, the growth competitiveness index (GCI), the consumer price index (CsPI) and the oil exporting revenues of the OPEC countries/ oil exporters. Demographic indicators include total labour force participation rate, total labour force, urbanization rate, net migration and the number of expatriates. Health-related data comprise total fertility rate, infant mortality rate, maternal mortality and total life expectancy at birth. Some gender-related indicators are also considered in the database such as: female school enrolment in secondary education, female school enrolment in tertiary education and female unemployment. The database also includes the human development index (HDI) and the human poverty indices (HPI1 and HPI2). Various indices from different organizations and divisions take part within the socio-economic

database: the index of economic freedom (IEF), the environmental performance index (EPI) and the knowledge economy index (KEI).

The *political database* holds some major measurements such as the corruption perception index (CPI), governance indicators, and press freedom index (PFI).

### ***II.3. Rationale to the Methodology***

The literature on the evaluation of the impacts of reforms has started with the use of partial equilibrium models with the major welfare aggregates. Structural adjustment policies have largely benefited from these models (Crisp and Kelly, 1999) but with the increase of the number of sectors and variables that have to account for economic, social and political variables, new models have been introduced. They are all empirical models using both descriptive statistics and regression analyzes. The introduction of composite indices has given more sense to the aggregation of several quantitative and qualitative dimensions of development. This approach has been used recently (Miroudot et al, 2007) for panel data using a composite index that includes information on competitive law and policy, investment and trade.

The methods used for the analysis of the above data include mainly trend determination and regression. This assumes that reforms have induced changes in different indices and variables and that these changes are captured through the determination of time trends. Regression analysis assumes also that the direction of the relationships among indices and variables are likely to be affected by economic, social and political reforms.

When using data about different indices measuring different levels of changes in different variables, it is difficult to relate it to a specific reform or particular change in policy. The observed change could be also due to non-adoption of reforms relative to other countries that undertook changes. Otherwise, the current economic, political and social situations are likely to be the result also of any reforms undertaken before. This is why the current trends expressed by different indices can be good representations of the impacts of reforms.

## 6. Impacts of Reforms

This section of the report introduces the outcomes of the analysis. It is composed of three parts that deal respectively with: the overall results, the major critical sectors and the variations of these results between countries.

### III. 1. Overall impacts:

During the period considered in this analysis, the MENA region has shown stagnant to enhanced economic performance with population pressure expressed by both higher fertility rate and high demographic mobility as major challenges.

#### Trends of some economic indicators

Countries	Consumer Price Index annual trends (1995 - 2006)	Growth Competitiveness Index trends (2002 - 2006)	GDP per Capita PPP trends (1995 - 2005)	Net trade in goods and services (BoP <sup>1</sup> , current Billion US\$) trends (1995- 2005)	Workers' remittances, receipts (BoP, current Billion US\$) trends (1995- 2005)
Algeria	0.16	0.00	233.42	-	-
Cyprus	0.00	-0.03	898.45	0.00	0.02
Egypt	0.00	0.00	164.64	-	-
Israel	-0.15	0.00	533.96	0.67	-
Jordan	0.12	0.00	133.86	-0.15	0.08
Lebanon	0.00	-	223.91	0.00	1.32
Malta	-0.2	0.00	592.56	0	0
Morocco	-0.11	0.00	138.78	0.00	0.24
Syria	0.00	-	78.4	0.00	-
Tunisia	0.00	0.00	344.66	-0.04	0.08
Turkey	0.00	0.19	246.48	0.00	-0.37
<b>MPCs</b>	<b>0.00</b>	<b>0.00</b>	<b>265.50</b>	<b>0.00</b>	<b>0.00</b>
<b>MENA<sup>2</sup></b>	<b>-0.21</b>	<b>0.00</b>	<b>0.00</b>	<b>1.90</b>	<b>0.08</b>
<b>EU</b>	<b>-0.05</b>	<b>0.00</b>	<b>1027.69</b>	<b>0.00</b>	<b>0.00</b>
<b>Developed Countries</b>	<b>0.00</b>	<b>0.00</b>	<b>851.02</b>	<b>-1.59</b>	<b>0.06</b>
<b>Developing Countries</b>	<b>0.00</b>	<b>0.00</b>	<b>132.04</b>	<b>0.80</b>	<b>0.06</b>
<b>All Countries</b>	<b>-0.16</b>	<b>-0.08</b>	<b>296.9</b>	<b>-0.28</b>	<b>0.07</b>

Sources: GDP per Capita and balance components are retrieved from the World Development Indicators database, World Bank. The Growth Competitiveness Index is published by the World Economic Forum.

This table shows that MPCs have had stable consumer price between 1995 and 2006. The Growth Competitiveness Index shows a stagnation over the period while GDP per capita, exhibits a significant positive trend. All the other variables are stationary over the period. When observing MENA, the consumer price has been decreasing with increases in net trade and workers' remittances.

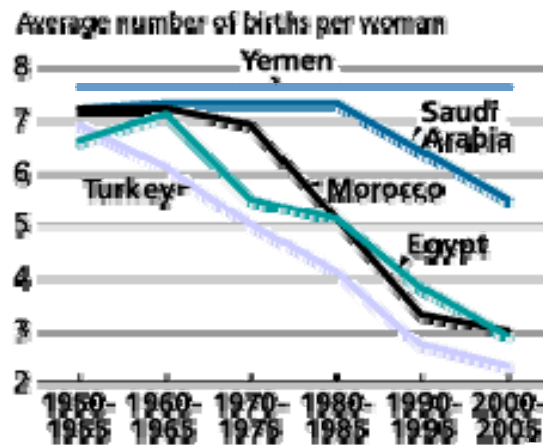
<sup>1</sup> BoP: Balance of Payment component

<sup>2</sup> MENA countries include Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

But, most of the challenges are related to the pressure of demographics. The higher fertility rate in comparison with other countries is the main source of pressure on food supplies, shelter and living conditions besides the demand for education, health care requirements and the need for higher levels of employment and income.

While declines in fertility rates have been observed earlier in Turkey with continuous annual decreases (from 7 to 2 in 50 years), Yemen (with a constant rate of 7.5) and Saudi Arabia (constant rate of 7.2 with a decrease started in the 1980's to attain 5.5 in 2000-2005) have been exhibiting the highest fertility rate in the region. An intermediate pattern has been taking place in Morocco and Egypt. These two countries moved from 7 to 3 in 40 years. These trends are shown in the following figure.

### Total Fertility Rates



Source: United Nations, *World Population Prospects: The 2000 Revision* (New York: United Nations, 2001)

The higher mobility of the population in the region both inside and outside is related to economic factors but also to the existence of insecurity due to political and military conflicts.

## Net Migration (in 10000)

Countries	Net Migration (in 10000)		
	1995	2000	2005
Algeria	-5.00	-14.00	-14.00
Bahrain	2.45	1.65	1.90
Cyprus	1.59	2.89	2.89
Egypt	-60.00	-55.00	-52.50
Israel	48.45	27.63	11.50
Jordan	50.95	-14.00	13.00
Kuwait	-59.79	31.76	26.43
Lebanon	23.00	-	-
Libya	1.00	1.00	1.00
Malta	0.53	0.25	0.90
Morocco	-45.00	-50.00	-55.00
Oman	2.25	-7.00	-15.00
Qatar	1.41	4.31	12.57
Saudi Arabia	-50.00	7.00	28.50
Syria	-7.00	-13.00	20.00
Tunisia	-2.20	-1.76	-2.90
Turkey	10.93	9.96	-3.00
United Arab Emirates	34.00	57.20	57.70
West Bank/ Gaza	0.10	-	1.07
Yemen	65.00	-10.00	-10.00
<b>MPCs</b>	<b>1.36</b>	<b>-10.70</b>	<b>-7.09</b>
<b>MENA</b>	<b>-7.56</b>	<b>-4.02</b>	<b>-8.19</b>
<b>EU</b>	<b>16.30</b>	<b>13.11</b>	<b>29.08</b>
<b>Developing Countries</b>	<b>-11.41</b>	<b>-12.34</b>	<b>-15.53</b>

Source: World Development Indicators, World Bank

The external annual flows show on average that Algeria, Syria, Yemen, Egypt, Jordan, the Palestinian Authority, Tunisia, Morocco and Lebanon are countries of emigration while Bahrain, Israel, Kuwait, Oman, Qatar, Saudi Arabia and Libya are economies that receive emigrants. Data representing net migration in the MENA countries in 1995, 2000 and 2005 do probably confirm the above trends.

These trends in migration can be related to resource availability in each of these countries.

This helps to categorize three types of countries in the region of study, based on labour and resources. These three categories are introduced below:

	Abundant Resources	Poor Resources
<b>Excess of labour</b>	Algeria, Syria and Yemen	Egypt, Jordan, Palestinian Authority, Tunisia, Morocco and Lebanon
<b>Labour deficit</b>	Bahrain, Israel, Kuwait, Oman, Qatar, Saudi Arabia and UAE and Libya	

The internal demographic flows from rural areas are the main sources of the high level of urbanization attained by some countries (Kuwait, Emirates and Qatar). Rural migration

explains also the urbanization rates attained by North African countries. The following table shows the importance of the level of urbanization attained by MPCs and MENA countries.

### Urbanization rate

Countries	1995	2000	2005
Algeria	0.56	0.60	0.63
Bahrain	0.92	0.95	0.96
Cyprus	0.68	0.69	0.69
Egypt	0.43	0.42	0.43
Israel	0.91	0.91	0.92
Jordan	0.78	0.80	0.82
Kuwait	0.98	0.98	0.98
Lebanon	0.85	0.86	0.87
Libya	0.81	0.83	0.85
Malta	0.91	0.93	0.95
Morocco	0.52	0.55	0.59
Oman	0.72	0.72	0.71
Qatar	0.94	0.95	0.95
Saudi Arabia	0.79	0.80	0.81
Syria	0.50	0.50	0.51
Tunisia	0.62	0.63	0.65
Turkey	0.62	0.65	0.67
United Arab Emirates	0.78	0.77	0.77
West Bank/ Gaza	0.70	0.72	0.72
Yemen	0.24	0.25	0.27
<b>MPCs</b>	<b>0.55</b>	<b>0.57</b>	<b>0.59</b>
<b>MENA</b>	<b>0.57</b>	<b>0.60</b>	<b>0.62</b>
<b>EU</b>	<b>0.72</b>	<b>0.73</b>	<b>0.73</b>
<b>Developed Countries</b>	<b>0.73</b>	<b>0.74</b>	<b>0.75</b>
<b>Developing Countries</b>	<b>0.37</b>	<b>0.39</b>	<b>0.42</b>

Source: WDI database, World Bank (Total labour force divided by the total population)

Some of the countries are almost totally urban with more than 95% of the population living in cities (such as Kuwait, Bahrain, Malta, Qatar and Israel). Others such as Saudi Arabia, United Arab Emirates, Oman, Libya, Lebanon and Jordan have a rural population representing less than 20% of total while the remaining countries (Morocco, Tunisia, Algeria, Cyprus and Turkey) have between 40 and 50% urban population. Yemen is the only exception with a very low level of urbanization that is around 27%. The figures in the table above are 0-1 scaled with highest numbers equivalent to higher urbanization rate.

Rapid urbanization with limited infrastructure and with the absence of basic requirements for life has also contributed to the acceleration of urban congestion where higher costs and higher efforts for accessing goods, services and facilities face all the residents. The high costs of access are critical and are at the origin of the exclusion of the poorest segments of the

population. These are also leading to higher levels of urban congestion and degradation of living conditions in the cities concerned.

With reduced and highly variable agricultural results, emigration from rural areas has been sustained and has contributed to the acceleration of the urbanization process (Algeria, Morocco, Tunisia, Libya, Jordan, Yemen and Egypt). This type of migration can be seen as motivated by the high agricultural variability, low agricultural performances achieved, the insecurities faced in rural areas, the attractive role of urban agglomerations (provision of higher security and better life) and monetary and wage-centred reasons.

Old and traditional cities with central “medinas” (Damas, Cairo, Algiers, Tunis, Tripoli, Sanaa, Fes, Marrakesh and others) besides some modern cities in the MENA region have been progressively surrounded by poor residential areas where new urban arrivals could afford relatively low levels of rents (Driouchi, 2005). “Medinas” have also shown relatively lower rents and thus attracted also lower-income residents. In addition, scattered new rural-urban villages without access to basic infrastructure and utilities have developed in the neighbourhood of large cities. The living conditions of large segments of the population in the MENA cities and their neighbourhoods besides the conditions prevailing in rural areas have generated poverty, lack of education, maintaining of illiteracy, difficulty of access to health and to the basic needs.

As predicted by some economic models (Driouchi, 2007; Soto & Litan, 2001), a large number of countries in the MENA region have developed and accelerated the expansion of informal production and businesses, informal consumption besides informal trading practices. Changes in demographics besides the spatial dynamics that have been shaping the major economic, social and political trends in most countries of the region have been also responsible for the expansion of corruption, the promotion of economic informalities (Soto & Litan, 2001) but more importantly, the explosion of social and political networks that are completely outside the formal economy and society.

The effects of explicit exclusion, of informalities, of the high rate of potential emigrants and of the political attitudes that are developing in the MENA can be further related to the lower level of the social performance, the level of poverty, the level of corruption, openness of the economy as respectively represented by HDI, HPI, IEF and CPI. The corresponding trends through the period of study exhibit low levels of yearly improvements in the following table.

### Averages and Trends of HDI, HPI, IEF and CPI

Countries	HDI (1995- 2004)		HPI (1997- 2004)		IEF (1995- 2006)		CPI (1995- 2006)	
	Average	Trend	Average	Trend	Average	Trend	Average	Trend
Algeria	0.7	0.028	24.57	-3.65	54.75	0.00	2.8	0.16
Bahrain	0.84	0.016	9.8	-	78.03	-0.72	5.85	-0.12
Cyprus	0.89	0.018	-	-	70.35	0.85	5.70	0.00
Egypt	0.66	0.045	28.07	-6.50	52.71	0.00	3.23	0.00
Israel	0.91	0.019	-	-	63.93	0.00	6.97	-0.15
Jordan	0.74	0.025	8.53	-1.10	63.97	0.00	4.89	0.12
Kuwait	0.84	0.029	-	-	62.65	0.00	4.85	0.00
Lebanon	0.75	0.023	10.27	-0.85	58.16	-0.7	3.10	0.00
Libya	0.80	-	16.3	-	29.54	0.62	2.45	0.18
Malta	0.87	0.000	-	-	60.76	1.22	6.60	-0.2
Morocco	0.61	0.030	36.13	-2.90	60.49	-0.87	3.64	-0.11
Oman	0.78	0.035	27.9	-	62.66	0.00	6.03	0.00
Qatar	0.84	-	7.9	-	59.19	0.00	5.68	0.00
Saudi Arabia	0.76	0.018	16.9	-4.30	59.58	0.00	3.65	-0.36
Syria	0.69	0.022	17.93	-2.85	41.18	0	3.28	0.00
Tunisia	0.73	0.030	21.3	0.00	61.42	-0.66	4.97	0.00
Turkey	0.74	0.022	13.07	-3.45	58.86	-1.05	3.5	0.00
United Arab Emirates	0.83	0.010	16.8	-	71.22	-1.50	5.93	0.31
West Bank/Gaza	-	-	6.5	-	-	-	2.70	0.00
Yemen	0.47	0.027	43.87	-	45.68	0.00	2.58	0.00
<b>MPCs</b>	<b>0.75</b>	<b>0.025</b>	<b>19.6</b>	<b>-3.56</b>	<b>58.82</b>	<b>0.00</b>	<b>4.53</b>	<b>0.00</b>
<b>MENA</b>	<b>0.72</b>	<b>0.028</b>	<b>22.04</b>	<b>-2.46</b>	<b>55.47</b>	<b>0.15</b>	<b>4.64</b>	<b>-0.12</b>
<b>EU</b>	<b>0.88</b>	<b>0.000</b>	<b>11.43</b>	<b>0.87</b>	<b>66</b>	<b>0.65</b>	<b>6.47</b>	<b>-0.04</b>
<b>Developing Countries</b>	<b>0.88</b>	<b>0.020</b>	<b>10.76</b>	<b>0.00</b>	<b>68.78</b>	<b>0.27</b>	<b>6.53</b>	<b>0.00</b>
<b>Developed Countries</b>	<b>0.60</b>	<b>0.014</b>	<b>30.85</b>	<b>-0.18</b>	<b>53.43</b>	<b>0.22</b>	<b>2.97</b>	<b>-0.07</b>

Sources: Human Development Reports, Heritage Foundation and Transparency International

### III. 2. The Main Critical Sectors in Relation to Impacts of Reforms:

The main critical sectors are related to gender, education and health care. They are introduced respectively in this section.

#### Gender

The situation of women in these countries, especially under the global deficits in education, in health care and in income in these countries, has been the source of major economic and social issues. In Haub and Cornelius (2001), Table 7 indicates the situation of the health care sector in the MENA (in 2001) in relation to the situation of women.

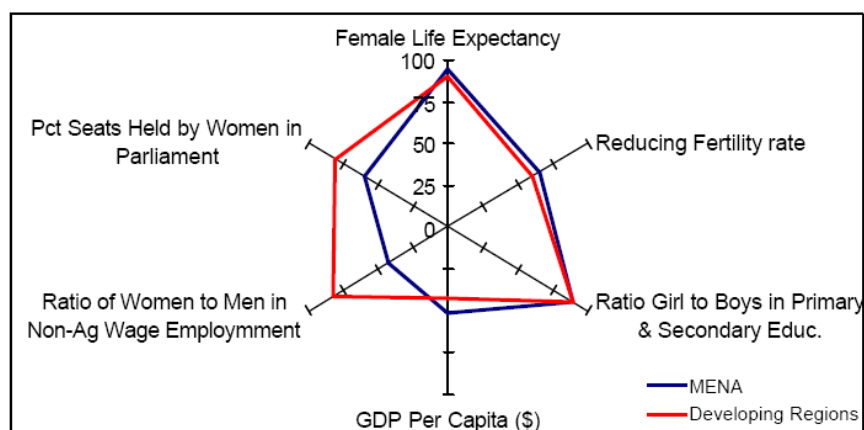
The maternal mortality rate decreased from 631 to 227 for 100000 births between 1972 and 2004 in Morocco. Still, it registered the highest rate of maternal mortality compared with the global rates that approximate 20 deaths per 100000 births (RDH50, 2006). For instance, as reported in Table 7 (Haub & Cornelius, 2001), Tunisia and Jordan have maternal mortality rates of 70 and 41 deaths respectively in 2001. The Infant mortality rate is also high in

Morocco in comparison with the other countries of the region. It moved from 118 to 40 deaths per 1000 live births between 1972 and 2004. In Tunisia and Jordan, the infant mortality rates are 26.2 and 31 infant deaths in 2004 and 2001 respectively (RDH50, 2006).

Female secondary and tertiary enrolments have also a related impact on the current situation of women. Tertiary enrolment is still very low in the majority of the countries studied below with major deficits in Yemen and Morocco between 1999 and 2005 (WB, 2007). The secondary enrolment rates are low in Yemen, Morocco and Syria during the same period. Besides, the unemployment of women which is clear in Algeria, Jordan, Syria and Egypt between 1995 and 2005 affects the gender situation and still leads to discrimination against women.

This overall picture that shows clearly the likely effects of economic, social and political changes that took place before or during the study period may not be complete without observing the central role of gender in the overall development process.

The following figure shows the large differences that still exist between the MENA region and other developing countries in terms of women's participation in parliament and in wages in 2000 (WB, 2000).



Source: World Bank, [http://www.medea.be/files/WB\\_Gender\\_EN.pdf](http://www.medea.be/files/WB_Gender_EN.pdf)

This discrimination is expressed in the low levels of schooling for girls, in high dropout rates and in the general living conditions of females in general. Exclusion is not just from business opportunities as rent economies persist in this region, but also from political and social participation in country development. Females are those that suffer the most from these types of exclusion with the implicit and explicit social costs imposed economically, socially and politically to these countries. Such a situation has pushed internal and external observers of this region to suggest new generations of reforms that emphasize the development of

democracy and of private markets through further economic openness, trade development and reduction of the role of traditional governments.

Some of these reforms have been implemented by most of these countries. They have started with some versions of economic reforms where markets have been promoted further without affecting the situations of rents that still prevail domestically. Openness to international markets includes mainly access to the WTO and to international trading arrangements (special trade agreements with European Union, USA and others but also between some MENA countries themselves). Domestic markets are still affected by the existence of rents, the limited access to opportunities and businesses and mainly the incompleteness and imperfection of markets.

### **Access to Education, Knowledge and Health care**

Education and health care appear to have largely benefited from large public budget shares in each MENA country. But the outcomes and the quality of education and health services appear to be not consistent with this high level of commitment of the public sectors in these countries. Most reports and publications refer to the high level of segmentation of educational and health care services in the MENA region, mainly when analyzing the services provided in relation to private international corporations.

As can be observed in the following table, the overall measurement of knowledge in the region is low compared to developed countries. While the level of the index is generally higher than the average of developing countries, it is still low when accounting for all countries. With the exception of the component ICT (information and communication technologies), most of the remaining elements show very low levels and almost no change from 1995-2004. The following table provides the corresponding data.

## Knowledge Economy Index and components (1995 and 2005)

Country	KEI		Economic Incentive & Institutional Regime		Innovation		Education		ICT	
	2005	1995	2005	1995	2005	1995	2005	1995	2005	1995
Algeria	3.07	2.26	2.14	1.91	3.37	1.76	3.72	3.46	3.08	1.92
Bahrain	5.58	6.87	6.59	7.41	2.84	6.63	5.77	6.21	7.1	7.24
Cyprus	7.63	7.11	8.04	7.46	7.64	7.33	6.61	5.96	8.22	7.69
Egypt	3.93	4.07	3.27	3.4	4.72	5.05	4.31	4.23	3.42	3.6
Israel	8.16	8.21	7.47	8.18	9.32	9.13	6.83	7.24	9.04	8.29
Jordan	5.19	4.76	5.31	4.54	5.67	6.02	5.31	4.38	4.47	4.1
Kuwait	6.01	5.62	6.55	6.21	4.83	4.85	5.44	4.38	7.24	7.02
Lebanon	5.03	5.42	4.36	4.79	4.4	5.52	5.74	5.71	5.64	5.69
Morocco	3.3	3.24	3.22	3.83	3.88	4.74	2.02	2.38	4.08	2
Qatar	6.17	5.62	6.57	6.82	5.63	3.13	5.53	5.44	6.96	7.08
Saudi Arabia	4.76	4.66	5.07	5.57	3.75	4.4	4.43	3.81	5.79	4.84
Syria	2.82	2.18	1.79	2.07	3.11	1.4	2.97	2.64	3.4	2.6
Tunisia	4.52	4.35	4.73	5.59	4.58	4.25	3.94	3.68	4.82	3.89
Turkey	5.56	5.06	6.37	6.94	5.71	3.18	4.4	4.31	5.77	5.83
United Arab Emirates	5.78	6.32	6.25	7.82	6.56	6.38	3.33	4.19	6.97	6.88
Yemen	1.62	1.67	1.26	2.31	1.78	1.89	1.78	1.48	1.66	1
<b>MPCs</b>	<b>4.92</b>	<b>4.67</b>	<b>4.67</b>	<b>4.87</b>	<b>5.24</b>	<b>4.84</b>	<b>4.59</b>	<b>4.40</b>	<b>5.19</b>	<b>4.56</b>
<b>MENA</b>	<b>4.63</b>	<b>4.54</b>	<b>4.55</b>	<b>4.89</b>	<b>4.50</b>	<b>4.55</b>	<b>4.30</b>	<b>4.17</b>	<b>5.20</b>	<b>4.54</b>
<b>EU</b>	<b>7.99</b>	<b>7.79</b>	<b>7.84</b>	<b>7.59</b>	<b>8.06</b>	<b>7.60</b>	<b>8.01</b>	<b>7.99</b>	<b>8.07</b>	<b>7.97</b>

Source: World Bank Institute

The KEI shows an increase from 1995 to 2005 in the European Union, the MENA countries and the MPCs. The Highest KEI appears in the EU countries, which results from the high ranking of the region in terms of innovation, education, economic incentives and ICT. The MENA and MPCs still have to increase their efforts to reach an average KEI in all four domains of knowledge. The MENA countries still have the lowest values in the sample and are closer to 0 than 10 in the index scale (Yemen, Syria and Algeria).

The overall situation of health and health care has been made more complex when accounting for the transitional diseases and epidemics that are related to urbanization and new modes of life and consumption that are developing worldwide and in this region.

The Environmental Performance Index focuses on the protection of the environment by decreasing environmental burdens on human health and by protecting the vitality of the ecosystem. The protection of the environment is registered among the Millennium Development Goals of the UN. Sixteen indicators exist to assess the environmental protection system. These environmental health and ecosystem vitality indicators are narrowed to six policy categories as indicated in the following table.

The data gathered for this study is from the year 2006 and the indicators are computed following the proximity-to-target method where data is distributed from 1 to 100 with 100

being the target. It appears from the following table that the best values of the EPI are encountered in the EU countries followed by the MPCs. The MENA countries have average performances with an index of 64.96 and the developing countries have the lowest values in the sample. It is also clear that the European Union countries managed the best scores while the MENA region countries ranked average in terms of indicators, policy categories and EPI.

### Environmental performance index and its six policy categories

2006	Environmental Performance Index	Environmental Health	Biodiversity and Habitat	Sustainable Energy	Water Resources	Air Quality	Productive Resource Management
Algeria	76.7	93.4	20.2	61.2	89.3	52.1	76.6
Cyprus	83.3	98.6	26.2	81.2	99.6	60.3	72.5
Egypt	-	26.9	41.9	77.8	57.6	49.3	93.6
Israel	49.5	20.4	56.2	78.3	100	75.5	82.6
Jordan	57	47.3	42.7	88.3	98.2	27.4	77.2
Lebanon	80.1	99	49.5	68.4	47.3	46.9	94.4
Malta	60.7	53.9	66	67.1	99.8	25.1	79.9
Morocco	-	-	-	-	-	52.2	-
Syria	-	-	-	-	-	-	100
Tunisia	-	-	-	-	-	80.3	88.9
<b>MENA</b>	64.96	80.19	33.85	49.46	54.83	36.42	70.39
<b>MPCs</b>	67.88	62.79	43.24	74.61	84.54	52.12	85.08
<b>Developing Countries</b>	58.05	49.96	51.45	65.75	80.57	54.42	80.1
<b>Developed Countries</b>	64.25	67.1	48.15	64.42	78.95	54.04	74.32
<b>EU</b>	79.76	95.22	40.03	69.17	89.32	57.28	67.75

Source: Environmental Performance Index centre, Pilot 2006: the <http://www.yale.edu/epi/>

### III. 3. Country Variations & Impacts of Reforms:

As said earlier, the production and export of oil, as well as the situation of labour markets, are major reasons for differentiation in the above impact assessments throughout the region.

The first set of countries, composed of non-oil exporters with the existence of excessive labour, faces further challenges that are induced by both unemployment and excessive energy bills mainly in relation to imports of energy. These challenges include economic, financial and social constraints. Besides the economic reforms that were undertaken in these countries and where major progress has been made during these last years, there are political changes where clear moves to democracy have been observed. But both economic and political reforms need to be pursued and strengthened in order to ensure the objectives of the transformations are met and prosperity is expanded for the populations.

The second set is composed of countries with excessive resources (mainly oil) and labour deficits. Their challenges reside in the search for economic diversification as oil is an

exhaustible resource, and there are needs for both skilled and unskilled labour besides the requirement of developing investments outside these countries.

The third set is composed of countries that own valuable resources but cannot benefit from their excess labour because of their low level of development. These countries suffer from important social problems that have accumulated during past decades and are still prevailing even under high oil prices.

Within the above framework, a large number of countries from the second set can show good to very good economic and investment performances. The attained results can then help enhance economic, political and social dimensions of development both domestically and outside. This latter orientation has been recently enriched with the development of business investments and contributions to social programs (Oil exporters from the MENA region investing in North Africa). The other sets are expected to have fluctuating economic, social and political outcomes as this is clearly apparent in the available data.

The following table shows clearly how oil export revenues have been exploding in all countries that produce and export oil.

**Oil Exports Revenues (Billion US\$) in OPEC/MENA countries (Source: OPEC)**

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Algeria	12.69	11.14	10.52	10.52	9.164	9.201	9.94	11.42	12.92	18.96	20.72
Iran	12.77	14.99	14.12	14.29	13.43	15.21	18.19	21.18	27.68	35.21	40.97
Iraq	0.665	3.532	4.419	5.983	10.92	13.21	13.38	9.817	9.934	21.3	23.43
Kuwait	7.784	8.373	8.246	8.616	7.616	7.156	7.828	9	10.99	12.63	16.28
Libya	5.147	5.587	5.533	5.6	4.253	4.018	4.425	5.511	6.141	7.599	12.01
Qatar	3.398	2.868	3.322	3.409	2.499	3.248	3.753	4.047	4.891	5.996	9.11
Saudi Arabia	28.09	27.76	28.74	30.01	27.99	30.2	31.18	32.29	36.92	44.52	55.81
United Arab Emirates	20.98	22.64	29.95	24.73	33.23	35.01	37.29	42.65	51.96	72.07	91.17

The effects of higher oil revenues have certainly induced a higher demand for labour (both skilled and unskilled) except in those economies that benefit already from excess labour (i.e.: Algeria). This trend can be directly related to the development of domestic and foreign direct investments in these countries.

**Total labour force participation rate for Oil Exporters in MENA (Source: WB)**

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Algeria	54.99	55.50	56.07	56.60	57.19	57.84	58.45	59.07	59.65	60.38	60.98	61.53
Bahrain	66.08	66.20	66.16	66.31	66.24	66.24	66.19	65.84	65.63	65.80	65.59	65.30
Kuwait	69.59	70.64	71.36	71.54	71.63	71.79	71.91	71.91	71.87	72.84	73.10	73.36
Libya	53.98	54.27	54.47	54.71	55.05	55.49	55.85	56.29	56.69	58.22	59.15	60.15
Oman	61.51	61.62	61.43	61.06	60.69	60.25	59.55	59.07	58.50	58.57	58.52	58.69
Qatar	74.22	73.49	72.73	72.28	72.08	72.18	72.88	73.74	74.62	74.59	74.84	74.89
Saudi Arabia	55.58	55.20	54.73	54.17	53.75	53.27	53.13	53.14	53.09	53.08	53.08	53.06
United Arab Emirates	75.28	75.54	75.92	76.73	77.15	77.41	77.50	77.50	77.50	77.72	77.80	77.89

In contrast with the above observation, non oil exporters and especially those with excess of labour have not shown signs of change in the labour force that is beyond the natural demographic rate.

**Total labour force participation rate for Non Oil exporters in MPCs (Source: WB)**

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cyprus	71.38	71.07	70.74	70.36	69.98	69.57	71.09	71.18	71.92	70.93	71.13	71.36
Egypt	48.87	48.32	47.76	47.19	49.05	48.89	48.46	48.76	49.06	49.17	49.34	49.53
Israel	60.29	60.40	60.36	60.65	61.21	61.75	61.68	61.41	61.85	61.98	62.13	62.22
Jordan	52.32	52.68	52.96	53.22	53.47	53.74	54.07	54.38	54.70	55.22	55.58	55.93
Lebanon	56.05	56.17	56.32	56.57	56.88	57.30	57.27	57.51	57.61	58.56	59.05	59.54
Malta	55.07	55.57	56.04	56.49	56.90	57.23	57.55	58.78	57.38	59.94	60.61	61.28
Morocco	55.78	56.36	56.65	57.14	57.49	56.15	54.82	54.52	55.67	55.93	56.06	56.19
Syria	59.52	60.10	60.68	61.26	61.89	61.54	62.60	63.09	63.51	64.14	64.64	65.15
Tunisia	51.26	51.38	51.51	51.92	52.29	52.70	53.11	53.61	54.07	54.45	54.90	55.35
Turkey	57.41	56.98	55.78	55.80	55.66	52.90	53.00	52.80	51.60	52.20	51.90	54.62
West Bank/ Gaza	40.52	40.65	40.82	40.91	40.98	41.04	41.11	40.24	40.28	40.66	40.57	40.51

These elements are again revealed when accounting for the share of expatriates in the labour force operating in oil exporting countries.

### Percentage of expatriates in the labour force

Countries	Year	Total labour force participation rate (% of total population ages 15-64), WB	Total Labour Force, WB	Expatriates (% of total labour force) <sup>3</sup>
Bahrain	2000	66.24	311398.25	61.9
Kuwait	2004	72.84	1325367.13	81.3
Kuwait	2005	73.10	1727000.00 <sup>4</sup>	81.8
Oman	2000	60.25	912339.06	64.3
Qatar	2000	72.18	319800.59	81.6
Saudi Arabia	2000	53.27	6712264.50	55.8
United Arab Emirates	2000	77.41	1875759.38	89.8

Source: WB

The impacts of reforms are specific for each group of countries established earlier, in the economic, social or political sectors. However, it is necessary to study the interdependencies between the sectors of reforms to evaluate the impact that one reform can have on one or many sector domains.

#### *III.4. Interdependencies between economic, social and political indices:*

To assess the inter-related impacts of reforms in the MPCs and MENA countries, it is helpful to consider the relationships between different indicators and indices that represent the economic, social and political sectors. Thus, interdependencies have been found between economic and social sectors: mainly economic and health indicators; economic and human development indicators; political factors (CPI) with economic (GDP or IEF) and social indicators (HDI) and others.

Equations (MPCs)	R <sup>2</sup>	Obs.
$\ln(\text{GDP per Capita, 1995}) = -37.06 + 10.72 \ln(\text{Life expectancy at birth, 1995})$ (-4.99) (6.15)	0.81	11
$\ln(\text{GDP per Capita, 1997}) = -38.68 + 11.10 \ln(\text{Life expectancy at birth, 1997})$ (-4.66) (5.71)	0.78	11
$\ln(\text{GDP per Capita, 2000}) = -43.75 + 12.28 \ln(\text{Life expectancy at birth, 2000})$ (-4.45) (5.34)	0.76	11
$\ln(\text{GDP per Capita, 2002}) = -43.30 + 12.16 \ln(\text{Life expectancy at birth, 2002})$ (-4.61) (5.56)	0.77	11
$\ln(\text{GDP per Capita, 2004}) = -43.98 + 12.32 \ln(\text{Life expectancy at birth, 2004})$ (-4.59) (5.53)	0.77	11

For all MPCs, it appears clearly that higher economic gains can be achieved through improvements in life expectancy at birth. This is supported by the regression results where

<sup>3</sup> Shah, Nasra M. (2006), "Restrictive Labour Immigration Policies in the Oil-Rich Gulf: Effectiveness and implications for sending Asian countries," UN/POP/EGM/2006/03, May 2006.

<sup>4</sup> Shah, Nasra M. (2006); ESCWA (2001)

GDP per capita respectively in 1995, 1997, 2000, 2002 and 2004 have shown strong relationships to life expectancy at birth for the same years. The elasticity coefficient shown, varied between 10 and 12 as indicated above.

As life expectancy at birth is directly related to health, the regression between GDP and health expenditures shows a direct level of sensitivity that equals 0.51. This trend is also supported by the negative relationship globally established between economic performance and the infant mortality rate. The estimated level of sensitivity is around -0.8.

<b>Equations (MPCs)</b>	<b>R<sup>2</sup></b>	<b>Obs.</b>
$\ln(\text{GDP per Capita, 2003}) = 6.15 + 0.51 \left[ \ln(\text{Health expenditures per capita, 2003}) \right]$ <small>(12.35) (5.79)</small>	0.79	11
$\ln(\text{GDP per Capita, 1995}) = 11.22 - 0.81 \left[ \ln(\text{Infant mortality rate, 1995}) \right]$ <small>(25.98) (-6.18)</small>	0.81	11
$\ln(\text{GDP per Capita, 2000}) = 11.26 - 0.82 \left[ \ln(\text{Infant mortality rate, 2000}) \right]$ <small>(26.71) (-5.98)</small>	0.80	11
$\ln(\text{GDP per Capita, 2004}) = 11.03 - 0.74 \left[ \ln(\text{Infant mortality rate, 2004}) \right]$ <small>(26.84) (-5.19)</small>	0.75	11

When these same relationships are observed by country, it can be said that the highest gain in GDP per capita from health expenditures per capita has been realized by Jordan, Morocco, Israel, Algeria, Egypt and Turkey with respective elasticities of 0.93, 0.62, 0.58, 0.48, 0.41 and 0.26. For Tunisia and Turkey, the respective gains from the enhancement of life expectancy at birth are estimated to be respectively 17.42 and 7.79 over the period 1995-2004 as it is indicated in the following table.

<b>Equations (MPCs)</b>	<b>Countries</b>	<b>R<sup>2</sup></b>	<b>Obs.</b>
$\ln(\text{GDP per Capita, 1998-2003}) = 6.57 + 0.48 \left[ \ln(\text{Health expenditures per capita, 1998-2003}) \right]$ <small>(13.16) (4.10)</small>	Algeria	0.81	6
$\ln(\text{GDP /c, 1999-2003}) = -45.65 - 0.22 \left[ \ln(\text{Health exp. /c, 1999-2003}) \right]$ <small>(-7.43) (-3.83)</small> $+ 13.07 \left[ \ln(\text{Life expec. at Birth, 1999-2003}) \right]$ <small>(8.83)</small>	Cyprus	0.98	5
$\ln(\text{GDP per Capita, 1995-2004}) = 6.44 + 0.41 \left[ \ln(\text{Health expenditures per capita, 1995-2004}) \right]$ <small>(13.31) (3.53)</small>	Egypt	0.61	10
$\ln(\text{GDP per Capita, 1998-2003}) = 5.74 + 0.58 \left[ \ln(\text{Health expenditures per capita, 1998-2003}) \right]$ <small>(3.27) (2.44)</small>	Israel	0.60	6
$\ln(\text{GDP per Capita, 1998-2003}) = 3.61 + 0.93 \left[ \ln(\text{Health expenditures per capita, 1998-2003}) \right]$ <small>(5.77) (7.54)</small>	Jordan	0.93	6
$\ln(\text{GDP per Capita, 1998-2003}) = 8.01 + 0.26 \left[ \ln(\text{Health expenditures per capita, 1998-2003}) \right]$ <small>(9.99) (2.18)</small>	Malta	0.54	6
$\ln(\text{GDP per Capita, 1998-2003}) = 5.68 + 0.62 \left[ \ln(\text{Health expenditures per capita, 1998-2003}) \right]$ <small>(8.75) (3.91)</small>	Morocco	0.79	6
$\ln(\text{GDP per Capita, 1995-2004}) = -65.87 + 17.42 \left[ \ln(\text{Life expectancy at birth, 1995-2004}) \right]$ <small>(-15.06) (17.06)</small>	Tunisia	0.97	10
$\ln(\text{GDP per Capita, 1998-2003}) = 7.43 + 0.26 \left[ \ln(\text{Health expenditures per capita, 1998-2003}) \right]$ <small>(17.21) (3.11)</small>	Turkey	0.71	6
$\ln(\text{GDP per Capita, 1995-2004}) = -24.11 + 7.79 \left[ \ln(\text{Life expectancy at birth, 1995-2004}) \right]$ <small>(-5.44) (7.41)</small>	Turkey	0.87	10

Both global and country results show the impacts of health variables on overall economic performance. These impacts are shown to be promising during the study period. Improvements in health expenditures, in infant mortality and in life expectancy lead certainly to improvement in economic performance globally and at each country level with few variations across countries. This says that the impacts of reforms did not show negative social effects.

<b>Equations (MPCs)</b>	<b>R<sup>2</sup></b>	<b>Obs.</b>
$\ln(\text{GDP per Capita, 1995}) = 10.18 + 4.77 [\ln(\text{HDI, 1995})]$ <small>(46.25) (7.64)</small>	0.87	11
$\ln(\text{GDP per Capita, 2000}) = 10.36 + 5.35 [\ln(\text{HDI, 2000})]$ <small>(44.86) (7.25)</small>	0.85	11
$\ln(\text{GDP per Capita, 2004}) = 10.45 + 5.69 [\ln(\text{HDI, 2004})]$ <small>(48.61) (7.42)</small>	0.86	11

As economic and social performances are related, any social improvement translates into economic performance enhancement. For MPCs globally, GDP and HDI are positively correlated 4.77 to 5.69.

This level of relationship is also shown at the level of countries with 4.54, 9.61, 3.04, 5.72, 7.40, 13.55, 3.82, 3.81, 6.08 and 5.87 respectively for Algeria, Cyprus, Egypt, Israel, Lebanon, Malta, Morocco, Syria, Tunisia and Turkey. It can be noted that Malta and Cyprus have the highest levels of correlation. They are followed by Lebanon, Tunisia, Turkey and Israel. Morocco, Egypt and Algeria take the third position.

<b>Equations (MPCs)</b>	<b>Countries</b>	<b>R<sup>2</sup></b>	<b>Obs.</b>
$\ln(\text{GDP per Capita, 1995-2004}) = 10.23 + 4.54 [\ln(\text{HDI, 1995-2004})]$ <small>(65.29) (10.37)</small>	Algeria	0.99	3
$\ln(\text{GDP per Capita, 1995-2004}) = 11.01 + 9.61 [\ln(\text{HDI, 1995-2004})]$ <small>(426.39) (44.69)</small>	Cyprus	1.00	3
$\ln(\text{GDP per Capita, 1995-2004}) = 9.44 + 3.04 [\ln(\text{HDI, 1995-2004})]$ <small>(44.27) (6.07)</small>	Egypt	0.97	3
$\ln(\text{GDP per Capita, 1995-2004}) = 10.55 + 5.72 [\ln(\text{HDI, 1995-2004})]$ <small>(135.88) (6.94)</small>	Israel	0.98	3
$\ln(\text{GDP per Capita, 1995-2004}) = 10.56 + 7.40 [\ln(\text{HDI, 1995-2004})]$ <small>(46.60) (9.42)</small>	Lebanon	0.99	3
$\ln(\text{GDP per Capita, 1995-2004}) = 11.61 + 13.55 [\ln(\text{HDI, 1995-2004})]$ <small>(73.12) (12.05)</small>	Malta	0.99	3
$\ln(\text{GDP per Capita, 1995-2004}) = 10.07 + 3.82 [\ln(\text{HDI, 1995-2004})]$ <small>(270.78) (51.04)</small>	Morocco	1.00	3
$\ln(\text{GDP per Capita, 1995-2004}) = 9.49 + 3.81 [\ln(\text{HDI, 1995-2004})]$ <small>(110.72) (16.37)</small>	Syria	1.00	3
$\ln(\text{GDP per Capita, 1995-2004}) = 10.61 + 6.08 [\ln(\text{HDI, 1995-2004})]$ <small>(53.31) (9.57)</small>	Tunisia	0.99	3
$\ln(\text{GDP per Capita, 1995-2004}) = 10.56 + 5.87 [\ln(\text{HDI, 1995-2004})]$ <small>(31.04) (5.27)</small>	Turkey	0.97	3

These analyses show how in the recent years, the South Mediterranean region has tackled social reforms that are beneficial to the populations, as health is a corner stone in development. These results show also that there is still room for further reforms and changes in this direction because of the high level of observed responses. But, even with these results,

social actions and especially health concerns appear to be conducted separately from other related policies.

The requirement of policy integration that is lacking in the MENA region is clearly shown with the regression results obtained in the region. The relationship between economic and social performance is an important indication of how enhancements in social policies can increase overall economic performance at the regional level. This result is also valid for most countries with respective elasticities attaining 13.55 as a maximum in Malta and 3.04 as a minimum for Egypt.

Some additional regression results appear to be placing more emphasis on the role of education and urbanization while others show that the corruption perception index is positively related to the index of economic openness and to the per-capita GDP.

<b>Equations (MENA)</b>	<b>R<sup>2</sup></b>	<b>Obs.</b>
$\ln(\text{GDP per Capita, 2003}) = 5.48 + 1.00 [\ln(\text{Secondary sch. enroll, 2003})] + 1.61 [\ln(\text{Urbanization rate, 2003})]$ (2.68) (2.56) (3.72)	0.72	18
$\ln(\text{HDI, 2004}) = -0.68 + 0.23 [\ln(\text{KEI, 2004})]$ (-8.01) (4.38)	0.82	13
$\ln(\text{CPI, 2004}) = -3.11 + 0.71 [\ln(\text{IEF, 2004})] + 0.18 [\ln(\text{GDP, 2004})]$ (-2.10) (1.64) (2.04)	0.59	13
$\ln(\text{CPI, 2004}) = -1.40 + 0.76 [\ln(\text{IEF, 2004})] + 1.08 [\ln(\text{HDI, 2004})]$ (-0.85) (1.92) (2.33)	0.63	13

These results introduce new avenues for policy formulation and implementation mainly when seeking to reduce corruption. As corruption (CPI) is related to the openness of the economy (IEF) and to social or economic measure of wealth (HDI, GDP), any improvement in one or more of the ten components of IEF leads indirectly to reduce corruption.

The following section discusses the different results obtained earlier in the overall impacts of reforms, the variations by group of countries and the interdependencies the sectors subject to reforms.

## 7. Discussion of results

In the analysis undertaken above, domestic reforms were mainly similar to those pursued in the rest of the world and mainly in developing countries. Economic reforms meant shifts from government-driven economies to market-governed societies. The related political reforms are those processes leading to further implementation of democracy and openness of institutions to transparent and competitive electoral processes.

Based on the results attained so far, the MPCs and MENA countries have been pursuing different degrees of reforms that cover economic, political and social issues and policies. But, major constraints that are embedded in the nature of the reforms as well as in the types of expected impacts have been at the origin of the attainment of objectives that can be sensed by the majority of the population as leading towards better prosperity and development. Given the length of the study period, the effects have not been significant all the time even though some reforms started before 1995. Another issue is related to the level of responses of different indicators that are respectively related to economic, social and political effects and to those that can capture the overall social impacts both direct and indirect. These levels of responses appeared to be also low or insignificant, at least within the time period considered in this study. Country variations appeared to exist and are mainly related to oil versus non-oil production and exports and to the situation of labour markets. Favourable conditions for oil exporters do create specific opportunities for economic performance and impacts that are related to macroeconomic policies and can delay the need for social and political reforms. But, favourable political reforms do create good conditions for the promotion and development of economic and social reforms. This is in fact what happened in a large numbers of countries in the region where priority has been given explicitly to political and economic issues and where social problems have been considered as consequences that can be eliminated with better economic and political situations.

The first economic reforms undertaken in some countries were mainly targeting macroeconomic policies and public expenditures (structural adjustment policies). They were followed by a set of reforms and policies that expanded the role of markets and ensured trade and openness of the economies. Different indicators that have been used to monitor the progress in different areas related to market development and openness have been analyzed in the context of this report. These indices show that the progress made in the region is very small with non significant changes most of the time.

Political reforms have also been intensified in the region with the regularization of the election cycles and their increasing transparency. But, the available governance indices and corruption perception index are still showing very limited impacts on each economy and each society.

The social reforms, as they are directly affecting the living conditions of individuals and groups, have been pursued by MENA with some countries adopting a structural approach through human development programs (Morocco, Algeria, Jordan, and Egypt). But the social indicators used are not showing consistent reduction in poverty, in knowledge and in better

access to health and living conditions. This implies that even the indirect social effects of economic and political reforms have not been captured during this study period.

But there are major variations among countries with important positive impacts shown by oil exporting countries and negative impacts expressed by labour excessive and non-oil exporters. Also some oil exporters with excess of labour suffer from negative impacts of non-existent or limited reforms. This latter category has the possibility of reducing political and economic reforms with the increase of oil prices.

When looking at the role of gender, education, knowledge and health, the available data show that these sectors play a central role in the determination of reform and policy impacts. This is confirmed with the assessment of the existing likely interdependencies between performance variables and indices related to health, education and knowledge in general. The results of many adjustments (implication in private sector, investments) appear to be very low both in education and health. This has medium and long term impacts on future labour productivity and even future economic and social effects of the degradation in the provision of health and education. Discrimination against women and girls and the prevailing relatively higher rates of maternal and infant mortality besides the very limited levels of participation of women in business, administrative and political life certainly explain the likely persistence of major social and political deficits.

Important avenues and directions of results have been attained so far:

- The reforms undertaken focus mainly on market openness, trade, investments and other business opportunities; they do not look at competitiveness of markets. Concerning political reforms, only the election part is emphasized without looking at the conditions for competitiveness. The public sector still is a large operator in both markets and elections;
- Political and social reforms are lagging behind in some countries;
- Health and Education did not have significant impacts even though benefiting from important public budgets and recognized to be important drivers of development;
- Non-oil producing and exporting countries suffer from economic, social and political consequences. Developed countries can be mainly interested in political reforms and democratic processes that would help lower the transactions costs with these countries;

- The easiest part that can be reformed is the one related to market liberalization through openness to trade (joining international organizations of commerce and trade);
- Rents and natural monopolies are most of the time not affected by policies and reforms,
- The complexity of economic reforms, because some local and regional practices need also to be considered in new market mechanisms;
- If the country is an oil exporter and a labour deficit country, economic openness means also better opportunities for local and foreign investors;
- Crucial role of health and education; the importance of political and economic environments;
- Harmonization between social and other reforms;
- Core requirements: openness, freedom, prosperity;
- These reforms are very slow with very limited impact and mainly social ones;
- Behind the reduced speed and effects of changes, reasons reside in political economy of each economy and situations of rents and special privileges (government control);
- There are country variations, oil versus non-oil, reforms focusing on health, education, knowledge with openness and transparency are promising.

With the limited impacts of the reforms undertaken in the region, different hypotheses can be formulated in relation to these effects in comparison with other countries:

- The reforms adopted and the instruments applied are similar to those used and applied elsewhere except that the MPCs and the MENA countries are in learning processes. This is true for both economic and political reforms that are almost new to series of countries in the region;
- The levels of oil prices can be assumed to play an important role for both oil exporters and non-oil producers and exporters. Social reforms are necessary for both types;
- The political economy in each country can be a major source of inertia than can reduce the extent and impacts of reforms;

- There is maybe indifference to reforms but when undertaken, the implementation period is long and impacts also take a long time to be sensed and captured;
- These economies are short run oriented (no interest to medium & long run impacts);
- To what extent the political economy and the interest groups in relation to international interests already expressed in the region (MPC and MENA) can explain the situation of delays in reforms and in their implementation in different countries?
- Is it a situation where democracy as known and practiced elsewhere replaced with local processes and local political arrangements?
- Is the situation mainly related to the existence of inertia coming from the practices developed earlier under extensive government intervention in both the economic and political processes?
- As some countries are pursuing the use of some forms of public monopolies in the area of oil and gas, what are the real constraints that limit liberalization and privatization in these strategic economic areas?
- Political systems have impacts that are too large, that the effects of specific economic and social reforms are compensated by the impacts of political reforms?
- As said earlier with the positioning of different countries of the region in the area of knowledge and know-how, can one state that there is limited human capacity to ensure efficient monitoring of the reforms and of their impacts?
- The role of civil society is developing in almost every country in the world. What is the situation in the MENA region and to what extent could civil society have had an impact on the reforms and their impacts?

## **8. Perspectives & Recommendations for MPCs and MENA**

While further reforms are needed for the region under study, the results of the impact assessment showed that their acceleration is promising for the realization of economic, social and political objectives for satisfying both the needs of larger segments of the population and the requirements of globalization and openness. Solutions to historical, on-going and new

conflicts should account for the interests of different parties and could not be resolved without the total participation of all the concerned parties. New other challenges (other than access to water) are facing all the world economies and especially those pertaining to this region of the world. These signals include the major price trap in which most countries are entering with a special role devoted to the MENA zone:

- Higher food prices and their implications in terms of assessing the competitive benefits and advantages of different types of economies in the South of the Mediterranean area;
- Higher oil prices as long as a large number of cheaper sources of energy are not fully developed. This affects also food prices and sustains the spiral of higher costs for producing food items.

Besides these two signals, the flow of information and the high speed of its diffusion in almost real time in relation to the development of information and communication technologies and media, create new conditions for the world population to access information and enhance its perceptions and expectation-formation about every economic, political and social issue. The MENA region is also part of this process as most of the issues could not be perceived under an area of extensive government intervention and economic autarky but where perceptions and expectation formation are easily made under the openness of these economies. The increasing roles of civil society through multiple associations, unions, political parties and enterprises of media are recognized to be an important means for this transformation. They all tackle domestic and international questions from inside and outside these countries.

Within this new framework, the new neighbourhood policies and reforms that can strengthen win-win solutions for both the European Union and their Mediterranean partners can create new conditions that need to be considered within a new wave of reforms:

- Further openness and liberalization of these economies;
- Reforms to facilitate access to markets, businesses and to institutions (merit based);
- Integrated reforms and policies: simultaneous economic, social and political reforms;
- South-South integration is an important part of North-South partnership: Energy, food and water can be important drivers for accelerating this integrations;

- Education, health, knowledge and culture: central reforms for the enhancement of domestic development, bilateral and multilateral cooperation and partnerships;
- The strengthening of research in the social sciences is likely to ensure relevant flows of knowledge useful for education and for development.

## **9. Conclusion**

The above study shows that the MENA region and the MPCs face social problems that are directly related to economic and political concerns. The reforms undertaken before or during 1995-2005 have not had significant positive impacts on the living conditions of the populations in these regions of the world. Education, health and gender-related issues have appeared to be among the factors that have constrained the attainment of decent living conditions. Non oil exporters and excess labour supply countries have suffered more than the oil exporters and labour deficit countries. But the experience accumulated has shown that the speed of reforms as well as the expected responses is very slow and sometimes very limited in extent and amplitude. Market imperfections and incompleteness, alongside situations of rents owned and used by different groups of interests, are suggested. The nature of the political economy that is prevailing in each country is likely to be the source of explanation. Some countries considered the social issues through the development of the civil society besides programs targeting poverty and inclusion of women.

The integration of policies and reforms has appeared to become a necessity as shown from the analysis conducted above on the last 11 years. It has shown high levels of interdependencies between different indicators that represent economic, social and political dimensions. The levels of responses attained are promising indicators for the existence of major sources of improvements that need to create more incentives for these countries to pursue further reforms.

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