MIDDLE EAST AND NORTH AFRICA REGION

2008 Economic Developments and Prospects

Regional Integration for Global Competitiveness

THE WORLD BANK

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Foreword

The Middle East and North Africa (MENA) region continued to experience relatively high economic growth and prosperity, factors that have characterized its development during the past few years. However, 2007 was also the year which started to reflect shifts in the external environment. Following the sharp drop in market valuations of U.S. mortgage-backed securities in the summer of 2007, global financial (and other) markets entered a phase of heightened uncertainty. This has been reflected in increased volatility in equity markets, commodity prices, exchange rates and global banking flows. So far, on average, countries in the MENA region have been affected only modestly by financial spillovers and by the slowdown in the United States (and increasingly in Europe) during 2007. Despite weaker U.S. import growth, continued robust spending among oil-exporting countries and vibrant expansion in China and India helped to sustain developing country and global growth at rates that might otherwise have been lower

During most of this decade, MENA has turned in strong economic performances, driven, by high oil prices, a favorable global environment, and the drive to reform its economies, though gradual, uneven across the region. Growth continues to be robust for the fifth year in a row, with only a marginal dip in 2007. Strong external inflows and continued fiscal and external account surpluses at the regional level characterized the year. Of course, the region is remarkably diverse, despite many common features, and economic developments and outcomes differ significantly among its countries.

This is the fourth report in a series of annual overviews of the region. MENA 2008 *Economic Developments and Prospects*, like its predecessors, reports key macroeconomic developments from the regional perspective as well as progress with structural reforms. The aim is to identify the forces shaping economic outcomes in the region and to highlight the key issues that affect the region's growth prospects. This year, the thematic chapter focuses on regional integration as seen from a broader perspective that includes trade in goods and services, labor, capital and infrastructure. As was the case with previous year's publications, we hope that the report will deepen public understanding of the region's progress, prospects, and challenges.

Acknowledgments

This report is the work of the Office of the Chief Economist of the Middle East and North Africa Region, with contributions from the World Bank's Development Prospects Group. Led by Carlos Silva-Jauregui, the report-writing team included Elliot Riordan, Joey Ghaleb, Peter Walkenhorst, Paul Noumba, Sara Johansson de Silva and Jennifer Keller. The report was prepared under the overall guidance of Mustapha K. Nabli, while he was Chief Economist of the MENA region.

The team would like to thank peer reviewers Ahmed Galal, Mona Haddad and Rosalinda Quintanilla whose careful guidance substantially improved the report. The report also benefited from comments from

Abbreviations and Acronyms

AGP	Arab Gas Pipeline
ANIMA	Euro-Mediterranean Network of Investment Promotion Agencies
ARNET	Arab Network for Regulators
ATC	Agreement on Textiles and Clothing
bbl	barrels
BIT	bilateral investment agreement
BOP	balance of payments
CPI	Consumer Price Index
DECPG	Development Economics Projects Group (World Bank)
DFSA	Dubai Financial Security Authority
DIFC	Dubai International Financial Center
EAP	East Asia and Pacific
ECA	Europe and Central Asia
EFTA	European Free Trade Association
EIU	Economist Intelligence Unit
ENP	European Neighborhood Policy
ESCWA	Economic and Social Commission for West Asia
EU	European Union
FA	Framework agreement
FDI	foreign direct investment
FTA	free trade agreement
FTZ	free trade zone
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GDP	gross domestic product
GWh	giga watt-hour
ICT	information and communication technology
IDR	Issuer Default Rating

IEA	International Energy Agency
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
IPA	index of public sector accountability
IPR	intellectual property rights
IQA	index of the quality of public administration
ILO	International Labour Organization
ITSAM	Integrated Transport System in the Arab Mashreq
JB	joint bank (Egpyt)
LAC	Latin America and the Caribbean
LF	labor force
LIMC	low and middle income
LPI	Logistics Performance Index
LNG	liquefied natural gas
MENA	Middle East and North Africa
MFA	Multi-Fibre Agreement
MFN	most favored nation
MVA	manufacturing value added
MW	mega watt
NAFTA	North American Free Trade Agreement
NAV	non ad valorem
NTBs	non-tarrif barriers
OECD	Organization for Economic Co-operation and Development
OEPC	Organization of the Petroleum Exporting Countries
OTRI	Overall Trade Restrictiveness Index
PAFTA/GAFTA	Pan or Greater Arab Free Trade Agreement
PPA	Power Purchase Agreement
PPP	purchaing power parity
PSBR	Public Sector Borrowing Requirement
QIZ	qualified industrial zone
RIA	regional integration agreement
RTA	regional trade agreement
RPLA	resource-poor, labor-abundant
RRLA	resource-rich, labor-abundant
RRLI	resource-rich, labor-importing
SME	small and medium enterprises
SSA	Sub-Sarahan Africa
SWF	Sovereign Wealth Funds
TA	trade agreement
TIR	Transport International Routière

TRAINS	Trend Analysis and Information System
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
US or USA	United States of America
WBG	West Bank and Gaza
WDI	World Development Indicators
WTI	West Texas Intermediate
WTO	World Trade Organization

Overview

During 2007 the Middle East and North Africa region1 (MENA) experienced average growth of 5.7 percent. This was the fifth year in a row in which the region grew at a rate higher than 5 percent, exceeding levels reached in the 1990s and early 2000s. This performance occurred in the context of an external environment marked by three major developments: a continued rise in the price of hydrocarbons, turbulence in international financial markets following the sharp drop in market valuations of U.S. mortgage-backed securities, and a sharp rise in the price of non-oil commodities, especially foodstuffs. These developments have affected the various MENA economies in different ways. On average, however, the region has done well, with respectable growth and comfortable external and fiscal balances. Similar performance, that is, average growth of around 5.6 percent, is expected over the next three years. Oil prices are expected to remain buoyant, leading to high levels of investment and remittance flows within the region. Food prices are also expected to remain high. Since most countries in the region subsidize food and energy, this will lead to fiscal pressures for many of them. But such pressures are not expected to choke off economic growth. Global financial turbulence and a likely slowdown of growth in the OECD countries are expected to be offset by continued robust spending among oil-exporting countries and vibrant expansion in China and India.

Economic Developments and Prospects

Distribution of growth across region. During 2007, GDP growth was almost evenly distributed across the sub-groups of the region. For the resource-poor labor abundant economies (RPLA), output growth slipped to 5.4 percent in 2007 from 6.3 percent in 2006. But, with the exception of

[1] The region consists of *resource-poor, labor-abundant* economies (Arab Republic of Egypt, Jordan, Morocco, Tunisia, Lebanon, and Djibouti); *resource-rich, labor-abundant* economies (Algeria, Islamic Republic of Iran, Iraq, Syrian Arab Republic, and the Republic of Yemen); and *resource-rich, labor-importing* economies (Saudi Arabia, United Arab Emirates, Kuwait, Libya, Qatar, Oman, and Bahrain).

Morocco and Djibouti, GDP accelerated or equaled its 2006 pace in all other economies of the subgroup. Per-capita GDP eased to 3.8 percent in the year, still well above the 2.6 percent pace for the 2000-04 period.

High levels of hydrocarbon revenues, albeit reduced from earlier years, supported growth for oil exporters. Developments for the group of resource-rich labor-abundant economies (RRLA) were dominated by key hydrocarbon producers Iran and Algeria. GDP growth for the RRLA group rose from 4.5 percent in 2006 to 5.7 percent during 2007 on a rebound in output in both Iran and Algeria. Growth eased in the remaining countries of the group, notably so in Syria. In line with improvements in group output, per capita GDP advanced 3.6 percent in the year, above its long-term trend. For the resource-rich, labor-importing (RRLI) countries, developments were mixed. GDP growth fell to 5.8 percent from 6.2 percent in the year, as crude oil production was scaled back by a substantial 4.3 percent.

While the region has done well in comparison with its own past, the same cannot be said when comparing with other regions. For example, the 3.7 percent growth of per capita income in 2007 is almost two percentage points higher than levels achieved in the late 1990s. But it is still less than the rate achieved by other developing regions. This implies that the region must continue to pay attention to the unfinished structural reform agenda in order to assure sustained progress in a more competitive world.

Changing sources of growth. The role of different sources of growth has changed over the course of the decade. During the early part of the decade, growth was driven largely by domestic consumption. Since then, the contribution of investment has been rising and in 2007 investment accounted for more than 100 percent of real GDP growth (offset in part by large negative contributions from net exports.) The contribution of government consumption to growth, which had increased over 2004-2006, declined in 2007.

Impact of global financial turbulence. The impact of global financial turbulence has been limited. Though equity markets in the region initially tended to follow the path undertaken by emerging markets as shown by the MSCI EM index, the GCC countries, Egypt and Morocco outperformed this index over the last quarter of 2007 and into early 2008. Spreads on MENA sovereign bonds escalated, but in like fashion to the experience of all developing countries, the increase in spreads reflected the fall in U.S. Treasury yields (flight to quality) such that MENA sovereign yields were largely unchanged. And real estate developments in GCC countries were little affected by changes in the international financial environment, though a tightening of credit criteria could come into play in the coming years.

Impact of oil price rise. The ramp-up in global oil prices over the course of 2007, to set all-time records above $100/bbl during early 2008, continues to be a major factor in MENA region developments. Oil prices increased 78 percent over the course of 2007, from $54/bbl at the start of the year to $94.50/bbl on December 31.[2] Prices averaged $71/bbl for the year, up 10.5 percent over the average for 2006. Crude oil and refined product export revenues advanced by 11.6 percent in the year—from $585 billion to $653 billion (including Iraq). This contrasts with a 27 percent increase in oil receipts during 2006, rising $122 billion, and underscores the fact that production in the region has been declining—either due to binding capacity constraints, or to output in several countries being managed to remain in line with agreed OPEC quotas. Nonetheless, the $68 billion increase in oil-related export receipts helped sustain government spending programs, while allowing a moderate buildup in international reserves and contributions to Sovereign Wealth Funds (SWFs) by several countries.

Impact of food price shock. The sharp rise in the price of staple foodgrains such as rice and wheat had a varying impact on different countries depending on certain risk factors. Low income countries that are relatively big food importers (in terms of proportion of imports and consumption) have been at highest risk: examples include Djibouti and Yemen. In Yemen, food price inflation exceeded 20 percent in 2007, the highest in the region. Other risk factors include the extent to which food features in the spending patterns of the lowest income groups in a country. Here countries like Djibouti, Egypt and Yemen are among the most vulnerable since the bottom two quintiles of their populations spend 50 percent or more of their household budgets on food. It is not surprising that both Egypt and Yemen experienced episodes of social unrest in recent months. For many countries, the positive impact of economic growth on poverty has most likely been offset substantially by food price inflation in 2007 although not enough information is available at this point to provide robust estimates. Also, some countries have felt the pressure of food price increases directly in national budgets since they subsidize staple foodstuffs. Thus, countries like Egypt, Iran, and Syria have seen food subsidies claim shares of between 4 percent (in Egypt) and 8 percent (in Iran) of their budgets in 2007. Among GCC countries, the chief manifestation of food price increases has been inflation.

Foreign direct investment. FDI continued to flow at high levels, some $45 billion, down moderately from the record $52 billion recorded in 2006. In contrast with 2000-2004, when FDI flows were more evenly distributed, three countries attracted the bulk of flows from 2005 forward. Saudi Arabia, Egypt and the United Arab Emirates are now the three largest FDI recipients in the region, accounting for more than half of inward FDI flows. The GCC countries

[2] World Bank Average basis: a simple average of Brent, WTI and Dubai crude oil prices (spot).

are generating healthy FDI outflows as well, of which just over 10 percent is destined for other countries within the region. In several MENA countries, the inflow of FDI appears to be heavily oriented towards real estate and energy sector investments. This is generating two concerns: first, that such investments might push up inflation through raising the price of non-tradeables (especially housing) and second, that they are not likely to contribute as much to reducing unemployment as would investments in the labor-intensive manufacturing sector. These concerns should be assessed through empirical analysis since some service sector projects, especially in the tourism/hotels area, can be quite labor-intensive.

Inflation. Inflation has increased around the world and MENA has not been immune to this trend. The main causes relate to rising energy and food costs and, for the GCC countries in particular, their pass-through into domestic prices through a fixed dollar peg. Prices of over $100/bbl for oil inflate energy costs from gasoline to heating oil to jet fuel. And the dramatic hike in food prices (largely grains and agricultural fats and oils) are directly linked to higher fertilizer costs (energy), massively increased use of grains and fats for bio-fuels, and shrinking acreage utilized for feed and food. Higher inflation linked to these sources may be here to stay for several years. Policy makers in the region are already flagging this as a serious concern for macroeconomic stability, export competitiveness and the welfare of the public, especially the poor.

Future growth prospects. Several factors are likely to shape MENA's growth profile over the medium term. A softening of industrial country demand is anticipated for 2008, primarily in the United States. This will be accompanied by continued high global oil prices, tied to robust demand in emerging markets and supply restraint. This will help support regional output growth of 5.9 percent in 2008. Food prices will also continue to stay high, putting pressure on the fiscal and external balances of several MENA countries who are net importers of food. As the global environment stabilizes by 2009 and 2010, MENA should be able to maintain growth momentum at 5.6 and 5.3 percent respectively, with per-capita gains averaging 3.3 percent in 2010. Domestic conditions will vary markedly across the economies of the region. And the flux of developments related to continuing tensions in the region will affect global and regional investor confidence. But overall, MENA countries have positive prospects and the opportunity to advance reforms and position themselves better for sustainable growth and employment creation under global competitiveness.

Regional Integration Developments

The rise in the price of hydrocarbons in recent years has revived interest in intra-regional integration as a means of sharing prosperity within the region. In this context, integration is viewed not just as a set of preferential trade agreements but also as a means to foster the flow of labor, capital and investment. Efforts to promote such deeper integration are gaining prominence, and the paradigm of open regionalism that is based on the use of regional preferences as stepping stones for global integration and competitiveness is receiving the renewed attention of policy makers.

Trade. As far as trade integration is concerned, the region does not lack formal agreements. Many intra-regional agreements have been signed in the last few decades and at least one geographically comprehensive agreement, the Pan Arab Free Trade Agreement, is under implementation. The general impression, however, is that intra-regional trade is low compared to potential and to levels achieved by economic blocs elsewhere in the world. For example, intra-regional merchandise exports among PAFTA members is around 9 percent of total bloc exports. This is much less than the levels achieved by blocs such as NAFTA and ASEAN although comparable to the levels achieved by other blocs, such as MERCOSUR and COMESA.

Low levels of intra-regional trade can partly be explained by the lack of complementarity in production and trade structures across the region. Bilateral complementarity indices show that the match between desired imports and available exports within the region is generally poor, and remains significantly below the level found in successful regional communities. Other impediments, arising in policy choices, consist of uneven levels of import protection (widely dispersed tariff rates), high levels of nontariff barriers and poor logistics (involving customs, port and transport arrangements). While most trade agreements focus on reciprocal tariff reductions, studies show that the removal of nontariff barriers and improvement of logistics would provide greater welfare benefits at this stage in MENA.

Labor Mobility. The region is more integrated through labor mobility than through trade and investment. While its share of global trade flows is below 5 percent, 16 percent of all remittances paid out to migrants in the world originate in the MENA region and 10 percent of global remittances are received by residents of MENA countries. In recent years, the oil boom has led to increased migration to the oil-exporting countries, though this tendency is also constrained by the desire in such countries to reserve many jobs for nationals and the competition for available jobs provided by migrants from South and Southeast Asian countries. As migration flows become larger, remittances may also be expected to increase, thus reversing a declining trend observed over the past decade or so in several MENA countries.

Capital Flows. Two trends frame the current context for intra-regional capital flows. First, on the demand side, a number of economies, previously dominated by the public sector, are opening up and have embarked on a series of structural reforms. Second, on the supply side, ample liquidity is available in the Gulf States from the oil boom and investors are searching for opportunities everywhere. How much capital actually does flow intra-regionally depends on regulatory developments applying to banks, stock markets, and foreign investments.

With respect to portfolio flows, investors from the GCC are showing interest in stocks of non-GCC countries seeing upside potential in these markets. Market capitalization in MENA increased from only 13 percent of GDP a decade ago to 50 percent by 2005, partly on the strength of cross-border portfolio flows. However, barriers and restrictions on portfolio capital movements continue to hinder deeper capital market integration and stock markets remain thin as far as trading and participation is concerned.

Direct foreign investment flows have been boosted by the improved business climate in some MENA countries, coupled with some economic liberalization and increased privatization. Project-based investments are targeting countries such as Syria, Tunisia, Lebanon, and Egypt covering several sectors including telecommunications, real estate, tourism, banking and financial institutions.

Intra-regional infrastructure links. The region is becoming more integrated through cross-border infrastructure projects in energy, transportr and telecommunications. With the support of the European Union, Egypt, Jordan, Lebanon, and Syria have embarked in the establishment of a regional gas market which will be ultimately integrated with the EU internal gas market. Likewise, positive steps have been taken regarding the interconnection of power grids in the region even though energy trade between member countries remains limited to emergency situations. In the transport sector, the integration agenda is framed by two agreements: the International Road Agreement and the International Railways Agreement in the Arab Mashreq. In telecommunications, major regional equity investors have emerged as a result of the adoption of sector reforms and common regulatory guidelines. These investors are currently accelerating the regional integration of telecommunications markets.

Despite progress in regional integration in recent years, much remains to be done if MENA is to keep up in an increasingly competitive global environment. More effective integration calls for further reduction of tariff and nontariff barriers. In addition, large, untapped opportunities are discernible in areas that have been largely neglected so far in regional integration efforts, notably trade and transport facilitation, services market opening, and factor market integration. These issues clearly deserve a higher profile on the policy agenda. Fortunately, all the associated policy reforms are not only suitable for bringing MENA countries closer together, but will also tend to make the economies of the region more competitive in international markets.

Structural Reform Progress

In recent years, MENA has embarked on wide-ranging reforms to improve the overall environment for growth. This review focuses on reforms in three key areas, trade, business climate and governance. The main findings may be summarized as follows:

Trade reforms. Substantial progress has been made in reducing tariffs and the time required for import and export processing. Tariffs have been reduced from a simple average of 20 percent in 2000 to 13 percent by 2007, a decline not matched in any other region over this period. However, non-tariff barriers remain high and trade logistics performance, reflecting the quality of customs, ports and transport arrangements, remains sub-par.

Business climate reforms. Despite notable improvements in some countries (e.g., Egypt and Saudi Arabia), as a whole the region has failed to keep pace with business climate reforms elsewhere. In terms of reform effort, it ranks in the bottom third worldwide (29th percentile).

Governance reforms. Progress with regard to governance has been mixed.3 On the one hand, the quality of public administration remains relatively high in MENA, ranking above East Asia, Latin America, South Asia and Sub-Saharan Africa. However, this ranking has slipped relative to last year. On the other hand, the quality of public accountability remains very low in MENA, ranking below all other regions of the world. However, in terms of reform efforts devoted to improving accountability, MENA ranked in the 67th percentile, above all other regions. The latter ranking reflects a range of improvements in combating corruption, addressing weaknesses in the judiciary, improving property rights, and streamlining bureaucracy, especially among the GCC countries.

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[3] The data used to assess progress in governance is drawn from a variety of sources. The interpretations provided in this report do not necessarily reflect the views of the Management and Board of Directors of the World Bank.

Table 1: Progress with structural reform

	Trade policy		Business climate [c]		Governance: Quality of administration		Governance: Public sector accountability	
Country/region	**Current status[a]**	**Reform progress[b]**	**Current status[a]**	**Reform progress[b]**	**Current status[a]**	**Reform progress[b]**	**Current status[a]**	**Reform progress[b]**
Algeria	58	69	30	51	32	11	27	56
Bahrain	—	71	—	—	75	62	25	94
Djibouti	52	47	11	—	—	—	—	—
Egypt, Arab Republic of	72	96	20	61	42	94	23	75
Iran, Islamic Republic of	1	73	21	1	30	38	22	8
Iraq	—	—	37	—	—	—	—	—
Jordan	50	91	49	37	54	22	34	62
Kuwait	58	7	77	12	55	29	32	77
Lebanon	13	91	42	3	—	—	—	—
Libya	—	—	—	—	4	15	0	45
Morocco	64	55	31	17[c]	75	90	32	77
Oman	44	70	76	69	56	28	17	88
Qatar	—	8	—	—	61	82	14	65
Saudi Arabia	61	87	87	55	71	92	5	68
Syrian Arab Republic	32	38	23	8[c]	13	48	8	67
Tunisia	56	57	49	52	73	75	20	30
United Arab Emirates	77	—	54	6	44	2	20	84
West Bank and Gaza	—	—	33	—	—	—	—	—
Yemen, Republic of	20	87	63	10	23	18	19	57
Regional averages (unweighted)								
MENA	**47**	**63**	**44**	**29**	**47**	**47**	**20**	**64**
Resource-poor	51	73	32	42	61	70	27	61
Resource-rich, labor- abundant	28	67	35	17	24	29	19	47
Resource rich, labor-importing	60	49	73	35	53	44	16	74
East Asia and Pacific	49	43	63	45	46	50	39	41
Europe and Central Asia	50	55	56	63	54	64	53	56
Latin America and Caribbean	60	57	47	46	43	42	57	42
High-Income OECD	82	63	84	63	89	48	91	48
South Asia	23	40	46	33	34	51	37	29
Sub-Saharan Africa	29	30	26	46	31	45	36	53
World	**50**	**50**	**50**	**50**	**50**	**50**	**50**	**50**

Source: World Bank staff estimates.

a. For each index, the country's current status reflects its 2007 placement in a worldwide ordering based on a variety of relevant indicators, expressed as a cumulative frequency distribution, with 100 reflecting the country with the "best" policies worldwide, and 0 representing the country with the "worst" policies worldwide.

b. Reform progress reflects the improvement in a country's rank between 2000 and 2007 (or between 2003 and 2007 in the case of business and regulatory reform) in a worldwide ordering of countries based on changes in a variety of relevant indicators, expressed as a cumulative frequency distribution, with 100 reflecting the country with the greatest improvement in rank worldwide, and 0 reflecting the country with the greatest deterioration in rank worldwide.

c. The business climate index reported in this year's MENA Economic Developments and Prospects Report has been substantially revised (reflecting both changes in the indicators used and considerable revisions to historical data) and is not comparable with the index that appeared in last year's MENA Economic Developments and Prospects report.

--- = Data not available.

1

Recent Economic Outcomes and Short-Term Prospects

Three factors have been prominent in the global economic environment in 2007 and so far in 2008: financial turbulence due to the sharp drop in market valuations of U.S. mortgage-backed securities (the so-called subprime crisis); a continuing sharp rise in the price of oil and gas; and a surge in the price of staple foodgrains such as rice and wheat. This chapter reviews the evolution of macroeconomic outcomes (such as growth, inflation, balance of payments, and fiscal balances) in the MENA region in the light of these three global developments.[1]

The main findings may be summarized as follows:

The subprime crisis has had no noticeable impact on the macroeconomic performance of the region. This is likely due to one or more of the following reasons: high oil prices may have offset the contractionary effect coming from falling OECD growth rates due to the crisis; financial markets in MENA are not closely integrated with those in the United States and Europe and so may have escaped contagion; and improvements in macroeconomic management in the region in recent years may have rendered them better able to cope with the crisis.

The rise in oil prices has mixed effects because many of the countries in the region (such as Algeria, Iran and the GCC group) are major net exporters of hydrocarbons. These have

[1] It should be noted that the cutoff date for historic data in this report, as well as for economic assumptions regarding conditions in the external environment through 2010 was March 17, 2008. Since that time developments in international markets for petroleum and agricultural commodities in particular, have diverged from the base set of assumptions posited in the spring. Oil prices are standing near $140/bbl as of mid-June 2008, and selected food prices having continued to escalate. Though the basic view for real-side activity is little changed by recent developments, a version of projections for the developing countries of the MENA region which has taken into account the large-scale shifts in the external environment may be found in Global Development Finance-2008, at the World Bank's internet site.

benefited greatly from recent buoyancy in hydrocarbon prices. Still others (such as Egypt and Syria) are essentially self-sufficient and have not been affected much on the external balance side. Finally, those who are large net importers of hydrocarbons (such as Jordan, Lebanon and Morocco) have experienced difficulties both in the balance of payments and in fiscal accounts.

The sharp rise in the price of staple foodgrains such as rice and wheat has had different impacts on different countries. Low income countries such as Djibouti and Yemen that are relatively big food importers (in terms of the proportion of imports and consumption) have been at highest risk. In Yemen, food price inflation exceeded 20 percent in 2007, the highest in the region. Other risk factors include the extent to which food features in the spending patterns of the lowest income groups in a country. Here countries like Djibouti, Egypt and Yemen have been the most vulnerable since the bottom two quintiles of their populations spend more than 50 percent of their household budgets on food. It is not surprising that both Egypt and Yemen experienced episodes of social unrest in recent months. Also, some countries have felt the pressure of food price increases directly in national budgets since they subsidize staple foodstuffs. Thus, countries like Egypt, Iran, and Syria have seen food subsidies claim shares of between 4 percent (in Egypt) and 8 percent (in Iran) of their budgets in 2007. Among GCC countries whose fiscal and external positions have been strong due to high oil prices, the chief manifestation of food price increases has been in inflation.

1.1 Overview of Recent Economic Developments

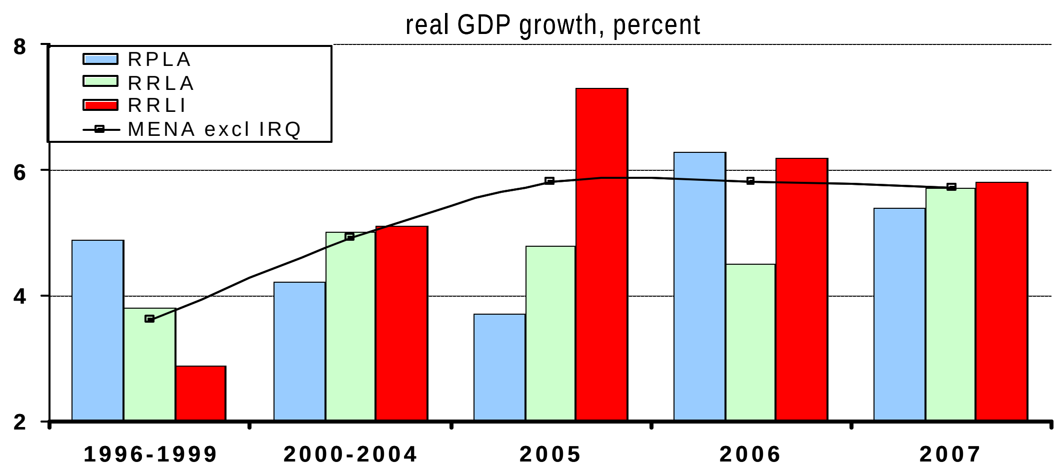
Figure 1.1 shows that growth for the MENA region eased by just a tenth of a point to 5.7 percent in 2007 and was almost evenly distributed across the important sub-groups of the region.[2] This suggests that the shocks that occurred in 2007 offset each other and/or the impact has yet to work out fully. One of the shocks, that involving oil and gas prices, worked in the region's favor and it was not badly affected by the subprime crisis in the United States and its associated dampening effect on growth in the industrialized world.

[2] Developments and prospects for the MENA region are discussed using a classification of countries within the region differentiated usefully by resource endowments, both natural resources and labor. Two groups of countries comprise the resource rich economies. The group of resource-rich, labor-abundant economies (RRLA) is comprised of Algeria, the Islamic Republic of Iran, Iraq, Syria and the Republic of Yemen. It should be noted that, due to data limitations and uncertainties regarding data quality, Iraq is often excluded, in the context of this report, from the group of resource-rich economies and from the MENA region as well. References highlight this point in tables and figures. And the resource-rich, labor-importing economies (RRLI) are Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Finally, the resource-poor, labor-abundant economies (RPLA) are Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia and the West Bank and Gaza. As is the case of Iraq, data limitations and quality issues for the West Bank and Gaza requires that this economy be excluded from sub-regional and regional aggregates. References highlight this point in tables and figures.

The lack of contagion may also be attributable to weaker integration of MENA's financial sector with those of the US and Europe and improvements in MENA's "fundamentals" over the last decade—including better fiscal and monetary management; more open regimes with more flexible exchange rates, and better debt and financial management that has reduced exposure to international capital markets.

While growth was not affected on average, the same cannot be said for inflation which rose almost everywhere in the region in 2007 (Figure 1.2) and continues to rise in 2008. The spike in 2008 is largely due to food price pressures. In the Gulf countries which peg their currencies to the dollar, inflationary pressure has been exacerbated by the sharp fall in the value of the dollar relative to other hard currencies, such as the euro and the yen.

Figure 1.1: MENA growth eases to 5.7 percent in 2007



Source: National Agencies and World Bank staff estimates.

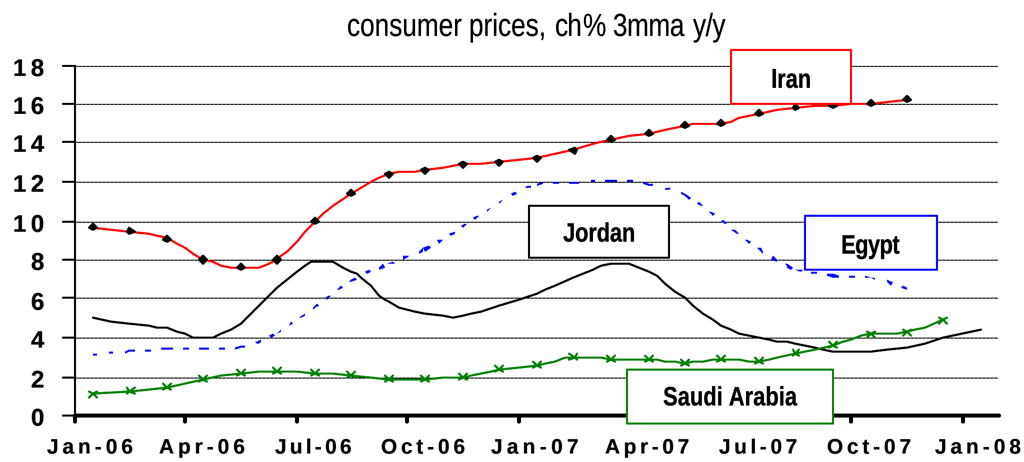
For the *resource-poor labor abundant economies* (RPLA), output growth slipped to 5.4 percent in the year from 6.3 percent in 2006. But with the exception of Morocco and Djibouti, GDP accelerated or equaled its 2006 pace in all other economies of the group. Per-capita GDP eased to 3.8 percent in the year, still well above the 2.6 percent pace of 2000-04 (table 1.1). CPI inflation continued to increase from 5.3 percent in 2005 to 6.7 percent by 2007, largely on the back of developments in Egypt (9.9% in 2007), where food and fuels prices, as well as strong liquidity conditions contributed. Egypt's CPI eased from 12 percent in March 2007 (y/y) to 6.5 percent by November; but price pressures across several MENA economies continue and remain a concern (figure 1.2).

Table 1.1: Summary of economic developments in the region by country group, 1996-2007

Country group	1996-99 (average)	2000-04 (average)	2005	2006	2007 [e]
MENA Region (excluding Iraq)					
Real GDP growth (%)	3.6	4.9	5.8	5.8	5.7
population	2.0	1.9	1.8	2.0	1.9
per-capita GDP	1.6	3.0	3.9	3.8	3.7
CPI inflation (%)	5.1	3.5	5.0	5.6	6.9
industrial production (%)	0.0	2.8	3.8	-0.2	-1.3
fiscal balance (%GDP)	-2.1	2.2	10.9	12.3	11.6
current account balance (%GDP)	0.2	7.9	17.6	20.6	19.0
foreign direct investment (% GDP)	1.0	1.3	2.6	3.8	2.9
Resource-poor, labor-abundant (RPLA)					
Real GDP growth (%)	4.9	4.2	3.7	6.3	5.4
population	1.8	1.6	1.6	1.6	1.6
per-capita GDP	3.1	2.6	2.2	4.6	3.8
CPI inflation (%)	5.3	3.4	5.3	6.2	6.7
industrial production (%)	3.4	2.2	2.0	3.9	4.6
fiscal balance (%GDP)	-3.7	-6.0	-6.8	-5.7	-6.0
current account balance (%GDP)	-3.6	-1.2	-2.1	-0.8	-1.2
foreign direct investment (% GDP)	2.1	2.2	5.5	9.1	6.9
Resource-rich, labor-abundant (RRLA)					
Real GDP growth (%)	3.8	5.0	4.8	4.5	5.7
population	1.9	1.8	1.8	2.0	2.0
per-capita GDP	1.8	3.2	2.9	2.4	3.6
CPI inflation (%)	13.9	9.2	9.2	9.3	11.3
industrial production (%)	-1.4	3.3	3.9	-1.9	-1.7
fiscal balance (%GDP)	-0.2	1.9	3.4	-0.3	0.5
current account balance (%GDP)	2.0	6.8	10.6	12.9	13.1
foreign direct investment (% GDP)	0.2	0.9	0.9	2.1	1.1
Resource-rich, labor-importing (RRLI)					
Real GDP growth (%)	2.9	5.1	7.3	6.2	5.8
population	2.8	2.8	2.8	2.9	2.9
per-capita GDP	0.1	2.2	4.3	3.2	2.8
CPI inflation (%)	0.7	0.8	2.8	3.5	4.7
industrial production (%)	-0.8	2.8	4.6	-1.2	-4.0
fiscal balance (%GDP)	-2.3	5.9	20.7	24.7	23.2
current account balance (%GDP)	1.1	12.7	27.8	31.5	28.7
foreign direct investment (% GDP)	-3.1	7.7	6.4	5.8	2.9

Source: National Agencies, International Monetary Fund, UNCTAD and World Bank staff estimates.
Note: The MENA region includes the resource poor-labor abundant (RPLA) economies: Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia and the West Bank and Gaza; the resource-rich labor abundant (RRLA) economies: Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic and the Republic of Yemen, and the resource-rich labor-importing (RRLI) economies: Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). Due to data limitations, the West Bank and Gaza (WBG) is not included in regional or sub-regional aggregates. In addition to the resource-based classifications, aggregates are presented for groups based on geography- and trade. The Maghreb consists of Algeria, Libya, Morocco and Tunisia. The Mashreq is comprised of Iraq, Jordan, Lebanon, Syria and WBG. The Gulf Cooperation Council (GCC) members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE. And 'other' consisting of Djibouti, Egypt, Iran and Yemen. Finally, net oil importers of the region include Djibouti, Jordan, Lebanon, Morocco and Tunisia. All others are considered net exporters.
— = data not available.
e = estimate.

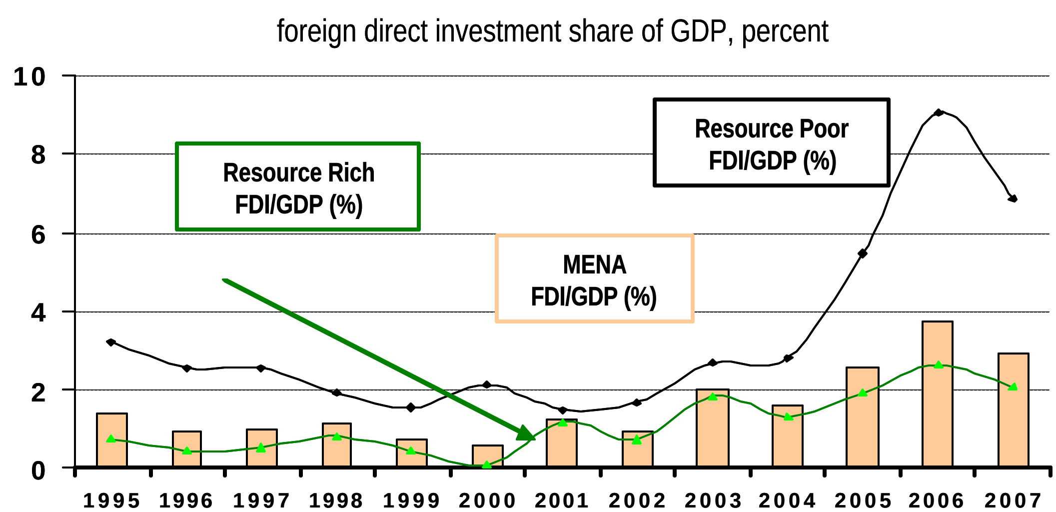
Figure 1.2: Inflation trends in selected countries



Source: International Monetary Fund.

RPLA industrial production picked-up to a GDP-weighted average of 4.6 percent in 2007, strongest across MENA groups, with favorable performance in Tunisia (10%), Morocco (5%), Egypt and Jordan (4%). Fiscal balances have deteriorated moderately, coming to stand at deficit of 6 percent of GDP in 2007, with Egypt showing improvement. The current account balance for the group remains in modest deficit, with Egypt and Morocco in surplus. And, regarding FDI, aside from the GCC countries, the RPLA group has been the prime focus of interest, with FDI inflows of near 7 percent of GDP in 2007, down slightly from the record 9.1 percent outturns of 2006 (figure 1.3).

Figure 1.3: FDI flows to MENA region just off the record highs of 2006



Source: National agencies, International Monetary Fund, UNCTAD and World Bank staff estimates.

Developments for the group of *resource-rich labor-abundant* economies (RRLA) are dominated by key hydrocarbon producers Iran and Algeria. Syria and Yemen fall much down the scale of oil supply (with quickly diminishing reserves), and with economies more diversified in manufacturing and basic services. And economic conditions in Iraq, classified among this group, are volatile and difficult to measure under present circumstances. Dollar GDP for the country is estimated slightly above $60 billion in 2007, though this figure is banded with exceptional uncertainty.[3]

Growth in the RRLA group rose from 4.5 percent in 2006 to 5.7 percent in 2007, supported mostly by rising output in both Iran and Algeria. Growth eased in the remaining countries of the group, notably so in Syria (from 5.1 to 3.9 percent). In line with improvements in group output, per-capita GDP advanced 3.6 percent in the year, above its longer-term trend. Several developments apparent for the group highlighted in table 1.1 are linked to conditions in Iran. Due in part to its policy imperative of "sharing the wealth" Iran continues to register fiscal deficit (4.7 percent of GDP)—despite rising large current account surplus positions 11 percent—and inflation continues to accelerate (to 16.8 percent in 2007). FDI is seeing first increases in Algeria, while hydrocarbon production is dropping across all economies of the group.

For the *resource-rich, labor-importing* (RRLI) countries, developments appear to have been mixed in 2007. GDP growth fell to 5.8 percent from 6.2 percent in 2006, as 5 out of 7 oil exporters saw growth rates ease due to a scaling back of crude oil production by 4.7 percent. Inflation rose to 4.7 percent (GDP weighted), and price pressures continue to build in virtually all GCC countries. On the external and fiscal sides, the boost to oil revenues has helped to maintain current account surplus positions just below 30 percent of GDP, while fiscal surpluses continue to range near the 25 percent mark.

1.1.1 Sources of growth

The role of different sources of growth for the MENA region has changed over the course of the decade. During the early part of the decade, growth was pulled along largely by domestic consumption (see Table 1.2, top panel). Since then, the contribution of investment has been rising and in 2007 this source accounted for more than 100 percent of real GDP growth (offset in part by large negative contributions from net exports.) Note also that the contribution of government consumption to growth, which had increased over 2004-2006, declined in 2007.

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[3] Iraq is not included in the RRLA aggregate figures discussed here or elsewhere in the report.

Table 1.2 also highlights that the RPLA economies witnessed a fall-off in GDP growth of almost a full point to 5.4 percent in 2007, despite an upturn in the contribution of domestic demand to an unprecedented 8.6 percentage points, linked in turn to a step-up in investment growth of 20 percent in the year, boosting GDP by 4.7 points. The offset was a move-up to a large 17 percent increase in import volumes (in part related to drought in Morocco, but also to strong demand in Egypt and to massive imports of rebuilding materials for Lebanon). Net exports exerted a 3.2 point drag on growth to offset the 8.6 point gain in overall domestic demand.

Among oil exporters of the region, the RRLA group (excluding Iraq), experienced a pick-up in growth of 1.2 points in 2007 to 5.7 percent. GDP gains for the year were grounded in substantial fiscal outlays, funded from oil revenues. Private consumption benefited from—in some cases, an administered wage hike for public employees, in others, increased subsidies from the central government— and advanced 5.2 percent, adding 2.6 points to GDP growth. Domestic investment however was the key driver for growth in RRLA countries, advancing at the fastest pace in 10 years (13.8 percent), and contributing 4.6 points to GDP growth.

Table 1.2: Sources of growth for the region, by country group, 1996-2007

Country group	1996-99 (average)	2000-04 (average)	2005	2006	2007 [e]
MENA Region (excluding Iraq)					
Real GDP growth (%)	3.6	4.9	5.8	5.8	5.7
contributions to GDP growth (points) from:	*3.6*	*4.9*	*5.8*	*5.8*	*5.7*
domestic demand	3.5	6.4	8.3	8.3	10.2
private consumption	1.7	3.5	2.1	2.1	2.5
government consumption	0.6	1.2	2.3	2.6	1.6
gross domestic investment	1.3	1.7	3.9	3.6	6.1
net exports GNFS /a	0.1	-1.5	-2.5	-2.5	-4.5
Resource-poor, labor-abundant (RPLA)					
Real GDP growth (%)	4.9	4.2	3.7	6.3	5.4
contributions to GDP growth (points) from:	*4.9*	*4.2*	*3.7*	*6.3*	*5.4*
domestic demand	4.9	3.6	4.5	5.9	8.6
private consumption	2.6	2.6	3.1	2.9	2.5
government consumption	0.6	0.4	0.4	0.5	1.4
gross domestic investment	1.6	0.6	1.0	2.5	4.7
net exports GNFS	0.0	0.6	-0.8	0.3	-3.2
Resource-rich, labor-abundant (RRLA)					
Real GDP growth (%)	3.8	5.0	4.8	4.5	5.7
contributions to GDP growth (points) from:	*3.8*	*5.0*	*4.8*	*4.5*	*5.7*
domestic demand	2.6	6.3	5.2	5.4	7.9
private consumption	1.2	3.3	1.7	2.6	2.6
government consumption	0.0	0.6	1.3	0.7	0.6
gross domestic investment	1.4	2.5	2.2	2.0	4.6
net exports GNFS	1.1	-1.3	-0.4	-0.9	-2.2
Resource-rich, labor-importing (RRLI)					
Real GDP growth (%)	2.9	5.1	7.3	6.2	5.8
contributions to GDP growth (points) from:	*2.9*	*5.1*	*7.3*	*6.2*	*5.8*
domestic demand	3.3	7.7	11.6	10.7	12.1
private consumption	1.4	4.0	1.8	1.4	2.5
government consumption	0.9	1.8	3.7	4.4	2.1
gross domestic investment	1.0	1.9	6.0	4.9	7.5
net exports GNFS	-0.4	-2.6	-4.3	-4.5	-6.3

Source: National Agencies, International Monetary Fund, UNCTAD and World Bank staff calculations.
Note: /a Change in net exp orts of goods and non-factor services as a share of lagged GDP, or GDP [-1], includes residual. Also see footnotes to Table 1.1.
e = estimate.

In contrast to the moderate growth upturn for the RRLA group in 2007, activity among the RRLI countries—effectively the Gulf Cooperation Council (GCC) members and Libya—dipped by 0.4 percentage points to 5.8 percent growth in the year. For a third year in succession, RRLI growth was supported by double-digit contributions from domestic demand, increasing from 10.7 points in 2006 to 12.1 points in 2007, with a shift over the last 3 years from consumption toward investment outlays. But as oil export volumes for this group experienced effectively zero growth in the year (revenue gains rising entirely from price increases), and with imports running at a strong 12 percent pace, the drag from net exports cancelled more than half of the stimulus from domestic demand.

1.1.2 Growth among resource-poor MENA economies

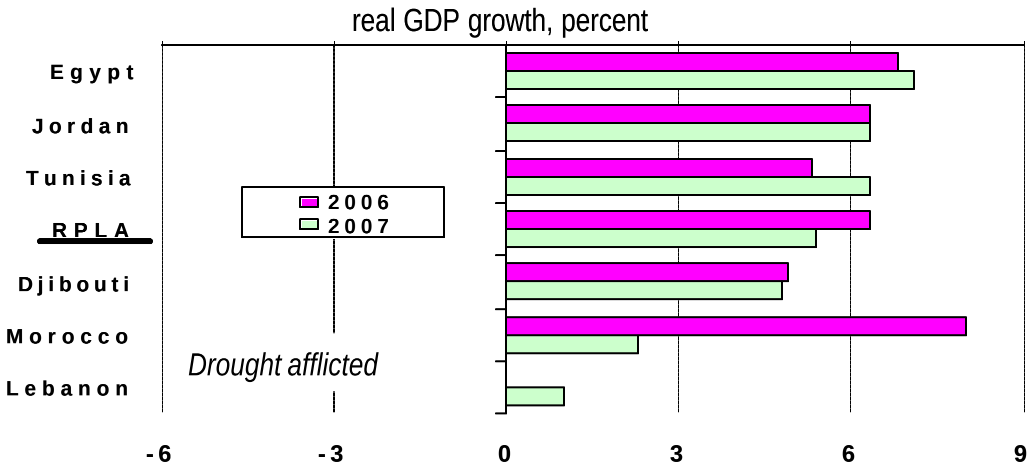
GDP growth eased from 6.3 percent in 2006 to 5.4 percent among the RPLA economies during 2007—though a severe drought suffered by Morocco (the second in three years) reduced output growth there from a record 8 percent in 2006 to 2.3 percent. This tends to mask improvements across a wider range of countries (table 1.3 and figure 1.4). Growth in Egypt, which reached a record 7.1 in 2007, is broadly based with non-oil manufacturing and retail trade accounting for half of overall output growth. Fastest growing sectors include construction, Suez Canal traffic, communications and tourism. Exports boomed (15-20 percent) but still stronger import demand (29 percent) kept the contribution of trade to growth negative, while worsening the country's balance of trade. But for Egypt and other countries of the group, tourism, other services receipts and burgeoning remittances continue to outweigh shortfalls on trade and help maintain current account surplus positions.

Table 1.3: GDP growth for the region, by country group, 1996-2007

Country group	1996-99 (average)	2000-04 (average)	2005	2006	2007 [e]
MENA region (including Iraq)	—	**4.6**	**5.8**	**5.8**	**5.7**
MENA region (excluding Iraq)	**3.6**	**4.9**	**5.8**	**5.8**	**5.7**
Resource-poor, labor-abundant (RPLA)	**4.9**	**4.2**	**3.7**	**6.3**	**5.4**
Djibouti	-0.7	2.4	3.2	4.9	4.8
Egypt, Arab Republic of	5.6	3.9	4.4	6.8	7.1
Jordan	2.9	5.6	7.1	6.3	6.3
Lebanon	2.8	4.2	1.0	0.0	1.0
Morocco	4.4	4.8	2.4	8.0	2.3
Tunisia	5.9	4.6	4.0	5.3	6.3
West Bank and Gaza	—	—	—	—	—
Resource rich, labor-abundant (RRLA)					
RRLA countries (incl. Iraq)	**5.3**	**4.1**	**4.7**	**4.5**	**5.7**
RRLA countries (excl. Iraq)	**3.8**	**5.0**	**4.8**	**4.5**	**5.7**
Algeria	3.4	4.3	5.1	1.8	3.0
Iran, Islamic Republic of	3.8	5.7	4.6	5.9	7.6
Iraq	—	-22.5	-0.7	6.2	2.8
Syrian Arab Republic	4.4	3.9	4.5	5.1	3.9
Yemen, Republic of	4.9	4.3	5.6	3.2	3.1
Resource-rich, labor-importing (RRLI)	**2.9**	**5.1**	**7.3**	**6.2**	**5.8**
Bahrain	4.0	5.6	7.9	6.5	6.6
Kuwait	1.2	6.8	11.5	6.4	4.6
Libya	1.0	3.8	6.3	5.6	5.4
Oman	2.9	4.6	5.6	7.0	6.9
Qatar	12.0	9.1	9.2	10.3	14.2
Saudi Arabia	2.1	3.7	6.1	4.3	4.1
United Arab Emirates	5.2	7.6	8.2	9.4	7.7
By geographic subregion					
Maghreb	3.4	4.4	4.5	4.7	3.8
Mashreq (excl. WBG, Iraq)	3.5	4.3	3.7	3.4	3.4
Gulf Cooperation Council (GCC)	3.1	5.3	7.4	6.3	5.9
Other	4.7	4.8	4.6	6.2	7.2
By oil-trade group					
Oil-exporting countries (excl. Iraq)	3.5	4.9	6.2	5.8	6.0
Oil-importing countries (excl WBG)	4.2	4.7	3.0	5.6	3.4
Comparator regions					
MENA (excl. Iraq)	**3.6**	**4.9**	**5.8**	**5.8**	**5.7**
All Developing countries	**4.1**	**5.0**	**6.8**	**7.5**	**7.4**
East Asia and the Pacific	6.2	8.0	9.1	9.8	10.0
Europe and Central Asia	2.0	5.4	6.2	6.9	6.7
Latin America and the Caribbean	3.0	2.2	4.7	5.6	5.1
South Asia	5.7	5.6	8.7	8.9	8.4
Sub-Saharan Africa	3.4	4.0	5.8	5.7	6.1

Source: National agencies and World Bank staff estimates.
Note: See footnotes to Table 1.1.
e = estimate.
— = data not available.

Figure 1.4: Generally favorable growth among RPLA economies in 2007



Source: National Agencies and World Bank estimates.

For the RPLA group, 2007 also marked a watershed for several countries in the area of finance. Fitch Agency raised Egypt's Issuer Default Rating (IDR) to a positive outlook. And Morocco was awarded investment grade status for its sovereign bonds and quickly raised €500 million ($685 million) at a low 55 basis point spread above comparable European securities.

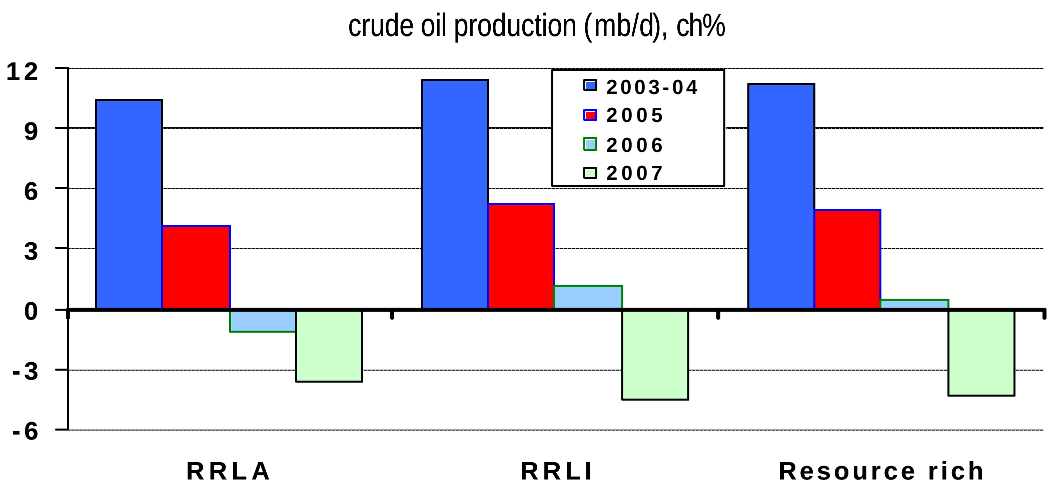
In Morocco and Tunisia, reforms are making headway in improving the business climate and increasing the competitiveness of the export sector. A Free Trade Agreement was signed among Morocco, Tunisia, Jordan and Egypt (the Agadir Agreement) that sought to align 'rules of origin' with those adopted under the EU-Med Agreements. Foreign direct investment is becoming an important driver for private investment and growth in this group of countries; and as reforms proceed, the potential for attracting additional FDI grows in step.

Output in Tunisia grew by 6.3 percent in 2007, with private consumption, government infrastructure spending and FDI—a strong $3.8 billion in the year— powering growth. Output gains in Jordan duplicated the strong 6.3 percent pace of 2006, as remittances ($2.8 billion), tourism revenues ($1.7 billion) and FDI ($1.7 billion) helped to support consumption and investment growth at high rates. The situation in Lebanon remains fluid, and estimates suggest that growth rose by 1 point in the year. Finally, among RPLA economies seeing continued favorable gains in activity, GDP advanced 4.8 percent in Djibouti, on increased port construction outlays and rising activity in the country's Free Trade Zone.

1.1.3 Growth among resource-rich MENA economies

This group grew at 5.8 percent in 2007, up slightly from 5.7 percent the year before but at much less than the 6.5 percent average of a few years ago. The slower recent advance reflects several factors, including diminishing hydrocarbon revenues at the margin in the last year; the coming to fruition of several large public infrastructure investment programs, but also a broader lack of investment funding targeted at the oil and gas sectors, which could carry benefits for producers as well as consumers over the medium term. Important among these is a fall in output of oil and related products across the resource-rich economies, with a few notable exceptions—Iraq and Bahrain (figure 1.5).

Figure 1.5: Oil production cuts in 2007 – capacity maximum and/or OPEC quotas



Source: International Energy Agency (IEA) and World Bank data and estimates.

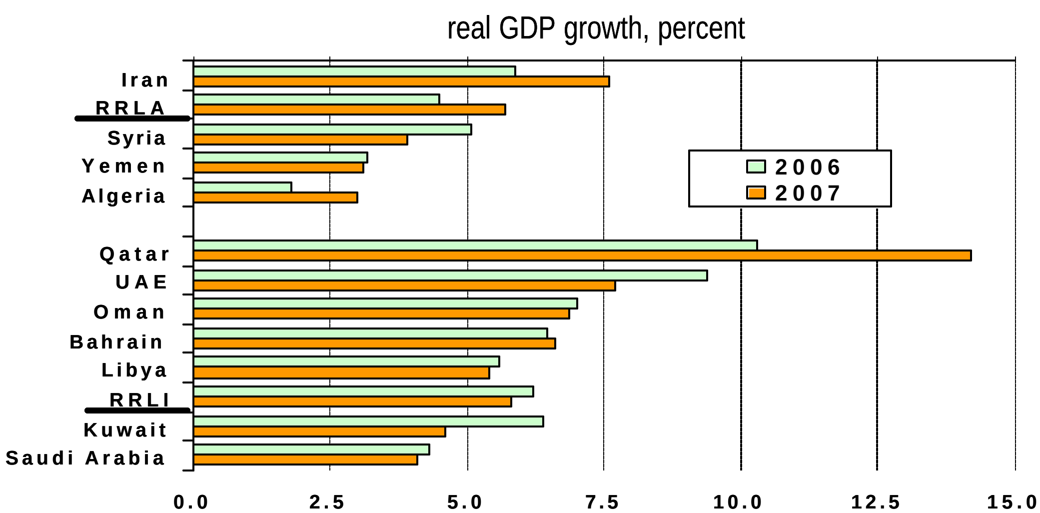
Due to capacity constraints, or to management of oil output to keep production in line with OPEC quotas, cuts in production (mb/d terms) amounted to 4.3 percent for all resource rich economies in 2007, with the scale-back among the laboring importing countries a sharper 4.6 percent. Reductions in output ranged from 11.7 percent in Yemen, to 8.4 percent in Kuwait, to 4.9 percent in Saudi Arabia to 0.7 percent in Algeria. These carried important implications for growth, through public sector revenues and spending, as well as management and disposition of the fiscal surplus.

Growth among the resource-rich, labor abundant economies rose from 4.5 percent in 2006 to 5.7 percent in 2007. Output gains in Algeria have been constrained by a fall in hydrocarbon output, with GDP advancing just 1.8 percent in 2006 and 3 percent in 2007. Following a massive 40 percent surge in oil and gas output in 2004, production tailed off to decline by 2007. But non-hydrocarbon activity expanded by a strong 6 percent in 2007.

A major government investment initiative has belatedly started and is slated to expend more-than $22 billion over the next years on housing, transport and agriculture. This is now boosting job growth in construction and related sectors, and underpinning strong household spending. In Iran, due to major fiscal expansion over 2006 and 2007—seen in movement to budget deficit accumulating to 11.9 percent of GDP over these years from surplus in 2005, growth has stepped up to 7.6 percent from 5.9 percent in 2006.

Among the resource-rich, labor importing economies, some 5 of 7 oil exporters experienced a growth slowdown in 2007, in large measure linked to drag on GDP from net exports, so-called "leakage" of growth momentum—very little export volume growth against continued double-digit gains in import demand. GDP growth for Saudi Arabia, the United Arab Emirates, Oman and Libya retained firm tenor in the year but diminished in 2007. Saudi GDP eased to 4.1 percent from 4.3 percent in 2006, that for the UAE, a more marked slowdown from 9.4 percent to 7.7 percent, while Oman and Libya grew at 7 and 5.5 percent respectively. An 'outlier' among the group is Qatar, which had enjoyed near double-digit GDP gains over 2004-06, sustained by rising government spending, grounded in a doubling of oil export revenues to $24 billion over the period. Construction related to Liquefied Natural Gas (LNG) transport facilities boomed, pushing Qatar to the top among global LNG exporters. Growth picked up markedly to 14.2 percent in 2007 from 10.3 percent the preceding year.

Figure 1.6: Mixed growth outturns for 2007 across oil exporting countries



Source: National Agencies and World Bank estimates.

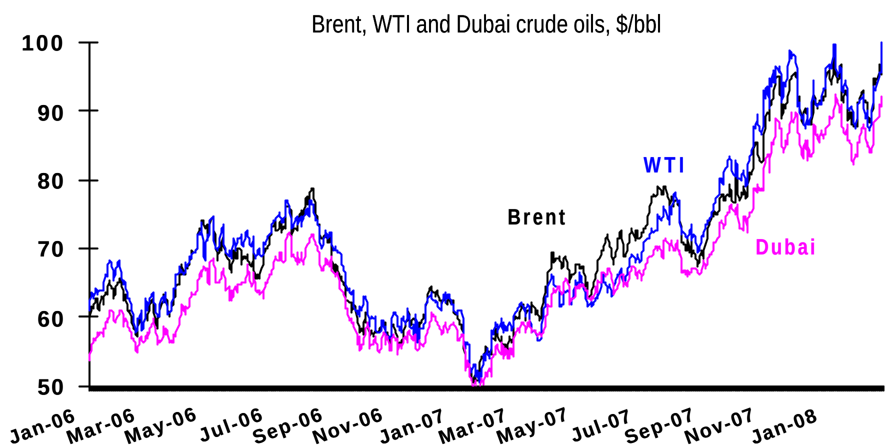
1.2 Developments in the External Sector

MENA trade in goods and services set fresh records during 2007. Goods exports were supported by higher oil prices and by improved conditions in key export markets. Imports continued rapid growth, particularly among the resource-rich economies in support of on-going investment projects. In nominal terms, imports were also moved higher by unprecedented increases in food and related prices (for the RPLA group, this terms of trade development was intensified by the escalation in oil prices). Yet record highs in tourism receipts for RPLA economies and for worker remittance credits (and debits) helped to moderate deficit (RPLA) or surplus (resource rich) positions in goods trade. Current account positions saw moderate downdrafts in the year from the highs of 2006 (as a share of GDP). And external finance was quite favorable, once more underpinned by near record flows of foreign direct investment, a larger share of which now originating from within the region.

1.2.1 Oil market conditions

Nominal oil prices (in dollars) first broke through historic records in November 2007, eventually pushing above $100 per barrel and, as of this writing (June 2008) fluctuating at the $140 level. As equity- and fixed-income markets in the industrial countries have come under pressure, tied to the sub-prime mortgage crisis in the United States, large amounts of capital have left these investments and flooded into commodity funds and similar vehicles. Investment positions have complemented fundamental market pressures to boost crude oil prices to extraordinary levels (figure 1.9).

Figure 1.7: Oil prices rebound sharply breaching $100/bbl in early 2008

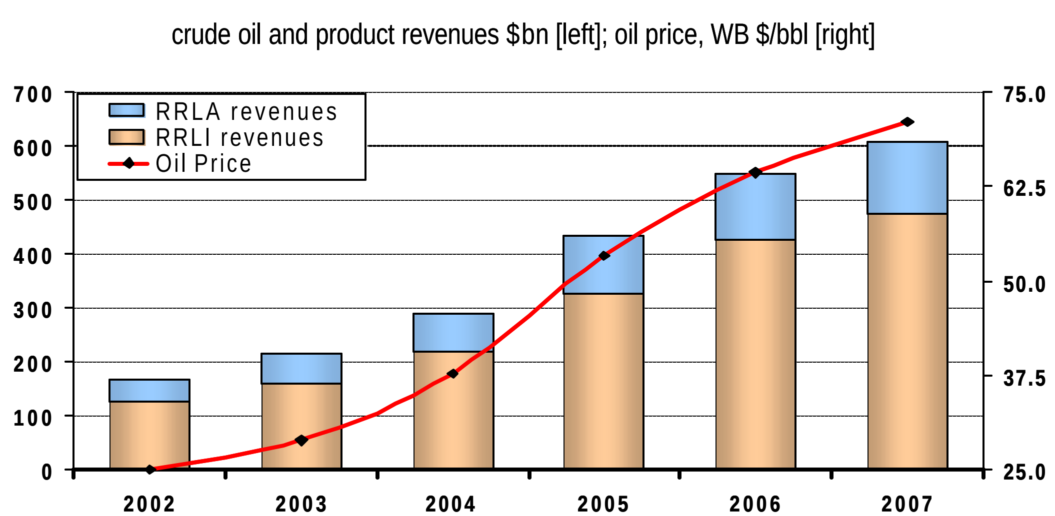


Source: DECPG Commodities Group, World Bank.

Higher oil prices have reduced growth in global oil demand, particularly in high-income countries. OECD demand declined for six consecutive quarters beginning in the fourth quarter of 2005, with an average drop of more than 0.4 million barrels a day (mb/d). In non-OECD economies, oil demand grew just over 1mb/d since 2005, down sharply from the surge of 2004. And supply in several non-OPEC producers, especially Russia and countries in Western Africa has increased during the second half of 2007. Among OECD countries, Canadian production continues to grow predominantly from oil-sands, while significant new output in the deep-water U.S. Gulf of Mexico is starting up. As demand eased and non-OPEC supply increased, OPEC countries reduced output in 2007 to prevent further increases in stocks and a fall in prices.

Figure 1.10 shows that, for the resource-rich oil exporters in MENA (excluding Iraq), the oil price advances of the last 2 years, together with production and export profiles have yielded revenue growth of some 40 percent between 2005 and 2007, with oil and related receipts increasing from $435 billion to $610 billion. The bulk of revenues (some 75 percent in 2007) have accrued to the large RRLI producers, including Saudi Arabia ($230 billion), the United Arab Emirates ($76 billion) and Kuwait ($63 billion).

Figure 1.8: Oil price and growth of revenues among oil exporters, 2002 – 2007



Source: UN Comtrade, International Monetary Fund, IEA, World Bank.

1.2.2 Exports of goods

Exports of merchandise from the region amounted to nearly $800 billion in 2007, of which $620 billion comprised oil and related products. This represents an 11.8 percent advance on 2006, with oil gaining 11 percent and non-oil exports growing a robust 15 percent. Higher oil prices account for the full upswing in export receipts while higher shipments of manufactured goods to Western Europe, the United States and East Asia helped underpin export gains for the RPLA countries. Within this group, exports were particularly strong for Tunisia (32 percent), with a promising upturn in textiles and apparel shipments, and Morocco (23 percent). Egypt did particularly well, registering a 20 percent surge in oil and gas exports and a 35 percent surge in non-oil exports during the year.

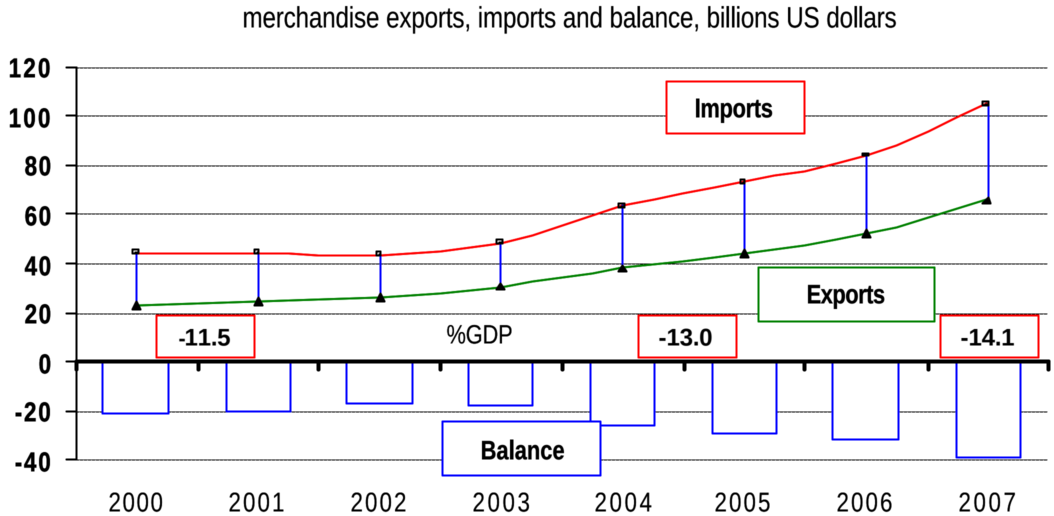
A scale-back in output was a clear factor in the oil export picture for the year, with estimates that MENA exporters cut production by 4.3 percent. The World Bank's average oil price for 2007 registered $71.1/bbl, up 10.6 percent from the $64.3/bbl level of 2006 (see table 1.5, below). Though prices of country-or quality-specific crude oils will vary from the Bank's average measure, those exporters enjoying revenue gains in excess of 10.6 percent can be posited to have witnessed production and export volume gains in the year. Three countries achieved strong gains: Saudi Arabia (12.5 percent); Bahrain (20 percent) and Egypt (20 percent).

1.2.3 Imports of goods

Goods imports in MENA rose by 13.8 percent in 2007 to reach $452 billion, yielding an aggregate trade surplus of $346 billion. This represents improvement of a moderate $30 billion over 2006 results, standing at 22.6 percent of regional GDP. The resource rich economies accounted for 78 percent of total imports, increasing 10.7 percent. For the RPLA economies, merchandise imports grew by 25 percent to $105 billion in the year. Goods imports into Egypt soared 36 percent to $39 billion; Moroccan imports were up 25 percent, and Lebanon's advanced 18 percent, on the back of inbound materials and equipment to restore and rebuild infrastructure.

Oil and critical non-oil commodity prices (grains and other foodstuffs in particular) have come to affect terms of trade for the RPLA countries adversely. For the group, food and beverages account for 12 percent of the import basket, fuels, another 12 percent, and raw- and intermediate industrial materials some 37 percent. On balance, nearly 60 percent of the import bill stands exposed to potential adverse developments in international commodity markets. Figure 1.13 shows that the combination of continued strong growth in both exports and imports yielded an increase in the RPLA goods deficit to $39 billion, or 14.2 percent of GDP in 2007. Such deficits are likely to persist for some time, but burgeoning receipts associated with tourism, other services and worker remittances help to offset the shortfall on trade, supporting current account positions that-, for the majority of RPLA countries-, continue to be sustained at levels near balance.

Figure 1.9: RPLA deficit on goods trade continues to widen on strong imports



Source: National agencies, International Monetary Fund and World Bank.

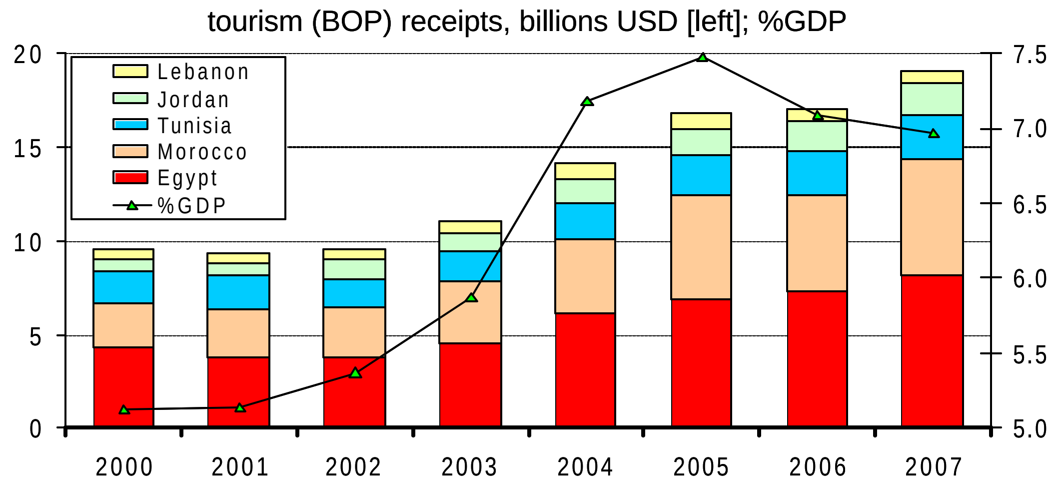
Imports of the resource-rich countries increased to $347 billion in the year, a gain of 10.7 percent on 2006 outturns. Against exports of $732 billion, the goods surplus position increased to $385 billion, up from $348 billion in 2006. Measured as a share of GDP, the surplus position inched down from 30.8 to 30.6 percent.

1.2.4 Tourism

Tourism revenues form a significant portion of external receipts and account for a sizeable share of GDP for a number of countries in the MENA region. This is especially the case for the RPLA countries including Morocco, Tunisia, Jordan, Lebanon and Egypt. Among GCC countries, Saudi Arabia is a key destination for religious tourism and Dubai for a more contemporary style of tourism. For the region as a whole, tourism revenues[4] grew by 12 percent in 2007 to reach $29.2 billion.

[4] Tourism revenues here measured as the IMF Balance of Payments (BOP) services category ‘Travel, credit’. This does not include second-round effects of tourism-related spending on the domestic economy.

Figure 1.10: RPLA tourism revenues pick-up on 2006 outturns



Source: World Bank, International Monetary Fund, World Tourism Organization.

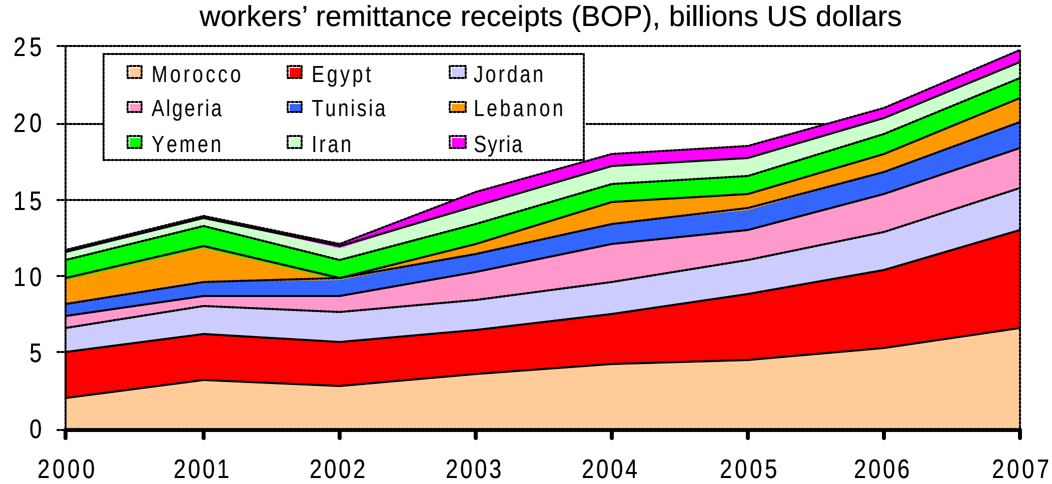
Highlighted in figure 1.14, Egypt and Morocco, among the RPLA group, have enjoyed the strongest growth in revenues over the last years, in part as investment in improved tourism infrastructure is increasingly in place (much tied to FDI from the Gulf countries), and economic growth in Europe gained firmer footing. Egypt's efforts to diversify the tourism base, appealing to residents of the GCC, as well as new markets in Central Europe and the former Soviet Union have paid handsome dividends. During Egypt's FY07, tourist arrivals burgeoned by 12.6 percent, with earnings up 14 percent to $8.2 billion (6.5 percent of GDP). And in Morocco tourism receipts advanced 22 percent in 2007, to reach $7.2 billion (almost 10 percent of GDP).

1.2.5 Remittances

Research interest in worker remittances has recently revived. The World Bank has launched studies to better understand the underlying motivations for migration, the channels and cost structures affecting remittances, and the use to which remittances are put in the recipient country.[5] This renewed interest stems from the sheer size of these transfers: inflows to developing countries are estimated at $240 billion in 2007. Contrasted with capital flows to emerging markets, recorded remittances exceed official development assistance, and amount to about half of all portfolio debt and equity flows, as well as one-half of FDI inflows.

[5] See www.worldbank.org/prospects/migrationandremittances for the array of projects underway, data definitions and access to the World Bank's database on remittances.

Figure 1.11: Worker remittances surge in a number of recipient countries



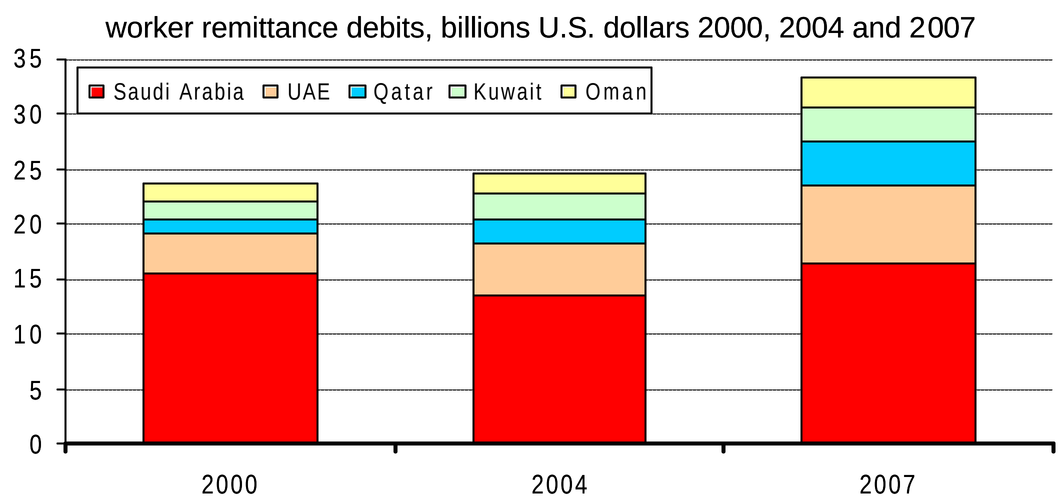
Source: World Bank, International Monetary Fund and National Agencies.

The MENA region is unusual in that some of the larger remittance-recipient countries are close neighbors to some of the larger remittance-source countries, e.g. Morocco and Saudi Arabia. Gross remittance inflows to recipient countries in MENA increased 17.6 percent in 2007 to stand at $24.7 billion. And this comes on the heels of a 14 percent jump during 2006, which carried income flows to $21 billion. Morocco has maintained its first place in "league standings", with remittances advancing 25 percent to $6.7 billion in 2007, in part reflecting the continuation of stronger economic activity in the Euro Area (figure 1.15). And Egypt stands as second largest recipient, amounting to $6.3 billion in 2007, also up 25 percent over 2006 levels. As a share of GDP, however, Jordan is most reliant on this income source (notably from the GCC countries) registering 17.8 percent of output in 2007 at $2.8 billion. And fastest growth in remittances during 2007 was experienced by Lebanon, gaining 50 percent to $1.5 billion.

The bulk of remittance receipts noted above are sourced from the expatriate labor force in Western Europe—a shift from the 1970s and early 1980s, due in part to political considerations, when a good portion of income was secured, for example by Egyptian or Palestinian workers in Saudi Arabia or Kuwait. The bulk of remittances flowing out of the GCC countries at present are destined primarily for South Asia (Pakistan), East Asia (Philippines) and in smaller amounts throughout the broader Asia region.

Among the resource-rich laboring importing countries, gross remittance payments increased moderately in 2007, up 6.7 percent to $35 billion, in the wake of a sharp 16 percent upturn in 2006 (figure 1.16). Saudi Arabia retains first place in standings, with remittance outflows of $16.4 billion, or more-than half of the debits of the high-income oil exporters. As a proportion of GDP, payments are largest for Qatar (7.5 percent), while exceptionally rapid growth is underway in the UAE (15 percent annually over 2005-07), reflecting a surge in construction, services and other activities requiring extensive use of an expatriate labor force. For the MENA region, remittances continue to record net outflows ($10.4 billion in 2007), a reflection the longer-term trend of sourcing labor from South-and East Asia for work efforts among the GCC.

Figure 1.12: GCC countries remittance outflows pick-up over the last 3 years



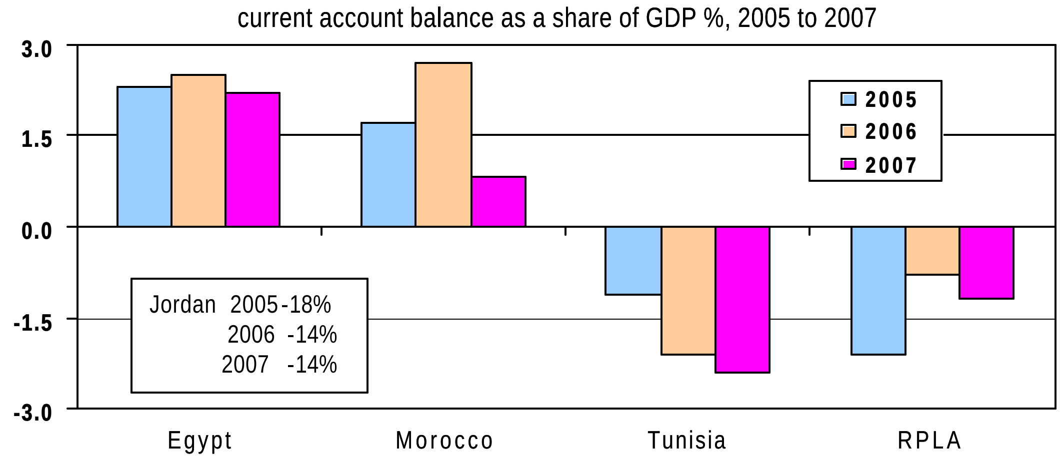
Source: World Bank, International Monetary Fund and National Agencies.

1.2.6 Current account balances

Given developments in goods trade, services exports and in-and outflows of remittances during the year, the regional current account surplus position inched higher to $290 billion from $282 billion in 2006 (or a decline from 20.6 percent of GDP to 19 percent). But the aggregate picture tends to mask diverse conditions across MENA groups.

The RPLA current account deficit displayed a moderate deterioration for 2007, as surpluses in Egypt, Morocco and Tunisia eased during the year, and Jordan displayed no change at deficit of about 14 percent of GDP (figure 1.17). As a proportion to RPLA GDP, the group's current account deficit widened from 0.8- to 1.2 percent in the year.

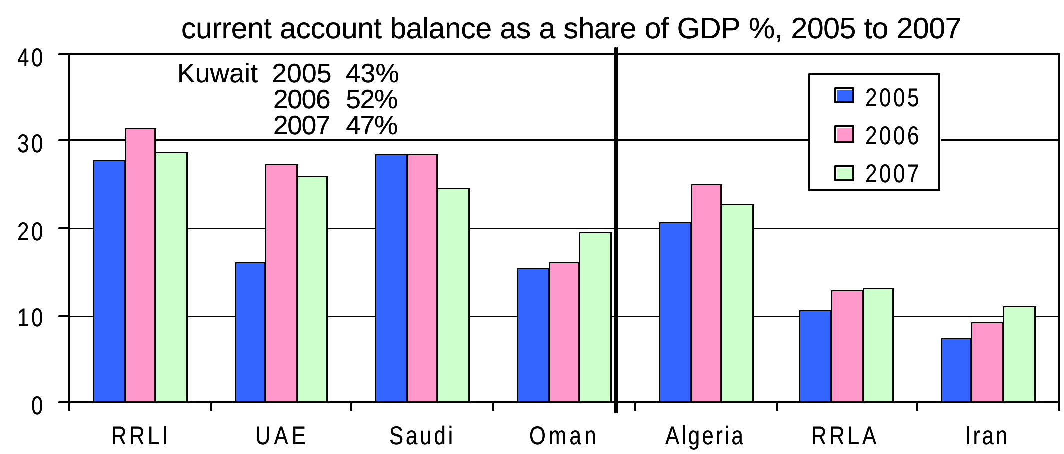
Figure 1.13: RPLA* current account shows modest deterioration



Source: National Agencies and World Bank. *Excludes Lebanon and West Bank and Gaza.

Among the resource-rich economies, the surplus position of the RRLI group moved slightly higher, but differing developments characterized the major oil exporters of the group (figure 1.18). Among large downward shifts Libya saw its current account surplus fall from 43 percent of GDP to 34 percent, and Kuwait from 51.7 percent of GDP to 46.9. Among large upward shifts were Qatar (30.5 to 33 percent of GDP) and Oman (16.1 to 19.6 percent). In contrast, the surplus position of the RRLA group increased modestly from 12.9 percent of the group's GDP in 2006 to 13.1 percent, on the back of an improved surplus for Iran, moving from $20 billion to $26 billion in the year.

Figure 1.14: Research-rich* current surplus remains at high levels

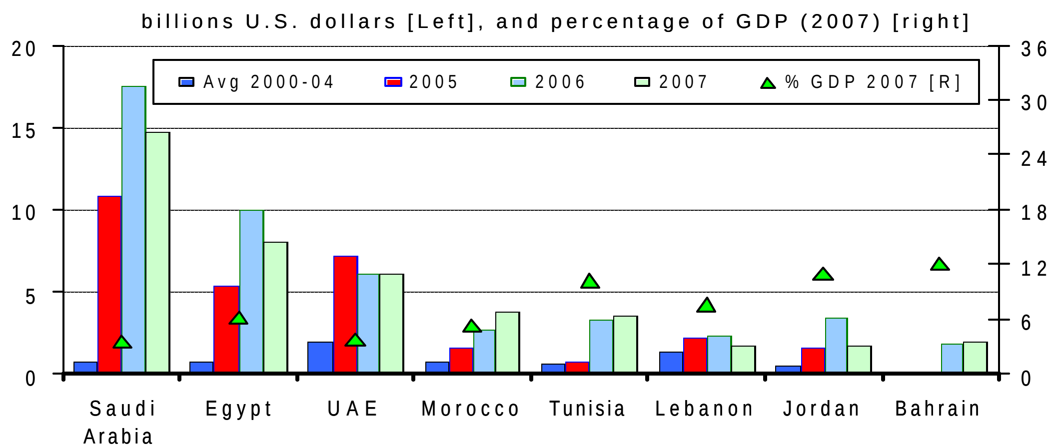


Source: National Agencies and World Bank. *Selected economies.

1.2.7 Foreign direct investment

Sustained economic growth over 2003-2006 in conjunction with economic diversification and ongoing reforms and privatizations, attracted large FDI flows to the MENA region. Both resource-rich and resource-poor countries received larger FDI flows relative to previous years in 2006, the all-time peak year. However, FDI flowing to oil exporting economies had been much stronger over the three years leading up to 2006, as a result, flows to oil producing countries overtook flows to oil importing countries in 2005. With additional data on board, revised figures for 2006 show that the MENA region experienced a sharp increase in FDI flows to a record $51.6 billion, up one-third in the year, thanks to a $7 billion increase in flows to Saudi Arabia, totaling $17.5 billion (figure 1.19).

Figure 1.15: Foreign direct investment in selected countries



Source: United Nations and World Bank data estimates.

For most recipient countries—Morocco and Tunisia are exceptions—FDI inflows tailed off moderately during 2007, but remained at high levels—$45 billion or 2.9 percent of regional GDP. Saudi Arabia retained its position as the top FDI recipient in the region in 2007 ($14.7 billion), but an almost doubling of flows into Egypt during 2006 moved the country into second place in the year ($8 billion). When contrasted with FDI/GDP ratios across the developing world (excluding China), MENA saw a more rapid increase over 2005-07 and its share in world FDI increased from an average 1.8 percent during 2000-04 to 4.7 percent over 2006-07.

Data collected by the Euro-Mediterranean Network of Investment Promotion Agencies (ANIMA) for 2003-2006 suggests that, while the lion's share of FDI is targeted to the energy sector- and oil and gas-related manufacturing (e.g. petrochemicals), other sectors such as finance, real estate, construction, textiles and telecommunications have also attracted considerable FDI. For example, Egypt's banking system has received sizeable flows, while Morocco attracted investment into its agro-business sector.

While comprehensive data on intraregional FDI flows are not readily available, some examples provide a flavor. The UAE invested €6 billion ($7.6 billion) in Egypt in 2006 in transport infrastructure, tourism, real estate and telecoms. Egypt also received €1.4 billion ($1.8 billion) from Kuwait, flowing mainly into public works, transport and tourism. In Tunisia, Bukhater (UAE) will invest in the $5 billion real estate complex "Tunis City of Sport", expected to create 40,000 jobs, while Emaar Properties (UAE) plans to invest $1.9 billion in Qussor Marina projects. Finally in Jordan, the Lebanese company Development Horizon is planning to invest $5 billion over 10 years in the Aqaba urban regeneration project and Bahrain Telecoms has repurchased the mobile GSM operator Umniah for $415 million.

1.3 Rising Food Prices and Their Implications

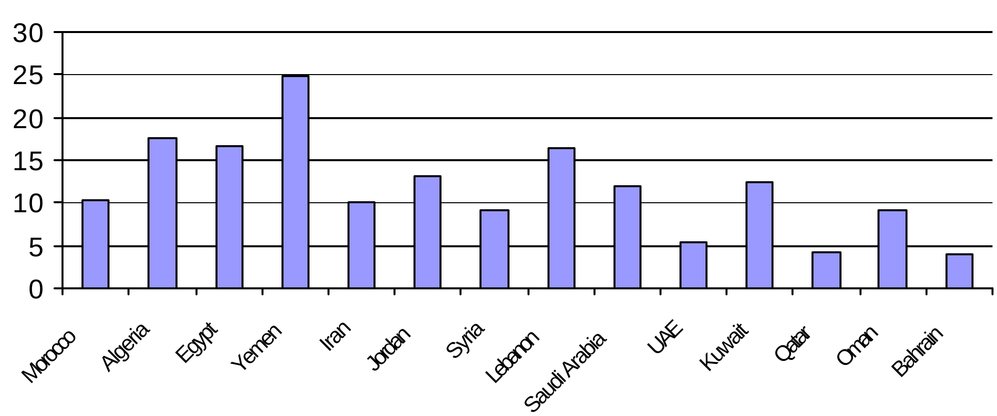
Food prices have more than doubled since 2006, with over half the total increase occurring since January of 2008. The increase reflects several factors. First, high energy prices have led to substitution of some crops for biofuel production as well as to higher prices for fertilizer. Second, dollar depreciation has led to increased international commodity prices (which are priced in dollars) to maintain an equilibrium relative price – to the disadvantage of dollar-linked currencies. Third, the acceleration in biofuel production and strategic stockpiling led to a drawdown in foodgrain inventories, making food prices increasingly sensitive to shifts in supply and demand.

While rising food prices are an issue of concern throughout MENA, which meets 50 percent of its food needs through imports, the impact of this global phenomenon varies greatly with country circumstances. Before considering the specific impacts by country, it is useful to set out some general aspects of how the headline-grabbing increases in global commodity prices translate into final consumer food prices. There has indeed been a major increase in international food prices i.e. the prices of specific commodities that are traded internationally and for which an accepted reference price is available. For example, the dollar price of Thai rice is up nearly 190 percent in the year to April 2008, and the prices of various cooking oils and wheat – the region's dominant food import -- are up around 75 percent on the same basis. This corresponds to a sharp increase in price for countries which import these products.

However, the price of imported food commodities forms just a part of the overall price of a food consumption bundle, which will also consist of locally produced non-traded commodities (e.g. highly perishable foods) and other inputs such as preparation and transportation. Furthermore, any exchange rate appreciation vis-à-vis the dollar will mitigate the impact of commodity market developments on local prices. For all these reasons, increases in domestic food prices will be more moderate than increases in global commodity prices. At the same time, it is the richer countries that are likely to have a more diversified or processed food basket, and therefore lower marginal impact of higher raw materials prices. Conversely, when the basket is dominated by a few staples (such as bread or rice), the impact is sharp.

A proximate indicator of exposure to international food price risk is the share of food imports in total imports (Figure 1.16). By this measure, Yemen exhibits the highest vulnerability, with food accounting for one quarter of all imports. The share exceeds 15 percent for Algeria, Egypt, and Lebanon, but for Bahrain, the UAE, and Qatar, it is under 5 percent. Data on food imports as a share of total consumption is more limited; by this measure, Yemen is most exposed to international food price risk, as it imports about 40 percent of total food consumption. For Jordan, the figure is about 30 percent. An alternative measure of exposure is the share of imports in total food consumption. This is available for fewer countries and points to the most exposed countries as Djibouti (100 percent of food consumption imported), Yemen (40 percent), Jordan and Lebanon (between one quarter and one third in each case).

Figure 1.16: Food imports as a share of total imports, 2006



Source: World Bank database

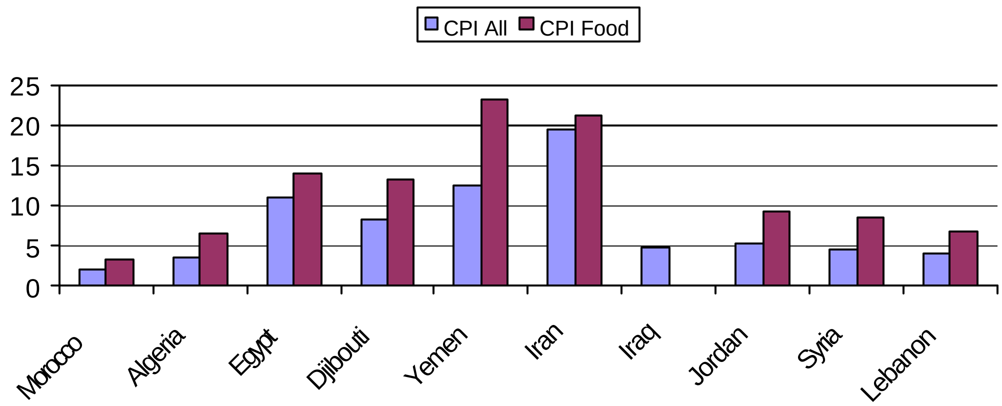
Beyond this general level, it is necessary to look at sub-groups within MENA given the wide variation in circumstances in the region. In the classic senses of internal and external balance, the GCC countries have no concern, with large trade and fiscal surpluses. Hence even though they are highly reliant on imported food, an increased import food bill can be easily accommodated in a macroeconomic sense. Since vulnerability is more apparent for the non-GCC countries, these will be considered first.

1.3.1 Impact on non-GCC MENA

At the country level, there is significant variation in the extent to which the relative price of food has increased. Figure 1.17 shows the CPI for all goods and the food component for 2007 for 9 MENA countries where data were available. Note that the rise in food prices outpaces the rise in overall prices in most countries. Two interesting counterpoints are Iran and Yemen: in Iran, food prices increased at about the same rate as prices overall, whereas in Yemen, food prices were over 10 percentage points higher than overall inflation. Thus in the latter, the inflation problem is to a significant extent a food price inflation problem, whereas in the former, the issue is general inflation.

However, food is not the sole driver of inflation even when it has led overall inflation – the general determinants of inflation still matter. For example, while Egypt and Morocco have both seen food prices outpace prices overall, the level of inflation is higher in Egypt. This differential reflects Egypt's high capital inflows (which have boosted domestic money growth), the dollar-targeting in the exchange rate with resulting imported inflation (as opposed to the Euro-dominated currency regime in Morocco), and the impact of energy subsidy reforms (which have resulted in bigger percentage increases in fuel prices in Egypt than in Morocco).

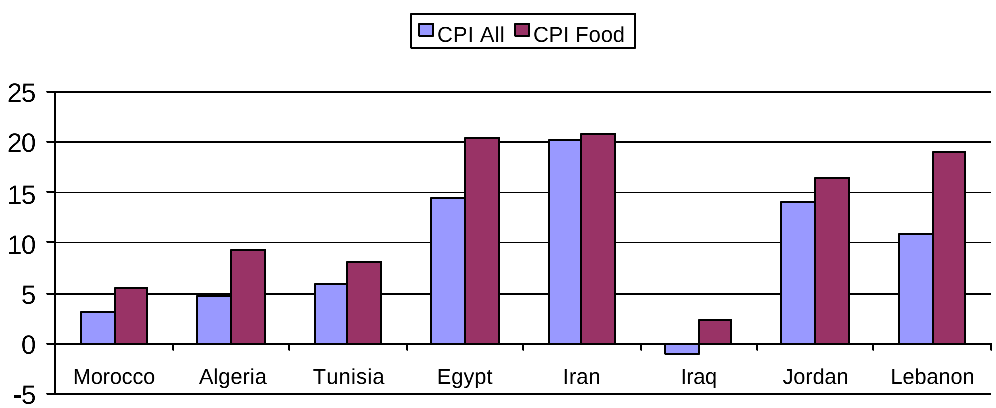
Figure 1.17: CPI for all goods and food, 2007



Source: World Bank database

For the most recent data (generally covering the latest month or the first quarter of 2008), the picture is similar. Of the 7 indicated countries in Figure 1.18, food price inflation is near to or above 10 percent in five and is up to 20 percent in Egypt. As in 2007, Iran is not seeing much of a relative increase in food prices – reflecting the diversity of its domestic agricultural base. Overall inflation and food price increases are more moderate in the Maghreb. Iraq is a special case reflecting a sharp improvement in its inflation performance as shortages have been brought under control.

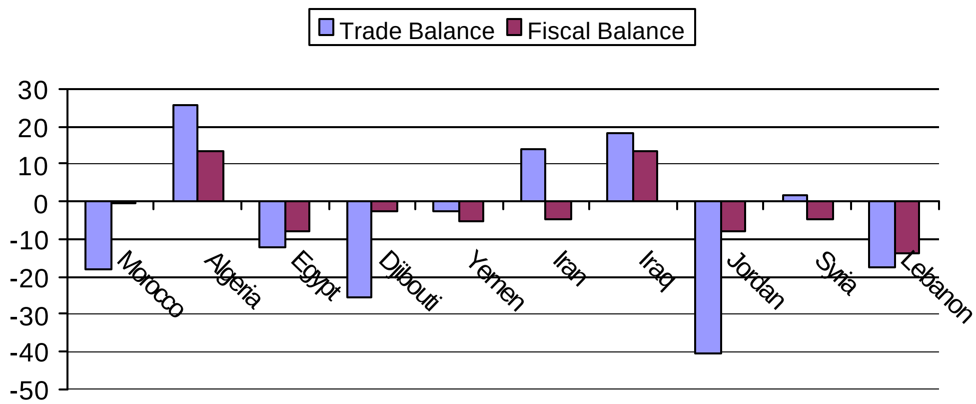
Figure 1.18: CPI for all good and food, 2008



Source: World Bank database

Macroeconomic vulnerability depends on the extent of imbalances but also the associated financing capacity. Trade and fiscal balances are presented in Figure 1.19. There is a clear divergence between the resource-rich countries like Algeria and Iran and resource-poor countries like Morocco, Yemen, Jordan, and Lebanon. However, the size of these imbalances alone is not sufficient to tell us which countries will experience the most severe stress. For example, while Jordan's trade deficit of 40 percent of GDP is huge, as long as it can continue to sustain such deficits through remittances, grants, and foreign direct investment, the adverse impact of food prices may still be contained. By contrast, Yemen has much smaller imbalances but more limited ability to sustain them with declining oil production and severe budgetary pressures from energy subsidies. Lebanon and Morocco also exhibit vulnerabilities, especially in terms of trade imbalances.

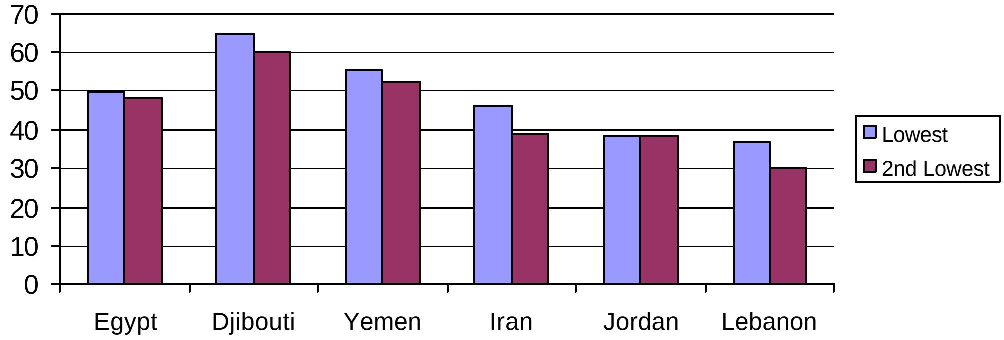
Figure 1.19: Fiscal and trade balances, 2007



Source: World Bank database

Available evidence indicates that food plays a particular large role in consumption of low income people in Djibouti, Egypt, and Yemen (Figure 1.20). Food accounts for about 50 percent of total expenditures of the lowest 40 percent of households in the expenditure distribution for these countries (and over 60 percent for Djibouti). This share is about 40 percent for Iran and Jordan and somewhat smaller for Lebanon. While this indicates that the food crisis is likely to have a particularly severe impact on the poor, a full assessment would require analysis of the changed terms of trade facing poor households, some of whom may benefit as food producers.

Figure 1.20: Share of food in total expenditure of two lowest quintiles

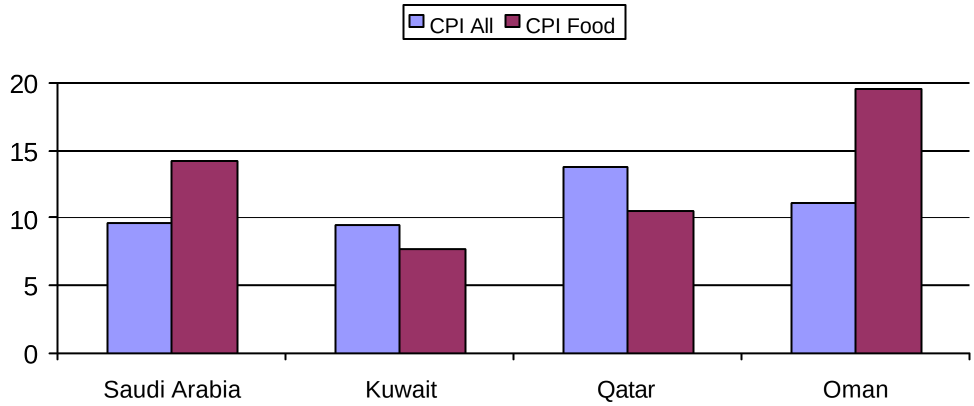


Source: Household surveys.

1.3.2 Impact on GCC Countries

In the GCC countries, the main manifestation of the food price increases is in inflation. Figure 1.21 presents 2008 CPI data for 4 of the six GCC countries.[6] Saudi Arabia and Oman display the conventional pattern where food price increases outstrip the overall index. But in Kuwait and Qatar, food prices increase at a less rapid pace than overall prices, and anecdotal evidence for these countries and the UAE and Bahrain confirms that property prices are a bigger concern for many people. Of course in all 6 countries, food and housing together account for much of the increase in inflation.

Figure 1.21: CPI inflation for all goods and food in 4 GCC countries, 2008



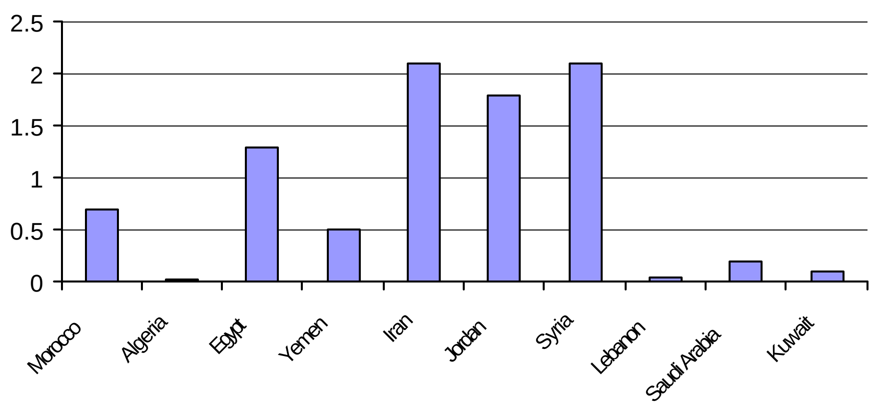
Source: World Bank database

[6] Bahrain and the UAE have revised or are in the process of revising their CPIs, which has impeded availability and comparability of recent CPI data.

1.3.3 Policy Framework and Response

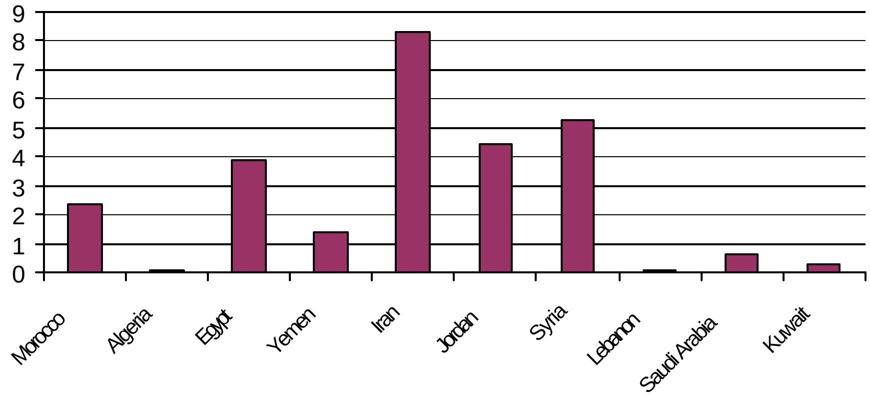
Available data show that major food subsidy programs in 2007 were concentrated in a relatively few countries: Egypt, Iran, Jordan, and Syria – in the range of 1-2 percent of GDP (Figure 1.22a). Hence these would be the countries where the fiscal implications of an upward spike in food prices could be substantial. However, food subsidies typically do not exist in isolation and these are all countries which had (at least until very recently) substantial energy subsidies as well. Looking at subsidies as a share of total government expenditure presents a similar picture (Figure 1.22b); the main difference is subsidies are now relatively more significant for Iran, where the government expenditure share is low by MENA standards.

Figure 1.22a: Food subsidies in selected MENA countries, 2007 (share of GDP)



Source: World Bank database

Figure 1.22b: Food subsidies in selected MENA countries, 2007 (share of total government expenditure)



Source: World Bank database

In fact, when a tradeoff has been forced between cutting energy subsidies or food subsidies, countries have shown a clear preference to scale back energy subsidies first. Furthermore, since the removal of some energy subsidies has had a knock-on effect on food prices (through transportation costs), this has created a second round upward effect on the food subsidy bill. For reasons of domestic security, governments still seem to view rationalizing food subsidies as the least preferable option, but the relative strength of many economies in the region has meant that only the most vulnerable countries have indicated interest in increased multilateral financial support for dealing with the associated fiscal costs.

Targeting of food subsidies in MENA is generally ineffective. For example, the proportion of the total food subsidy received by the bottom quintile in Egypt is 17 percent while as much as 21 percent leaks to the top quintile. Furthermore, only about 16 percent of the total food consumption of the lowest quintile is covered from the subsidy. This reflects a general pattern in MENA where food subsidies are administered by commodity on a universal basis or with eligibility that is not necessarily related to poverty (e.g. military families, as in Yemen).

MENA countries have tended to rely on economy-wide policies such as selective tax reductions and measures aimed at the retail price of food rather than existing social protection programs in their policy response (Table 1.4 presents a summary for ten countries in the region plus the GCC). Unlike in other countries (e.g. Indonesia), countries have not had effective safety net programs in place onto which a policy response could be grafted e.g. by augmenting cash transfers within an existing well-targeted means-tested system. In fact, Egypt relaxed eligibility rules for food ration cards in February 2008. The impact was to add 15 million new potential beneficiaries to the system. Thus program eligibility prior to the food price shock has not been used as the basis for a response. In any event, Egypt's largest food subsidy items – those for flour and baladi (flat bread) – are universal and thus do not form a good basis for targeting.[7]

Table 1.4: Policy actions by selected countries

Country	Economy-wide Policies				Existing Social Protection Programs			
	Reduce taxes on foodgrains[2]	**Increase supply using foodgrain stocks**	**Export restrictions**	**Price Controls/ Consumer Subsidies**	**Cash transfer**	**Food for work**	**Food ration/ Stamp**	**School feeding**
Egypt			v	v	v		v	
Morocco	v	v		v				v
Tunisia	v	v		v	v			
Yemen			v	v	v			
Lebanon	v			v				v
Syria	v	v		v	v		v	v
Jordan	v			v	v			v
WBG	v				v		v	v
Iraq	v	v	v	v	v		v	
Djibouti	v			v		v		v
GCC	v			v				

Because extensive targeted food subsidy programs were not in place in most countries, policy responses to higher food prices have unfolded on an *ad hoc* basis. Key responses include higher public sector wages, price controls, and trade or tax concessions. Egypt provides a useful example of each type of response. The government has announced public sector wage increases of 30 percent (and 20 percent in pensions), effective in May 2008. Rice exports have been banned until October 2008, and import tariffs on some food products have been reduced. To the extent that these measures imply increased expenditure or reduced revenue, they have been offset be reduced subsidies on energy and selected higher taxes. Speculation as to further revenue-enhancing measures has centered on a capital gains tax, which unsettled local stock markets in May. Yemen increased wages of public sector employees permanently by $15 per month and that of

[7] Egypt's baladi bread subsidy achieves some targeting via self-selection since the lowest priced bread is a coarse variety consumed by lower income households. But the system is provision is strained by the leakage of subsidized flour used to bake this bread to the black market.

pensioners by $10 per month. For active employees this is about a 15 percent pay increase. Yemen also doubled payment under its cash transfer scheme to $20 per month. Lebanon had no food subsidies prior to 2007, but now has a scheme whereby the government purchases wheat on international markets and sells it to mills and bakeries at $260 per ton – currently about half the international price. Likewise, Jordan's policy response builds on a food subsidy framework of recent vintage. Wheat and barley have been subsidized since 2005, with wheat accounting for the bulk of the total subsidy. The coverage of a cash transfer program was expanded in light of food price rises (but linked also to energy subsidy reform), and certain trade taxes were reduced. Syria has increased public sector wages and banned cereals exports. As already noted, food prices are a comparatively less serious issue in Iran and the Maghreb countries, and so the recent policy response has been muted.[8]

In the GCC countries, the policy response is a mixture of higher public sector pay, selected subsidies, and various initiatives focused on increased price transparency (e.g. through price-tracker websites) and voluntary price restraint through agreements with supermarket chains.[9] These should be seen as responses not just to food prices, but rising prices generally -- and as attempts to deflect criticism of the dollar pegs under which five of the 6 GCC countries operate. The one exception to the low level of food subsidies in the GCC countries is Kuwait, where extensive provision of basic food products at low prices takes place through a cooperative supermarket system.

In Saudi Arabia, the primary subsidies are not consumer subsidies *per se* but on animal feed and wheat production. The government provides subsidized irrigation engines and pumps for agriculture and guarantees purchases of domestic wheat output (all wheat is watered using central pivot irrigation). In recent years, wheat production has averaged 2.5 million tons a year, which is almost sufficient to meet domestic consumption. As of January, the government has decided to stop all wheat purchases over 8 years through a 12.5% annual reduction in government purchases. Thus, Saudi Arabia will move from self-sufficiency and some exports to 100% reliance on imports over this period. The situation is thus sensitive as the increased reliance on imports is unfolding just as global wheat prices rise (and Saudi Arabia adds to the demand).

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[8] Nevertheless, the combined effect of food and energy prices has caused strain in Morocco. Saudi Arabia recently announced a $500 million grant to help Morocco deal with both events and Morocco has removed some trade taxes on food.

[9] Media reports indicate plans for strategic stockpiles of staples, but concrete plans are scarce. Oman has announced the purchase of 200,000 tons of rice, enough for two years consumption.

GCC countries have relied on public sector pay as an insulating mechanism, at the expense of wage-price feedback. Because most nationals in GCC countries work for the government, increased public sector pay has offered a method of compensating the national population for the direct effect of food price increases – albeit at the cost of ineffective targeting and complications in the longer-term labor market strategies of these countries (which presume an increased attractiveness of private sector employment). However, higher food prices have compounded wage pressures in the GCC expatriate population, where the declining value of the dollar had already reduced the value of remittances. Since most expatriate jobs carry low pay, this group is likely to be strongly affected by high food prices. However, GCC countries lack the information base to design social protection measures for either their less well-off nationals or the expatriate population. Countries are also expressing interest in sourcing some food production from sub-Saharan Africa where production conditions would be far more favorable than in the Gulf, not least through better availability of water and arable land.

While global food prices remain high, there are signs of easing in selected markets. Global wheat prices have declined during 2008 and an expected bumper harvest in the northern hemisphere should reduce prices further – especially if major exporters (such as Ukraine) relax export bans. This will ease pressure on food subsidy systems that concentrate on wheat (such as Egypt). Nonetheless, linkages among food markets will result in some offsetting tendencies, as declining wheat prices will increase the incentive to use wheat instead of corn for animal feed; the likelihood of this scenario has been raised by extreme weather conditions in the key corn-growing regions of the United States, which will reduce global supply and keep corn prices high. Furthermore, the market for rice is likely to remain subject to spikes, not least with the decline in supply due to the recent cyclone disaster in Myanmar.

Annex 1: Data Table for Charts

Country	2007 CPI	2007 CPI Food	2008 CPI	2008 CPI Food	Food Share in Imports	Import Share of Total Food Consumption	Trade Balance	Fiscal Balance	Food Subsidies/ GDP	Food Subsidies/Total Expenditure	Food Share in Consumption Lowest Quintile	2nd Lowest
Morocco	2	3.2	3.2	5.5	10.3	.	-18.3	-0.5	0.7	2.4	.	.
Algeria	3.5	6.6	4.8	9.2	17.6	.	25.7	13.6	0.03	0.1	.	.
Tunisia	.	.	6	8.1	.	.	.	.	.	.	.	.
Libya	.	.	.	.	.	.	.	.	.	.	.	.
Egypt	11	14.1	14.4	20.5	16.7	10.7	-12.4	-7.7	1.3	3.9	49.7	48.2
Djibouti	8.3	13.2	9.7	.	.	100	-25.3	-2.6	.	.	64.7	60.1
Yemen	12.6	23.2	.	.	24.8	39.4	-2.6	-5.5	0.5	1.4	55.2	52.4
Iran	19.6	21.2	20.2	20.7	10.1	.	13.8	-4.7	2.1	8.3	46	39
Iraq	4.7	0.1	-1.1	2.3	.	.	18.1	13.3	.	.	.	.
Jordan	5.4	9.3	14.1	16.4	13	31.5	-40.4	-8.1	1.8	4.5	38.5	38.5
Syria	4.5	8.5	.	.	9.2	10.2	1.8	-4.8	2.1	5.3	.	.
Lebanon	4	6.8	10.8	19	16.4	24.6	-17.4	-13.9	0.04	0.1	37	30
WBG	.	.	.	.	.	.	.	.	.	.	.	.
Saudi Arab	7	.	9.6	14.2	12	.	35.9	12.8	0.2	0.6	.	.
UAE	9.8	.	.	.	5.4	.	30.7	30.5	.	.	.	.
Kuwait	5.5	4.8	9.5	7.7	12.4	.	44.7	40.5	0.1	0.3	.	.
Qatar	12	.	13.7	10.5	4.3	.	40.1	14.5	.	.	.	.
Oman	7.2	.	11.1	19.6	9.1	.	27.4	13.7	.	.	.	.
Bahrain	3.5	.	.	.	4	.	14.9	3.6	.	.	.	.

Source: Survey of country economists.

1.4 NEAR-TERM ECONOMIC PROSPECTS, 2008-2010

A number of factors are likely to shape the profile for growth in the MENA region. Importantly, in the external environment, a distinct slowing of industrial-country demand is anticipated for 2008, primarily in the United States, but also in Europe and Japan. This is likely to be accompanied by high and rising oil prices, tied in part to robust demand in emerging markets, but more tightly to disappointing developments in non-OPEC supply combined with continued supply restraint by OPEC. Oil exporters will benefit for a time, and support regional growth at a faster 5.9 percent pace in 2008.

As the global environment stabilizes by 2009 and 2010, MENA should be able to maintain growth momentum centered on 5.5 percent. Domestic conditions will vary markedly across the economies of the region, as will efforts at reform. And the flux of developments related to continuing tensions in Iraq, unsettled conditions in the Levant and international disputes with Iran will affect not only the oil prices, but also global and regional investor confidence, and should be taken into account as a risk to any forecast.

1.4.1 Global assumptions underlying the projections

Table 1.5 highlights the set of assumptions that underlie the GDP projections for MENA countries through 2010. These cover expected oil market conditions, growth dynamics in export markets, developments in finance, and non-oil commodity prices (including food). The assumptions will have a direct or indirect bearing—in conjunction with domestic policy choices across MENA countries—on the short-term growth outlook. The assumptions are summarized below[10] .

Oil market developments

A supply-demand balance approach guides the oil price assumptions for 2008-2010 (table 1.5, top panel). Growth in global demand for crude oil picked up in 2007 by 1.4 percent—wholly concentrated in the developing economies, while OECD demand dropped by 0.3 percent. At the same time, growth in supply fell well short of demand with OPEC cutting production 1.8 percent to offset increases in non-OPEC supply, keeping markets tight and prices firm.

Demand in OECD countries is anticipated to return to slow- yet positive growth in latter-2008 through 2010, complementing continued gains in emerging markets, to push total oil demand growth above 2 percent per year. It is viewed likely that non-OPEC supply will pick-up to a pace

[10] Again, the cutoff date for economic assumptions underlying the growth projections was March 17, 2008.

above 2 percent and it is assumed that OPEC will begin a gradual increase in output to grow 2.3 percent by 2010. Under these circumstances oil prices are viewed to decline gradually from $100/bbl+ in early 2008 toward $70/bbl by 2010.

Because OPEC has limited spare capacity and has been holding down production, oil prices are apt to remain elevated and volatile. Oil markets are expected to be finely balanced over 2008–10, in part due to production discipline by exporters, and prices are expected to register $84/bbl in 2008 and $73/bbl by 2010—still high levels for the oil price in historic context[11].

Export markets growth

In 2008 global growth will slow fairly sharply, as the effective cost of capital stays high for financial institutions, firms, and households alike. Weak domestic demand will keep U.S. GDP growth well below 2 percent in 2008, while growth in Europe and Japan will moderate.

For the oil exporting economies of MENA, the world may be considered the "export market". The dominant share of the market is claimed by the industrial countries, and oil demand from this segment is anticipated to grow slowly. The dynamic element of the market for crude is the developing world. Prospects appear favorable for advances in oil demand of almost 4 percent per year for this group.

For the resource-poor MENA economies, export market developments during 2007 were favorable, notably a second year of very strong growth in the Euro Area, registering real GDP gains of 2.6 percent during 2007 on the heels of a 2.8 percent advance in 2006. European dollar-based merchandise imports grew 15 percent and 16 percent in 2006 and 2007 respectively; services imports (tourism) grew 14 percent in each year; and nominal consumption expenditures increased 15 percent. These conditions brought considerable benefits to countries in the Maghreb and Mashreq as well as Egypt.

European GDP growth is anticipated to ease into 2008, as the U.S. slowdown and strong euro clamp down on exports; at the same time domestic demand becomes increasingly fragile on the back of higher energy and food costs. Gradual recovery is anticipated over the period through 2010. This suggests that the RPLA economies should witness diminished growth in goods exports, as well as other critical revenue flows—including tourism, other services receipts and worker remittances sourced from the expatriate labor force in Europe.

[11] The present oil prices assumptions found in the Bank's GDF-2008 publications (June 2008) are $108/bbl in 2008, easing to 98.5/bbl by 2010.

Financial markets

Though difficult to appraise in the wake of the U.S. sub-prime crisis and its spillovers to other financial market segments, it appears clear that policy interest rates and global rates (e.g. LIBOR) will be lower than otherwise the case. LIBOR is viewed to average 3.5 percent during 2008, reflecting the policy rate reductions by the Federal Reserve, this down sharply from the 5.23 percent level of 2007. But short-and longer-term (Treasury) rates are viewed to re-calibrate fairly quickly, both reaching 5.0 percent by 2010, as central banks wish at all costs to avoid massive liquidity creation and ensuing inflationary pressures. Lower global rates will be favorable for those countries with adjustable-rate debt outstanding—and will cut the costs of new debt issuance and of rollovers.

The U.S. dollar is anticipated to continue in decline, albeit moderating from the near free-fall of early 2008. And as financial market authorities act to support the banking system, flight to quality should abate, and spreads on emerging market-(and MENA) debt should fall below levels of the first half of the 2000s. With the possible exception of a decline in the U.S. currency, for MENA economies these are generally favorable developments.

Non-oil commodity prices

The rapid increase in agricultural-, food and metals/mineral prices over the last years is an important element of concern in the global outlook, but especially so for the MENA region, where many countries are net food and materials importers. During 2007, grains prices jumped 23 percent, fertilizers 66 percent and raw materials 9 percent (table 1.5, lower panel). But since the start of 2008, wheat prices have leapt an additional 36 percent on low stocks and strong demand. Soybeans and corn are up 26 percent and 22 percent respectively, on strong demand for food, feed and bio-fuels, and intense competition for land for planting with wheat. Some of these developments are not transitory, as they are intrinsically related to energy (fertilizers)-, and energy policy (bio-fuels mandates). Continued escalation in cereals prices could extract a heavy toll on MENA external accounts as well as fiscal positions over the next years.

Table 1.5: Assumptions about the global environment to 2010

	2000-05 (average)	2006	2007 [e]	2008 [f]	2009[f]	2010[f]
Oil market developments						
World Bank average price ($/bbl)[a]	**32.9**	**64.3**	**71.1**	**84.1**	**78.4**	**73.1**
Growth in world demand (mb/d) (% change)	**1.7**	**1.1**	**1.4**	**1.9**	**2.1**	**2.1**
OECD demand	0.6	-0.7	-0.3	0.6	0.8	0.9
Developing country demand	3.4	3.7	3.6	3.8	3.8	3.7
Growth in world supply (mb/d)	**2.1**	**0.9**	**0.2**	**1.9**	**2.1**	**2.1**
OPEC supply	2.5	0.3	-1.8	0.9	1.5	2.3
of which MENA	2.5	1.1	-1.2	0.9	1.5	2.3
Non-OPEC supply	1.9	1.4	1.5	2.6	2.4	2.0
GDP growth in MENA export markets[b]						
World	**2.9**	**4.0**	**3.7**	**3.3**	**3.6**	**3.4**
OECD countries	**2.2**	**2.9**	**2.5**	**2.1**	**2.4**	**2.2**
United States	2.5	2.9	2.2	1.9	2.3	2.2
Euro Area	1.8	2.8	2.6	2.1	2.4	2.3
Japan	1.5	2.42	2.0	1.8	2.1	2.2
Developing countries	**5.3**	**7.6**	**7.8**	**7.1**	**7.0**	**6.8**
China	9.4	11.1	11.9	10.8	10.5	10.0
Other East Asia and Pacific	5.0	5.7	5.9	6.0	6.2	6.0
Europe and Central Asia	5.5	7.3	6.8	6.0	5.7	5.5
Financial markets						
U.S. LIBOR 6-months (% change)	3.14	5.19	5.23	3.50	4.00	5.00
U.S. ten-year T-note	4.70	4.76	4.62	3.90	4.25	5.00
U.S. dollar effective exchange rate (% change) [c]	-0.7	-1.5	-4.2	-5.3	-2.5	0.0
Dollar per euro exchange rate	1.062	1.25	1.37	1.46	1.52	1.50
Average spread on EM debt (basis points)	582	198	197	400	300	300
Average spread on MENA debt	472	338	476	500	400	400
MSCI EM equity index (USD) (% change)	9.2	32.6	35.4	—	—	—
MSCI MENA equity index (USD) (% change)	0.9	60.3	59.6	—	—	—
Non-oil commodity prices						
Non-oil commodity prices (% change)	**5.6**	**24.6**	**15.7**	**0.1**	**-5.7**	**-6.0**
Agriculture	3.3	12.0	15.0	2.8	-2.8	-2.2
Food	3.9	9.8	21.0	6.6	-4.1	-3.0
Grains	3.0	17.2	23.2	8.4	-5.1	-2.6
Raw materials	4.3	20.3	8.9	2.4	-1.0	-0.8
Fertilizers	2.8	1.4	66.1	12.3	-1.9	-1.9
Manufactures unit value index (% change)	1.3	1.6	2.3	0.8	0.8	0.8

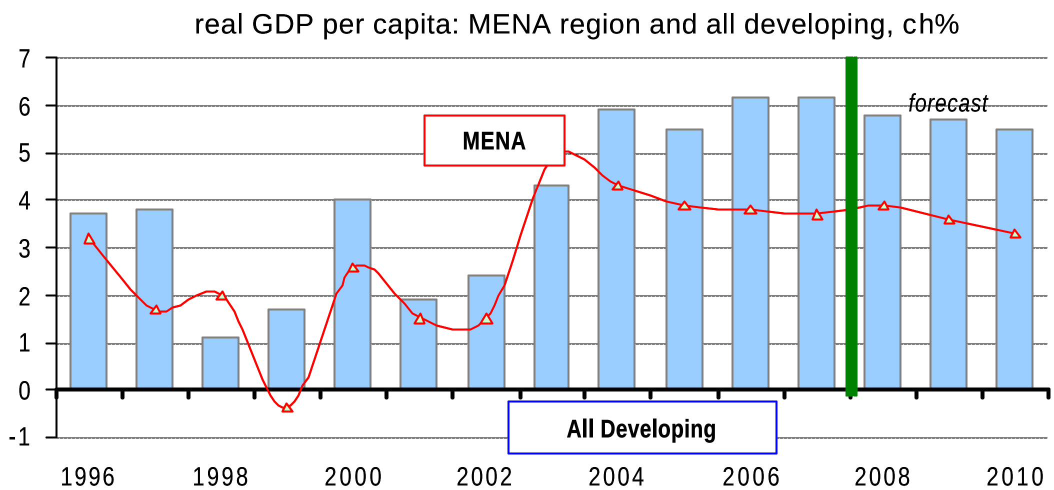
Source: International Energy Agency, JP Morgan-Chase, Morgan-Stanley, OPEC, World Bank and IEA projections.

a. Average of Brent, WTI and Dubai crude prices.
b. GDP in 2000 U.S. dollars.
c. Nominal, broad measure.
e = estimate.
f = forecast.
— = data not available.

1.4.2 Overview of near-term prospects

Against this view of the international environment, GDP growth for the aggregate of MENA economies is anticipated to pick up in 2008 to 6 percent from the 5.7 outturn of 2007—this despite the OECD slowdown and easing of export markets. Resource-poor and resource-rich countries share in the acceleration in growth. GDP among the RPLA economies increases to 6.2 percent from 5.4 percent in 2007; that for the resource-rich group advances to 5.9 percent from 5.8 percent. GDP gains for the region ease over 2009 and 2010 to reach 5.3 percent by the latter year (table 1.6). On a per-capita basis, growth increases from 3.7 percent in 2007 to 3.9 percent, before slowing to a 3.3 percent pace by 2010, largely in step with patterns displayed by the aggregate of developing countries (figure 1.23).

Figure 1.23: MENA per-capita growth to ease in step with LMIC* countries



Source: National Agencies and World Bank projections. *Low and middle income.

For the RPLA group, a rebound in Morocco to 5.5 percent growth from the depths of drought; and for Lebanon to 3.5 percent, offset modest easing across the remainder of the group tied to conditions in the external environment—and supporting a fillip in growth to 6.2 percent in the year. Beyond 2008, growth is anticipated to average 6 percent, as investment-led growth appears increasingly well established in Egypt, and activity there should remain within a 6.5-to-7 percent range in the next years; sustained growth in Jordan and Tunisia near 6 percent is likely, grounded in services exports and increasingly in investment and construction funded by FDI. And a stronger profile of growth emerges in Lebanon as economic conditions gradually improve. Per-capita growth steps-up to a 4.4 percent pace in line with the 6 percent GDP trend, contrasting favorably with 2.6 percent gains over the first half of the 2000s.

Table 1.6: Real GDP growth for the region, by country group, 2000-2010

Percent

Country group	2000-05 (average)	2006	2007 e	2008 f	2009 f	2010 f
MENA region (including Iraq)	**4.8**	**5.8**	**5.7**	**5.9**	**5.6**	**5.3**
MENA region (excluding Iraq)	**5.0**	**5.8**	**5.7**	**6.0**	**5.6**	**5.3**
Resource-poor, labor abundant (RPLA)	**4.2**	**6.3**	**5.4**	**6.2**	**6.0**	**5.9**
Djibouti	2.5	4.9	4.8	5.0	5.0	5.0
Egypt, Arab Republic of	4.0	6.8	7.1	7.0	6.8	6.5
Jordan	5.8	6.3	6.3	6.0	6.0	6.0
Lebanon	3.6	0.0	1.0	3.5	4.5	5.0
Morocco	4.4	8.0	2.3	5.5	4.5	4.5
Tunisia	4.5	5.3	6.3	5.8	6.2	6.0
West Bank and Gaza	—	—	—	—	—	—
Resource rich, labor abundant (RRLA)						
RRLA countries (incl. Iraq)	**4.2**	**4.5**	**5.7**	**4.7**	**4.7**	**4.4**
RRLA countries (excl. Iraq)	**5.0**	**4.5**	**5.7**	**4.7**	**4.7**	**4.3**
Algeria	4.4	1.8	3.0	3.5	4.0	4.0
Iran, Islamic Republic of	5.5	5.9	7.6	5.5	5.0	4.5
Iraq	-19.2	6.2	2.8	3.8	6.0	6.5
Syrian Arab Republic	4.0	5.1	3.9	3.7	4.8	4.6
Yemen, Republic of	4.5	3.2	3.1	4.1	4.0	4.0
Resource-rich, labor-importing (RRLI)	**5.5**	**6.2**	**5.8**	**6.4**	**5.9**	**5.4**
Bahrain	6.0	6.5	6.6	6.7	6.3	5.5
Kuwait	7.6	6.4	4.6	7.8	5.5	4.7
Libya	4.2	5.6	5.4	5.2	5.5	5.8
Oman	4.8	7.0	6.9	4.8	4.8	5.1
Qatar	9.1	10.3	14.2	9.3	12.4	8.1
Saudi Arabia	4.1	4.3	4.1	6.0	5.6	5.4
United Arab Emirates	7.7	9.4	7.7	6.6	5.0	5.0
By geographic subregion						
Maghreb	4.4	4.7	3.8	4.7	4.8	4.8
Mashreq (excl. WBG)	4.2	3.4	3.4	4.2	5.0	5.0
GCC	5.6	6.3	5.9	6.5	5.9	5.4
Other (excl. Iraq)	4.7	6.2	7.2	6.1	5.8	5.4
By oil-trade group						
Oil-exporting countries (excl. Iraq)	5.1	5.8	6.0	6.0	5.7	5.3
Oil-importing countries (excl. WBG)	4.4	5.6	3.4	5.3	5.1	5.1
Comparator regions						
MENA (excl. Iraq)	**5.0**	**5.8**	**5.7**	**6.0**	**5.6**	**5.3**
All Developing countries	**4.4**	**7.5**	**7.4**	**7.1**	**7.0**	**6.7**
East Asia and the Pacific	6.9	9.8	10.0	9.7	9.5	9.0
Europe and Central Asia	4.3	6.9	6.7	6.0	5.7	5.5
Latin America and the Caribbean	2.0	5.6	5.1	4.6	4.3	4.0
South Asia	5.4	8.9	8.4	7.9	8.1	8.0
Sub-Saharan Africa	3.7	5.7	6.1	6.4	6.0	5.8

Source: National Agencies and World Bank staff estimates.

Note: See footnotes to Table 1.1.

e = estimate.

f = forecast.

— = data not available.

Inflation for the RPLA group appears set to ease toward 5 percent from current rates closer to 7 percent, but continued high fuel- and food prices pose a serious risk to this view. On the external front, merchandise deficits across the group widen from near $40 billion in 2007 to $56 billion by 2010, moving from 14 toward 15 percent of GDP. Goods export performance eases from rates near 25 percent in 2006-07 toward 6.5 percent by 2010, while imports trend toward a 9 percent path. As has been the case historically, RPLA trade shortfalls are almost wholly offset by continued, albeit more moderate growth in tourism (9 percent) and remittances flows (7.5 percent) over 2008-2010. Current account surplus positions diminish for Egypt and Morocco, and the RPLA deficit widens from $3.2 billion in 2007 to $3.8 billion in 2010, at a still moderate 1 percent of the group's GDP.

Growth prospects for the resource-rich economies also appear bright for the near term, yet the dispersion of growth results across countries is much wider than for the RPLA group. This is tied to the ability of countries to respond to demands for higher crude oil production over 2009-10; the degree to which domestic demand has gained self-sustaining momentum in a generally low-inflation environment, and to different policy stances with respect to pursuing investment (domestic or with foreign participation) in expanding capacity for hydrocarbons and in improving social infrastructure.

A step-up in GDP across a number of large exporters during 2008 underpins a sharp increase in growth for the resource-rich labor-importing countries, from 5.8 percent during 2007 to 6.4 percent in 2008. Investment for the group contributes a full 6.3 points to GDP, private consumption 3.1 points with government spending adding another 2.5 points of growth. But net exports at negative 5.6 points almost fully offset the momentum of domestic demand. For the group, real exports advance a small 1.8 percent tied to the re-start of a revival in crude oil volumes; but real imports gain 10.8 percent, fully outweighing this advance.

Saudi exports advance 2.5 percent; and along with 20 percent gains in investment outlays, growth is lifted to 6 percent in 2008 from 4.1 percent in 2007. In similar fashion, growth in Kuwait accelerates sharply to 7.8 percent from 4.6 percent in 2007, while Qatar eases to a 9.3 percent GDP pace from 14.2 percent on a winding down in government spending and investment. Growth for the RRLI economies is viewed to ease by a full percentage point to 5.4 percent by 2010, as domestic demand begins to slow moderately, with investment growth entering single digits, and imports moving in a similar easing direction. Though oil production picks-up over the period, declining oil prices (falling to near $70/bbl by 2010) serve to reduce current account and fiscal surplus positions. For RRLI, a narrowing of the current account surplus to $190 billion or 17.4 percent of GDP is likely, and a reduction in the fiscal surplus from 23.2 percent of GDP in 2007 to 17.5 percent should be supported by these developments.

Finally, growth among the resource-rich labor-abundant countries is anticipated to ease by a full percentage point to 4.7 percent in 2008, largely on the back of a sharp slowdown in Iran, where GDP gains diminish from the strong 7.6 percent pace of 2007 to 5.5 percent in 2008. Growth there is viewed to continue easing to 4.5 percent by 2010, grounded in continued strong fiscal expansion, offset by only small gains in exports (as oil and gas production remain difficult to restart) coupled with exceptionally rapid gains in imports. Continued work to supplement hydrocarbon output in Algeria, with implementation of the government's investment plan should underpin investment and consumption, carrying GDP growth back to a 4 percent range.

1.4.3 Risks

Markets for manufactures and services (tourism) may suffer a more pronounced slowdown linked to the ripple effects of financial difficulties already present in the United States and the Euro Area. And should a significant credit crunch occur, with growth across the OECD as well as developing countries slowing, demand for crude oil and refined petroleum products could decline quite abruptly and lead to a sharp falloff in price, with attendant effects for revenues and growth.

For the oil exporters of MENA, management of the hydrocarbon windfalls of the last years remains a continuing challenge. The risk of overheating domestic demand, with potential inflationary consequences looms as an overarching threat. Moreover, judicious use of oil stabilization funds to counter such trends and to offer a cushion for future growth should be a priority, as should prudent disposition of surplus funds across asset classes. Importantly, domestic reform efforts may stand at some risk against the background of abundant liquidity and rapid growth. Should oil prices take a sudden and sustained downturn, economies may find adjustment to become a difficult transition.

Finally, some countries will be particularly affected by sustained high food prices. As noted earlier, countries with high shares of food imports (to total imports) and with large numbers of poor dependent on purchased food inputs are especially vulnerable. These countries will face stronger balance of payments and fiscal pressures if food prices go higher.

Technical Annex
Sources of FDI and the MENA EDP-2008 report

During the compilation of data and other background information for Chapter-1 of the Middle East and North Africa Economic Developments and Prospects report *2007*, it was found that time series data covering foreign direct investment (FDI) for the GCC countries compiled by the World Bank from national sources was quite sparse. In addition, available data was provided in net terms, without the provision of FDI credits (inflows) and debits (outflows). These series can bring a better understanding to the recent trend of increased flows of investment within the MENA region, largely sourced from the GCC countries, as well as the renewed inflow of investment into the GCC countries themselves, largely from outside the region.

For the 2008 edition of MENA-EDP, it was decided to source data series on FDI for the GCC countries from the United Nations, specifically from the database underlying the *World Investment Report*, prepared annually by UNCTAD, through its Division on Transnational Corporations, Extractive Industries and Development. The Investment Report for 2007 may be found at the following URL: http://www.unctad.org/wir.

The attributes of this dataset proved favorable for measuring the recent pickup in intra-region investment flows, with substantial changes in FDI for Saudi Arabia, UAE, Bahrain and Kuwait, the former 2 countries displaying much larger net inflows, the latter 2 larger net outflows over the period from 2004 to 2006. And projections sourced from the Economist Intelligence Unit (EIU) continued these broader trends through the forecast end-point 2010. Both FDI outflows from the GCC countries and inflows were substantially above the limited information contained in the World Bank data files for these categories (see table FDI-1).

The implications of the change in data source are several. First, the magnitude of GCC investment in other resource-rich and resource-poor countries within the region appears to be much greater (in dollar terms) than at first assumed. FDI now accounts for some 13.5 percent of gross fixed investment in the Maghreb, 27 percent in the Mashreq, and 11.5 percent in the GCC (see Table A.24). In similar fashion, FDI inflows to the GCC countries have been much larger than earlier assumed, particularly for UAE and Kuwait. Inward FDI increased from "outflow" (repatriation) of $2.7 billion in 2003 to inflow of $13.5 billion by 2006. This is suggestive of greater participation outside of the oil sector) by foreign nationals, in services, and in industry reliant on plentiful nearby energy—e.g. petrochemicals, aluminum and other metals processing.

GCC	**Net FDI flows**								
	(gross inflow less gross outflow)					**Estimates and Projections-> EIU**			
MENA EDP 2008									
	Millions USD	**1995**	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
	Saudi Arabia								
MENA LDB									
NET		-1,877.2	-1,782.0	1,400.0	-700.0	-700.0	-700.0	-700.0	-700.0
UN Data									
Inflow		578.0	183.0	12,097.0	18,293.0	16,500.0	17,400.0	15,600.0	13,600.0
Outflow		-89.4	-125.6	-1,183.0	-753.0	-1,800.0	-2,000.0	-1,750.0	-1,800.0
NET		488.6	57.4	10,914.0	17,540.0	14,700.0	15,400.0	13,850.0	11,800.0
	delta UNCTAD less LDB	2,365.8	1,839.4	9,514.0	18,240.0	15,400.0	16,100.0	14,550.0	12,500.0
	UAE								
MENA LDB									
NET		0.0	-1,600.0	7,200.0	4,200.0	3,400.0	3,100.0	2,800.0	2,600.0
UN Data									
Inflow		399.0	-985.0	10,900.0	8,386.0	10,500.0	11,150.0	11,750.0	10,050.0
Outflow		-10.0	-317.0	-3,749.8	-2,316.0	-4,400.0	-4,000.0	-3,750.0	-4,000.0
NET		389.0	-1,302.0	7,150.2	6,070.0	6,100.0	7,150.0	8,000.0	6,050.0
	delta UNCTAD less LDB	389.0	298.0	-49.8	1,870.0	2,700.0	4,050.0	5,200.0	3,450.0
	Qatar								
MENA LDB									
NET		0.0	0.0	2,500.0	3,500.0	4,700.0	500.0	500.0	500.0
UN Data									
Inflow		200.0	252.0	2,000.0	2,850.0	3,600.0	2,500.0	3,650.0	2,750.0
Outflow		-15.0	-18.0	-400.0	-1,600.0	-2,000.0	-700.0	-2,550.0	-800.0
NET		185.0	234.0	1,600.0	1,250.0	1,600.0	1,800.0	1,100.0	1,950.0
	delta UNCTAD less LDB	185.0	234.0	-900.0	-2,250.0	-3,100.0	1,300.0	600.0	1,450.0
	Bahrain								
MENA LDB									
NET	MENA EDP 2006	0.0	348.0	-200.0	142.0	135.0	145.0	165.0	175.0
UN Data									
Inflow		430.6	363.6	1,048.6	2,914.9	3,061.0	3,043.8	3,307.1	3,472.5
Outflow		-16.1	-10.0	-1,123.4	-980.1	-1,100.0	-1,210.0	-900.0	-540.0
NET		414.5	353.6	-74.8	1,934.8	1,961.0	1,833.8	2,407.1	2,932.5
	delta UNCTAD less LDB	414.5	5.6	125.2	1,792.8	1,826.0	1,688.8	2,242.1	2,757.5
	Kuwait								
MENA LDB									
NET	MENA EDP 2006	1,029.0	319.0	-4,500.0	-2,100.0	-2,500.0	-3,000.0	-3,500.0	-3,500.0
UN Data									
Inflow		7.0	16.0	250.0	110.0	145.0	278.0	345.0	453.0
Outflow		1,022.0	-303.0	-5,142.0	-7,892.0	-6,588.0	-6,573.0	-5,983.0	-5,354.0
NET		1,029.0	-287.0	-4,892.0	-7,782.0	-6,443.0	-6,295.0	-5,638.0	-4,901.0
	delta UNCTAD less LDB	0.0	-606.0	-392.0	-5,682.0	-3,943.0	-3,295.0	-2,138.0	-1,401.0
	Total 5 countries above								
MENA LDB									
NET		-848.2	-2,715.0	6,400.0	5,042.0	5,035.0	45.0	-735.0	-925.0
UN Data									
Inflow		1,614.6	-170.4	26,295.6	32,553.9	33,806.0	34,371.8	34,652.1	30,325.5
Outflow		891.5	-773.6	-11,598.2	-13,541.1	-15,888.0	-14,483.0	-14,933.0	-12,494.0
NET		2,506.1	-944.0	14,697.4	19,012.8	17,918.0	19,888.8	19,719.1	17,831.5
	delta UNCTAD less LDB	3,354.3	1,771.0	8,297.4	13,970.8	12,883.0	19,843.8	20,454.1	18,756.5
			average delta 2000-2005	2,572.9				average delta 2006-2010	17,181.6

2

Regional Integration for Global Competitiveness

MENA has economic, geographical and cultural elements that provide a favorable context for deep regional economic integration. There have been many attempts to foster integration, a recent and comprehensive one being the Pan Arab Free Trade Agreement (PAFTA). At present, intra-regional exports are around 9 percent of all merchandise exports and around 25 percent of all non-oil merchandise exports. This is on the low side when compared with regional trade blocs among relatively developed countries (such as NAFTA and the EU) but similar to trade blocs involving developing countries (such as MERCOSUR and COMESA).

Other channels of integration have become more prominent in recent years. Intra-regional foreign direct and portfolio investments have risen in many MENA countries. In parrticular, the enormous expansion in revenues accruing to the GCC countries from the soaring price of oil has been partly recycled within the region. Between 2002 and 2006, about $60 billion or 11% of total GCC capital outflows went to other MENA countries.

Still, the region is more integrated through labor mobility than through trade and investment. Between 2000 and 2005, the region's share in global remittances received was around 10 percent while its share in global trade was less than 5 percent. A large proportion of the remittances paid and received is intra-regional.

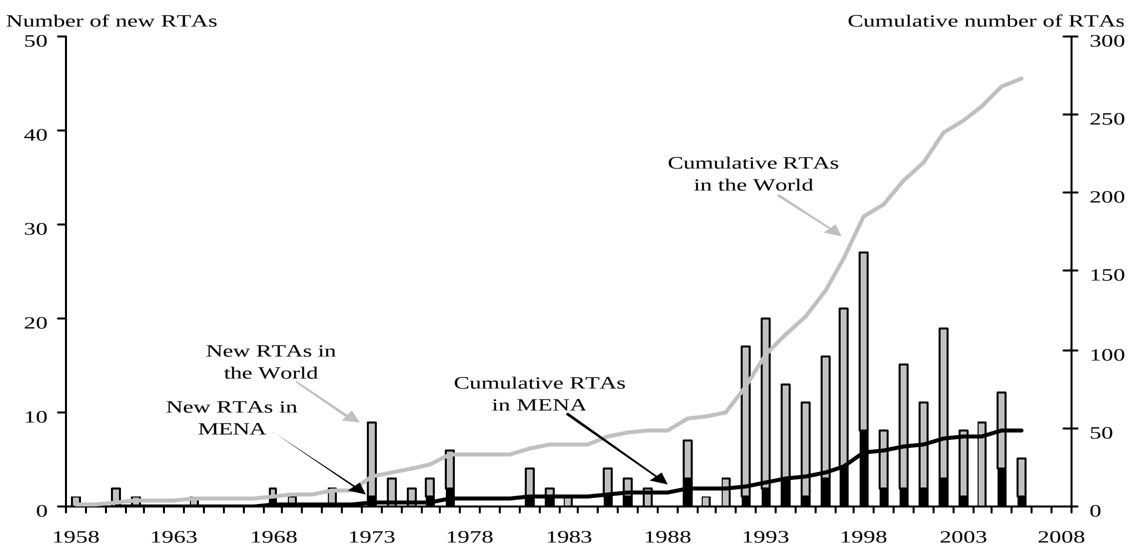
Integration via infrastructure links is at an initial stage in the region. Cross-border initiatives involving gas pipelines, electricity networks, telecommunications and road links are increasing in number. However, the benefits from such initiatives will be modest unless countries in the region commit to undertake the residual reforms pending in their respective domestic infrastructure markets.

This chapter argues that deeper regional integration, covering trade in goods and services, labor and capital mobility, and facilitation measures involving regulatory and standards harmonization and recognition of equivalent practices, is worth striving for. Yet, regional integration should not be seen as an end in itself, but rather as a means to improve the utilization of available resources and foster higher economic growth. Regionalism can be a stepping stone towards the ultimate goal of development and global competitiveness, and it is in this context that intra-regional movements of goods, services, labor, and capital are reviewed below.

2.1 Integration via Trade in Goods

Regional trade agreements (RTAs) have proliferated in the last two decades (Figure 2.1). Such agreements can make it possible to reap benefits from international integration, while tailoring the provisions of the agreements to the particular needs and adjustment capacities of the countries involved. They can also have beneficial indirect effects. Opening domestic markets to partner countries, for example, can increase competition in sectors with previously highly concentrated industrial structures. Such pro-competitive impacts are particularly important for countries that have only a nascent domestic competition policy. Also, regional cooperation can be effective in harmonizing customs procedures and domestic regulations. Adopting common rules on investment, for example, has the potential to encourage increased inflows of foreign direct investment (FDI) by enhancing the credibility of FDI-policies and providing a restraint on sudden policy reversals.

Figure 2. 1: The number of regional agreements grew strongly over the past two decades



Source: World Bank staff estimates.
Note: MENA-RTAs are taken as agreements with at least one MENA country participant.

Some observers justify regional trade agreements (RTAs) in political economy terms by seeing them as laboratories for international integration, training grounds for negotiations at a broader level, and strategic means of trade policy making. By teaming up with regional partners, countries may be able to increase the weight of their positions in international trade negotiations and possibly achieve more favorable negotiation outcomes. On the other hand, pursuing regional integration can divert scarce political and administrative capacities away from exploiting more promising opportunities in global markets. In cases where several regional agreements overlap, differing administrative procedures with respect to technical standards, customs requirements, and rules of origin can complicate transactions and raise costs for both enterprises and governments. Moreover, since RTAs are inherently discriminatory, there is a risk that they cost the economy more in lost trade revenues than they earn, because they can divert trade and deprive local producers and consumers of efficient, low-cost supplies from non-partner countries.

In practice, regional and international integration do not present exclusive or opposing choices. Many successful countries have built their strategy around a paradigm of "open regionalism", which implies negotiating reciprocal preferences with regional partners while opening up to international markets at the same time. Moreover, regional agreements can complement multilateral reforms. They can make a contribution towards harmonization of rule-making, and some arrangements contain provisions in areas such as investment protection or labor migration that go beyond current multilateral trade law in terms of their integrative ambition and have sometimes been called "WTO-Plus" (OECD, 2003).

2.1.1 Past integration attempts

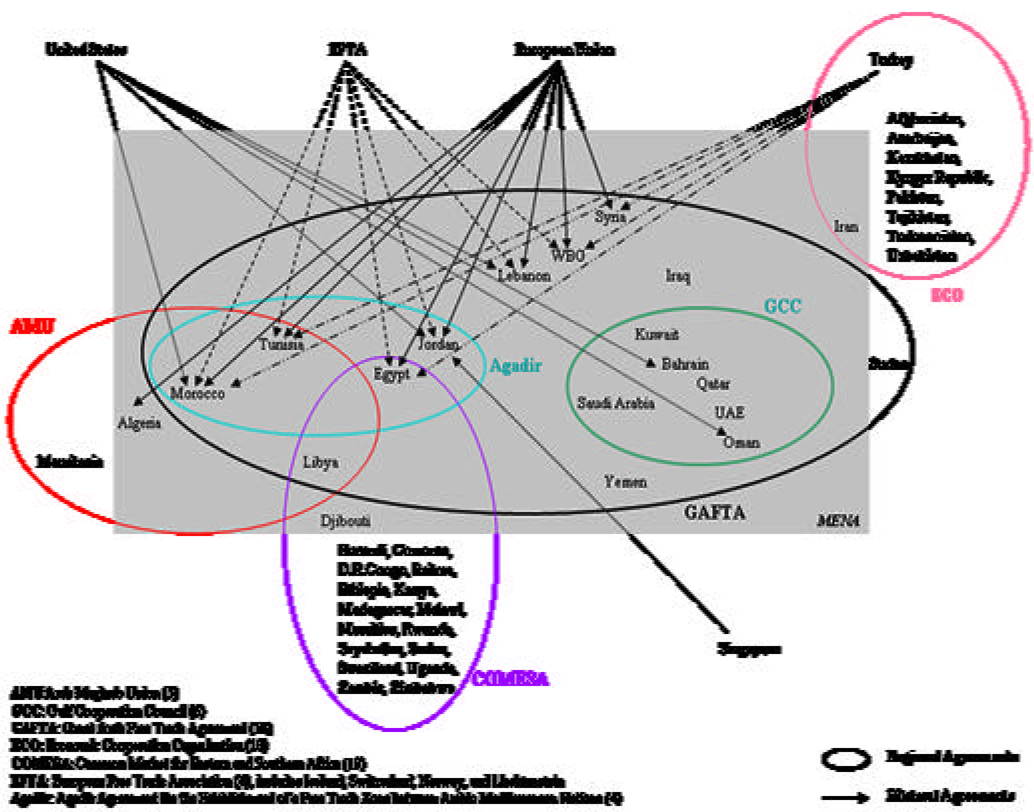
Economic and political integration efforts have a long history in the MENA region (Box 2.1). The large number of preferential trade agreements signed in the last five decades has led to a veritable "spaghetti bowl" of intertwined relationships and overlapping associations (Figure 2.2). Every MENA country is a partner to at least one regional economic agreement, and many countries are members of five RIAs or more. For a long time, policy makers have focused their integration efforts primarily on intra-MENA arrangements, while recently agreements with partners from outside the region, notably the European Union and the United States, have assumed a more prominent role. Examples include the Euro-Med Agreements of the European Union with several Mediterranean MENA countries, as well as the bilateral agreements between the USA and, respectively, Bahrain, Jordan, Lebanon, Morocco, and Oman. Moreover, a large number of bilateral investment and cooperation agreements within MENA further adds to the complicated web of institutional arrangements (Table 2.1).

Box 2. 1: MENA integration has a long history

Many pan-regional cooperation attempts have been launched in the last five decades or so, from shallow, bilateral arrangements that were confined to tariff reductions for a small number of goods to comprehensive programs that aimed to create pan-Arab market institutions. Landmark agreements during the 1950s and 1960s include the transit agreement between members of the Arab League of 1953, the Arab Economic Unity Agreement of 1957, and the attempt by Egypt, Iraq, Jordan, and Syria to form an Arab Common Market of 1964. During the 1980s, eighteen members of the Arab League signed the Trade Facilitation and Trade Promotion Accord of 1981, the Gulf Cooperation Council was established in 1981, the short-lived Arab Cooperation Council was created in 1989, and the Arab Maghreb Union came into existence during the same year. More recently, the Pan Arab Free Trade Area was set up in 1997 and the Agadir Agreement between Egypt, Jordan, Morocco, and Tunisia followed in 2004.

Source: Galal and Hoekman, 2003 and World Bank staff.

Figure 2. 2: The network of MENA regional agreements is dense



Source: World Bank staff estimates.
Note: Only major agreements are depicted.

Table 2. 1: Bilateral treaties in MENA

	Algeria	Bahrain	Djibou	Egypt	Iraq	Iran	Jordan	Kuwait	Lebanon	Libya	Morocco	Oman	Qatar	KSA	Syria	Tunisia	UAE	WBG	Yemen
Algeria		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Bahrain	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Djibouti	—	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Egypt	BIT, TA	BIT	BIT**		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Iraq	—	BIT**	—	*FTA*		—	—	—	—	—	—	—	—	—	—	—	—	—	—
Iran	BIT, TA	BIT	—	BIT**	—		—	—	—	—	—	—	—	—	—	—	—	—	—
Jordan	BIT, TA	BIT, FTA	—	BIT, FTA	—	—		—	—	—	—	—	—	—	—	—	—	—	—
Kuwait	BIT, *TA*	—	—	BIT	BIT, *TA*	—	BIT**, FTA		—	—	—	—	—	—	—	—	—	—	—
Lebanon	TA	FTA*, BIT	—	TA, BIT,	FTA	BIT	TA,FTA,BIT	TA, BIT		—	—	—	—	—	—	—	—	—	—
Libya	—	—	—	BIT, TA	—	—	—	—	—		—	—	—	—	—	—	—	—	—
Morocco	*TA*	BIT	—	BIT, FTA	BIT**, *TA*	BIT, *FA*	BIT, FTA	BIT, *TA*	FA, BIT	BIT, TA		—	—	—	—	—	—	—	—
Oman	BIT	—	—	BIT	—	BIT	—	—	BIT*	—	BIT, *FA*		—	—	—	—	—	—	—
Qatar	TA	—	—	BIT**	—	BIT, TA	—	—	FA	—	BIT, FA**	—		—	—	—	—	—	—
KSA	—	—	—	BIT	—	—	—	—	TA	—	*TA*	—	—		—	—	—	—	—
Syria	BIT**, TA	TA, BIT	—	BIT, TA	BIT**, TA**	BIT, TA	BIT, FTA	BIT, TA	TA, BIT	BIT, TA	BIT, FA	BIT**, FA	BIT**, TA	TA		—	—	—	—
Tunisia	BIT**, TA	—	—	BIT, FTA	—	BIT	BIT, FTA	BIT**, TA	BIT	BIT**, FTA	BIT**, FTA	BIT	—	—	TA		—	—	—
UAE	BIT	—	—	BIT	—	—	FTA	BIT**	TA, BIT	-	BIT, FA, FTA	—	—	—	BIT, TA*	BIT**		—	—
WBG	—	—	—	TA, BIT	—	—	TA	—	—	—	—	—	—	—	—	FA	—		—
Yemen	BIT**, TA	BIT**	—	BIT	—	BIT	BIT	BIT**	FA, BIT	—	BIT**, FA	BIT	—	—	BIT, FA*	—	BIT	—	

Source: World Bank staff estimates based on national sources.

Notes: Framework Agreements (FA) call for cooperation, and exchange of information and expertise. Free Trade Agreements (FTA) involve broad tariff reductions on a preferential basis. Trade Agreements (TA) are less demanding than FTAs, but more concrete than a FA. A TA could, for example, include tariff reductions, special exemptions, or creation of a free trade zone. Bilateral Investment Treaties (BIT) provides investor protection.
* = Not Ratified ; ** = Not enforced; *in italic* = status unknown.
— = data not available.

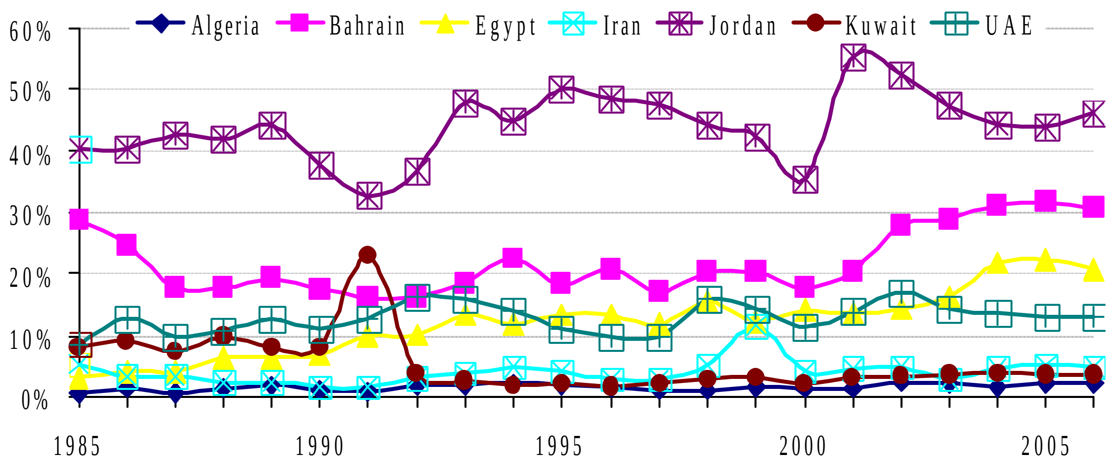
Despite the many integration initiatives and agreements, many observers perceive the outcome as disappointing. In particular, "gravity models" that estimate trade potentials between partner countries based on economic size, geographical distance, and other country characteristics consistently find that MENA integration is below the level expected (e.g. Achy, 2006; Miniesy et al. 2004; Peridy, 2005). Frequent conflict within the region and related sovereignty and security concerns might be responsible for some of the reluctance to embrace regional integration. Other explanations include the lack of complementarity in production structures, the uneven level of tariff protection across the region, the persistence of significant non-tariff barriers to trade, and the lack of coverage of services, investment, and labor mobility in past integration efforts.

2.1.2 Impediments to goods trade

In many MENA countries, the share of intra-regional in total merchandise trade has increased over the past two decades (Figure 2.3). Nevertheless, the extent of intra-regional trade remains lower than in all other regions of the world, except for South Asia (World Bank, 2005). While the intra-regional trade to GDP ratio exceeds 15 per cent in Syria and Jordan, in most MENA countries the ratio remains in low single digits (Figure 2.4). In particular, resource-rich, labor-importing countries show generally a very low level of intra-MENA exports in relation to GDP, despite high total export to GDP ratios.

Figure 2. 3: Intra-regional trade for selected MENA countries, 1985-2005

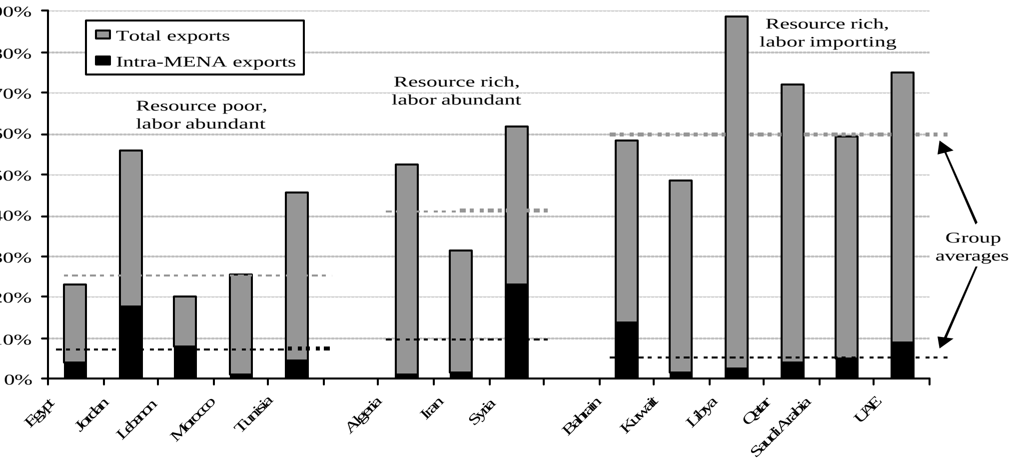
(Share of intra-MENA merchandise exports in total merchandise exports)



Source: World Bank staff based on IMF Directions of Trade database.

Figure 2. 4: Exports to the region remain generally of minor significance

(Share of merchandise exports in GDP, 2006*)

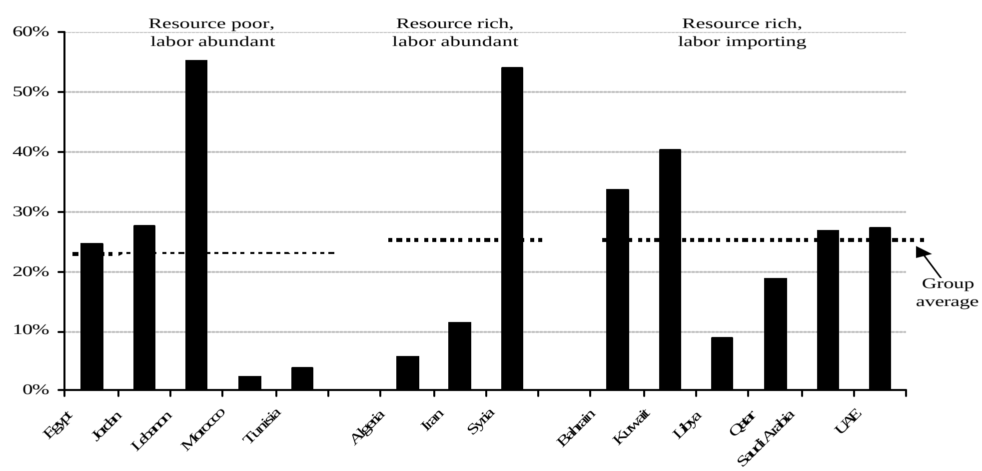


Source: World Bank staff estimates based on IMF Directions of Trade and World Development Indicators databases.
Note: Exports derived from mirror data. * or latest year available.

This low level of intra-regional trade is due in part to large share of petroleum exports. If only non-oil exports are considered, about one quarter of total exports is on average destined for markets in the region (Figure 2.5). Of course, substantial differences exist in intra-regional trade exposure across countries. For Lebanon and Syria, regional markets account of more than half of their non-oil exports, while this share is in the single digits for Algeria, Libya, Morocco, and Tunisia.

Figure 2. 5: MENA destinations are of some importance for non-oil exports

(Share of intra-MENA non-oil merchandise exports in total non-oil merchandise exports, 2006*)



Source: World Bank staff estimates based on UN Comtrade database.
Note: * or latest year available.

Trade within sub-regional blocs (Table 2.2) appears to be low. None of the four members of the Agadir Agreement trades more than 3 percent of total imports and exports with the other three partners. The same observation holds for the five members of the Arab Maghreb Union, with only Tunisia showing a somewhat higher level of regional integration.

Table 2. 2: Trade with partners in regional agreements is low

(Merchandise imports and exports with partners to total merchandise imports and exports, percent)

	Agadir Agreement	Arab Maghreb Union	GCC	GAFTA
MENA countries	—		—	—
Algeria	—	1.2	—	—
Bahrain	—	—	35.0	38.6
Egypt	1.5	—	—	13.6
Iraq	—	—	—	14.7
Jordan	3.0	—	—	35.7
Kuwait	—	—	4.5	7.4
Lebanon	—	—	—	30.6
Libya	—	2.7	—	5.1
Morocco	1.2	2.2	—	7.5
Oman	—	—	11.0	12.2
Qatar	—	—	6.4	7.5
Saudi Arabia	—	—	4.1	9.1
Syria	—	—	—	46.7
Tunisia	1.4	6.7		7.4
UAE	—	—	4.8	7.4
Yemen	—	—	—	24.5
Non-MENA countries	—	—	—	—
Mauritania	—	2.8	—	—
Sudan	—	—	—	18.3

Source: World Bank staff estimates based on IMF Directions of Trade database.
— = data not available.

The potential for goods market integration across MENA may be limited by the lack of trade complementarity. Countries with similar resource endowments, production capabilities, and export structures find it difficult to use regional integration as a means to establish patterns of specialization and diversification. Similarities between the export basket of one country and the import basket of another can be analyzed by using the bilateral product complementarity index (Yeats, 1998; Khandelwal, 2004). The value of this index can range from zero, which represents no complementarity between exports and imports of two countries, to one hundred, which implies a perfect match. The higher the index between two countries, the greater the product complementarity.

Complementarity indices between partners in successful regional agreements, such as the EU or the North American Free Trade Agreement (NAFTA), have been reported to exceed a value of 50, and moderately successful ones, such as Mercosur, show complementarity indices in the range of 25-30 (Yeats, 1998). In contrast, the bilateral complementarity between MENA countries is low, and the index often does not exceed single-digit levels (Table 2.3 and 2.4). In most cases, the complementarity of non-oil trade is higher than for total trade, but still rarely exceeds an indicator value of 20.

Table 2. 3: Bilateral trade complementarity in MENA is low

(Bilateral complementarity index, 2006*)

	Importer									
Exporter	**Algeria**	**Bahrain**	**Jordan**	**Morocco**	**Oman**	**Qatar**	**Saudi Arabia**	**Syria**	**Tunisia**	**Yemen**
Algeria	—	55.2	24.9	20.5	4.3	4.9	0.9	11.2	8.4	4.7
Bahrain	1.8	—	3.0	2.0	5.8	6.6	2.7	6.9	2.2	22.8
Jordan	13.0	9.2	—	9.8	14.7	15.4	11.4	9.3	10.2	12.6
Morocco	6.5	6.3	10.1	—	9.9	12.5	9.8	8.5	12.2	6.3
Oman	2.4	57.0	21.6	13.9	—	6.8	2.3	5.7	5.8	4.2
Qatar	2.2	48.9	21.4	16.0	5.0	—	1.5	10.2	6.1	6.9
Saudi Arabia	3.5	57.9	22.4	16.2	7.4	7.9	—	10.6	7.5	17.9
Syria	3.5	57.9	22.4	16.2	7.4	7.9	10.6	—	7.5	17.9
Tunisia	11.1	19.9	24.7	26.7	14.0	16.6	13.5	13.8	—	10.4
Yemen	1.2	56.1	20.0	13.5	4.8	5.7	1.8	8.2	5.2	—

Note: *2006 or latest trade data available. Indices calculated at the HS 6-digit level. The product complementarity index Cjk between two countries j and k is defined as Cjk = 100 - ? i(|Mik-Xij|/2), where Xij represents the share of good i in total exports of country j and Mik represents the share of good in total imports of country k. Indices for Djibouti, Iran, Iraq, Kuwait, Lebanon, Libya, United Arab Emirates, and West Bank Gaza were not computed because of lack of detailed trade data. Egypt was not included, as the country reports trade data in the SITC-classification.
— = data not available.

One positive outlier in the data is Bahrain, which as an importer shows very strong complementarity with other fuel exporters in the region. This finding is driven by the Bahrain Petroleum Company's refinery, which is one of the largest processing facilities in the Middle East. The unit's refining capacity is taken up only partly by processing crude petroleum that originates from Bahrain's own oil field, while the remaining spare capacity is used for refining imported crude. Hence, Bahrain appears in trade statistics as a large-scale petroleum importer (and large-scale exporter of refined petroleum products) and a complementary trading partner to the crude petroleum exporters in the region.

Table 2. 4: Bilateral complementarity for non-oil trade is somewhat higher

(Bilateral complementarity index for non-oil trade, 2006*)

	Importer									
Exporter	**Algeria**	**Bahrain**	**Jordan**	**Morocco**	**Oman**	**Qatar**	**Saudi Arabia**	**Syria**	**Tunisia**	**Yemen**
Algeria	—	4.3	6.8	5.6	6.6	8.0	5.8	5.8	5.9	5.6
Bahrain	4.2	—	5.4	3.5	6.7	9.7	5.0	4.6	2.8	3.7
Jordan	21.8	19.9	—	19.7	20.1	23.2	21.5	17.2	21.2	17.2
Morocco	6.5	9.5	9.7	—	9.5	12.7	9.8	8.2	11.2	6.2
Oman	11.3	13.8	10.4	6.9	—	14.9	8.3	11.9	7.0	12.8
Qatar	11.3	13.8	10.4	6.9	14.9	—	8.3	11.9	7.0	12.8
Saudi Arabia	13.2	19.4	17.2	13.9	18.9	22.3	—	16.6	12.6	15.7
Syria	16.6	18.2	21.4	17.9	18.0	19.7	18.0	—	17.3	16.3
Tunisia	16.6	18.2	21.4	17.9	18.0	19.7	18.0	17.3	—	16.3
Yemen	6.2	7.4	7.9	5.3	7.8	9.3	6.6	8.4	5.1	—

Source: World Bank staff estimates based on information from the UN Comtrade database.
Note: see table 2.3
— = data not available.

The findings of overall low trade complementarity in the MENA region are consistent with earlier analysis of the subject (e.g. Havrylyshyn and Kunzel, 2000). Moreover, some observers note that MENA countries are generally more complementary with their Northern trading partners (e.g. the EU and the United States) than with their neighbors within the region (Péridy, 2005), so that the dominance of out-of-region trade relationships is not surprising.

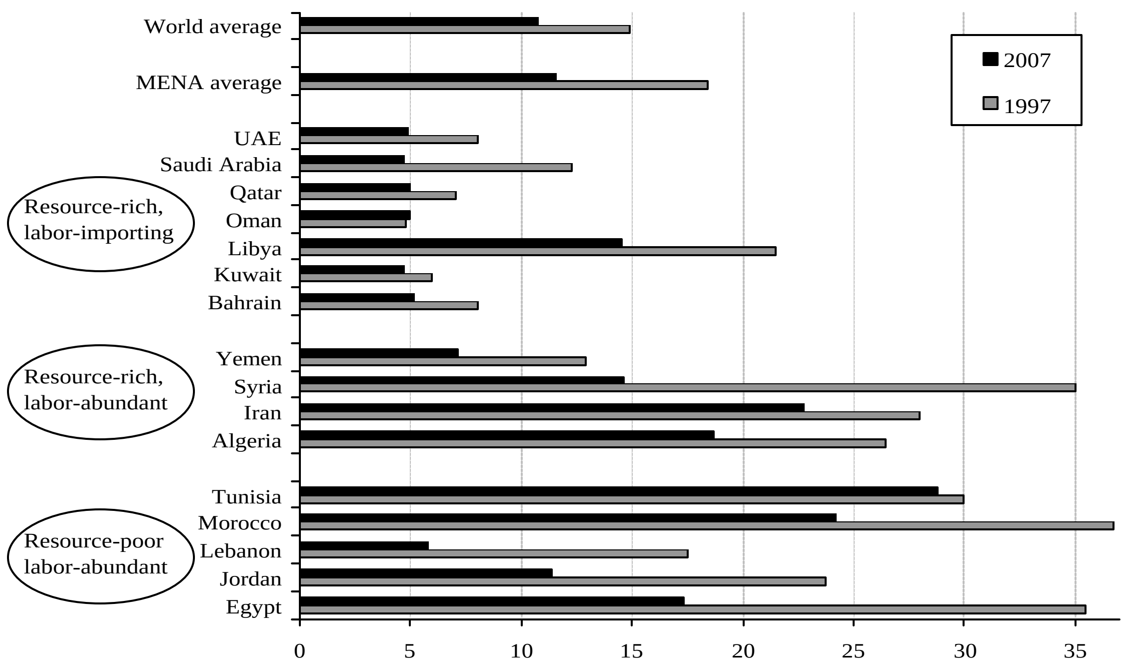
Another impediment to successful integration is the uneven level of import protection across the MENA region. Differences in tariffs imply that industries in partner countries benefit to a differing extent from policy-generated transfers, so that the costs and benefits of moving to freer trade are unevenly distributed (Fawzy, 2003). Achieving agreement under these circumstances to open markets among regional partners is politically difficult.

Moreover, maintaining high most-favored nation (MFN) tariffs is associated with a high risk of economically costly trade diversion occurring from preferential integration. In particular, selective opening towards regional partners can divert trade flows from more efficient third country producers to less efficient partner country producers, resulting in a loss of tariff revenues without the economy benefiting from lower purchasing costs. Hence, high-protection countries could be adversely affected by regional integration. The risk of trade diversion to occur is further increased if the intensity of trade between partners prior to bilateral liberalization is low, as in MENA.

The simple average of MFN-duties in MENA countries ranges from about 5 per cent in the GCC countries and Lebanon to more than 20 percent in Iran, Morocco, and Tunisia (Figure 2.6). Virtually all countries within the region have reduced their tariffs over the past decade, and many of them to a significant extent. As a result, the MENA-wide duty average has been converging towards the world average. However, the spread in average tariff rates among MENA countries remains substantial, and countries with relatively high duties on average are vulnerable to trade diversion if preferential integration is pursued.

Figure 2. 6: Import tariffs vary markedly across MENA

(Simple average of MFN duties*, percent)



Source: World Bank staff estimates based on IMF Trade Restrictiveness database.
Note: *includes customs duties or surcharges.

Policy makers in MENA are aware of the adverse effects of trade diversion and are starting to take corrective action. For example, the Euro-Mediterranean Agreements between Mediterranean MENA countries and the EU envisage bilateral free trade for industrial goods to be phased in over several years. In some countries (e.g. Tunisia), the transition process has already been completed, while in others (e.g. Morocco) it is well under way. With high external trade barriers, there is a risk that trade is diverted from low-cost third country producers (e.g. Indian suppliers of pharmaceutical generics) to high cost EU producers (e.g. European suppliers of branded pharmaceuticals). In order to avoid or contain the ensuing fiscal and economic loss, countries have started to reduce their MFN tariffs and thereby limit the preference margin they grant to their EU partners. This process will have to continue, though, in order to have the desired effect of reducing and eliminating adverse impacts of trade diversion.

2.1.3 Non-tariff barriers and logistics

With the world-wide progress made in tariff reduction over the past two decades, policy makers have increasingly turned their attention towards regulatory and logistical impediments to trade, which now are often more costly than tariffs and generate no offsetting revenue. Cooperative efforts by governments to remove discriminatory regulations, improve customs procedures, and reduce transport costs are, therefore, important aspects of modern regional agreements. MENA countries face substantial challenges in this area due to a legacy of restrictive non-tariff measures and neglect of trade facilitating efforts.

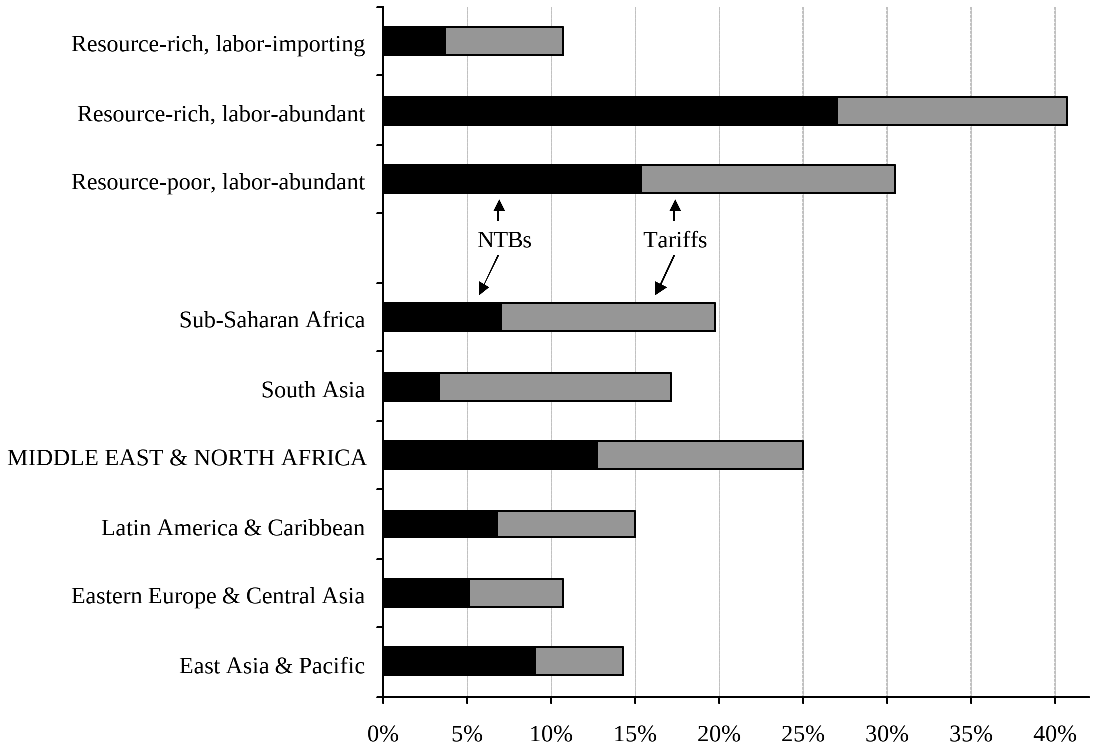
The situation is captured in recent analytical work. In particular, a team of analysts in the World Bank's Research Department has estimated an Overall Trade Restrictiveness Index (OTRI), which corresponds to the uniform tariff that if imposed on all imports from partner countries would leave overall imports unchanged. The measure also makes it possible to disaggregate total barriers to trade into tariff and non-tariff components. The estimation is based on data for the early 2000s (Kee, Nicita, and Olarreaga, 2005).

It turns out that non-tariff barriers to trade are more substantial in the MENA region than in any other region of the world (Figure 2.7). Also, non-tariff barriers (NTBs) contribute more to overall trade restrictiveness than tariffs. NTBs are particularly pervasive and restrictive in labor-abundant MENA countries, while being far less so in the resource-rich, labor-importing countries of the region. Firm surveys suggest that the cost of complying with NTBs is high, more than 10 percent of the value of goods shipped (Zarrouk, 2003).

In some cases, NTBs can significantly reduce or even nullify the trade preferences in regional agreements. For example, the GAFTA Agreement has phased in preferential tariff reductions among members, leading to free intra-regional trade by 2005. However, some importing countries have asked exporters from partner countries to obtain special import permits that had to be presented to the border agencies in order to benefit from the preferences (Filali, 2007). If an import-competing industry could be harmed by the imports, these permits were often not granted, so that importers had to pay the full MFN-tariffs. Hence, the reduced-tariff-preferences exist only on paper, but not in practice.

Figure 2. 7: Non-tariff measures are highly restrictive in MENA countries

(Uniform tariff equivalent, percent)



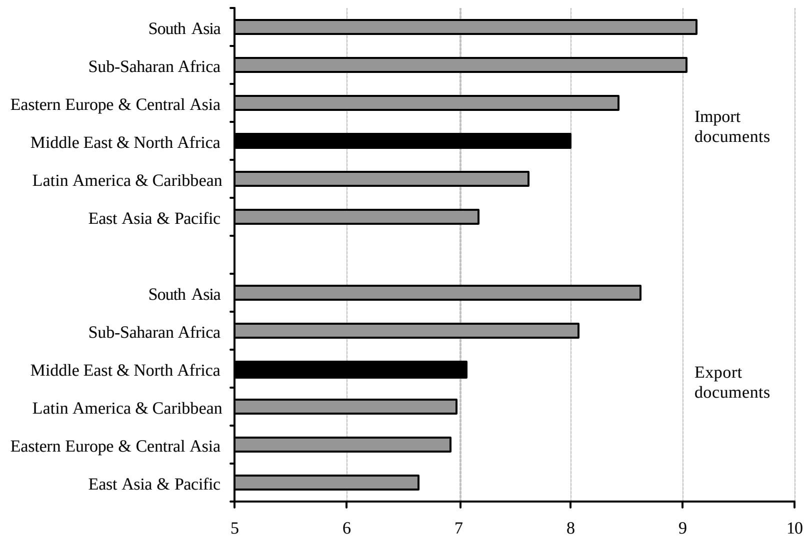
Source: World Bank staff estimates based on Kee *et al.* (2005).

Differences in the rules of origin of the various regional agreements can also generate additional compliance costs. While most of the intra-regional agreements adhere to a 40 percent value-added rule to confer origin, they differ with respect to cumulation rules. While GAFTA allows for diagonal cumulation, i.e. the use of inputs from other member countries towards the value-added target, the Arab Maghreb Union and the Agadir Agreement do not (Wippel, 2005). Also, the intra-regional rules of origin are markedly different from those pertaining in the Euro-Mediterranean context, so that companies that are serving both MENA and European markets might have to run parallel procurement and production processes to satisfy the respective requirements.

Trade procedures are relatively more difficult and time consuming to undertake in MENA countries than in other middle income economies (Figure 2.8 and 2.9). In particular, while MENA governments require on average lighter importing and exporting documentation than their counterparts in low-income Sub-Saharan Africa or in South Asia, the number of documents exceeds the averages for middle-income Latin America and East Asia.

Figure 2. 8: Trade procedures in MENA are cumbersome

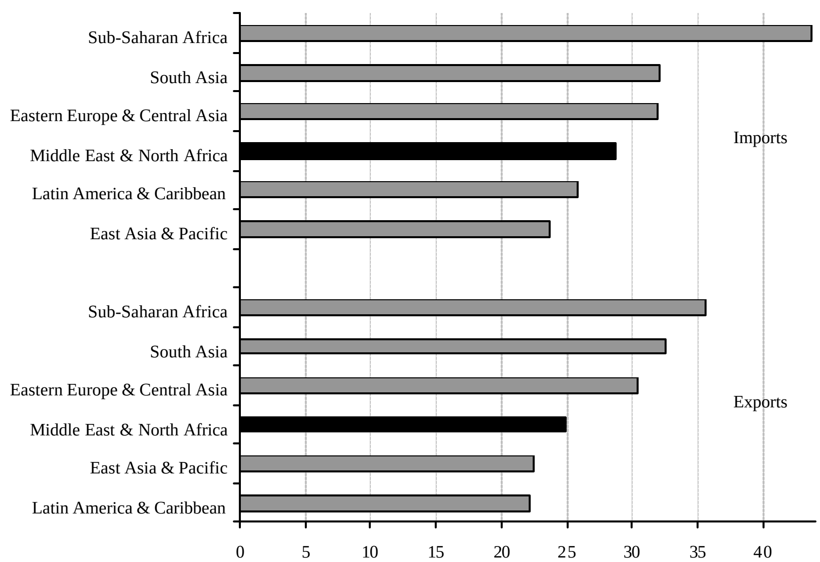
(Number of documents required)



Source: World Bank staff estimates based on Doing Business 2008 database.

Figure 2. 9: Trade procedures in MENA are time consuming

(Number of days required)

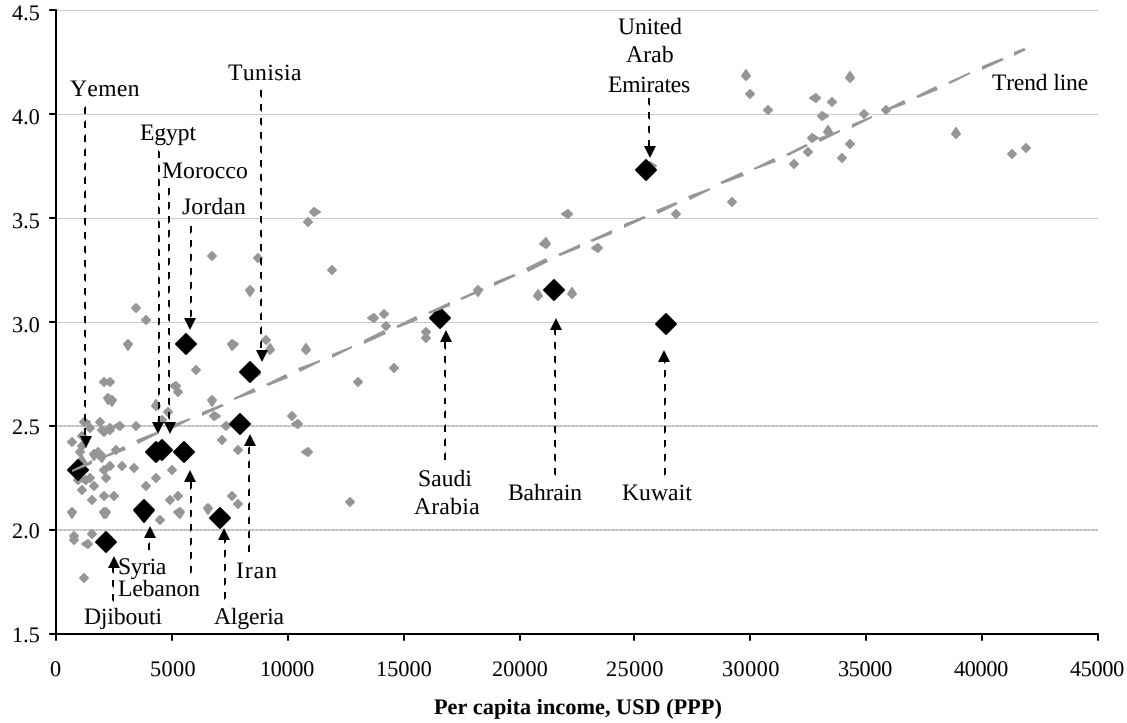


Source: World Bank staff estimates based on Doing Business 2008 database.

The newly developed Logistics Performance Index (LPI) (World Bank, 2007), which is based on a world-wide survey of global freight forwarders and express carriers, makes it possible to compare the situation of countries across a broad set of transport and trade facilitation dimensions. Richer countries are in a position to devote more resources to investments in transport infrastructure, inter-agency coordination, and staff training and, hence, in general show lower trade transactions costs than poorer economies. Most MENA countries, however, score below the level of logistics performance that would be expected from their level of income (Figure 2.10). Only Yemen, Jordan, Tunisia, and UAE meet or exceed the average for countries in their income class. The most marked logistics challenges are observed for the resource-rich labor-abundant group of countries, with pronounced gaps in logistics competence and cargo tracking and tracing (Table 2.5).

Figure 2. 10: The logistics performance of most MENA countries is below expectations

(Overall Logistics Performance Index, higher is better)



Source: World Bank staff estimates based on World Bank (2007).

Logistics chain analysis suggests that transport and non-transport logistics costs for export commodities from the MENA region range from 7 percent to 25 percent of landed product prices (Devlin and Yee, 2005). Significant gains could be reaped from overhauling the regulatory regime for the trucking sector, increasing competition in port and air freight services, reorienting customs authorities towards trade facilitation, and developing cross-border transit procedures similar to the Transport International Routière (TIR) carnets model. Some analysts have estimated that the welfare benefits from intra-regional trade facilitation would indeed be more than three times as high as those from intra-regional tariff elimination (Dennis, 2006).

Table 2. 5: Logistics performance varies within country groups and across components

(Logistics Performance Index, higher is better)

	Customs	Infra-structure	Int. Shipments	Logistics competence	Tracking and tracing	Domestic logistics costs	Timeliness	Overall
Djibouti	1.64	1.92	2.00	2.00	1.82	2.80	2.30	1.94
Egypt	2.08	2.00	2.33	2.38	2.62	2.83	2.85	2.37
Jordan	2.62	2.62	3.08	3.00	2.85	2.92	3.17	2.89
Lebanon	2.17	2.14	2.50	2.40	2.33	3.40	2.67	2.37
Morocco	2.20	2.33	2.75	2.13	2.00	2.38	2.86	2.38
Tunisia	2.83	2.83	2.86	2.43	2.83	3.20	2.80	2.76
Avg. RPLA	2.26	2.31	2.59	2.39	2.41	2.92	2.78	2.45
Algeria	1.60	1.83	2.00	1.92	2.27	3.17	2.82	2.06
Iran	2.50	2.44	2.59	2.69	2.00	2.93	2.80	2.51
Syria	2.17	1.91	2.00	1.80	2.00	2.89	2.67	2.09
Yemen	2.18	2.08	2.20	2.22	2.30	2.67	2.78	2.29
Avg. RRLA	2.11	2.07	2.20	2.16	2.14	2.92	2.77	2.24
Bahrain	3.40	3.40	3.33	2.75	3.00	2.25	3.00	3.15
Kuwait	2.50	2.83	2.60	3.00	3.33	2.40	3.75	2.99
Oman	2.71	2.86	2.57	2.67	2.80	3.25	4.00	2.92
Qatar	2.44	2.63	3.00	3.00	3.17	3.00	3.67	2.98
Saudi Arabia	2.72	2.95	2.93	2.88	3.02	2.76	3.65	3.02
UAE	3.52	3.80	3.68	3.67	3.61	2.80	4.12	3.73
Avg. RRLI	2.88	3.08	3.02	3.00	3.16	2.74	3.70	3.13
Avg. MENA	2.47	2.56	2.69	2.60	2.67	2.81	3.15	2.69
Avg. World	2.56	2.58	2.72	2.71	2.73	2.89	3.17	2.74

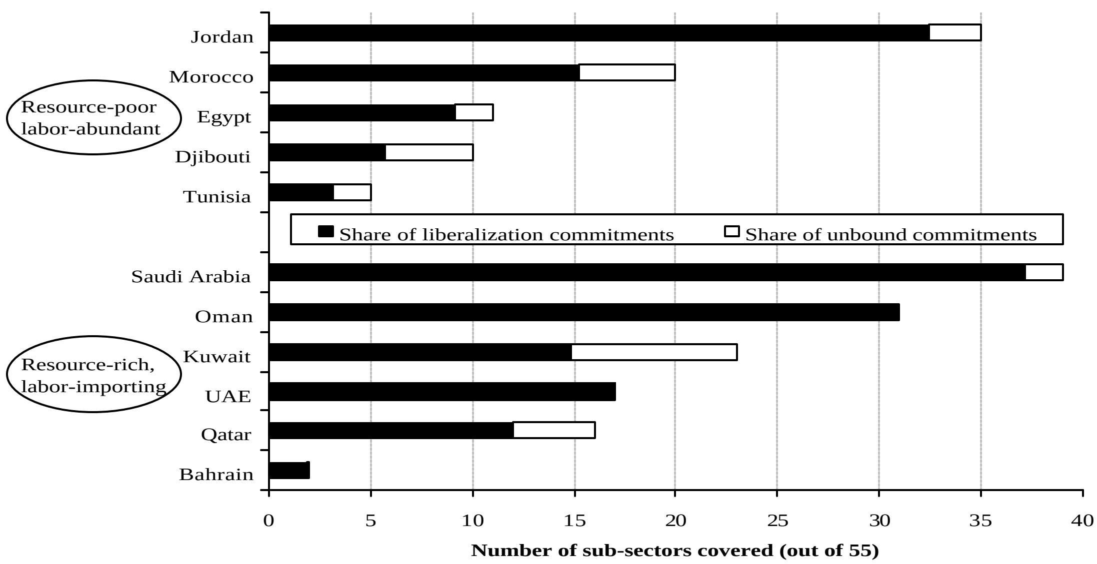
Source: World Bank (2007).

2.2 INTEGRATION VIA SERVICES

Services typically account for a large share of GDP and are important inputs into the production of most goods. So removing barriers to entry for both domestic and foreign firms and increasing the efficiency of services delivery promises substantial economic gains. These potential gains often make it politically more feasible to gather support for reform in services than in agriculture or industry. Moreover, services liberalization in preferential arrangements carries fewer risks of income losses than preferential merchandise trade, because lifting most common services restrictions does not cost the government revenues, so that there are no trade diversion effects. On the other hand, services liberalization tends to be considerably more complicated than tariff reform. It requires the establishment of a carefully designed regulatory system and appropriate safeguard mechanisms, and sometimes entails a painful privatization process.

Quantitative analysis using economy-wide models suggests that in the case of Egypt and Tunisia comprehensive services reforms that involve increased competition and regulatory streamlining would yield benefits that are two to three times in magnitude of those achieved through tariff removal alone (Konan, 2003). The size of the reform benefits depends, of course, on the extent of pre-reform openness and efficiency of the domestic services sector, the capacity of countries to cope with the adjustment needs, and the political commitment to modernization. MENA countries have in the past taken very different approaches towards international services integration, as illustrated by the very diverse extent of GATS liberalization commitments of the region's WTO members (Figure 2.11).

Figure 2. 11: GATS commitments illustrate varying reform mindedness across the region

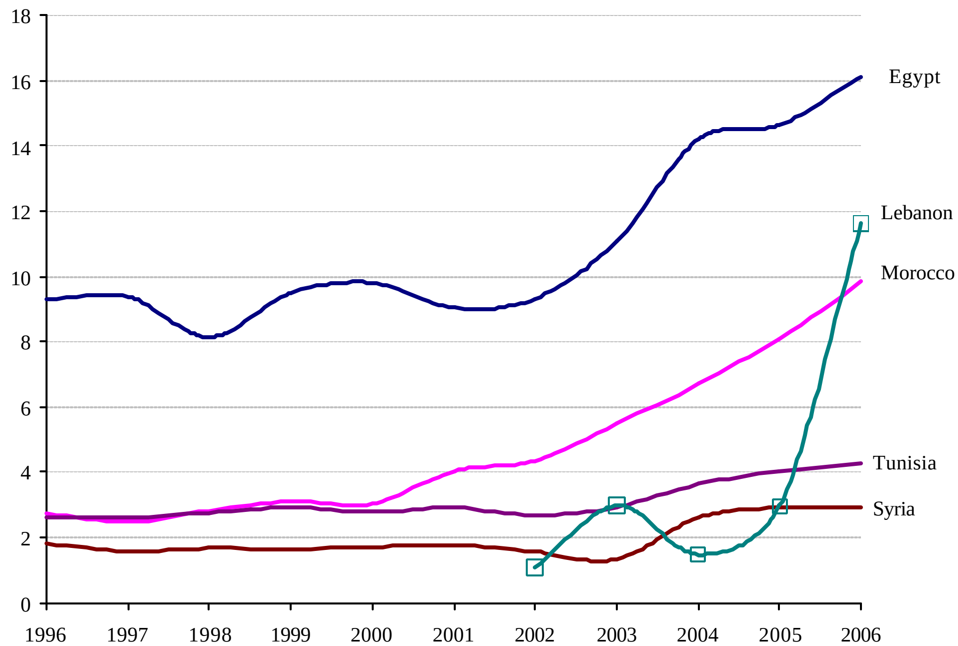


Source: World Bank staff estimates based on national GATS schedules.

The existing regional integration agreements in MENA generally do not cover services trade, or only to a minimal extent (e.g. through intentions of cooperation in certain services sectors). Intra-regional differences in regulations, restrictions on currency convertibility, and limits on the physical movement of persons are currently creating a situation in which it is often easier for MENA services providers to operate in countries outside the region, e.g. Western Europe, than within. Given the dynamic development of services exports (Figure 2.12), as well as the complementarity of net exporters of services in labor-abundant countries and net-importers in resource-rich countries (Figure 2.13), there could be significant opportunities for increased regional exchange, though.

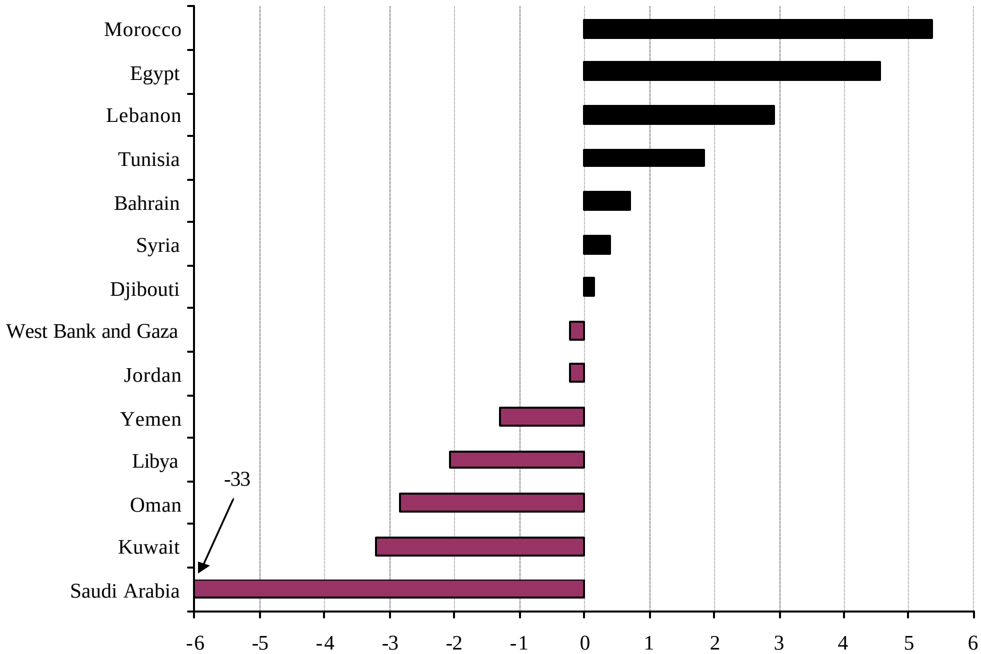
Figure 2. 12: Services exports for selected countries, 1996-2006

(US$ billion)



Source: World Bank staff estimates based on IMF Balance of Payment statistics.

Figure 2. 13: MENA contains both net-exporters and net-importers of services
(Net services trade position 2006, in USD billion)

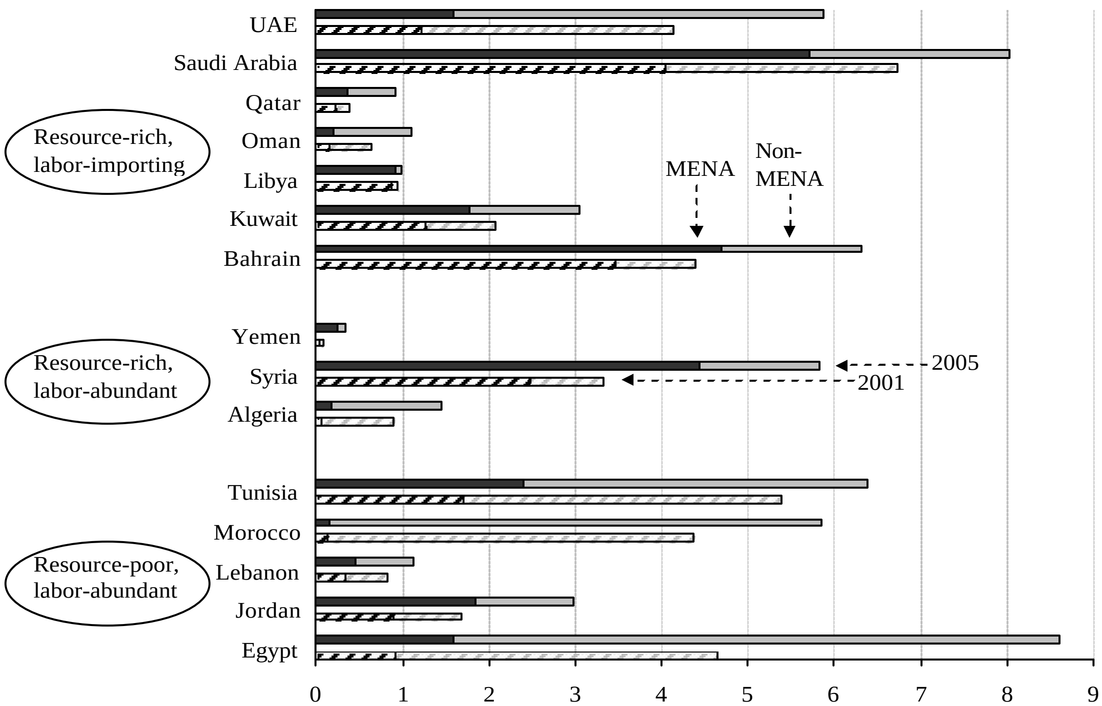


Source: World Bank staff estimates based on IMF Balance of Payment statistics.

Some countries have been showing the way. For example, Kuwait has pursued an export strategy for telecommunications services to the regional market and has become one of the world's largest providers (almost tripling its exports in one year to reach $3.4 billion in 2006). Kuwaiti service providers are connecting an estimated 27 million mobile subscribers in the Middle East and in Sub-Saharan Africa. Also, in the medical tourism sector, an agreement between Libya and Tunisia on the reimbursement of treatments received largely contributed to the development of competitive health services in Tunisia with Libyan customers representing 80 percent of Tunisia's health tourism incomes.

Tourism more generally has been a major services export sector for many MENA countries. Tourist arrivals increased in all countries within the region and expanded overall by almost 50 percent between 2001 and 2005, with the growth in arrivals from other MENA countries slightly outpacing the overall average. Tourists from MENA countries account for about 45 percent of total arrivals. Wide variations in the importance of the regional market for tourism exports exist, though. In Libya, 92 percent of all non-resident visitors are from other MENA countries, while in Morocco the share is merely 3 percent (Figure 2.14).

Figure 2. 14: Total and intra-MENA tourism exports have grown strongly
(Arrivals of non-resident tourists/visitors, in million)



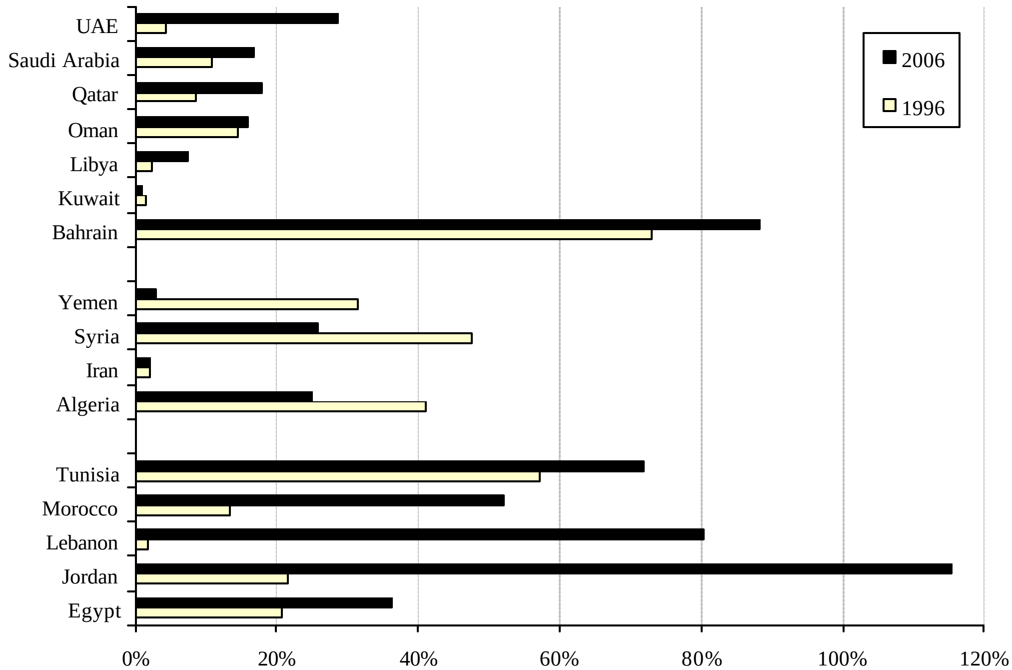
Source: World Bank staff estimates based on World Tourism Organization, Yearbook of Tourism Statistics 2007.

Moreover, the MENA countries that have concluded FTAs with the USA have included services sector provisions, notably concerning banking, insurance, and telecommunications, in these agreements. The arrangements generally lock in prevailing openness, and only in some cases, such as the banking sector in Bahrain, involve changes in restricted activities. A negative list approach ensures coverage of all activities not explicitly exempted. Also, most of the treaties contain ratched mechanisms, which mean that new autonomous liberalization be subsumed under the terms of the agreements. These extra-regional integration paradigms might provide useful principles for further intra-MENA services integration as well.

The agreements with the USA also provide for treatment of foreign investors on the same basis as domestic investors ("national treatment") and contain measures banning discrimination among investors from member countries ("non-discrimination"). Such protections, in combination with appropriate trade rules and liberalized market access, can have positive effects on inflows of foreign investment. Inward FDI stocks have expanded in many MENA countries over the past decade, and reached an average 70 percent of GDP in resource-poor, labor-abundant countries in 2006 (Figure 2.15). However, the growth of

FDI flows has not been as dynamic as in other emerging economies, such as those in Eastern Europe (Brenton et al., 2006)

Figure 2. 15: Inward FDI stocks have expanded substantially in resource-poor countries
(Share of gross domestic product)



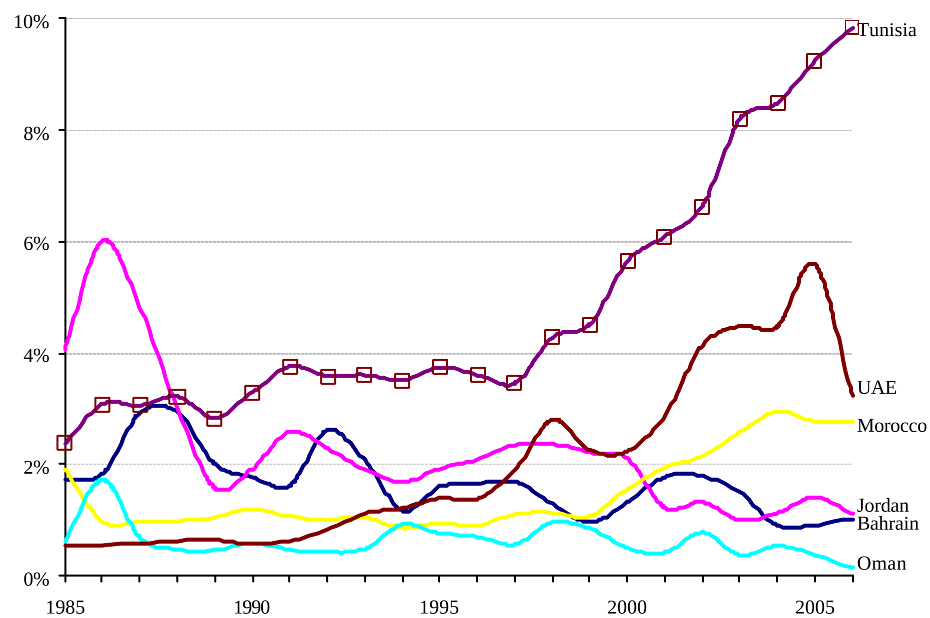
Source: World Bank staff estimates based on IMF Balance of Payment statistics.

Inward FDI is much less important in the resource-rich countries in the region, and the FDI to GDP ratio has actually fallen in RRLA-countries. Resource-rich MENA countries are exporters of capital and the recent oil boom has generated significant resources to pursue investment opportunities within the region and beyond. MENA capital markets have seen a flurry of activity, with market capitalizations increasing more than tenfold since 2000. In particular, real estate and private equity have been booming. Countries close to the Gulf region, such as Jordan, have received a large share of their foreign capital inflows from investors from resource-rich countries, while in more distant Morocco, such investors accounted for about 10 percent of total FDI in 2006.

These intra-regional investments are bound to bring countries in MENA economically closer together by creating business linkages with an interest in mutual success. Moreover, some FDI might generate additional links by stimulating the emergence of cross-country networks of suppliers. Over the past two decades, such networks have been established in the car industry in Eastern Europe and in electronics in East Asia, and have significantly contributed to the international economic success of these regions. The systems of interrelated suppliers take advantage of inter-country wage differentials within the region, short transport distances, and economies of scale from specialization (Haddad, 2007). The resulting fragmentation of production is intensifying intra-regional trade, but tends to depend heavily on extra-regional demand for final goods. Hence, a two-pronged strategy based on closer integration of factor and product market to facilitate the emergence of production linkages within the region, and openness towards international markets seems essential for success.

Global trade in parts and components, which can be seen as a proxy for exchanges in production networks, has expanded more dynamically than conventional trade in final goods. MENA countries have long been lagging behind in network trade (Yeats and Ng, 2000), but some Maghreb countries have been catching up in recent years (Figure 2.16). Tunisia, in particular, has seen its share of parts and components exports almost triple over the past decade from less than 4 per cent to 10 per cent of total exports. However, most of this trade is in the context of networks with Europe, rather than with partners in the MENA region.

Figure 2. 16: Exports of parts and components have increased in some Maghreb countries
(Share of parts and components exports in total exports)

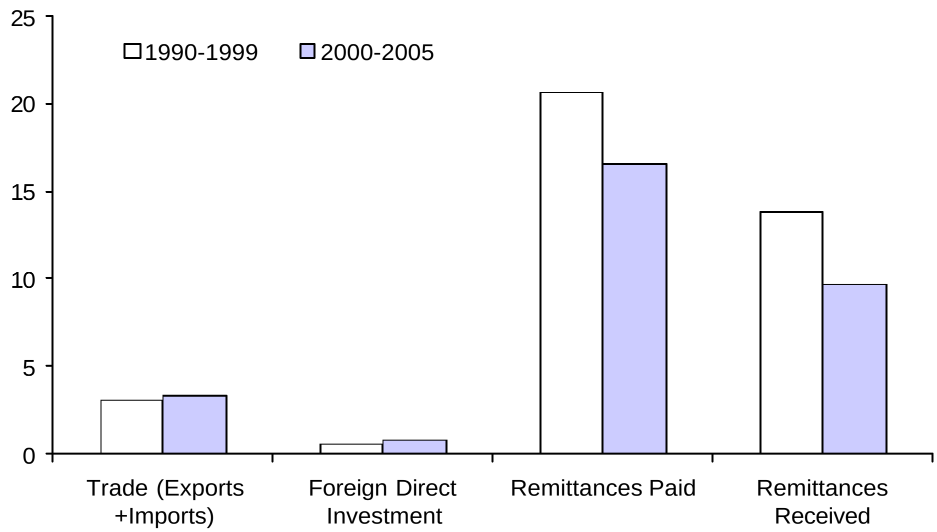


Source: World Bank staff estimates based on UN Comtrade database.

2.3 INTEGRATION THROUGH LABOR MOBILITY

The MENA region is more integrated in the global economy through labor mobility than through trade and investment. As seen in Figure 2.17, MENA's share of global trade flows is below 5 percent and the region receives an even lower share of global FDI flows. However, about 16 percent of all remittances paid out to migrants in the world originate in the MENA region, essentially the GCC countries, and ten percent of global remittances are received by residents of MENA countries.[1] However, as Figure 2.17 also indicates, MENA's share in remittances has come down quite significantly since the 1990s, at a time when remittances to India, China, Mexico and the Philippines have increased exponentially.

Figure 2. 17: MENA region's share in world trade, FDI, and remittances paid and received



Source: World Development Indicators - WDI (2007).

Regional integration has also advanced more through people mobility – migration – than through other means (Fawzy, 2003). Migration has helped alleviate skills shortages and replenish demographic gaps, while alleviating poverty and labor market pressures in sending countries. Oil wealth has been distributed throughout the region through migration and remittances, rather than investment and trade (Yousef, 2005). How have recent phenomena, including political instability, significantly higher economic growth rates, and tightening immigration policies, influenced regional labor migration?

[1] Because of incomplete reporting and differences in recording, global remittances received and paid are not identical.

While labor migration is a key factor in economic integration, the paucity of data renders analysis difficult. Bilateral data are scarce, dated and often of weak quality. Global migration and remittance data exist as time series but do not distinguish intra-regional migration from other flows. This section combines the global time series and bilateral point estimates to try and provide a picture, however incomplete, of recent developments in intra-regional migration.

2.3.1 Intra-regional migration trends

Economic migration from the MENA region took off in the mid-1960s, driven largely by the need for labor in Western Europe and the GCC countries. The rapidly growing economies of France, Belgium, Germany, and Holland, among others, needed additional workers to meet their construction needs during the industrial boom. Labor shortages were met by actively recruiting workers in labor abundant countries in Southern Europe, the Maghreb and Turkey. With time, many of these workers settled permanently in Europe.

An equally strong migration boom occurred in the Gulf region. As the oil price shocks of 1973 and 1979 boosted national income in the GCC countries, the recruitment of foreign labor accelerated sharply. During these years of oil bonanza, most workers were recruited from other MENA countries, especially Egypt, but also Yemen, Jordan, Syria and the West Bank and Gaza. However, since labor demand outstripped supply from Arab sending countries, there was also a significant inflow of workers from South and South-East Asia. Arab workers tended to occupy more of the skilled positions, while Asian workers mainly filled the unskilled jobs (Johansson and Silva-Jauregui, 2004). The impact of these migration flows is readily seen in remittance movements. Remittance inflows into Egypt increased nearly five-fold between 1977 and 1990; remittance payments from the GCC countries increased more than five-fold in the same period, reaching $13 billion in 1990 (World Development Indicators- WDI, 2007).

Oil economies outside the GCC also recruited foreign workers. Migrants from Egypt and the Maghreb, mainly Tunisia, went to work in Libya. Egyptian workers also went to Iraq, partly replacing the male labor force enlisted in the military forces.

Box 2.2: Nationalization Policies in the GCC

Countries across the GCC have given priority to nationals in public sector recruitment, have provided various subsidies and benefits to private firms to employ nationals, and have introduced targets on employment of nationals and upgrading education and training programs. They have also regulated the issuance of work permits, raised the costs of expatriate labor through higher fees on foreign labor, and more severely enforced their immigration and labor laws.

The Saudi Arabian Manpower Council has sought to discourage foreign participation in certain labor classes. There are currently an estimated 34 professions that are restricted, with 22 others planned. Furthermore, a 10 percent upper limit on any expatriate nationality is also planned. Firms with 20 or more employees are required to raise the ratio of nationals in total employment by 5 percent each year. The government has also explored subsidizing training of nationals, to be funded through the levy of fees on expatriate labor work permits and visas.

In Bahrain, the Ministry of Labor and Social Affairs recently announced that it plans to place restrictions on the issuance of work permits starting in 2005. By then, only temporary work permits will be provided in certain sectors where government wishes to encourage Bahraini participation. Subsidies for training were also instituted in 2001 and linked to the degree of Bahranization in companies. Other industrial incentives such as duty-free imports of raw materials and machinery are likewise linked to Bahranization.

In the United Arab Emirates, the 'Emiratization' drive has led to increasing the number of nationals in the financial sector by 189% between 1997 and 2002. In Qatar, the government set up a committee, similar to other GCC states, that reviews requests submitted by private enterprises for labor importation. The committee gives final decisions with regard to the approved number, occupations and nationalities. Note, however, that in both Qatar and the UAE, the urgency of restricting the inflow of expatriates is not as pressing as in other GCC states due to shortages of national manpower vis-à-vis private sector needs.

In Oman, the government restricted the overall number of expatriate permits and simultaneously carried out a tough civil services retrenchment policy. This combined with incentives to recruit and train nationals as well as levy fees on expatriates, led to a shift in expectations of Omanis towards the private sector, and its lower relative wages. Sectoral as well as firm-specific quotas have also been set in 2003 for selected economic activities.

In Kuwait, a labor law was passed in 2000 that calls for extending government social allowances to nationals in the private sector, instituting an unemployment insurance plan, providing training subsidies, setting 'Kuwaitization' targets and linking them to government contract awards and setting penalties for not achieving pre-set targets and levying new fees on expatriates in order to minimize the wage gap. The law represents an attempt that is unique in the GCC to address open unemployment of nationals in a comprehensive manner

Source: Girgis et al. (2003) as presented in Yousef (2005.)

As oil prices reversed in the mid 1980s, labor demand fell and Arab migrant workers faced increased competition at two ends of the skill spectrum. At the high end, GCC countries restricted access to public administration jobs for foreigners and put pressure on the private sector to hire nationals (see Box 2.2). At the unskilled end, Arab workers were replaced by South and Southeast Asian workers in part because of the latter's willingness to work for lower wages and poorer working conditions and to come without families, which is an implicit guarantee of voluntary return. The first Gulf War also led to forced return migration. Egyptian workers had to leave Iraq, many MENA migrants had to return from Kuwait, and Yemenis, Jordanians, and Palestinians were expelled from GCC countries. The large flows of return migrants contributed to worsening unemployment in Egypt and Jordan (World Bank, 2004).

Thus, nationalization policies, competition from Asian workers, and political tensions resulted in a leveling-off of intra-regional labor migrant flows in the 1990s. Data for Kuwait suggest that between 1989 and 2000, the number of Arab workers in the country fell by 30,000 or almost ten percent, while the number of Asian workers increased by 250,000, or sixty percent.

2.3.2 Intra-regional migration since 2000

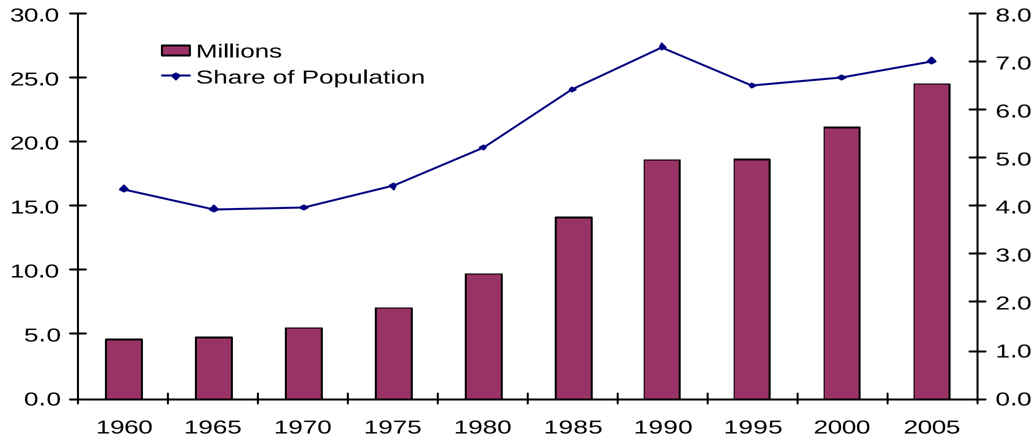
More recently, two forces have influenced intra-regional migration flows. The second Gulf war in 2003 and its aftermath prompted massive displacement within the region (e.g., a large inflow of Iraqi refugees in Syria and Jordan) but also some expulsion from the GCC of migrants from countries supporting Iraq. In addition to these politically motivated flows, the recent phenomena of high growth and falling unemployment in the MENA region are affecting migration as well. While unemployment data are not particularly reliable for some countries, recent estimates suggest that average unemployment rates for the region have fallen from around 14 percent in 2000 to around 12 percent more recently (in 2006).[2]

One outcome is that migration flows have regained pace in recent years with the share of migrants in the population of MENA countries reaching 7 percent of the population in 2005. Moreover, the trend appears to be accelerating: the migrant population increased by 3.3 million people between 2000 and 2005 (Figure 2.18).

[2] Unemployment and labor market issues were discussed in detail in the previous Economic Developments and Prospects report (2007).

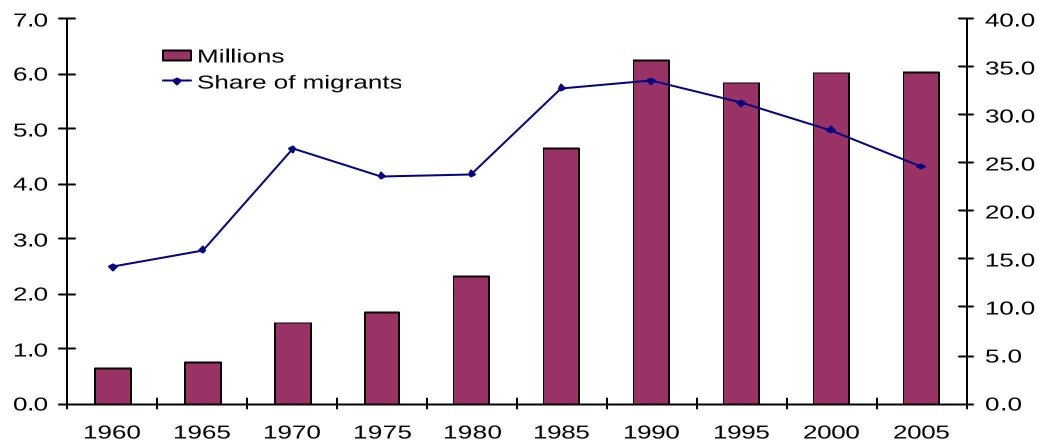
Figure 2. 18: Migrants and refugees in the MENA region, 1960-2005

a. Migrants in MENA countries



Note: Foreign nationals (whether from outside or inside the MENA region) residing in a MENA country.

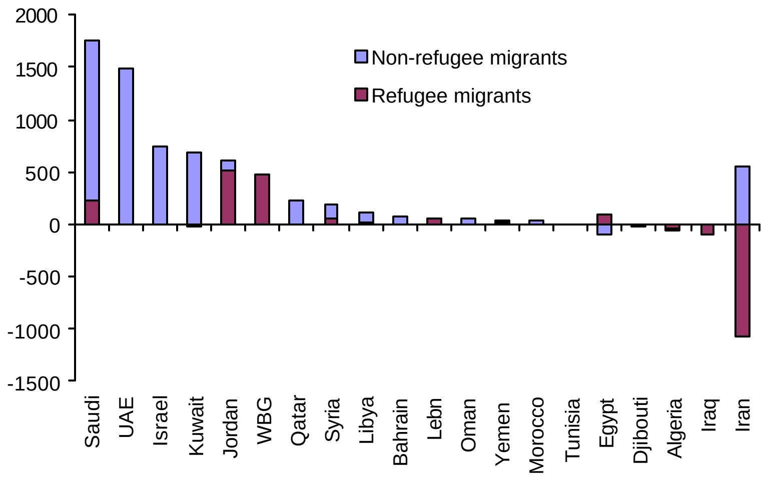
b. Refugees



Source: UN data.

Are these entirely conflict driven flows? This does not seem to be the case. In fact, while the number of refugees remains appallingly high, at 6 million people, the share of refugees among migrants has fallen since 1990, from 34 to 25 percent. The increase in migration shares is due largely to a rebound in economic migration into GCC countries, notably Saudi Arabia, the United Arab Emirates, and Kuwait. For example, expatriate workers in Kuwait are estimated to have increased their share of the labor force to 83 percent in 2006, compared to 79 percent in 2002, and in UAE, the share of expatriates in the population increased from 75 to 80 percent between 1995 and 2005. In contrast, the quite significant increase of migrants in Jordan – by 500,000 people between 2000-2005– is largely due to displaced persons, from Iraq (Figure 2.19).

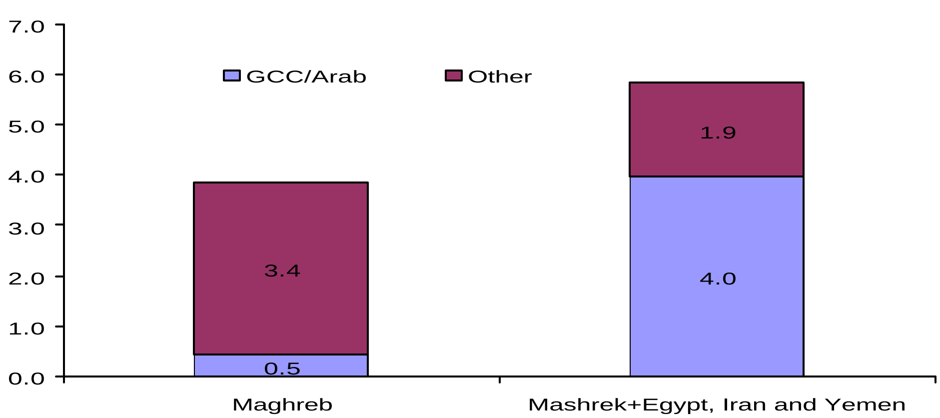
Figure 2. 19: Increase between 2000-2005 in refugee and non-refugee migrants
MENA countries (thousands)



Source: UN Data.

Despite the recruitment slowdown and episodes of return migration over the 1990s, the available data show that some 4.5 million migrants from MENA countries are still in the GCC and other Arab countries. This number exceeds the number of migrants living in European countries. And with the exception of the Maghreb sending countries, MENA migrants are overwhelmingly living and/or working in other MENA countries (Figure 2.20). Thus, economically motivated migration within the region remains important.

Figure 2. 20: MENA Migrants in GCC/Arab countries vs. other countries



Source: Data are from: Source: OECD Database on immigrants and expatriates, Demography and Population, November 2005 and for GCC & other Arab countries from Martin BALDIN-EDWARDS, Migration in the Middle East and the Mediterranean, Global Commission on Migration (GCIM), September 2005 for Yemen, Syria, Jordan and Iran and from CARIM Database for Algeria-1995, Egypt-2000, Lebanon-2001, Morocco-2004, Tunisia-2003.

Table 2.6 shows two clear patterns in intra-regional migration in MENA.[3] First, just over half the migrants to Maghreb countries originate in MENA whereas only a quarter of those arriving in the Mashreq come from MENA countries (reflecting the importance of non-MENA sources of migration for the Mashreq. Second, only 9 percent of migrants from Maghreb countries go to MENA countries (reflecting the importance of Europe as a destination) while 56 percent of migrants coming from the Mashreq end up in the region.

Table 2. 6: MENA intra-regional migration, 2000 (in thousands)

		Destination country							
		Maghreb	**GCC**	**Mashreq**	**Other**	**Israel**	**TOTAL**	**Total in MENA incl. Israel**	
Source Country	**Maghreb**	99	36	5	0	304	5,216	444	9%
	GCC	—	135	—	—	—	341	135	40%
	Mashreq	80	472	1,403	349	119	3,723	2,423	56%
	Other	359	1,713	113	0	147	3,975	2,332	59%
	Total	1,029	12,801	5,575	2,410	2,661	24,476	—	—
	Total from MENA excl. Israel	538	2,356	1,521	349	569	5,334	—	—
		52%	18%	27%	14%	21%	22%	—	—

Source: Database prepared for Ratha and Shaw (2007), which can be accessed at www.worldbank.org/prospects/migrationandremittances. Maghreb encompasses Algeria, Morocco, Tunisia and Libya; GCC includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates; Mashreq includes Iraq, Jordan, Lebanon, Syria, and West Bank and Gaza; while Other refers to Egypt, Djibouti, Iran and Yemen.
— = data not available.

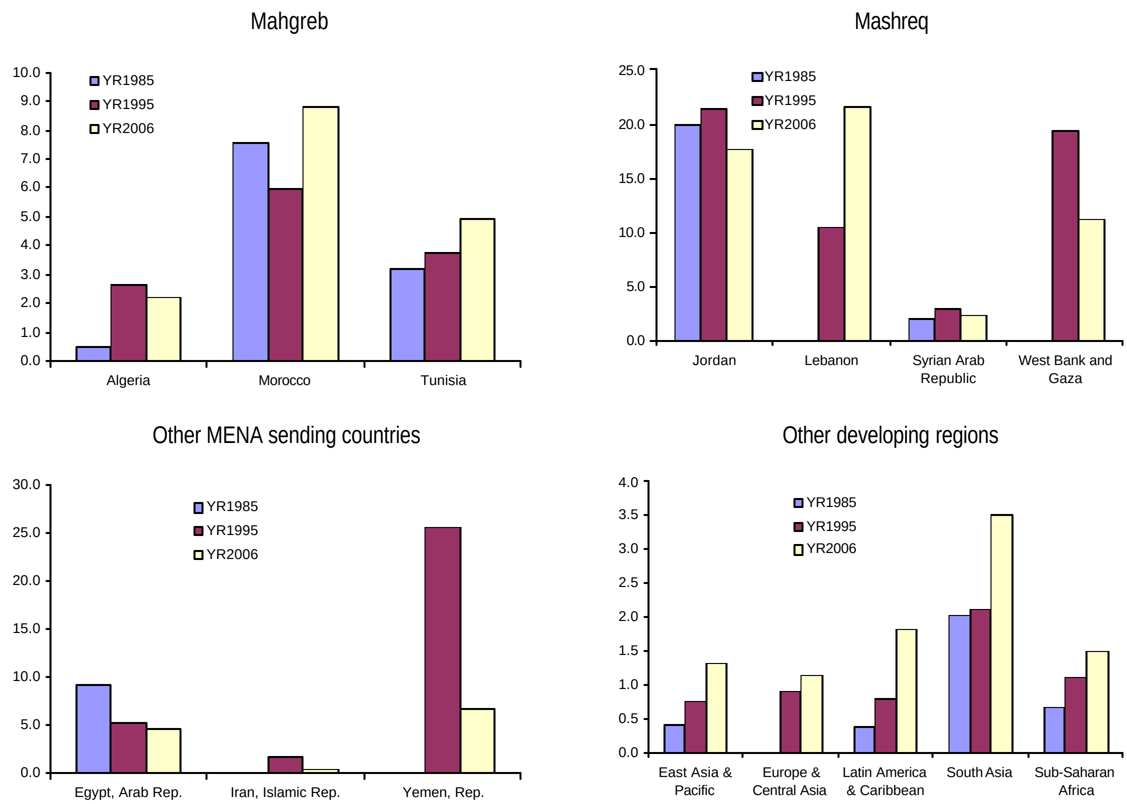
2.3.3 Remittances

With respect to regional migration, global remittance data show a mixed message. Since 1995, the importance of remittances in the economy has increased in Morocco, Tunisia and Lebanon, but has fallen everywhere else. These developments in significant MENA sending countries are in contrast with other developing regions, most notably South Asia and East Asia and the Pacific, and appear to relate to economic and politically driven forced return migration (Figure 2.21).[4]

[3] The data are comparatively complete and internally consistent; on the other hand, the data are built up for the purpose of a global estimate of bilateral migration flows, using assumptions which may not be realistic at an individual country level. For details on the source and assumptions used for the database, please see Ratha and Shaw (2007).

[4] Remittance flows depend not only on the size of the migrant community but also on the type of migrants, availability of formal and informal channels, costs of transfers, and the investment climate in receiving countries.

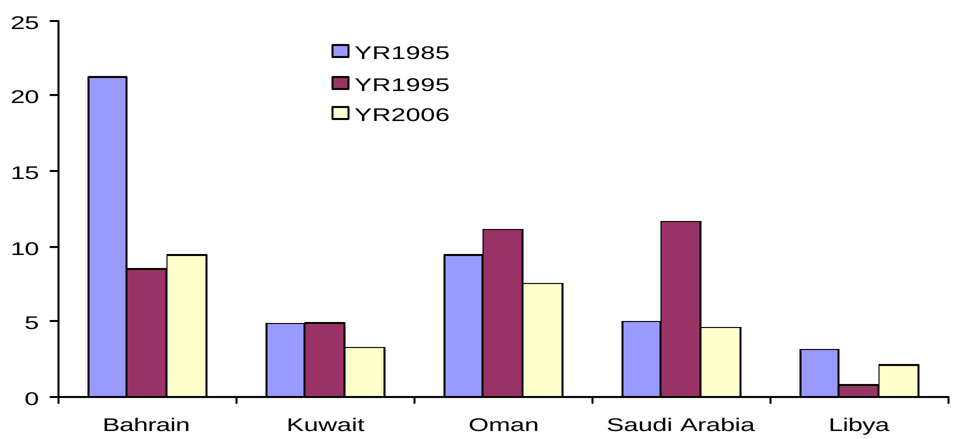
Figure 2. 21: Remittances received as percent of GDP



Source: Estimates based on WDI (2007).

At the same time, remittances paid out have also fallen in proportion to GDP in the important MENA receiving countries, except Bahrain (Figure 2.22).

Figure 2. 22: Remittances paid, percent of GDP



Source: Estimates based on WDI (2007).

Remittances estimates are drawn from the same database as bilateral migration stocks estimates. They concur (partly by construction) with the migrants stock data message. The most intense intra-regional remittance corridors remain those from GCC countries to Mashreq, from GCC countries to Egypt and Yemen, and between Mashreq countries (WBG, Jordan). The share of remittances coming from MENA countries is very small in the case of Maghreb, but dominant in the case of Egypt and Yemen, and accounting for a high share of Mashreq remittances as well (Table 2.7).

Table 2. 7: Intra-regional remittances, Million USD, 2000

		Remittance receiving country		
		Maghreb	**Mashreq**	**Other**
Remittance paying country	Maghreb	132	36	382
	GCC	51	1,347	2,625
	Mashreq	7	1,128	—
	Other	0	0	0
	Israel	402	52	237
	Total	8,067	9,078	5,656
	To MENA	591	3,690	3,245
	MENA share	7%	41%	57%

Source: See Table 2.7.

2.3.4 Prospects for regional migration

As shown, there is evidence of increases in total migration in the Middle East and North Africa, mainly in the GCC countries. This seems inconsistent with tightening employment nationalization policies, but consistent with continued record prices for oil that are fuelling domestic demand and are likely to have boosted demand for foreign labor. For example, the EIU reports that the private sector in Bahrain created some 7000 new jobs in the first half of 2006; however, less than 70 percent of these jobs went to nationals. While most of the increase in labor demand in GCC is likely to have favored Asian migrants, there is some suggestion of an increase among Arab workers as well. Data for Egypt show that the number of new contracts for Egyptians to work in other Arab Countries fell over the 1990s, but increased after 2000, dramatically so between 2001 and 2005 (table 2.8).

Table 2. 8: Number of Contracts for Egyptians to Work in Arab Countries (1991-2001)

Year	Number of Contracts
1991	589
1992	39,812
1993	83,464
1994	83,458
1995	49,372
1996	9,601
1997	4,643
1998	7,201
1999	6,586
2000	17,652
2001	14,722
2005*	100,839

Source: Data from General Directorate for External Employment, Ministry of Manpower and Emigration, as reported in World Bank, 2008 (forthcoming). Data for 2005 include a statistical artifact as persons previously working in Jordan without visa now need to show evidence of a contract. However, the Jordan cases make up only 40 % of all contracts.

At the same time, there remain concerns among GCC member countries over immigration. There have been discussions to restrict the stay of expatriate workers to six years maximum, at least for unskilled workers. As late as 2004, official government responses to the UN's survey on migration policy foretold a hardening climate (Table 2.9). Saudi Arabia, Kuwait, Oman, UAE, as well as Jordan, responded that the level of immigration was too high, and that public policy would aim at reducing immigration, both permanent and temporary. This stands in sharp contrast with the position of Egypt, Jordan, and Yemen – countries with a long-standing tradition of sending migrants to GCC – who wish to increase emigration beyond current levels. Indeed, nationalization policies combined with lower reservation wages for Asian workers suggest a continued trend of "de-arabization" of the immigrant workforce in oil rich countries (Kapiszewski, 2006).

The case of Jordan – both a sending and receiving country in the region – is instructive. As a receiving country, Jordan's position is to reduce immigration, even more so as the country is struggling with large inflows of refugees and illegal workers and with high rates of unemployment (around 14 percent in recent years). But since skills and wage expectations of national workers remain at odds with private sector demand, foreign workers, including from MENA, fill the gap.

Table 2.9: Views of national governments on levels migration, and proposed policies

	Immigration		Policy type				Immigration		Encourage return?
	View	**Policy**	**permanent**	**temporary**	**dependants**	**integration**	**view**	**Policy**	
Algeria	v	v	—	—	—	—	v	v	yes
Bahrain	v	v	—	—	—	—	v	v	—
Egypt	v	reduce	—	—	—	—	too	increase	no
Israel	too low	increase	increase	reduce	reduce	Yes	v	v	yes
Jordan	too high	reduce	—	—	—	—	too low	increase	—
Kuwait	too high	reduce	reduce	reduce	reduce	No	too high	reduce	—
Lebanon	too high	reduce	—	—	—	—	v	v	—
Libya	v	v	—	—	—	—	v	v	—
Morocco	v	v	v	—	—	—	v	reduce	yes
Oman	too high	reduce	—	reduce	—	—	v	v	—
Qatar	v	v	—	—	—	—	v	v	—
Saudi Arabia	too high	reduce	v	reduce	reduce	Yes	v	reduce	yes
Syria	v	v	—	—	—	—	too high	reduce	—
Tunisia	v	reduce	—	—	—	—	v	v	no
Turkey	too high	reduce	v	reduce	v		v	increase	no
UAE	too high	reduce	—	—	—	—	v	v	—
Yemen	too	reduce	—	—	—	—	v	increase	—

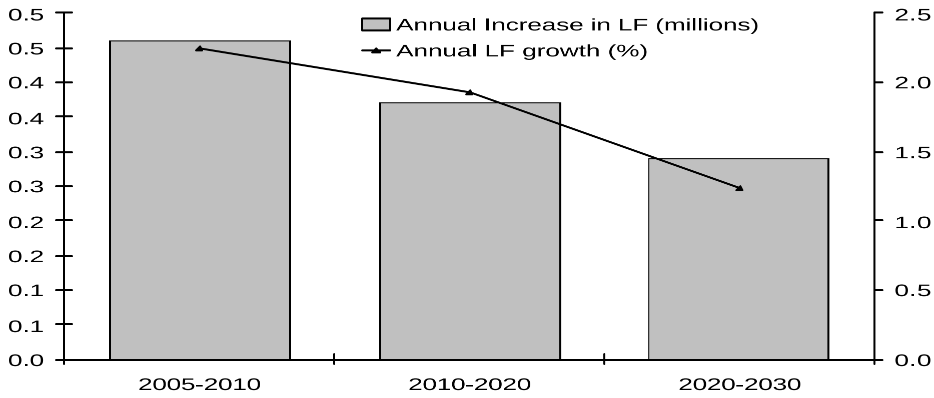
Note: a tick indicated satisfactory level or maintenance of existing policy.
— = data not available.

Sustained high growth is likely to continue to fuel demand for foreign labor in the GCC countries. Increasing the employability of GCC nationals will take time, and the private sector remains dependent on foreign workers. Moreover, higher growth may increase reservation wages further for national workers, making foreign workers more attractive.

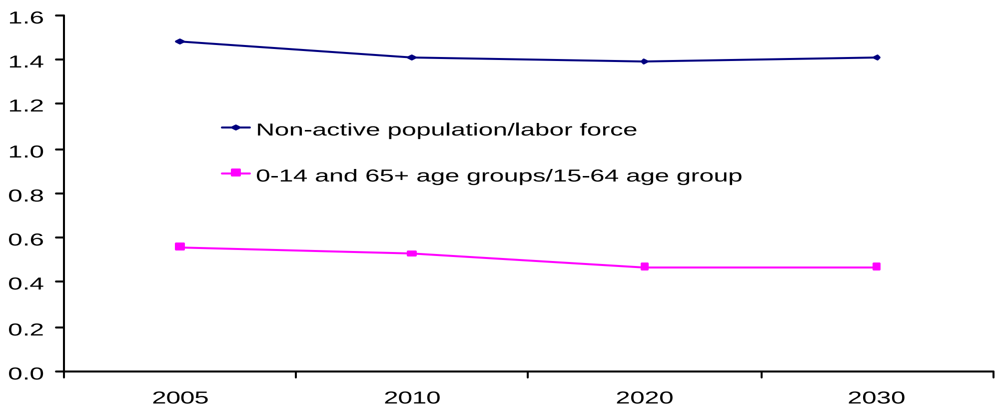
Demographics continue to favor immigration. Population projections from the United Nations combined with labor force participation rates suggest that, in the absence of migration, the labor force in GCC countries will grow at 2.2 percent per year between 2005 and 2010. But beyond 2010, labor force growth rates will fall. As a result, the ratio of the non-active population to the labor force will stabilize. As a result, without additional migrant workers, two GCC workers would still have to support 3 inactive persons over the foreseeable future.

Figure 2. 23: Population and labor force (LF) projections for GCC countries

a. Annual changes in Labor Force (millions, left axis) and annual labor force growth (%, right axis). Assuming no migration.



b. Inactive population as ratio of labor force, and children and retirees as share of working age population. Assuming no migration



Source: UN population projections as presented in Koettl, 2006.

Thus, beyond the immediate future, and short of drastic changes in labor force participation, demographics seem to push for continued migration. And openness to foreign labor may be key to other forms of regional and global integration, for example in order to attract foreign investment. However, counteracting these pressures on labor demand are youth unemployment and surging sentiments of problems with social cohesion and cultural identity in the traditional immigrant receiving countries.

2.4 Integration Through Capital Flows

Two developments frame the context for recent trends in capital markets in the region: (i) countries such as Syria, Egypt, Libya, Morocco, and Tunisia have begun to deepen structural and institutional reforms, increasing the demand for capital; and (ii) the oil boom has generated massive liquidity in the Gulf states, thus increasing the supply of capital.

2.4.1 Banking sector

With respect to the banking sector, the increased liquidity has helped fuel a rise in bank deposits across the MENA region. Deposits increased by 15% per annum since 2002, but also M2 to GDP ratios surpassed 60% and bank claims to the private sector increased as well.[5] These positive developments are overshadowed by a number of factors. The financial sector in MENA is still dominated by commercial banks that are vulnerable to shocks from the equity and the real markets. A disconnect between the financial sector and the real economy is still observed; public sector ownership is high and access to banking services is low.

Investors from the GCC are buying and are interested in the banking sector of non-GCC markets because of the upside potential; especially for countries that recently opened to international investors such as Libya and Syria. And in the relatively more open Arab economies, opportunities exist where for instance access to banking services ratio of banks to citizens remain quite low.[6]

Within the GCC, barriers still exist among member states and the regulatory framework is not conducive to intra-GCC investments in the banking sector. In Dubai and Abu Dhabi, about 65% of the bank ownership is either in the hand of the royal family or the various state funds and the quasi-public institutions. Due to entry barriers and regulatory caps on foreign ownership no bank license, for instance, was granted to a foreign entity in the UAE in recent years. The new special financial zones such as the Dubai Financial International Center or the one in Qatar, operate under special regimes, but these zones are not the result

[5] Source: Economic Development and Prospects, 2006.
[6] Interest in the non-GCC banking sector is not limited to the oil rich states. European investors are showing great interest as reflected in the purchase of 80% of the Bank of Alexandria by an Italian investor. Other international and Arab investors submitted bids.

of a MENA integration trend; they were set up to target Western or Asian institutions and serve as a regional hub (Box 2.3).

Box 2.3: The Dubai International Financial Center

The Dubai International Financial Center (DIFC) is a geographic and legal jurisdiction within the emirate of Dubai, regulated by the Dubai Financial Security Authority (DFSA). The 2004 amendment to the constitution allowed the emirate to establish a “financial free zone.” The law specifies that banking services cannot be carried out in local currency (Dirham) nor can a DIFC company provide services in the UAE without separate licensing in the UAE.

There are currently 104 firms registered with the DFSA. Forty percent of these are branches of banks primarily regulated elsewhere, with the majority subsidiaries of large financial institutions and only a few institutions that operate solely within the DIFC. Financial services firms in the DIFC are restricted by Law from taking deposits or making loans in local currency. However, there are no such restrictions on securities related activities. Most activity, however, takes place in foreign currency.

The operation of collective investment schemes is very recent in the DIFC, as a framework law was put in place in April 2006. There are currently 7 fund operators licensed by the DFSA, and 7 private funds domiciled in the DIFC.

The DIFC has adopted a full set of laws including an insolvency law, trust law, personal property law, and employment law. The DIFC also established a separate court, with both a trial and appeal level, to hear all matters in the DIFC (other than those related to criminal law).

Source: DIFC website (www.difc.ae) and Article IV, July 2006, International Monetary Fund.

In recent years, Egypt has begun to overhaul its banking sector through such measures as: sale to the private sector of public shares in jointly-owned banks; privatization of Bank Alexandria, a large public sector bank (and impending privatization of another bank, Banque du Caire) and revitalization of the management of the remaining public banks.

The Lebanese banking sector is relatively the most developed and Lebanese banks are enjoying surplus liquidity. But with a small domestic market, Lebanese banks are looking to regional markets and since 2003, they either opened branches or acquired banks in Iraq, Jordan, Egypt, Oman, Saudi Arabia, Syria, and soon in Libya.

In Jordan, and with the exception of the Arab Bank, the only Arab financial institution with a diversified ownership portfolio and branches across the MENA region, private banks are largely owned by GCC funds and institutions rendering them quasi-public. Both in Jordan and to a lesser degree in Lebanon, Arab investors are present in the banking sector.

The restructuring in Tunisia of its larger banks is on-going and no significant Arab investment in this sector is taking place. As for Morocco, one of the three large public banks was liquidated and a second was partially sold but to a French bank. In Iraq, the two large public banks (i.e., Rafidain, Rachid) are being restructured; but for the twenty or so smaller private banks, a few have been partially bought by Gulf investors.

Table 2.10: Regional network of select Arab banks

Bank	Home country	Local branches	Branches abroad	Branches or affiliated banks in MENA
Arab Bank	Jordan	15	385	Yemen (10), Jordan, WBG (23), Lebanon, Morocco (11), Egypt (11), Qatar (3), Syria, Bahrain, Algeria, Tunisia
Al Ahli Bank of Jordan	Jordan	—	2	Lebanon and West Bank & Gaza
Al Ahli Bank of Kuwait	Kuwait	18	1	—
National Bank of Kuwait	Kuwait	56	11	—
Gulf Int'l Bank	Bahrain	—	4	Investment bank, office in Saudi Arabia, GCC as shareholders
The Gulf Bank	Bahrain	42	—	—
Bank Misr	Egypt	450	1	—
Bank of Alexandria	Egypt	193	0	—
Banque du Caire	Egypt	230	5	UAE (4), Bahrain (1), equity participation in 2 banks (Jordan & KSA)
Audi Bank	Lebanon	79	35	Jordan (2003), Syria (2005), Egypt (2006), KSA (2006)
Byblos Bank	Lebanon	73	1	Iraq (2007), Syria (2005), office in UAE
Bank of Beirut	Lebanon	42	6	Oman, office in Iraq, UAE
BLOM	Lebanon	50	8	Egypt, Syria, Jordan
Fransabank	Lebanon	62	1	Branch in Syria, Bank in Algeria (2005) and Libya (expected 2008)
Bank Med	Lebanon	48	1	—
Rafidine	Iraq	147	—	To open branches in Lebanon, the UAE, and Jordan

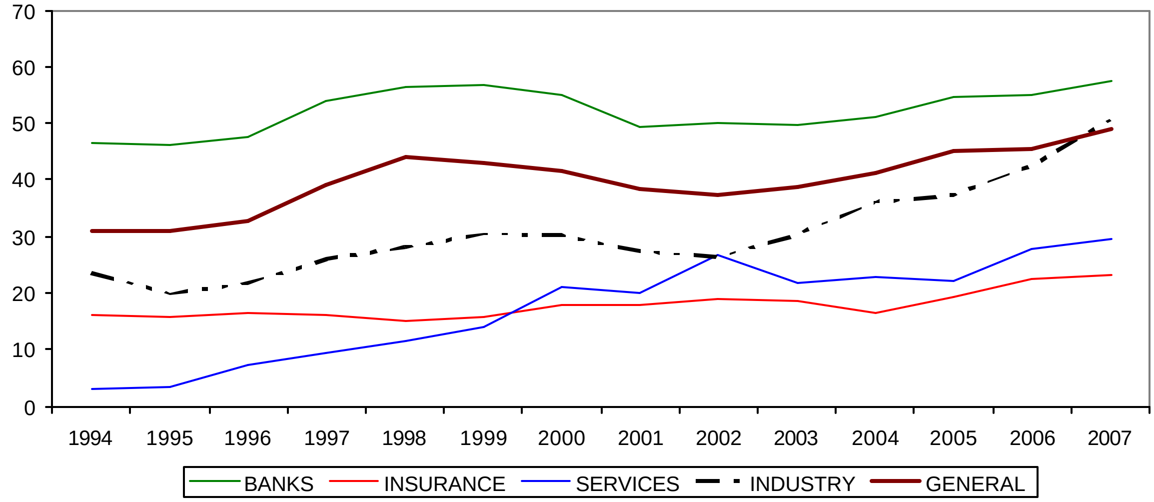
Source: Association of Arab Banks, (www.uabonline.com) and individual bank websites.

2.4.2 Stock markets

Presently, there are stock markets in almost all MENA countries and Arab investors are now exposed to a wider array of investment venues and opportunities in the region. Investors from the Gulf are increasing their investments for instance in Jordanian and Egyptian stock markets. In 2004, about 20% of the total Jordanian market rise was due to GCC investments, and as of 2007, non-Jordanian ownership in firms traded in the Amman stock market reached 50% (Figure 2.24).

Figure 2. 24: Ownership in the Amman stock market

Non-Jordanian ownership in publicly traded companies, as of % of market capitalization



Source: Amman Stock Market website.

Market capitalization in MENA, as a percent of GDP, increased from a low 13% a decade ago to 50% by 2005.[7] However, hidden and legal barriers and restrictions on capital accounts persist, hindering deeper capital market integration within the region. Many countries impose capital outflow restrictions on their citizens preventing them from investing abroad. Others impose restrictions on foreign portfolio inflows. However, the environment is changing. Interest in benefiting from the high liquidity now prevailing in the region has led some countries to offer preferential arrangements to high net worth individuals from the Gulf who can invest through existing Arab and non-Arab funds operating in MENA.

[7] Source: World Development Indicators, World Bank.

Table 2. 11: Stock Market Indicators in the MENA Region

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
MENA Market Capitalization (mn $)													
Abu Dhabi	-	-	-	-	-	-	-	-	20,376	30,363	55,490	132,413	80,745
Amman	4,627	4,724	4,556	5,456	5,863	5,835	4,943	6,314	7,087	10,963	18,383	37,639	29,729
Bahrain	5,129	4,707	5,019	7,826	6,772	7,161	6,624	6,601	7,716	9,702	13,513	17,364	21,122
Saudi	38,693	40,904	45,856	59,378	42,631	60,953	67,166	73,201	74,851	157,306	306,256	646,121	326,852
Kuwait	10,967	14,400	20,600	27,245	18,424	19,599	19,848	26,662	35,099	59,528	73,581	123,893	105,950
Casablanca	4,446	5,971	8,555	12,249	15,610	13,702	10,876	9,031	8,564	13,050	25,175	27,274	49,415
Algeria	-	-	-	-	-	-	-	-	-	144	140	91	96
Tunis	2,559	3,869	3,852	2,316	2,229	2,638	2,809	2,230	2,126	2,440	2,574	2,821	4,222
Dubai	-	-	-	-	-	-	-	-	9,470	14,284	35,091	111,993	86,895
Palestine	-	-	-	-	-	-	-	-	-	-	-	4,457	2,729
Muscat	1,856	1,971	2,753	7,313	4,537	4,303	3,518	2,634	5,268	7,246	9,318	12,062	13,037
Doha	-	-	-	-	-	-	-	-	10,567	26,702	40,435	87,143	60,905
Beirut	-	-	2,391	2,905	2,425	1,921	1,583	1,248	1,395	1,503	2,331	4,917	8,304
Egypt	4,259	8,074	14,185	20,876	24,381	33,039	30,791	24,309	26,339	27,847	38,077	79,508	93,496
Total	**72,537**	**84,619**	**107,766**	**145,562**	**122,872**	**149,150**	**148,158**	**152,230**	**208,858**	**361,078**	**620,364**	**1,287,696**	**883,497**
Value Traded (mn $)													
Abu Dhabi	-	-	-	-	-	-	-	-	363	1,004	4,449	28,506	19,222
Amman	616	517	351	502	655	549	406	934	1,335	2,607	5,327	23,806	21,616
Bahrain	160	106	177	472	577	444	245	250	206	261	463	711	1,387
Saudi	6,632	6,194	6,767	16,547	13,745	15,087	17,313	22,223	30,974	159,056	472,991	1,103,583	1,402,942
Kuwait	1,959	6,394	19,224	34,579	10,918	6,001	4,208	11,711	22,123	54,729	51,818	97,290	59,600
Casablanca	214	291	545	1,067	1,402	2,525	1,211	841	1,440	2,443	3,757	7,859	9,110
Algeria	-	-	-	-	-	-	-	-	-	0	0	0	0
Tunis	334	604	241	225	165	457	687	342	246	189	257	529	563
Dubai	-	-	-	-	-	-	-	-	688	1,027	13,735	110,304	94,735
Palestine	-	-	-	-	-	-	-	-	-	67	-	2,103	1,067
Muscat	241	211	580	3,875	2,371	714	551	420	582	1,334	1,985	3,320	2,214
Doha	-	-	-	-	-	-	-	-	883	3,220	6,344	28,252	20,585
Beirut	-	-	67	610	337	91	118	53	115	131	198	923	2,032
Egypt	356	672	2,579	6,018	5,368	9,726	11,799	5,913	6,444	4,349	6,835	27,720	48,954
Total	**10,513**	**14,988**	**30,530**	**63,895**	**35,536**	**35,594**	**36,539**	**42,688**	**65,400**	**230,417**	**568,158**	**1,434,908**	**1,684,029**
Number of Listed Firms on Stock Markets													
Abu Dhabi	-	-	-	-	-	-	-	-	24	30	35	59	60
Amman	95	97	97	139	150	152	163	161	158	161	192	201	227
Bahrain	34	36	37	40	42	41	41	42	40	44	45	47	50
Saudi	62	69	70	71	74	72	75	76	68	70	73	77	86
Kuwait	48	51	60	74	78	85	86	88	95	108	125	156	180
Casablanca	61	44	48	49	53	54	54	55	55	52	53	54	63
Algeria	-	-	-	-	-	-	-	-	-	3	3	3	2
Tunis	21	26	30	34	39	44	44	45	46	45	44	45	48
Dubai	-	-	-	-	-	-	-	-	12	13	18	30	46
Palestine	-	-	-	-	-	-	-	-	-	47	-	28	33
Muscat	68	82	97	119	137	140	131	96	140	141	123	125	121
Doha	-	-	-	-	-	-	-	-	25	28	30	32	36
Beirut	-	-	6	8	12	13	13	14	13	14	16	15	16
Egypt	700	676	646	650	861	1,033	1,071	1,110	1,150	967	792	744	603
Total	**1,089**	**1,081**	**1,091**	**1,184**	**1,446**	**1,634**	**1,678**	**1,687**	**1,826**	**1,723**	**1,549**	**1,616**	**1,571**

Source: Arab Monetary Fund.

2.4.3 Project-based investments in MENA

Compared to previous oil boom periods, a higher amount of the surplus now available to the oil-exporting MENA countries is being channeled into project-based investments in the region. GCC countries have already allocated over $1.3 trillion in infrastructure and manufacturing investments over the next 5 years.[8] And a large share of this investment is destined to local economies with $300 billion allocated for the UAE, another $280 billion for Saudi Arabia, $215 billion for Kuwait, and $130 billion for Qatar. Construction projects currently going on in Saudi Arabia have crossed the $200 billion and new ventures for 2007 are expected to reach another $80 billion.[9] Overall, investments in real estate, private equity, and other sectors have increased with private equity in the GCC doubling in one year (reaching $10 billion) and expected to more than double ($27 billion) by the end of 2007.[10]

With the existing legal and institutional frameworks in the MENA region, one cannot foresee significant intra-regional capital flows; however the ample liquidity available in resource-rich states is being invested via other channels in traditional markets but also in MENA and in Asia. The sovereign wealth funds (essentially oil money) are increasingly looking for opportunities in MENA, either because of the up-side potential in these markets, or due to the de facto restrictions they are facing in the reticent developed world, or both.

The improved business climate in some MENA countries, coupled with economic liberalization and increased privatization, has also helped boost intra-Arab investments. According to a UN report, intra-Arab flows increased from an annual average of $1 billion (between 1985 and 2001) to $17 billion in 2006. Other recent figures on GCC capital outflow estimate that MENA countries have captured $60 billion, or 11% of total GCC outflows between 2002 and 2006 (See Box 2.4).

[8] According to the EIU (Global Outlook for May 2007), the GCC announced investment plans in the order of $700 billion over 2006-2010, equivalent to 100% of GCC 2006 GDP. The difference in the level of investments between the two sources is attributed to time (higher figure is more recent) and type of investment surveyed (e.g., some financial investments are not accounted for by the EIU).

[9] Khaleej Times, September 6th, 2007

[10] Perspectives, MIGA: February 2007 and Iktisad wa Amal magazine, June 2007.

Box 2.4: Capital outflows from GCC countries

The Institute of International Finance reports rising demand for mergers and acquisitions in the region with GCC countries investing in telecom firms, energy, hotel industry, and the like pushing net FDI holdings from 11% to 15% of the total identified asset base. A greater share of GCC funds is staying in the MENA region, in large part due to liberalization and privatization measures as well as due to greater integration. The volume of capital outflows destined to MENA economies is estimated to be around $60 billion, or 11% of the total buildup between 2002 and 2006. Another $60 billion is going to Asia with East Asia emerging as an important alternative destination.

Source: Institute of International Finance, January 2008.

Project-based investments have recently been increasing, especially in Syria, Tunisia, Lebanon, and Egypt. These intra-MENA investments centered on telecommunications, infrastructure, real estate, tourism, and banking. The list of multi-billion dollar investment projects in MENA is getting longer: A $9 billion tourism project by Dubai Holding and Emaar in Morocco, Kuwait's Telecom Group (Wataniya) expanding into Tunisia, Dubai Holding acquiring 33.5% of Tunis Telecom ($2.25 billion), and the Bukhater Group $5 billion City Complex project in Tunisia, to name just a few.[11] Recipient MENA countries are competing for GCC capital investments. To date there are 15 MENA national investment promotion agencies – most established in the last decade. New investments are facilitated by private groups and finance houses, and governments are closely monitoring reform indices published by international agencies.

Box 2.5: Intra-MENA investments: Case of Emaar Holding

Emaar Properties is a Dubai-based Public Joint Stock Company, established in 1997. While its primary market is real estate in Dubai, Emaar is now present in 17 countries. Recent real estate projects include a $500 million Majid City in Jordan and another $500mn three towers project in Dubai. In addition, Emaar has teamed up with Giorgio Armani to build and manage 10 Armani hotels and resorts across the world. In January 2006, the company announced plans to expand its investments into the education business in the MENA region and in India. The initiative will involve the establishment of international schools which will offer premium quality education and an integrated curriculum for students ranging from kindergarten to tertiary levels. Emaar also plans to enter the healthcare sector in the MENA and South Asia markets. The plan involves the construction of hospitals, clinics and medical centers and investing in the provision of world-class healthcare services. With a projected investment outlay of around 18.35 billion Dirhams ($5 billion) over the next decade, Emaar's plan is to develop and manage around 100 hospitals and super medical specialties added in key centers.

Source: Emaar Website and Iktisad wa Amal magazine, June 2007.

[11] Perspectives, MIGA: February 2007 and Iktisad wa Amal Magazine, June 2007.

2.5 INTEGRATION THROUGH INFRASTRUCTURE LINKS

Cross-border infrastructure projects are beginning to become more prominent in the region. Examples include cross-border electricity grids, gas pipelines, transport links and telecommunincation networks. However, such initiatives are in their infancy and face many regulatory and financial challenges.

2.5.1 Electricity grids interconnection

In the past, interconnection of power grids in the MENA region was primarily driven by governments' concerns about preserving power supply security in their respective markets. Other benefits such as capital investments saving are also considered though these are not yet the main drivers for networks interconnection. The amount of exported/imported power remains low in different cases. For instance, only 12% of total capacity of the Algeria-Morocco links is utilized; 17% in the case of Algeria-Tunisia interconnection. Likewise, the Lebanon-Syria interconnection uses only 53.3% of the line designed capacity.

Table 2.12 shows that electricity demand exceeds capacity in the majority of the countries in the region. Only few countries have surpluses that can be traded. In 2005, total installed capacity in the region amounted to 151.8 giga-watt (GW),[12] 36 percent of which was in the GCC countries; 28 percent in Iran. The maximum load amounted to 102 GW.

The total energy generated reached 555,000 gigawatt-hour (GWh)[13] whereas the total amount of power consumed was 480,000 GWh. It is therefore clear that expanding regional trade of power energy in the region will require that: (a) an appropriate institutional environment for energy trade be established at a regional level, (b) additional generation capacity be developed in countries where it is cheaper to do so, (c) the sector efficiency be improved by lowering distribution and transmission losses in most countries.

Prior to 1992, the region counted a number of isolated interconnection links. The first interconnection between the three Maghreb countries took place in the 1950s when Algeria and Tunisia linked their grid networks. Two lines of 90 kV14 were constructed between Algeria-Tunisia with a capacity of 112MW. The power exchange was rarely used and both lines were open-ended until the late seventies. Since, the two countries have installed two additional lines of respectively 150kV and 220kV with a total capacity of 180MW.

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[12] Watt (W) is power (energy per hour), Gigawatt= 1,000,000 watt.
[13] Watt-hour is the amount of energy consumed per hour.
[14] Volt is the unit of electrical pressure, kV=1000 Volts.

Likewise, Algeria and Morocco have installed two 220kV transmission lines across their common border to operate in normal and critical situations. Power exchange has reached 200MW at normal conditions and 400MW in emergency situations.

Table 2. 12: Power systems information in MENA countries

Country	Installed Generation Capacity – MW[15]	Energy generated (GWh)	Total Energy Consumed (GWh)	Distribution losses (GWh)	Electricity Energy Exported (GWh)	Electricity Energy Imported (GWh)
Algeria	6,470	31.91	27.52	4.475	0.359	0.275
Bahrain	1,819	8.19	7.61	0.573	0	0
Egypt	18,474	102.45	84.49	17.184	0.168	0.946
Djibouti	90	0.20	0.19	0.014	0	0
Iraq	3,800	31.99	31.25	2.126	1.388	0
Jordan	1,906	9.07	8.49	1.321	0.741	0.004
Kuwait	9,392	41.11	36.28	4.827	0	0
Libya	4,710	21.15	18.18	2.973	0	0
Lebanon	2,537	9.57	8.44	1.587	0.455	0
Morocco	5,076	21.37	20.67	1.496	0.802	0
Oman	3,336	11.89	8.66	3.230	0	0
Qatar	2,890	13.54	12.52	1.02	0	0
Saudi Arabia	30,450	165.55	146.95	18.607	0	0
Syria	6,470	33.01	24.74	8.27	0	0
Tunisia	3,251	12.85	11.17	1.68	0	0
UAE	6,550	57.06	52.62	4.44	0	0
Yemen	1,000	4.46	3.38	1.08	0	0
Iran	42,749	170.37	136.21	33.477	2.074	2.761

Source: http://www.eia.doe.gov/iea/elec.html (US - Department of Energy).
Note: data from 2005.

The interconnections between Algeria, Morocco, and Tunisia attained potential results due to the difference in peak loads time among the three systems. The power exchanges led to reductions in individual system's reserve margin, lower generation costs, and efficient utilization of the power lines capacities. Subsequently, the three countries signed Power Purchase Agreements (PPAs) to institutionalize their power energy trade.[16] In December 2003, the EU commission and the Energy Ministers of Morocco, Algeria and Tunisia signed a protocol aimed at developing a regional electricity market compatible with that of

[15] Installed capacity as of January 1, 2005.
[16] It is worth recalling that Algeria, Tunisia and Morocco established the Maghreb Electricity Committee in 1975. Libya and Mauritania joined that committee in 1989. In 1990 this committee was transformed into the Arab Maghreb Union technical committee. In 1998, the grids of Algeria, Tunisia and Morocco became synchronized with the UCTE following the construction of a 400 kV transmission link between Morocco and Spain.

the EU.[17] Since then, the EU has been providing technical assistance to the three countries to prepare studies outlining a roadmap for market integration.[18]

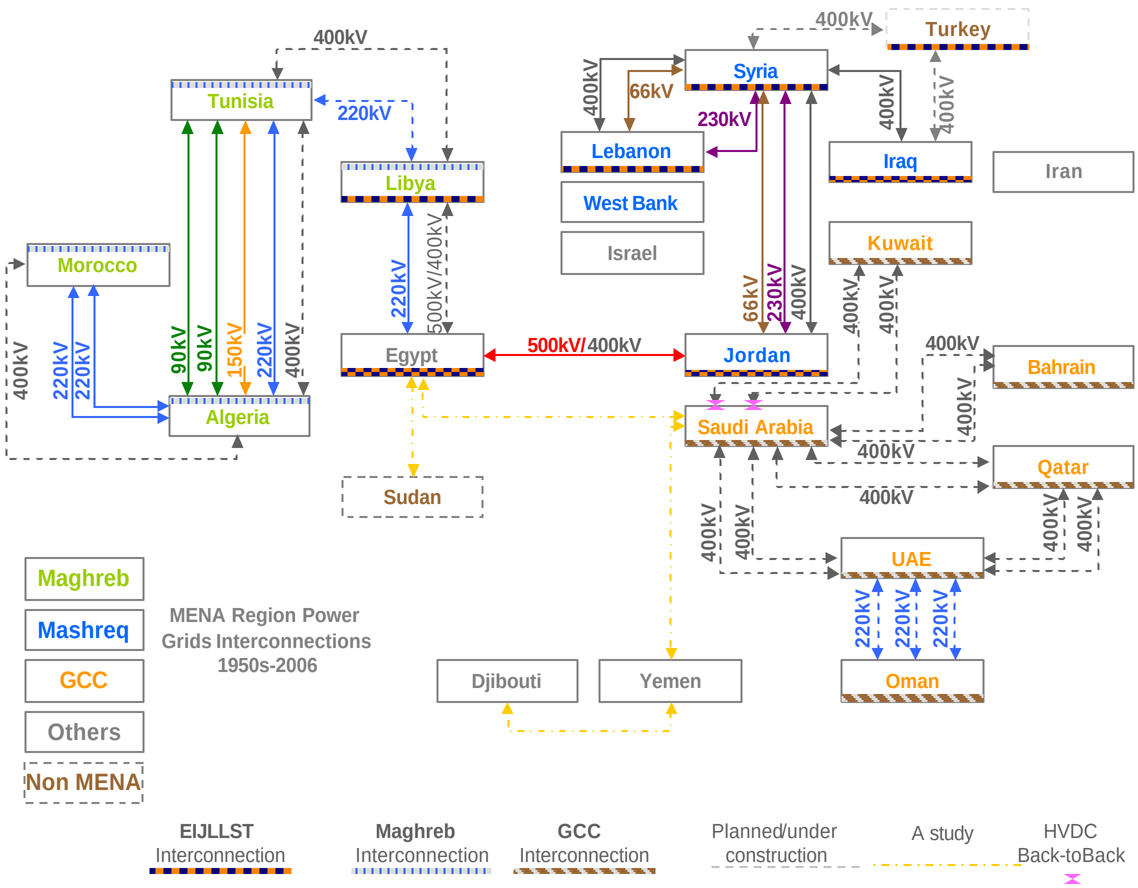
In the Arab Mashreq, Lebanon and Syria interconnected their power grids through a 66kV transmission line in 1973.[19] A 230kV transmission line was subsequently added to increase the power exchange between the two countries although energy trade on the first power line never exceeded 53.3% of the designed capacity (150MW). Similarly, Jordan and Syria installed a 66kV and a 230kV transmission lines across their common border. Both lines were utilized to back up either of the two systems in case of network outages.

In the pre-1993 cross-border electricity projects, power lines were not used as a major source of electricity supply as they were often out of operation. These limitations in the utilization of cross-border transmission lines reduced the benefits that member countries could have derived from the interconnection of power grids and ultimately resulted in the postponement in the implementation of many other cross-border projects in the sector.

To reap greater benefits from the interconnection of power grids, MENA countries have now launched a new generation of cross-border interconnection projects bundled with formal power purchase agreements as well as other institutional arrangements regulating the flow of power energy trade. In this context, three main projects have been initiated in the region: (a) the seven-consortium electricity grids project, (b) the GCC countries electricity grids interconnection project; (c) and the Arab Maghreb countries electricity grids interconnection project. These projects are at different implementation stages.

[17] Source: Economic Consulting Associates Limited, “Maghreb Regional Energy Trade Final Report”, September 2007
[18] with the roll-out of the ambitious Mediterranean electricity ring (MedRing) project that will interconnect the grids of France, Spain, Morocco, Algeria, Turkey, Greece, Italy, Libya, Egypt and Jordan
[19] Source: Farahat M., discussion paper: “Arab Cooperation in the Area of Electricity Interconnection; Achievements, Obstacles, and Future Aspirations”, 8th Arab Energy Conference, Amman 14-17 May 2006.

Figure 2. 25: Power grids interconnection projects in MENA region



Source: Bank staff

2.5.2 Cross-border gas pipelines

As in the case of power grids interconnection, the region has witnessed rapid development in the number of gas pipelines projects. Figure 2.26 below provides a snapshot of the main gas pipelines in the region. Overall, there are three main cross-border gas pipelines projects in the region.

The Euro-Arab Mashreq Gas pipeline project is the most important cross-border gas pipeline project. It aims to contribute to the integration of the gas markets of Egypt, Jordan, Lebanon and Syria with a view to creating a regional internal gas market to be integrated with the EU internal gas market. Egypt has a ready-to-export gas of 1,651bcm out of

1,850bcm proven reserves.[20] The construction of the Arab Gas Pipeline (AGP) project will enable Egypt to export liquefied natural gas to Jordan, Syria, and Lebanon.

The GCC gas pipelines are driven by the objective to export natural gas from Qatar to United Arab Emirates, Bahrain, and Kuwait. Qatar is the richest country in the region in terms of natural gas reserves with 25,513bcm ready-to-export gas out of 25,780bcm proven reserve by the end of 2004. It includes the following components: (i) Dolphin Gas Pipeline which is used to export natural gas from the Qatar Northern field to the United Arab Emirates. The pipeline was commissioned in 2007 and has been since in operations; (ii) Qatar-Bahrain Pipeline[21] which will be used to export natural gas from Qatar to Bahrain; (iii) Qatar-Bahrain[22] - Kuwait pipeline which will be used to export natural gas from Qatar to Bahrain and Kuwait; and (iv) Oman-United Arab of Emirates pipeline, which is under construction, will enable the Emirate of Fujairah to operate its power and water desalination plant. This pipeline is temporary until the Dolphin project is fully operational by spring 2009.[23]

In the Maghreb countries, transit countries such as Tunisia and Morocco have evolved into important gas consuming countries. This has changed the geopolitics of cross-border gas pipelines projects in the Maghreb region.

Among other important gas pipeline projects under consideration in the region are: (i) Iraq Gas pipeline which aims to export Iraq's natural gas to Turkey through Syria. This link will connect Iraq to the AGP pipeline as a backup for Egypt and Syria gas exports; (ii) Iraq-Kuwait Gas Pipelines which will enable the export of 35mcf/d from Iraq to Kuwait after rehabilitating the existing pipelines; and (iii) Libya-Tunisia Gas Pipeline which is planned to enable the export 1bcm of Libyan gas to Qabis, Tunisia.

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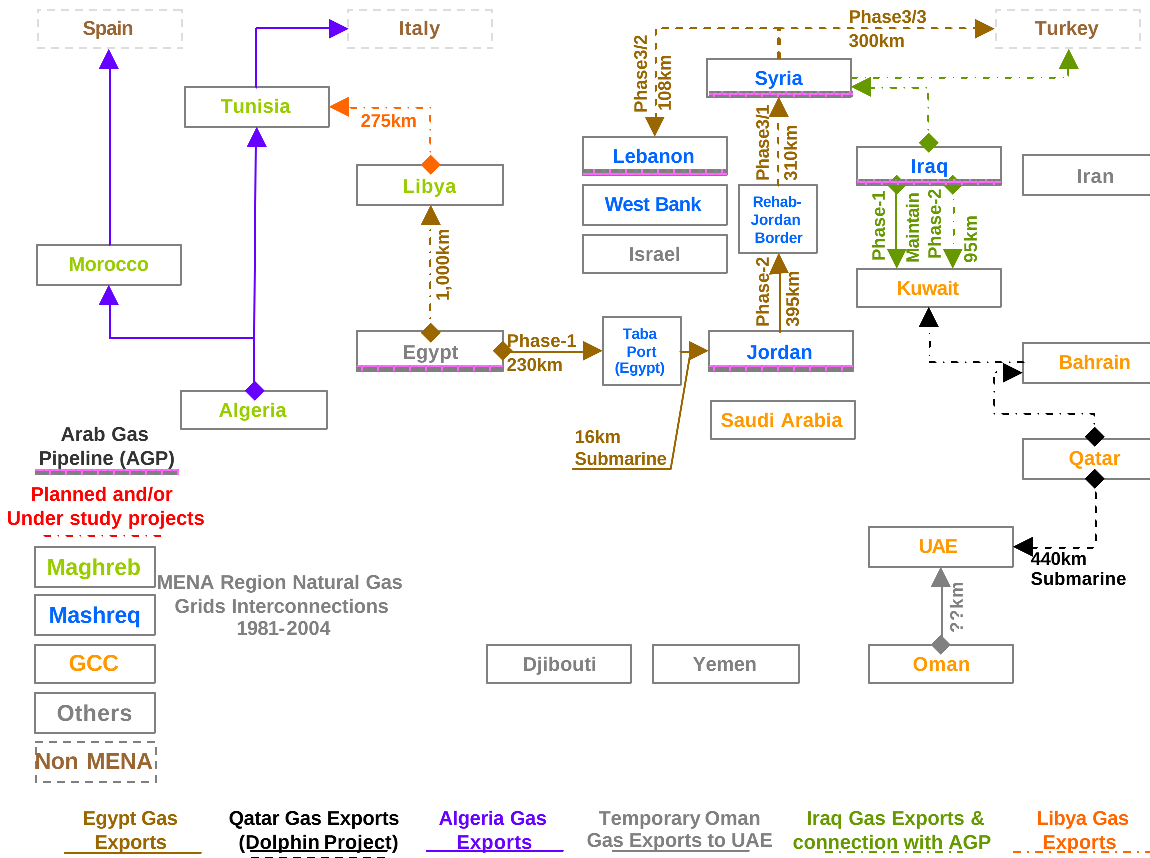
[20] *Ibid.*
[21] Source: UN-ESCWA, "Annual Review of Developments in Globalization and Regional Integration in the Arab countries", 2006.
[22] *Ibid*
[23] Dolphin Energy website: www.dolphinenergy.com

Figure 2. 26: Cross-border gas pipelines in the MENA region



Source: World Bank staff.

2.5.3 Transport links

With the exception of Yemen and Djibouti, transport systems are well developed in MENA countries. Most countries have been able to develop extensive road networks, with high capacity in some areas, and modern facilities for air, sea and rail transport. The key issue in the region is the quality of the transport assets as a result of lack of appropriate maintenance or poor service operations due institutional deficiencies. Cost effective transport services, efficient facilitation and transport infrastructure supplemented with good inter-modal connectivity are required to accommodate the growth in global and intraregional trade. However, regional integration initiatives remain at early stage of development in the transport sector. Due the closure of several borders in the region, land-based transport plays a minor role in intraregional trade in MENA. Red tape at border crossings also hampers efficiency.

2.5.4 Road transport

An extensive road network links most MENA countries to their neighbors as well as with neighboring countries in Europe, Asia and Africa. Despite problems related to poor maintenance of roads assets in many countries in the region and delays in rehabilitation or upgrade of many sections, a highway system currently links Morocco to Turkey. The Maghreb countries have developed an accord over the past two decades on an inter-connecting road system which enables acceptable level of regional connectivity.

The coastal highway which links the main cities in the Maghreb provides in principle a seamless connection between the Maghreb countries and enables connectivity between the Maghreb sub-region and Southern Europe or the rest of the region. The Maghreb coastal corridor is connected to the Egyptian border through a relatively efficient highway system in Libya. From the Egyptian border, the Maghreb coastal highway corridor connects through the Egyptian highway system with the rest of the Mashreq. Finally, Turkey's east-west Traceca (Transport Corridor Europe Caucasus-Asia) corridor provides efficient connectivity with the Trans-European Motorway system as well as a connection to Asia through the Iranian border.

Most of the 31,000 km of roads called for in the agreement on international roads are already in use though not always of good quality. The rehabilitation and the upgrade of certain sections of the existing network have become an imperative in many member countries. Additionally, the agreement on international roads also induced member countries' efforts to accelerate the harmonization of road transport regulations and standards in order to improve the flow of traffic as well as to address the road safety challenge.

In practice, political tensions greatly restrict the flow of road traffic between countries in the region. For instance, the closing of the border between Algeria and Morocco and the multiplication of check-points at border crossings are impediments to intraregional exchanges by land. While there is a need to improve or upgrade most of the region's road corridors from two-lane to four-lane carriage, the most crucial problem at the moment relates to streamlining procedures hampering traffic flow at border crossings. This entails harmonization of standards (training of truck drivers, vehicles conditions, etc.) and regulations applying to road safety.

Box 2.6: International roads agreement in ESCWA countries

Realizing the impact of a better and more extensive system of transportation upon the economies of the countries adhering to it, ESCWA has embarked on an ambitious scheme of enlarging and improving the transportation system linking those countries. It thus initiated a plan designated as the "Integrated Transport System in the Arab Mashreq" which resulted from a meeting of the member countries of ESCWA in Beirut on 17 May 1999. In the final report's declaration statement are listed all the reasons that prompted ESCWA to undertake such venture, among which are mainly the economic advantages that such plan will definitely bring to the countries concerned, especially that this project was not the first one of its kind but was preceded by several successful similar steps taken by other UN regional commissions which set out on this path more than twenty years ago.

ESCWA's counselors, after taking these first steps, started supervising the practical implementation of this plan. An agreement on roads, designated as "Agreement on International Roads in the Arab Mashreq", was reached in the year 2000. Among the benefits of this 31,400 kilometers network, listed in the agreement, are the increase in the exchange of trade and tourism, the facilitation of multimodal transport, the strengthening of economic integration between members and, finally, the reduction of transport costs. Much of the roads listed in this agreement have already been in use though the plan calls for their improvement in order to accommodate the increase in traffic. The implementation of this agreement demands close and continuous collaboration between ESCWA and the member states. To this end, a special committee of transport was established, which meets every year to discuss the progress made and plan the operation for the next period.

Source: ESCWA website.

In the area of trade facilitation, a protocol promoting cooperation in the harmonization of procedures applicable to vehicles at border crossings was signed in 2006. This protocol has entered into force. To date progress made on the harmonization of standards and road transport regulations across member states is uneven as illustrated by Box 2.8.

Box 2. 7: Implementation status of the agreement on international roads

(a) Jordan has put in place all requisite signs and signals on the routes specified in the Agreement on International Roads in the Arab Mashreq. In particular projects for the widening and upgrading of road sections within routes M40 and M45, specifically at the Karamah border crossing with Iraq and the Al-Mudawara border crossing with Saudi Arabia and the Jaber border crossing with Syria and the King Hussein Bridge border crossing with Palestine.

(b) Saudi Arabia - has fully implemented the international agreement on roads and is regarded as a model in the region. In fact, the road network of Saudi Arabia accounts for some 40 per cent of the total network covered by the Agreement. Additionally, the Kingdom has launched an important investment program for the widening and modernization of many sections of its existing road network which will be completed by late 2009. As a result of these improvements, route M45 which begins from the Syrian Arab Republic border and goes through the Al Mudawara border crossing and the Halat Ammar border crossing with Jordan and continues to the Yemeni border crossing at Elb has been significantly upgraded within Saudi Arabia. It is expected that this large scale program will be completed by the end of December 2009.

(c) Syrian Arab Republic – the implementation of the Agreement on international roads in the Arab Mashreq was launched in Syria in January 2006. One thousand international road signs have been produced and put in place on all routes. Furthermore, a new numbering scheme for road network in Syria was prepared. As part of route M45 passes through the territory of Syria for 500 km – from the Bab Al Hawa border crossing with Turkey to the Nasib border crossing with Jordan, a rehabilitation effort was also initiated. Road freight control centers have been built on the route at the border crossing between Syria and Jordan, and at the crossing between the Syria and Turkey.

(d) Iraq - the section of route M40 within Iraq runs for some 837 km from the Munthareya border crossing between Iraq and Iran to the border with Jordan at Tarabil. Most of the route within the Iraqi territory consists of toll-free expressways and first-class roads.

(e) Egypt - began work on its international road network in February 2005 and the process of replacing signs and signals that fail to meet the specifications is to be completed by the end of 2011. The upgrading of the sections of the international road network passing through Egypt will be completed by 2019. This will apply to: (i) route M40 which runs for 1,053 km from the Rafah border crossing with Palestine and goes along the coastline to the border crossing of Salum between Egypt and Libya. Approximately 500 km of road sections are in good condition, while the remaining sections need to be rehabilitated.

Source: ESCWA (2007).

2.5.5 *Rail transport*

Railways lines exist in several MENA countries but are generally not interconnected. Sixty percent of the total railway network called for by the Agreement on International Railways in the Arab Mashreq has yet to be built. Furthermore, interconnection between existing railways in the Arab Maghreb and Arab Mashreq remains dependent on the decision of the Libyan authorities to proceed with the construction of their railways project. More importantly, large sections of the existing railways in the region cannot be interconnected because of track gauge differences. The existence of narrow gauges railroads in Jordan, Syria and Tunisia is an impediment to regional interconnection of railroads in the region. Finally, political factors have also impeded railways interconnectivity even when physical interconnection was possible. For instance, the closure of the Algeria – Morocco border has prevented smooth traffic flow between the railways networks for the past two decades.

Beyond the aforementioned factors, further integration of the railroads in MENA remains a long term endeavor which entails not only, the construction of new rail lines in some countries but also requires significant upgrades in the existing national railways systems.

Table 2. 13: Railways lines in selected countries

Country	Gauge	Total length (km)	Single track (km)	Double track (km)	Electrified track (km)
Algeria	Standard Narrow	3,209 1,081	2,864 1,081	345	313
Egypt	Standard	4,903	4,903	1,257	42
Iraq	Standard Narrow	2,045 450	1,941 450	104	—
Iran	Standard 1676 mm	6,716 92	5,182	1,534	—
Jordan	Standard	3,209	788	—	—
Morocco	Standard	1,907	1,907	271	271
Saudi Arabia	Standard	1,392	1,078	314	—
Syria	Standard Narrow	1,754 327	1,754 327	—	—
Tunisia	Standard Narrow	457 1,484	422 1,411	35 73	 68

Source: Mourhaf Sabouni (1997), Arab railways past and present, Japan Railway and Transport Review, June.
Note: Standard gauge – 1435 mm, Narrow gauges – 1000, 1050, 1055 and 1067 mm.

Box 2.8: Agreement on international railway in the Arab Mashreq

As part of the process of developing the integrated transport system in the Arab Mashreq, the Agreement on international railways in the Arab Mashreq is the second international agreement negotiated under the auspices of the United Nations Economic and Social Commission for West Asia (ESCWA). It was adopted on 14 April 2003 and entered into force on May 23rd 2005 after being ratified by five member states: Egypt, Jordan, Lebanon, Saudi Arabia and Syria. Its objective is to promote the integration of the Arab Mashreq railways by facilitating the construction of six North-South axes and ten East-West axes. The agreement also lays down technical specifications and standards to be complied with by member countries when developing the missing links. The length of the international railways network covered by the Agreement totals roughly 19,600 km of which 8,000km already exist and 11,600km are to be constructed. The following timeline was approved by the Council of Ministers:

- completion of the economic feasibility studies on the missing links – December 31st, 2006
- completion of the work necessary to improve existing links – – December 31st, 2006
- construction of the missing links – December 31st, 2020.

Source: ESCWA (2006), Annual review of developments in globalization and regional integration in the Arab countries, p. 61.

2.5.6 Air transport

The air transport industry in MENA region has experienced unprecedented growth during the past five years. While this positive trend is largely due to the strong economic growth experienced, its sustainability in the long run depends on the capacity of member countries to fully implement open skies policies in their respective domestic markets. The Arab Civil Aviation Organization is helping member countries to progressively eliminate prevailing restrictions. The number of countries that have adopted or signed open skies policy agreements is growing.[24] Bahrain, Jordan, Lebanon, Morocco, Oman, Qatar and UAE have signed open skies agreements. Furthermore, in Bahrain, Lebanon and UAE foreign carriers are allowed to enjoy unrestricted use of services within their borders.

In 2006, Morocco became the first non-European country to sign a complete aviation agreement with the EU. This agreement calls for enhancing flight safety and security, harmonizing rules related to competition, regulating state aid and ensuring consumer protection as well as preserving the quality of the environment. But, to effectively handle

[24] Open skies agreement refers to a bilateral or multilateral air transport agreement which liberalizes the rules for international aviation markets and minimizes or eliminates government intervention. Open skies agreements allow air carriers, designated by signatories, to make decisions on routes, capacity and pricing, and fully liberalizes conditions for charters and other aviation activities including permitting unrestricted code sharing rights, allowing air carriers unlimited access to points in the signatory countries and allowing unlimited access to intermediate and beyond points.

the anticipated growth in traffic, governments will also need to address a combination of critical issues spanning from the urgent need to expand or modernize airports to the adoption and enforcement of common rules ensuring air transport safety, security within the regional space.[25] Such pressures have already led some governments such as the government of Jordan to solicit private sector participation for the construction of new airports or the expansion and rehabilitation of existing ones (see Box 2.10).

But, while the national agenda on air transport is still determined by governments, the Arab Civil Aviation Council has been pressing for the gradual liberalization of air transport between Arab states through the signing of bilateral agreements. A ministerial agreement for a multilateral Arab accord to liberalize air transport has been signed by 12 member countries. The accord includes clauses on: (i) award of air traffic rights, (ii) implementation of air traffic rights, (iii) granting operating licenses and permits, (iv) commercial requirements for airlines, (v) government subsidies to airlines, (vi) flight safety and civil aviation security, (vii) protecting environment and consumer interests, and (vii) consultations and disputes resolution.

Box 2.9: Queen Alia International Airport in Jordan

Built in 1983, Amman's current airport (Queen Alia International) can no longer adequately serve the present and prospective traffic load. Tourism has been growing rapidly and now accounts for 10% of the Jordanian GDP. Further growth is restrained by the inadequate capacity of the Queen Alia airport. After considering several options, the government decided to rehabilitate and upgrade the existing airport through a public private partnership scheme. Private sector participation was sought to rehabilitate the existing facility and construct new facilities totaling 900,000 square foot of terminal space. A transparent and competitive bidding process was designed and implemented in a relatively short timeframe. The bid was to be awarded on the basis of the highest concession fee offered to the government.

The winner, Airport International Group, offered a concession fee of about 50% of yearly revenues generated by the operation of the airport. Airport International Group is led by the Abu Dhabi Investment Company and includes *Aéroport de Paris* Management and J&P-AVAX (Greece), Edgo Group (Jordan) and Noor Financial Investment Company (Jordan). On November 15, 2007, the Jordan government transferred control of the Queen Alia International Airport to the private consortium.

Source: Imane Akalay et Towfiqua Hoque (2008), "Queen Alia Airport: Flying to new heights", PFI Yearbook, pp. 118-20.

[25] A sum of $40 billion has already been appropriated for airport development in the GCC countries of which $20 billion will be spend in the development of a new airport in the United Arab Emirates. The Dubai International Airport project is estimated to cost about $8.1 billion whereas $4.1 billion are planned for the expansion of the Airport's terminals 2 and 3. The modernization of the Abu Dhabi international airport is estimated at $6.8 billion whereas the cost of the expansion of the King Abdul Aziz international airport in Saudi Arabia is estimated at $1.5 billion.

2.5.7 Telecommunications

In recent years, many countries in the region have adopted market liberalization policies in their telecommunications sectors. Reforms have led to the clear separation of roles between the public and the private sectors. While governments have retained prerogatives over the formulation of policies and their implementation, separate regulatory entities were established to enforce service obligations, regulate anti-competitive practices, and protect consumers. Likewise, the public sector role in the provision of telecommunications services has been rolled back substantially with the introduction of private operators in liberalized market segments or with the privatization of state owned incumbents.

Overall, telecommunications reform in MENA countries has followed international standards thereby seeding the conditions for integration. Table 2.14 shows that only one country still maintains a monopoly in the provision of mobile service in 2005/2006. Approximately half of the countries are providing third generation mobile communications service while fifty three percent have liberalized their fixed line communications market segment by issuing several long distance licenses.

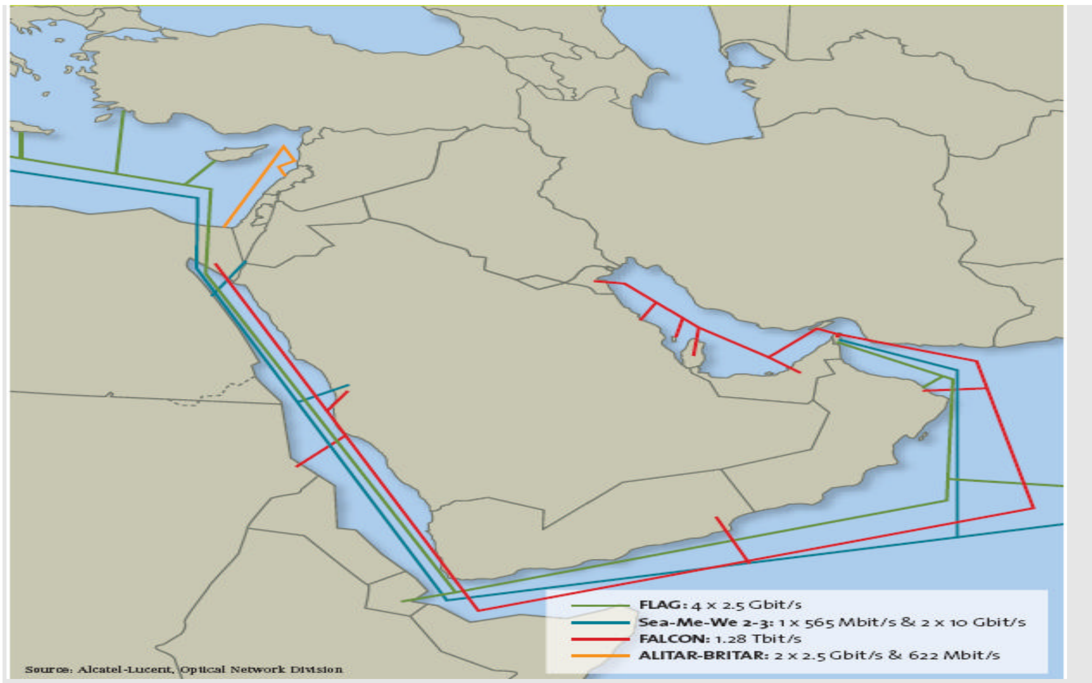
Table 2. 14: Telecommunications market characteristics in MENA countries (2006)

Availability of	Number of countries (out of 19)	Percentage
Corporate offers	16	84
3G services	9	47
International long distance competition	10	53
Number of working cellular operators		
One cellular operator	1	5
Two cellular operators	11	58
Three cellular operators	5	26
Four cellular operators	1	5
Five cellular operators	2	11
Other comparisons		
Average post paid package families	15.7	
Average pre paid package families	5.1	
Highest "market share of largest operator"	100% (UAE, Qatar)	
Lowest "market share of largest operator"	32% Iraq	

Source: Operators, Arab Advisory Group .

In parallel to the restructuring of domestic telecommunications markets, MENA has also witnessed the development of key cross-border projects. Under the auspices of the International Telecommunications Union, terrestrial cross-border telecommunications were implemented in the seventies and eighties. To expand their bandwidth connectivity, countries in the region joined global submarine cable initiatives in the 1990s. In fact, most MENA countries get their international broadband connectivity via either fiber–optic cables or satellite connections. For example, a regional fiber optic submarine cable connects GCC countries (Fiber–Optic Gulf or FOG) whereas the majority of the countries in the region get their connectivity through FLAG (Fiber optic Link Around the Globe) and the SEA–ME–WE systems (see figure 2.27). FLAG submarine cable connects approximately ten countries, whereas the SEA–ME–WE system connects around 13 countries.

Figure 2.27: Submarine Fiber Optic Cable in MENA Region



In the same vein, Arabsat is one of the most successful regional integration initiative implemented in the telecommunications sector by the MENA countries. Designed and launched in the late seventies, Arabsat has provided the region with independent access to satellite communications system. Without Arabsat, the flourishing broadcasting media industry that MENA region now enjoys would not have been possible nor would an Arab-origin international broadcasting network such as Al Jazeera exist.

Box 2.10: ARABSAT

Founded in 1976 by the 21 member states of the Arab League, Arabsat has been serving the growing needs of the Arab world for over 30 years. Now ranked as the world's 9th largest satellite operator and by far the leading satellite services provider in the Arab world, it reaches millions of homes in over 100 countries across the Middle East, Africa and Europe including more than 164 million people within 21 countries. Operating a growing fleet of 4 satellites, Arabsat is the only satellite operator in the region offering the full spectrum of Broadcast, Telecommunications and Broadband services. This translates to space capacity for providing TV and radio broadcasting services, professional data network solutions, telephony & IP trunking backbone connectivity, and broadband Internet access to media and entertainment companies, corporate customers or government entities.

Arabsat has recently announced that, starting in 2008, it will launch one new satellite every year over the next four years, with a second 4th Generation satellite to be launched soon and three 5th Generation spacecrafts either under construction or at proposal stage.

Source: Arabsat website.

Recent market liberalization reforms have created an environment conducive to the development of cross-border equity investment in telecommunications. The region has witnessed the emergence of regional majors such as Orascom Telecom, Saudi Telecom, Qatar Telecom, and MTC which have also become global equity investors in the sector. Until very recently, most cross-border investments in telecommunications in MENA focused on the acquisition of mobile licenses. With the number of potential new licenses declining and the number of bidders increasing, competition has intensified. Fierce competition in tenders can be explained by the fact that former public monopolies (Etisalat, Telecom Egypt, Qtel, and Batelco) have been partially privatized and are now facing growing competition in their own domestic markets. Also, with liquidity high in the region after several years of rising oil prices, regional majors have financial backing for more aggressive acquisition strategies.

As a result, the sector is witnessing a consolidation, with the region's smaller mobile operators becoming targets of acquisition by the better established operators (Orascom, Qatar Telecom, Zein, Etisalat). One outcome is the progressive exclusion of the traditional global players such as France Telecom, Vodaphone, and Telecom Italia. Western companies operating in the Middle East now compete with unleveraged and less price sensitive regional players who also possess a valuable cultural advantage. The new regional players are reshaping trends in the regional integration of telecommunications. By expanding their operations to cover many countries in the region, these operators typically provide their customers with better roaming conditions and terms at affordable prices thereby inducing more demand for markets integration. For the time being, policymakers have been caught by surprise and have yet to react to these market pressures. However, a network of telecommunications regulators has now been established with the goal of promoting adoption of a common policy and regulatory framework across the region.

Box 2.11: Cross-border investors in telecommunications in MENA

Kuwait's Mobile Telecommunications Company (MTC or Zain) began its ambitious expansion plan by acquiring Dutch based firm CelTel, which operated in 13 African nations, at a cost of around $3.4 billion in 2004. Since then, CelTel has bought majority stakes in Madagascar's Madacom, Nigeria's Vmobile and Westel in Ghana. Zein also completed the acquisition of Sudan's premier mobile company Mobitel in a deal worth $1.332 billion. In 2007, the company won the third mobile license in Saudi Arabia for $6.1 billion and also acquired a 15-year license of Iraqna from Egypt's Orascom for $1.2 billion. Zein intends to triple its customer base to 70 million subscribers and increase capitalization to $30 billion by 2011. Zein also has operations in Kuwait, Jordan, Bahrain, and Lebanon.

Orascom - Orascom has operations in Egypt, Bangladesh, Pakistan, Tunisia, and Algeria and is already making inroads into Europe with the purchase of mobile operators such as Wind Telecomunicazioni in Italy and TIM Hellas in Greece. In Algeria, meanwhile, Orascom is said to be looking for a way out of the fiercely competitive fixed-line market. LACOM, its joint venture there with Telecom Egypt, is facing bankruptcy after reporting loses of $45 million for the first quarter of 2007.

Orascom: Key figures	1999	2000	2001	2002	2003	2004	2005	2006
Total subscribers (000's)	937	2,116	4,051	4,343	7,660	14,500	30,383	50,000
Number of licenses	3	13	19	11	10	9	7	7
Revenue (US$ m)	309	575	851	827	1,119	1,966	3,226	4,401
Net income (US$ m)	11	10	(95)	213	123	298	659	719

Source: Orascom (2007).

Qatar Telecom - Qatar Telecom's acquisition of Wataniya creates the fourth major regional operator in a regional mobile market currently dominated by Etisalat of the UAE, Kuwait's MTC, and Egypt's Orascom Telecom. The deal is worth $3.7 billion. Wataniya, founded in 1999, is one of two mobile phone operators in Kuwait, alongside regional giant MTC, established in 1983. As well as Kuwait, Iraq, and Algeria, Wataniya also operates in Tunisia, the Maldives and Saudi Arabia.

Source: Compiled by the authors from Arab Advisors.

Box 2.12: Arab Network for Regulators (ARNET)

The Arab Network for Regulators was established on the occasion of the first Symposium for Arab Regulators that took place in Algeria in 2003. 15 Arab representatives participated in the first meeting and Algeria took the responsibility of the general Secretariat of the Network. The presidency of the Network rotates annually around its members according to alphabetical order.

More specifically, ARNET supports national telecommunications – Information and Communication Technology (ICT) regulators by:

- preparing general policies and common regulatory guidelines that will enable the provision of universal services and that will set standards for sustainable development within the sector;
- supporting initiatives that promote the Harmonization of regulatory procedures in the Arab World and work on legislative convergence among the Arab countries;
- providing regulatory models that induce the development of high quality affordable ICT services in a liberalized and competitive business environment.

The Association work program for 2004-2007 covered the following areas: (a) develop the Institutional Capacity of ARNET by developing the association website and by preparing a common Arabic glossary for ICT technical terms and initiating studies for the establishment of an ARNET Investment Fund; (b) prepare Common Guidelines for Regulatory Policies for licensing, interconnection, universal Service, competition, pricing and billing and dispute Settlement; (c) elaborate a set of common standards for ICT equipment, equipment approval, health and environment protocols and standards and quality of services; (d) exchange of expertise between its members by preparing a common database for regional experts and establishing a permanent interactive virtual forum on the ARNET's website; preparing a common guidelines for best administrative practices and methods of HR development and by preparing a detailed work plan for multilateral trainings on technical and personal skills.

Source: ARNET website (http://www.aregnet.net/).

2.6 The Road Ahead

Regional integration is no panacea. With limited coverage of services and labor flows in existing agreements, high MFN tariffs and non-tariff barriers in some countries,and low shares of intra-regional trade, even a doubling of imports and exports from and to regional partners - although welcome - would hardly generate the economic growth rates that countries in the region aspire to. There are, of course, non-economic aspects of regional integration, such as security or cultural exchange, that are important in themselves, but it seems in general advisable for MENA policy makers to focus first and foremost on how to strengthen their countries' competitiveness in global markets, and then to consider what contribution regional integration can make towards this end.

Stronger regional linkages do have a constructive role to play. For example, preferential opening of markets can help export-oriented firms to learn how to enter foreign markets, find foreign suppliers and customers, and build up economies of scale that can subsequently be put to good use in global markets as well. Conversely, import-competing firms can be exposed to foreign competition initially on a limited intra-regional basis which might force them to upgrade their offer, which in turn might prepare them better for the fierce competition in the global market following subsequent, more comprehensive trade policy reforms.

Regional agreements can also provide a training ground for policy makers and senior officials. They can obtain experience in negotiating highly technical aspects of the trade policy environment, such as rules of origin, and learn how to engage in common rule-making. Honing these skills before entering into policy reform discussion with major players, such as the EU or the USA, or in the context of multilateral WTO negotiations, is likely to result in outcomes that correspond more closely to domestic interests. In addition, integration with similarly structured economies in the region might provide an opportunity to go further with respect to the harmonization of selected rules and regulations across partner countries than would be possible at the multilateral stage, and to benefit from the resulting economies-of-scale for intra-regional as well as extra-regional trade.

Moreover, trade agreements can help to reinforce positive elements in the domestic reform program by anchoring policy in the agreement itself. It is subsequently more difficult for domestic lobby groups to reverse policy reforms in order to preserve or enhance their economic rents, as changes would require consent by all regional partner countries. This role of enhancing policy credibility seems particularly important for services and investment reforms, which often aim to attract large-scale, long-term investors to the country.

But the most well designed regional agreements are of limited value if they are not implemented. Many regional agreements in MENA look stronger on paper than in practice. One impediment to effective implementation is the proliferation of agreements. If different regional initiatives have different sector and product coverage, different liberalization schedules, and different rules of origin, implementation agencies, such as customs, might not have the capacity to put the agreement provisions into practice. There is often also lack of trust and commitment on both the export side, for example with respect to the credibility of certificates of origin, and the import side, for instance with regard to discretionary application of administrative rules and requirements, that hamper proper implementation.

Hence, well-functioning monitoring mechanisms and sustained high-level political attention to institutional improvements concerning reductions in tariff and behind the border barriers are essential for the success of regional integration initiatives. Technical reviews of progress towards the agreements' objectives should be undertaken on a regular basis, and senior officials need to act on the recommendations of these reviews.

Overall, the policy challenges for deeper, more effective regional integration in MENA are formidable and multifaceted. The process of reducing tariff and non-tariff barriers between countries in the region, as well as towards international markets, will have to continue. In addition, large, untapped opportunities are discernible in areas that have been largely neglected so far in regional integration efforts, notably trade and transport facilitation, services market opening, and factor market integration. These issues clearly deserve a higher profile on the policy agenda. Labor, capital and infrastructure can play a more important role in fostering regional integration in MENA. Fortunately, all the associated policy reforms are not only suitable for bringing MENA countries closer together, but will also tend to make the economies of the region more competitive in international markets.

3

Structural Reform Progress for Long-Term Growth

3.1 INTRODUCTION

An important recurring feature of the MENA Economic Developments and Prospects reports has been the charting of the region's progress with structural reform. Since the first issue, the report has aimed to measure progress along three critical paths for higher and sustainable growth: *improving trade integration, improving the climate for private investment, and improving governance.* Incorporating a range of relevant indicators, we evaluate reform to understand where countries currently stand relative to one another - and the rest of the world - and to monitor reform progress over time (see Appendix B for full description of structural reform indicators).

Utilizing these reform indicators, this chapter evaluates the recent progress that has been made by the region on the structural reform front. In section 3.2, the region's progress with trade reform is examined, highlighting the trade initiatives undertaken and measuring progress in lowering trade barriers. In section 3.3, progress on improving the business climate is discussed, highlighting the region's recent efforts at liberalization and measuring progress in improving the business environment, based on a range of business climate indicators. In section 3.4, the region's progress with governance reform is examined, through a review of indicators of both the quality of administration and public accountability.

The findings can be summarized as follows:

Trade reforms. Substantial progress has been made in reducing tariffs and the time required for import and export processing. Tariffs have been reduced from a simple average of 20 percent in 2000 to 13 percent by 2007, a decline not matched in any other region over this period. However, non-tariff barriers remain high and trade logistics performance, reflecting the quality of customs, ports and transport arrangements, remains sub-par.

Business climate reforms. Despite notable improvements in some countries (e.g., Egypt and Saudi Arabia), as a whole the region has failed to keep pace with business climate reforms elsewhere. In terms of reform effort, it ranks in the bottom third worldwide (29th percentile).

Governance reforms. Progress with regard to governance has been mixed. On the one hand, the quality of public administration remains relatively high in MENA, ranking above East Asia, Latin America, South Asia and Sub-Saharan Africa. In 2007, this ranking slipped relative to 2006. On the other hand, the quality of public accountability remains very low in MENA, ranking below all other regions of the world. However, in terms of reform effort in this area, MENA ranked in the 67th percentile, above all other regions. This reflects a range of improvements in combating corruption, addressing weaknesses in the judiciary, improving property rights, and streamlining bureaucracy, especially among the GCC countries.

3.2 Trade Related Reforms

3.2.1 Recent Developments

Many countries in the region have been making efforts to integrate more effectively with the global economy. More than half of the region's countries are now members of the World Trade Organization (WTO)[1]. Saudi Arabia became the most recent member in December 2005, and both Algeria and Lebanon are now negotiating. Many are also members of bilateral and regional trade agreements such as with the EU (see Box 3.1).

[1] Current WTO members include Bahrain, Djibouti, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates.

Box 3. 1: Trade relationship & recent developments with the European Union

Association & Cooperation Agreements

Since the 1995 Barcelona Conference, all Mediterranean countries, with the exception of Libya, initiated trade negotiations with the EU and ultimately replaced their Cooperation Agreements of the 1970s with the more comprehensive Association Agreements. The process of achieving a free trade area by 2010, however, has been slowed down by a number of political and security events. Syria's Association Agreement was initialed but not signed, as economic relations were disrupted following the assassination of the Lebanese Prime Minister in February 2005. The turbulent situation in the Palestinian Territory has also delayed the implementation of the Agreement as well as their European Neighborhood Policy (ENP) Action Plans. Libya was under international embargo for most of the last two decades, while Algeria joined the process late, only ratifying the Association Agreement in September 2005.

For the rest of the MENA countries that are part of the Barcelona Process, the dismantling of tariff rates – on EU industrial and agro-industrial goods – is either starting (as is the case with Algeria) or is nearing completion. Jordan, Morocco, and Tunisia were the first to ratify the agreement and by 2007 had reduced or abolished their tariffs on most European industrial goods entering their respective markets. Egypt started reducing its tariffs on EU imports in 2004, and in January 2007 it initiated the reduction on goods listed under Annex III of its Agreement. Lebanon will start the process of dismantlement in 2008.

European Neighborhood Policy: Bilateral Action Plans Adopted.

The ENP was developed in 2004. The ENP goes beyond existing relationships such as the Association Agreements to offer a deeper political relationship and economic integration. The new policy applies to the EU's immediate neighbors, nine of which are part of MENA (Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, Syria, and Tunisia).

The central element of the ENP is the bilateral ENP Action Plans agreed between the EU and each partner. These set out an agenda of political and economic reforms with short and medium-term priorities. Implementation is done through joint sub-committees.

Since the ENP builds upon existing agreements between the EU and the partner, the ENP is not yet available for countries such as Libya and Syria who have no such Agreements in force. Algeria, meanwhile, has not yet initiated negotiations on an Action Plan. The Action Plans for Tunisia, Morocco, Jordan, and the Palestinian Authority were signed in 2005 (all four were also the first to sign the Association Agreements). The Lebanese and Egyptian Plans were signed in January and March of 2007.

In addition to cooperation in trade in goods, MENA countries have also looked toward Europe for both financial and technical support through Action Plans in the context of a broader European Neighborhood Policy (ENP). These country-specific action plans lay out strategic objectives of cooperation between the EU and the MENA signatories, linking economic, political and institutional reforms in MENA to greater financial assistance from and enhanced market access to the EU. First to sign ENP action plans were Morocco, Tunisia, Jordan, and the Palestinian Authority in 2005, while in 2007, two additional countries – Lebanon and Egypt – also reached agreement. Simultaneously, in February 2007, the GCC and the EU reinitiated talks on trade cooperation after a long period of inaction.

Agreements have also been signed with the United States by Bahrain, Morocco, Jordan, and Oman with one for the United Arab Emirates in prospect (Table 3.1). Jordan's Qualified Industrial Zone (QIZ) preferential trade agreement with the US (offering duty, quota and tax-free access to the US for goods with both Jordanian and Israeli value added) has helped raise manufacturing exports, and a similar QIZ protocol was recently put place in Egypt. The opportunity for cheaper Turkish inputs in the production of textiles destined to European markets has also triggered a number of bilateral trade agreements between Turkey and MENA economies.

Intra-regionally, MENA economies have sought to foster greater trade and investment through the Pan Arab Free Trade Agreement (PAFTA),[2] and through the GCC customs union which is progressing towards a common market arrangement. Jordan, Egypt, Morocco, and Tunisia signed the Agadir Agreement in 2004, which allows for uniform rules of origin among the four countries with regard to the European Union, thus raising the negotiating power of the free trade zone with respect to the EU. Countries which have signed onto the Barcelona Process[3] are at various stages in implementing tariff reductions on industrial imports from the EU, and most have adopted the schedule set within. Egypt has moved even faster than it has committed to under the FTA with the EU, enacting sharp tariff cuts both in 2004, when it reduced the average tariff to 9.1%, and in 2007 when it brought the average down further to 6.9%. (Box 3.2).

[2] MENA members are noted in Table 3.1. In addition, Sudan is a member.
[3] The Barcelona Process is the name given to the launch of the Euro-Mediterranean Process of integration.

Table 3. 1: Trade policy map of MENA countries: free trade agreements

	WTO		GAF	EU (Association Agreement)		EFTA		Other FTAs	GCC	Agadir
		Member since			Entry into force		Entry into force			
Algeria	Observer			v	09/2005					
Bahrain	v	01/1995	v					USA (08/2006)	v	
Djibouti	v	05/1995								
Egypt	v	06/1995	v	v	06/2004	v	8/2007	Turkey (2007), QIZ		v
Iraq	Observer		v							
Iran*	Observer		n/a							
Jordan	v	04/2000	v	v	05/2002	v	09/2002	USA (12/2001), Singapore (08/2005), QIZ		v
Kuwait	v	01/1995	v						v	
Lebanon	Observer		v	v	03/2003	v	01/2007			
Libya	Observer		v							
Morocco	v	01/1995	v	v	03/2000	v	12/1999	USA (01/2006), Turkey (01/2006)		v
Oman	v	11/2000	v					USA (pending)	v	
Qatar	v	01/1996	v						v	
Saudi Arabia	v	12/2005	v						v	
Syria	Accession not initiated		v	1977 Agreement				Turkey (01/2007)		
Tunisia	v	03/1995	v	v	03/1998	v	06/2005	Turkey (07/2005)		v
UAE	v	04/1996	v					USA (in negotiation)	v	
WBG	n/a		v	v	07/1997	v	07/1999	Turkey (06/2005)		
Yemen	Observer		v							

Source: World Trade Organization, US Trade Representative, European Union Commission.
GCC: Gulf Cooperation Council is a custom union since 2003; EFTA (European Free Trade Association) states include Iceland, Switzerland, Norway, and Liechtenstein.
GAFTA (Greater Arab Free Trade Agreement) entered into force on January 1, 1998 and duties were reduced to 0% on January 2005.
Agadir is a free trade agreement that aims to promote south-south integration and complement the Euro-Mediterranean Partnership.
QIZ is a qualified industrial zone that enjoys a special domestic fiscal regime and good exported from the QIZ enter the United States at preferential rates.
*: Iran is founding member of the Economic Cooperation Organization (ECO) and groups Turkey, Pakistan, Afghanistan and countries of the former Soviet Union.

Box 3. 2: Trade reform in Egypt

Facing large current account deficits, the Egyptian government embarked on comprehensive reforms in 2003 and 2004 to improve macro-economic management, increase trade, and promote the private sector. Trade (both exports and imports) has risen following the country's significant exchange rate devaluation in 2003 and the subsequent reduction in trade tariff rates.

The process of trade reform in Egypt began in the late 1990s under the Uruguay Round. The number of tariff bands was reduced, tariff rates declined from an average of 45 percent in 1998 to 38.6 percent in 2005, and the average applied most favored nation tariff rate fell from 26.8 percent in 1998 to 20.0 percent in 2005. Tariffs were subsequently reduced in steps, and the weighted average tariff rate declined from 14.6 percent in 2003 to 9.1 in 2004, and to 6.9 percent after the February 2007 cuts. Consequently, customs fees plus import-tariff revenues fell from 17.3 percent of imports in the fiscal year 2003/04 to 6.5 percent in 2005/06. Without customs fees, the rates declined from 13.3 percent to 6.5 percent, suggesting that such current fees are negligible.

The standard deviation of tariff protection across Egypt's sectors is now only 5.1 percent (excluding beverages). But unlike in other countries, this has not leveled the playing field among Egypt's industries because Egypt's sizeable energy subsidies (5.5 percent of GDP in 2007) have disparate effects across sectors. As a result, the effective rates of protection remain high in many sectors. The government announced in August 2007 that subsidies for electricity and gas to the top 40 industrial producers would be phased out over the next three years, and that subsidies for non-energy intensive industries would continue until 2013. Food, metals and chemical industries are among the larger beneficiaries of the current energy subsidies, while agriculture and electrical machinery are among the least protected.

Source: Development Policy Review, November 2007, World Bank.

Resource rich and labor abundant economies have also lowered tariff rates, though tariffs remain high among the group. In 2004, Iran reduced the number of tariff bands to 13 and the unweighted average import tariff to 22 percent. Since then, however, progress on trade reform has slowed. Widespread smuggling of imported goods and a desire to harmonize tariff rates with GCC prompted the Yemeni government to lower import tariff rates in 2005 when almost two-thirds of its tariff lines were set at 5 % and the average reduced to just over 7 percent, at the time the lowest average tariff outside GCC in MENA.[4] And this year, Syria introduced a number of changes to its custom laws, and peak tariff rates were cut from a high of 255% to 60%.[5]

[4] Subsequently, Lebanon and Egypt have reduced tariffs slightly lower.
[5] Economic Monitoring Notes for Syria, October 2007, World Bank.

Tariff rates among the GCC countries have converged to 5 percent now, coming down from slightly higher levels a few years ago and from as high as 12 percent for Saudi Arabia back in 2000.

Beyond tariff reform, a few MENA countries have implemented several changes to reduce the behind the border constraints to trade, including through simplification of documentation for imports and automating systems. In general, these have been effective in reducing the import and export clearing time in the region to acceptable standards. At the same time, conflict has had a major impact on the ability to trade in Iraq, Lebanon, and West Bank and Gaza. In Lebanon, the July-August 2006 War and the three-month Naher el Bared War (2007) resulted in complete border closures, halting trading activities for several weeks and disrupting port operations.

Table 3. 2: Association agreements & action plans with the European Union

Country	Signed	*Entered into force*	**Tariff dismantlement on industrial goods to start**	**Developments in 2006 - 2007**
Algeria	April 2002	September 2005	September 2007 (One annex over 6 years, the other over 12 years)	Tariff dismantlement on Annexes 2 and 3 (all industrial goods) to start in 2007
Egypt	June 2001	Interim Agreement January 2004; Full Agreement June 2004	Annexes: II (Jan 04, over 4 yrs), III (Jan 07, over 7 yrs), IV (Jan 09, over 8 yrs), V (Jan 2010 over 10 yrs)	Action Plan (ENP) signed in March 2007. In 2007, began reducing tariffs (Annex III)
Jordan	November 1997	May 2002	For one annex; May 2002 (over 5 years); and two annexes, starting May 2006 (over 5 & 9 years)	Tariff reductions initiated on EU industrial imports listed in all annexes; for Annex III list A, Jordanian tariffs were abolished in 2007
Lebanon	June 2002	Interim (trade-related) March 2003; Full Agreement (April 2006)	March 2008 (over 7 years)	Action Plan (ENP) signed in January 2007
Libya	Not part of the Barcelona Process			Discussions with the EU launched, in particular on the ENP
Morocco	February 1996	March 2000	For one annex March 2000 (over 4 years), and for another March 2003 (over 10 years)	Tariff reductions observed on all EU industrial imports in the annexes. Tariff will reach 0% in 2012.
Syria	Initialed October 2004	EU Council to decide on signature date	--	--
Tunisia	July 1995	March 1998	For two annexes: March 1998 (over 5 & 12 years) & for a third March 2002 (over 9 years)	Tariff dismantlement on EU industrial imports approaching end of the schedule. Tariffs on goods in Annex 3 abolished in 2003, for Annex 4 & 5 rates reached by 2007 20% and 33% of original level. Average tariff on EU goods in 2007 is 6%, in January 2008 it will reach 0%.
West Bank & Gaza	February 1997	July 1997	Applies to fiscal charges, July 1998 (over 5 years)	Since June 2007, EU normalized relations with the Palestinian authority. Progress on the ENP Action Plan hindered by recent turmoil
Yemen	November 1997	July 1998	Cooperation (framework) Agreement, no schedule for tariff dismantlement	--
GCC	Trade relations still governed by 1988 Cooperation Agreement. Negotiations on an FTA with the European Union were re-launched in February 2007. (first talks held as early as 1990, but an agreement was not reached and the signature of an FTA was postponed.)			
Iran	Negotiations on a trade cooperation agreement and the Economic Dialogue were suspended in December 2003			

Source: European Union Commission website (www.europa.eu) and national authorities.

3.2.2 Quantifying Progress with Trade Reform

As in past *MENA Economic Developments and Prospects* reports, MENA's trade policy is evaluated both in terms of its current status (relative to the world) as well as its progress in reform (relative to the world). First, MENA's current trade policy relative to other countries worldwide is evaluated through a composite index, utilizing four trade related indicators: (1) the simple average – applied - tariff MFN rate; (2) the proportion of tariff lines subjected to non-ad valorem (NAV) duties; (3) the average time required to comply with import clearing procedures; and, (4) the average time required to comply with export clearing procedures. The Doing Business Report for the year 2008 (data for 2007) provides the data for the latter two indicators, while the WTO and the TRAINS database were the source of data for tariffs and other duties.[6]

Trade policy reform progress for MENA was evaluated relative to other countries worldwide in two ways. First, and in keeping with previous *MENA Economic Developments and Prospects* reports, trade policy reform is evaluated over the 2000-2007 period through progress in reducing average tariffs.[7] While only capturing one element of trade policy, this reform measure is nonetheless useful in allowing us to examine reform progress over a relatively long period.[8] In addition, in this year's MENA Economic Developments and Prospects report and going forward, we begin to analyze trade reform more broadly, looking at the change in the composite trade policy index (utilizing the four trade-related indicators underlying the composite current trade policy index) over the last three years.

Since 2000, the region has demonstrated strong progress in lowering tariff barriers. Relative to the world, MENA countries rank on average among the top 63rd percent of countries worldwide with regard to tariff reform, tied with high-income OECD countries and ahead of all developing regions (Table 3.3). Between 2000 and 2007, MENA's simple tariffs decreased on average by 7 percentage points, a decline unmatched by any other region.

6 See Appendix B for description of methodology behind the structural reform indicators.
7 This is the only trade-related indicator available for a relatively long span of time (2000 in this case).
8 Other trade related indicators, including behind the border procedures and non ad-valorem duties, are only available for the past 3 years, and thus may fail to capture the spirit of reform over the past decade.

Leaders in trade reform have emerged from the labor-abundant group, and particularly the resource-poor countries of the region. Resource poor countries have cut import tariffs from an average of about 26 percent to 18 percent since 2000, ranking them close to the top quarter of countries worldwide with regard to tariff reform. The particularly strong tariff reform efforts in Egypt (ranking in the 96th percentile, the highest in the region), Jordan (91st percentile) and Lebanon (91st percentile, and where the 2007 tariff rate was almost half its 2000 level) underlie this strong performance by the resource poor group. But notable tariff reform has also occurred among the resource rich and labor abundant economies, where tariff reform on average ranks among the top third of countries worldwide, spurred by the strong tariff cuts in Iran (from an average of about 66 percent in 2000 to 22 percent today), and Yemen (from an average of 13 percent in 2000 to 7 percent today).

Although reform progress among labor importing countries was more moderate (49th percentile), this is largely a reflection of the low levels of protection from the start (with tariffs averaging 9 percent in 2000). Nevertheless, the countries kept pace with the reform efforts undertaken worldwide and by 2007, all six GCC countries had converged to a simple rate of approximately 5%.

Tariff reform is an important element of trade reform, but efforts on multiple fronts can help to improve or hinder the environment for conducting international trade. Because tariffs are the only widely available trade indicator available in 2000, our measure of trade reform from 2000-2007 reflected a limited aspect of overall reform. To gauge the broader aspects of trade reform, Figure 3.1 presents the change in the current trade policy measure for MENA economies between 2005 and 2007, based on the four available trade-related indicators: average tariffs, the prevalence of non ad-valorem duties, and behind the border constraints to trade (measured through the time required for importing and exporting). This more accurately reflects overall changes in trade policy, albeit over a short time period.

On the broader trade reform front, MENA countries have in general improved their standing worldwide with regard to facilitating trade over the last two years. Between

2005 and 2007, the trade policy index in MENA (for the group of countries with data available both years) rose from an average of the 46th percentile worldwide to the 47th percentile. This compares with dynamic trade reform in the OECD (which rose on average from the 69th percentile on average in 2005 to the 82nd percentile by 2007) and Latin America (which rose from the 57th percentile to the 60th percentile, on average), and declining trade policy rankings in Africa, East Asia, and Europe and Central Asia.

Table 3. 3: Trade policy reform progress, 2000-2007

Country/region	Current trade policy, 2007	Trade policy reform progress: 2000-2007
Algeria	58	69
Bahrain	—	71
Djibouti	52	47
Egypt, Arab Republic of	72	96
Iran, Islamic Republic of	1	73
Iraq	—	—
Jordan	50	91
Kuwait	58	7
Lebanon	13	91
Libya[9]	—	—
Morocco	64	55
Oman	44	70
Qatar	—	8
Saudi Arabia	61	87
Syrian Arab Republic[10]	32	38
Tunisia	56	57
United Arab Emirates	77	—
West Bank and Gaza	—	—
Yemen, Republic of	20	87
Regional averages (unweighted)		
MENA	47	63
Resource-poor	51	73
Resource-rich, labor-abundant	28	67
Resource-rich, labor-importing	60	49
East Asia Pacific	49	43
Europe Central Asia	50	55
Latin America Caribbean	60	57
High-income OECD	82	63
South Asia	23	40
Sub-Saharan Africa	29	30
World	**50**	**50**

Source: See appendix B.

Note: Current trade policy reflects a country's current placement in a worldwide ordering of countries, based on four major categories of trade policy indicators available in 2007, expressed as a cumulative frequency distribution, with 100 reflecting the country (countries) with the most open trade policies and 0 reflecting the country (countries) with the most closed trade policies. Reform progress index reflects the improvement in a country's rank between 2000 and 2007 in a worldwide ordering of countries, based on a simple average tariff (the only trade policy indicator widely available in 2000) expressed as a cumulative frequency distribution, with 100 reflecting the country that exhibited the greatest improvement in rank and 0 reflecting the country that exhibited the greatest deterioration in rank.

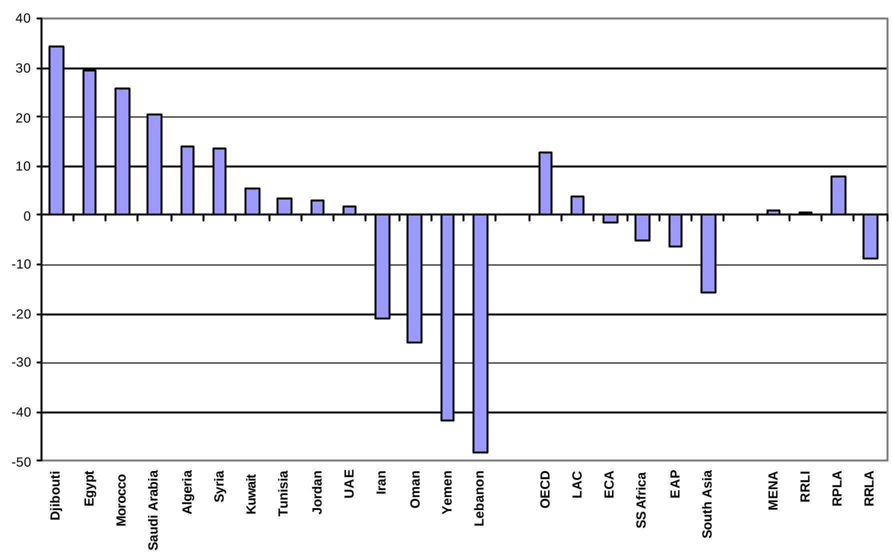
[9] In 2006 the Libyan government eliminated all their tariffs but converted its import protection mechanism into excise duties, levying consumption taxes – sometimes as high as 50% - on imports for which there is a local production. According to the World Bank country report for Libya (July 2006), the new discriminatory excise tax and the service fee of 4% is equivalent to trade protection and reduces the transparency of the trade regime. Overlooking this high and hidden trade protection by considering a 0% as the Libyan simple tariff would distort regional averages and more importantly provide misleading conclusions with respect to Libya's trade policy. According to the 0% scenario, Libya would then rank in the 97th percentile thus reflecting the position of a world leading trade policy reformer. Libya's trade regime, with excise duties as high as 50%, does not reflect the status of a leading trade reformer. The trade index is a proxy intended to quantify reforms but it is based on a single indicator (i.e., simple average) rendering it quite sensitive to empirical variations and manipulations. Therefore the more plausible option was to remove Libya from the sample, and by doing so, avoid providing misleading conclusions or wrongly calibrating the level of the Libyan trade profile. Note that the exercise of converting the new excise taxes on imports into equivalent tariff rates has yet to be done to determine whether the effective tariff protection has dropped or increased from the pre 2006 level of 17%.

[10] Does not reflect the recent (August 2007) reduction in peak tariff rates.

Resource poor countries are leading the overall trade policy improvements in MENA, due in large part to the reform efforts in Djibouti, Egypt and Morocco. In Djibouti, the dramatic rise in its ranking worldwide with regard to trade policy (from the 17th percentile in 2006 to the 52nd percentile) reflects the full removal of non ad-valorem duties on imports, as well as strong improvements in reducing the time for clearing trade (helped significantly by the operationalization of the free zone with a one-stop-shop arrangement). Egypt's trade policy index rose from the 43rd percentile in 2005 to the 72nd percentile in 2007, on the strength of significant inroads in reducing the time required to export (from 27 to 15 days) and import (from 29 to 18 days), as well as continued lowering of tariffs (from an average of 9.1 percent to 6.9 percent in 2007). And in Morocco, a reduction in the processes required to import and export have helped to substantially reduce the time to clear trade, elevating the country's trade policy ranking rise from the 38th percentile in 2005 to the 64th percentile by 2007 (Figure 3.1).

A few countries in MENA exhibit strong deteriorations over the last two years in this broader trade policy measure (even countries which may have demonstrated strong tariff reform over the last seven years). The largest single decline in trade policy ranking took place in Lebanon, where last year's border closures as a result of the war resulted in significant increases in the overall average time required for exporting and importing, resulting in an overall deterioration of the country's trade policy rank from the 61st percentile in 2005 to the 13th percentile in 2007.

Figure 3. 1: Change in trade policy index: 2005-2007

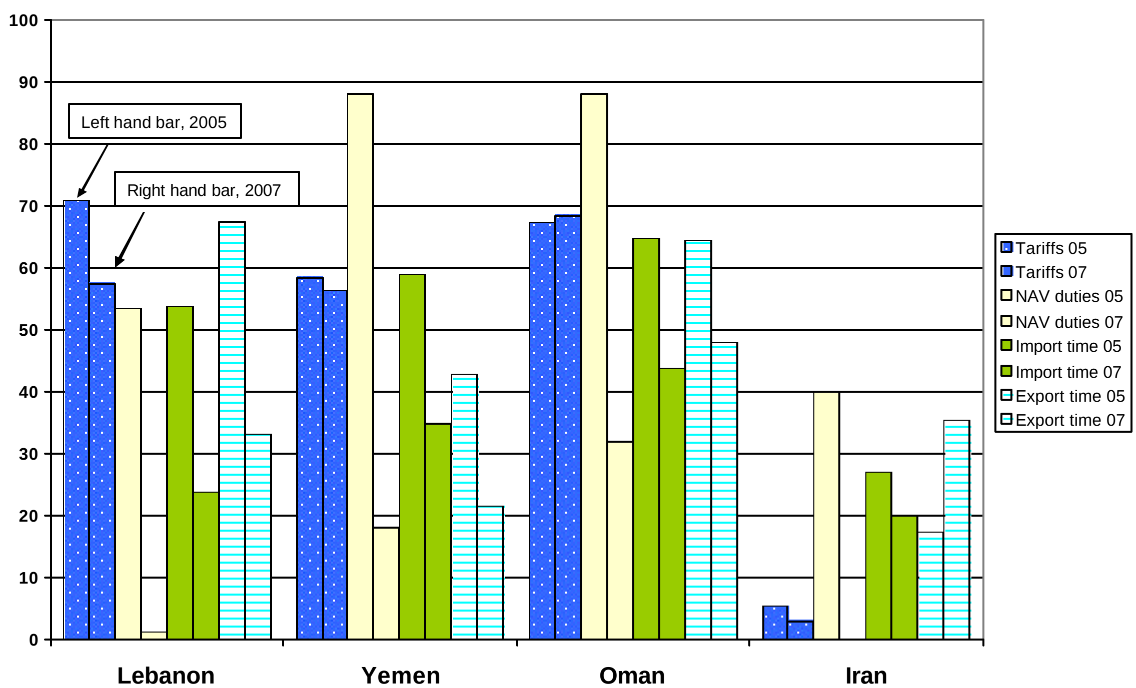


Note: Regional absolute change in current trade policy index (composed utilizing information on average tariffs, non ad-valorem duties, and the time for clearing imports and exports). See Appendix B for full description of the trade policy index. Regional averages are un-weighted and data for the UAE and Djibouti cover only 2006-2007 timeframe.

But other countries are also exhibiting significant deteriorations in the climate for trade over the last two years, including Iran, Oman and Yemen (all three of which also exhibited strong tariff reform progress over 2000-2007). Figure 3.2 highlights the factors underlying the recent deteriorations in the overall trade policy rankings for Lebanon, Yemen, Oman and Iran. In both Yemen and Oman, there have been significant declines in each country's world ranking with regard to NAV duties, as well as the speed in clearing imports and exports. According to the WTO, both countries imposed NAV duties after 2005 (from 0% levels in 2005). That factor, combined with inaction on improving the time required for trade clearance, have resulted in substantial deteriorations in their trade climate rankings with regard to the rest of the world. Worldwide, trade clearance has improved significantly worldwide, and the average time required for exporting has declined from about 32 days to 26 days, while for importing from 40 days to 30 days. As a few MENA countries have failed to make similar improvements in their own trade clearing procedures, they have fallen significantly behind. In Iran, the deterioration in the trade policy ranking reflects a suspension of the tariff reform efforts begun in the early 2000s, as well as increasing difficulty (relative to the rest of the world) with clearing imports.

Figure 3. 2: Factors underlying trade policy index declines: 2005-2007

(percentile ranking worldwide)



Note: NAV duties are not available for Iran in 2007.

Going forward, MENA economies still have significant opportunities for facilitating trade, primarily through continued tariff reform. Outside the GCC, MENA economies continue to maintain high levels of tariff protection, particularly in Algeria (average tariff rate 19 percent), Djibouti (30 percent), Iran (22 percent), Morocco (22 percent), Syria (20 percent) and Tunisia (27 percent).

Other areas of trade policy are more favorable, with MENA countries in the top half worldwide with regard to the speed of processing trade and with the use of NAV duties. As a result, MENA countries rank on par with world averages (47th percentile) with regard to overall trade policy (Table 3.3). But within the region, resource rich and labor abundant economies trail far behind the other economies of MENA, with current trade policy ranking on average in the bottom third of economies worldwide (28th percentile), the result of both high tariffs (placing them in the bottom 18th percentile, on average[11]) and cumbersome import processing procedures. Iran in particular stands out for a debilitating trade environment, ranking in the bottom one percent worldwide with regard to tariffs and time for trade processing. Region-wide, cutting back on the significant barriers to trade will be required if businesses are to expand and create markets abroad.

3.3 Business Climate Reforms

A favorable business climate and efficient legal environment are necessary conditions to promote private investment and create the jobs needed for a growing MENA labor force. The decision of resource-rich countries to channel their oil-generated surplus to other MENA countries depends greatly on the business environment in the respective countries. The ease of starting a business, the level of investor protection, and other factors play a large role in determining the destination of foreign direct investments. Resource-rich states have also a vested interest in improving their own business climate in order to attract foreign investors and acquire new technologies for their oil-based sectors as well as to diversify their economies.

3.3.1 Recent Developments[12]

Strategies for improving the business climate in MENA have evolved from efforts concentrated on industrial policies toward specific sectors (including the industrial

[11] See Table B2, Appendix B.

[12] Recent developments were drawn from three principle sources: the World Bank Doing 2008 Business Report, the most recent International Monetary Fund Article IV reports, and the World Bank Economic Monitoring Notes prepared for the 2007 IMF-World Bank Annual Meetings.

upgrading under the *mis-à-niveau* programs in Morocco and Tunisia), to broader efforts aimed at improving the institutions that support all industrial sectors. A major factor inhibiting greater domestic investment in the MENA region is lack of access to credit by firms, a problem highlighted in the 2006 MENA Economic Developments and Prospects report.[13] Although many factors lie at the heart of the structural disconnect between the plentiful financial resources in the region and the scarcity of external financing for businesses, one of the key factors has been the high level of public sector ownership of banks, which has both impacted the direction of credit in MENA, as well as the operating efficiency and the ability of the banking sector to conduct robust risk analysis. The degree of state ownership is especially high in the resource rich and labor abundant economies of Algeria, Iran, Syria, and Libya, but state ownership is also high in several of the resource poor economies like Egypt, Morocco and Tunisia.

Over the past few years, the banking sector has slowly opened to private participation, with a handful of countries in the region granting licenses to private banks and changing foreign ownership restrictions. In Algeria, 13 foreign bank branches have been established since liberalization efforts began, and bidding for the partial privatization of *Crédit Populaire d'Algérie* is underway, with another bank slated for privatization soon (*Banque de Développement Local*). Iran opened the door to private sector participation, although the impact is relatively small to date. Licenses have been issued to four private banks, but together these command a very small share of the market. Syria, whose banking sector was monopolized by the state-owned Commercial Bank of Syria, overturned its 49% maximum foreign ownership requirement in 2005, which allowed new banks to be established and foreign Islamic banks to enter the market. Eight private banks are now operating in Syria, including one Islamic bank. The share of private banks in the total balance sheet of the sector reached 15.3 percent by May 2007 compared to 7.1 percent at end-2005. In Egypt, majority stakes in one of the four main state-owned banks, the Bank of Alexandria (with 7-8 percent of total banking deposits), was sold over 2006, and in 2007 it was announced that *Banque du Caire* was for sale. If completed it would lead to a banking sector dominated by private ownership, with the remaining state-owned banks (the National Bank of Egypt and *Banque Misr*) controlling 41 percent of the market. These bank privatizations are only one component of a broad range of actions initiated by Egypt to restructure the financial sector, including the sale of joint venture banks and investment houses, large mergers in the state-owned insurance sector

[13] MENA Economic Developments and Prospects 2006: Financial markets in a New Age of Oil. World Bank, 2006.

(eventually slated for privatization), and the restructuring of private sector nonperforming loans.

The telecommunications sector has been one of the primary entry points for privatization in MENA. Most of the resource poor countries have sold partial stakes in the state-owned telecommunications company (Jordan sold a 15 percent stake in Jordan Telecom in 2002, Egypt a 20 percent stake in Telecom Egypt in 2005, and Tunisia a 35 percent stake in *Tunisie Telecom*) and increasing mobile operators have been established in Egypt, Morocco, Tunisia and Jordan. In Lebanon, encouraging steps towards telecom privatization have been taken with the establishment of the Telecommunications Regulatory Authority, the appointment of its Board, and issuance of three new regulations. Preparatory steps are also being taken to privatize the two mobile telephony providers.

Telecom liberalization among resource rich and labor abundant economies has moved more slowly. Algeria's long anticipated privatization of *Algerie-Telecom* has been held back, and the telecommunications sectors in both Iran and Syria remain fully state-owned. However, competition in mobile telecommunications exists in Algeria. Finally, among GCC economies, partial privatization of the national telephone companies have taken place in Bahrain, Qatar, Saudi Arabia, the UAE and Oman (though not privatization open to foreign ownership), and most have multiple mobile phone operators.

Outside telecommunications, progress with infrastructure liberalization has been mixed, with relatively strong liberalization efforts among a few, including Morocco (air transport, oil and gas exploration, audio visual communications, and with planned liberalization of electricity), Jordan (phosphates, and plans for air transport and electricity generation), Bahrain (electricity, petrochemicals, and planned liberalizations of water and postal services), and Oman (power, water, ports, and oil). Egypt has liberalized air transport. Iran opened the door for private sector participation in most major industries, including power generation, water, postal service, railways, airlines and ship building, although the actual privatization process has moved slowly and access to these sectors still pending. Elsewhere, almost all of the GCC countries have converted to private power, and there have been piecemeal efforts at liberalization in other sectors (Saudi Arabia in air transport, Qatar in some air services and water, and in the UAE in tourism and air transport).

In addition to opening key services to competition, the region has taken some steps to reduce the regulatory obstacles to doing business. Supporting the liberalization push in banking, a number of countries have shored up the regulatory environment for the financial sector. In Morocco, specific measures to improve financial intermediation include standardizing the minimum data required to process loan applications, helping banks to develop their practice of internal rating systems, and merging existing information on credit risk into a privately managed centralized database to all credit institutions[14]. In addition, banking laws have been revised to improve supervision of non-bank institutions, and a new Insurance code has been adopted, which should improve the insurance sector's efficiency while protecting customers. In an effort to reduce non-performing loans, Tunisia has taken steps to improve credit appraisal, raise provisioning rules, and sanction banks with insufficient provisioning or capital. Algeria's key actions include modernization of the payment system, as well as the introduction of performance contracts in public banks and the publication of explicit subsidies to commercial banks in the 2006 budget law. Iran has worked to develop a risk-based regulatory and supervisory framework for banking and has worked on the measures needed to modernize payment systems, but progress has been slow. Libya launched a series of measures to support financial system reform, aimed primarily at restructuring state-owned banks and adjusting ownership structures to include or increase private participation. Bahrain's reforms initiated in 2004 include establishing a consumer credit rating agency and drawing up new regulations for insurance companies and trust funds. Bahrain has also made notable progress in developing Islamic lending instruments aimed at rolling over conventional domestic debt and diversifying financial instruments. The regulatory framework of the financial sector in the UAE also witnessed some improvements, with major steps taken to control money laundering, including the passing of anti-laundering laws, improving the rules and regulations dealing with the informal money transfer system, improving banking supervision and enhancing the payments system.

Outside financial sector reforms, MENA countries have advanced other key regulatory reforms. Egypt has undertaken the most comprehensive regulatory reforms, across several areas such as bankruptcy laws (allowing voluntary liquidation), investment laws (de facto creating a one-stop-shop for investors through the General Authority for Free Zones and Investment), commercial dispute laws (establishing dedicated courts to hear business cases), sales tax laws (overhauling the sales tax to function more like a value-

[14] IMF, November 2006. Morocco 2006 Article IV Consultation.

added tax), and a recent revision of the property tax law (lowering the current maximum rate of 46 percent to a flat rate of 10 percent on all property).

Another key area of reform in MENA has been reducing the capital requirements and registration process for starting a business, which has been a key part of the business reform agendas in Tunisia and Jordan. Labor laws have also featured prominently in the region, in an effort to improve (national) employment outcomes, most significant among these a new labor code in Morocco, which significantly clarifies employment relations. Djibouti has also introduced a more flexible labor code, although it has yet to be fully implemented. GCC employment laws, on the other hand, have primarily focused on national employment targets (quotas) and raising fees and other restrictions on foreign workers to increase the employment of the domestic workforce. With extensive and modern facilities and services, GCC economies have concentrated much of their reform efforts toward improving commercial laws, particularly to open up to capture greater foreign investment.

3.3.2 Targeted industrial policies

Both Morocco and Tunisia have moved on from the generalized *mise-à-niveau* platforms to more specific sectoral upgrading. Morocco launched its Emergence Program (begun in 2005), focusing on overhauling eight main sectors, including modernizing the textile sector to adapt to the dismantling of the Multi-fiber Agreement (MFA),[15] and consolidating the sectors of electronic components, information technology; automotive manufacturing parts, aeronautics, and artisan products. Authorities are implementing a broad range of incentives that include tax exonerations, subsidies for training, and development of four offshore free trade zones. And Tunisia moved on to a five year program targeted at industrial innovation in small and medium enterprises (SMEs), with general privileges extended for investments in selected economic activities and for exporting.

For many countries in the region, establishing industrial zones (or free zones) has been an increasingly important mechanism for attracting investment. Among resource poor countries, Tunisia is in the process of developing its Industrial Zone of Enfidha and its tourism park of Hergla, while in Morocco, following the success of Casa nearshore, the Moroccan government has defined an extensive list of incentives to promote new

[15] In January 2005, the World Trade Organization Multifiber Agreement (MFA) on textile and clothing expired. The agreement had allowed privileged access to European markets for a few MENA economies – Egypt, Morocco, Tunisia and the United Arab Emirates – in textile and clothing products.

offshore operators, including fiscal exoneration, income tax ceilings, and training and cash support for the recruitment of Moroccans. In Egypt, meanwhile, in addition to the qualified industrial zones in Greater Cairo, Alexandria, and the Suez Canal, several country-specific industrial zones are being established to support businesses from those countries looking for an export platform to Europe, Africa and the Middle East. Over 2007, Egypt signed agreements for industrial zones with China, Jordan, Qatar, Saudi Arabia and Turkey, and is looking elsewhere for similar agreements, including Russia. While Djibouti has had a long-standing free zone, it was only after a 2004 law to govern the Free Zone and establish the incentives to operate there was issued that foreign investments began to flow.

The GCC economies have also heavily utilized industrial and free trade zones, not only to provide a platform for manufacturing, but also to establish themselves as regional and international hubs for a variety of services, including financial services, trading, tourism, and transport. The UAE has become a major source of tourism-related investments, which often take the form of large-scale property redevelopment incorporating hotels, residential facilities, and amenities.[16] The GCC countries have also sought to attract financial sector clusters along the lines of the Bahrain Financial Harbor, the Dubai International Financial Center, and the Qatar Financial Center, which created a free zone for international banks and investment companies in 2005. Dubai has emerged as a regional hub for a variety of services, including e-commerce, finance, biotechnology and healthcare, and even international film (with the Dubai media city). Oman, meanwhile, is positioning itself to become a regional hub for information technology enabled services, and Qatar is emerging as a hub for both health care services and education, recently establishing the Hamad Medical City and the Education city, designed to attract overseas institutions to set up campuses (including Cornell University) while at the same time promoting the development of knowledge intensive industries.

3.3.3 Quantifying Progress

As with trade policy, MENA's business climate was evaluated in terms of its current status and its progress in reform, relative to the world. First, the business climate in 2007 was evaluated based on available data for the following indicators: ease of starting a business, ease of closing a business, ease of hiring and firing, ease of contract enforcement, ease of dealing with pertinent licenses, ease of paying taxes, ease of

[16] Examples include the Cairo Hills and Marassi developments in Egypt, both of which are multi-billion dollar projects.

registering property, and the degree to which investors are protected. In each of these areas, a variety of information about the ease of doing business was utilized, often including average time, cost, and total number of procedures required for each business obligation (see appendix B for a fuller description).

In addition to evaluating the current status of the business environment, the progress with reform of the business climate was evaluated in two ways. As with past MENA Economic Developments and Prospects reports, business reform was evaluated for the longest period possible (2003-2007) by evaluating the progress made along four different fronts (the four areas for which information was available starting in 2003): starting a business, hiring and firing, enforcing contracts, and closing a business. From these data, an overall reform progress index was calculated, reflecting the average progress along all four fronts, expressed as a cumulative frequency distribution.

Additionally, in this year's *MENA Economic Developments and Prospects report* and going forward, we begin to analyze business reform more broadly, looking at the change in the composite business climate index (utilizing the data from the eight indicators noted above) from 2005 (the first year all eight areas of the business climate are available) to the present. This more accurately reflects overall changes in the business climate, albeit over a short time period.

Over the past four years, MENA has lost significant ground with respect to reform of the business climate, ranking in the bottom third worldwide (29^{th} percentile), and lower than any other region of the world. Only a few countries in the region have kept pace with business reforms efforts occurring worldwide, including Egypt, Oman, Saudi Arabia, and Tunisia, but the majority of countries have slipped in terms of their worldwide ranking with respect to the four key areas of the business environment for which data is available since 2003.

The majority of the region's progress in reform of the business regulatory environment over the last four years has centered on improving the ease of starting a business (and several of the resource poor countries, including Egypt, Jordan, and Morocco have made significant inroads in facilitating business start-up procedures and lowering start-up costs). But the region has not kept pace with reforms in hiring and firing, contract enforcement, and business closure. The lack of progress in the area of contract enforcement is particularly troubling, as it is an especially problematic area for the region (with the region ranking on average close to the bottom third worldwide).

Among the strong reformers over the past four years, Oman has demonstrated the strongest overall effort, ranking in the 69^{th} percentile worldwide, reflecting significant improvements in both hiring and firing and business closure. In Egypt, the strong business reform effort reflects across the board improvements in the processes required for starting a business. In 2007, the government cut the minimum capital required to start a business from 50,000 Egyptian Pounds (US$9,150) to 1,000 (US$180) and halved the start-up time and cost. Saudi Arabia was also a strong reformer, focusing its efforts on improving the business start-up process. Previously $125,000 (or 1,057% of per capita income), 13 procedures, and a process of almost five weeks were required to set up a company. The national competitiveness center, established in June 2006, quickly eliminated the capital requirement and as a byproduct decreased the number of procedures to 7, while the registration time declined from 39 to 15 days.

Table 3. 4: Business and regulatory reform

Country/region	Current business environment 2007[a]	Reform progress, 2003- 2007[b]
Algeria	30	51
Djibouti	11	—
Egypt, Arab Republic of	20	61
Iran, Islamic Republic of	21	1
Iraq	37	—
Jordan	49	37
Kuwait	77	12
Lebanon	42	3
Morocco	31	17*
Oman	76	69
Saudi Arabia	87	55
Syrian Arab Republic	23	8*
Tunisia	49	52
United Arab Emirates	54	6
West Bank and Gaza	33	—
Yemen, Republic of	63	10
Regional averages (unweighted)		
MENA	44	29
Resource poor	32	42
Resource rich, labor abundant	35	17
Resource rich, labor importing	73	35
East Asia Pacific	63	45
Europe Central Asia	56	63
Latin America Caribbean	47	46
High Income OECD	84	63
South Asia	46	33
Sub-Saharan Africa	26	46
World	**50**	**50**

Source: Staff estimates from the World Bank Doing Business Indicators.

a. Current business climate (i.e., measured by the business and regulatory composite index) reflects a country's placement in a worldwide ordering of countries. The composite index is based on eight major business – environment indicators, expressed as a cumulative frequency distribution, with 100 reflecting the country or countries with the most friendly business policies worldwide.

b. Reform progress reflects the improvement in a country's rank between 2003 and 2007 in a worldwide ordering of countries, based on four major categories of business and regulatory reforms policies available in 2003 and 2007, expressed as a cumulative frequency distribution, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank and 0 reflecting the country (countries) that exhibited the greater deterioration.

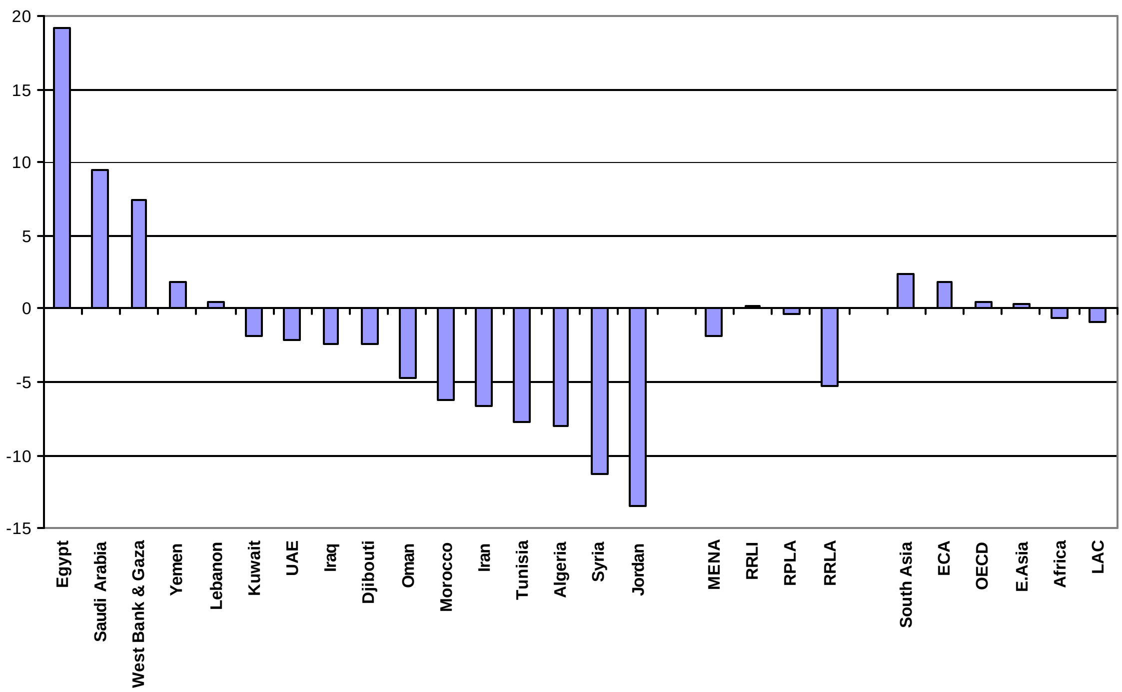
* = The business reform index for 2003-2007 is significantly changed from last year's report (evaluating reform over the 2003-2006 period) primarily because of changes to the underlying historical data.

— = data not available.

By far, the least progress in reform has occurred among the resource rich and labor abundant group, where Iran, Syria and Yemen all rank in the bottom decile worldwide with regard to reforms of the business climate.

The business reform index captures the MENA's progress with reform across several fronts (including the ease of starting a business, closing a business, hiring and firing, and enforcing contracts) over the longest time period available (since 2003). While important elements of business reform, efforts on other fronts (such as dealing with licenses, protecting investors, registering property, and paying taxes) are not reflected in Table 3.5. In an effort to gauge reform across the broader business environment (across all eight areas of doing business), Figure 3.3 presents the change in the *current business climate index* for MENA economies between 2005 and 2007, based on the eight available business climate-related indicator. This more accurately reflects overall changes in the business climate, albeit over a short time period.

Figure 3. 3: Change in business climate index: 2005-2007



Note: Reflect absolute change in the current business climate index (composed utilizing information across eight separate spheres of business environment). Regional averages are un-weighted..

Over the past two years, MENA countries on the whole have exhibited deterioration in their ranking worldwide with respect to the broad spectrum of indicators of the business climate. Between 2005 and 2007, the business climate index in MENA (for the group of countries with data available both years) fell from an average of the 46th percentile worldwide to the 44th percentile. The greatest deteriorations in the business climate have taken place among resource rich and labor abundant countries (with significant declines in Algeria, Iran, and Syria), which as a group have fallen over the past 2 years from an average of the 40th percentile to the 35th percentile.

Egypt has made the greatest progress seen in the last two years in improving the overall environment for business. Its ranking has risen dramatically since 2005 from the 1st percentile worldwide to the 20th percentile. In addition to progress made in facilitating business start up, it also eased the bureaucracy that builders face in getting construction permits, and the cost of registering property was also reduced from 3% of the property value to a low flat fee. Strong progress also took place in Saudi Arabia with respect to improvements in the ease of starting a business, protecting investors and facilitating contract enforcement.

Moving forward, the business climate in general remains problematic for the MENA region, with both resource poor and resource rich and labor abundant economies ranking close to the bottom third of countries worldwide.[17] Contract enforcement is a common area of weakness, ranking on average in the bottom third worldwide. The process for enforcing business contracts is both time consuming (requiring about 2 years, compared with 1.7 years worldwide) and procedurally heavy (requiring about 45 separate procedures, compared with 38 worldwide). Resource poor countries additionally suffer from significant difficulties in hiring and firing, and exhibit a lack of safeguards to protect investors. Among resource rich and labor abundant countries, the areas of the business climate which stand out as significantly below average center around difficulties with starting a business (primarily due to high minimum capital requirements) and lack of safeguards to protect investors. Perhaps nothing stands out more than the minimum capital requirements for starting a business. In both Syria and Yemen, the minimum capital required to start a business is more than 2000% of income per capita (in Syria, closer to 4000%), compared with an average of 115% worldwide.

3.4 GOVERNANCE REFORM

3.4.1 Recent Developments

Over the course of the past few years, MENA countries have taken measures to improve governance in the region. Most of the region's attention has focused on reforming the delivery of public services and improving its quality, reflecting a range of improvements in combating

[17] See Table B4, Appendix B.

corruption, addressing weaknesses in the judiciary, improving property rights, and streamlining bureaucracy. All of these factors are important determinants in creating a better investment climate, limiting the opportunities for corruption and rent seeking and lowering the costs for firms to conduct business. But the region has also steadily moved to open the political space in which reforms are embedded. These reforms, more than any, will signal to potential investors a genuine change in the business landscape. It is through these improvements in the accountability of government that continued policy improvements can be ensured.

Resource poor countries have led the region in public sector reforms, not only those related to improving public service delivery. Egypt undertook over the last couple years a number of important changes that aim to improve their business environment, which has served as a catalyst to reform the domestic public administration.[18] Several measures were introduced to reform the tax and customs codes, streamline the registration procedures, and speed up the privatization process. In addition, with a still relatively weak and bloated public sector, the Egyptian government proposed recently a number of reform measures (including the early retirement of public sector employees) to improve efficiency by reducing redundancies in the public sector.

Jordan as well has implemented a strong governance reform program, including a recent legislative overhaul that includes a new law on access to information as well as an anti-money laundering law. In Morocco, following the introduction of an early retirement scheme and no-new-net hiring policy a couple years back, an anti-corruption agency was recently set up, an E-government portal covering some 190 services was launched, and an E-Card for citizens was issued to improve services and minimize corruption.[19]

Resource poor countries have made modest advances in the political reform process. In March 2007, some 34 constitutional amendments were passed in Egypt, ostensibly to enable opposition parties to participate more actively in the political process, and in May 2007, the Political Parties Committee approved the establishment of a new party (the Democratic Front). Some plans to move forward with several new laws were outlined, including a law on the exercise of political rights that is expected to introduce an element of proportional representation (with a fixed quota of women) into national elections. In Morocco, elections were held in September 2007 and earlier a law on political parties was earlier passed and the audiovisual sector liberalized. Moroccan civil society is active and press freedoms are relatively progressive.

[18] The Quality of Public Administration (IQA) Index includes seven underlying indicators, three of which are from Doing Business and another two are from the Heritage Foundation covering business regulation and property rights. Both Egypt and Saudi Arabia have made significant progress in the business climate over the last year thus positively affecting a number of the underlying indicators used in the IQA Index. This explains the empirical linkages between this governance index and the business reforms undertaken in both Egypt and Saudi Arabia.

[19] *Ministère de la Modernisation des Secteurs Publics;* Report to the World Bank Office in Morocco, December 19, 2007.

During 2007, Yemen's Parliament approved the formation of an Anticorruption Authority, and the government has officially joined the Extractive Industry Transparency Initiative, and is taking steps as well to improve internal and external auditing. A public procurement law, procurement manual and a restructured High Tender Board are now in place. A new land registration law was recently passed by the Cabinet, and the Land Registration Authority is undergoing restructuring. Work has also proceeded satisfactorily in various areas of public financial management, including the Automated Financial Management Information System project, income tax system modernization, budget classification and reporting and preparation of financial law. In the area of civil services reform, good progress has been made towards establishing a biometric identification system (with current rate of completion nearing 80 percent of civil servants) and the Civil Service Fund.

The GCC States have generally maintained more efficient public sectors than the rest of the region, but there have been continued actions to improve the quality of the public administration and to open up the political space and allow for greater accountability. On the accountability front, there have been strong actions from a few countries over the past several years. In Bahrain, and after full suffrage was granted to all citizens and an independent judiciary created, the second parliamentary elections in thirty years were held in November 2006. In Oman, a second Consultative Council was elected in October 2007 and progress is witnessed on the gender front with proposals to strengthen women's rights occupying national debate. This follows the appointment of Oman first woman minister with a portfolio in 2004. In Qatar, municipal elections were held for the first time in April 2007 and a new parliament, two-third of which elected by the people, is expected to be formed in 2008. The Kuwaiti parliament has a long track record of holding governments accountable for its actions. As far as Saudi Arabia, the country held its first nationwide elections in February 2005 to elect municipal councils and made changes, albeit small, to improve the status of women.

In other countries, however, little progress is evident. Iran's last Five-Year Plan called for several measures aimed at improving the functioning of the public sector, including the privatization of state corporate holdings, but the privatization process has stalled. Of late, little effort has been undertaken in Algeria to improve the efficiency of the public sector. Neither has there been a strengthening of public sector accountability: for instance, a leading Iranian reformist newspaper was recently shut down. The Algerian media plays a role in voicing public opinion – as it showed in the case of the *Khalifa* bank scandal in 2007 – but the political process in the country has not opened up since the end of the civil war in 1998.

3.4.2 Quantifying Progress

Two structural reform indices were used to quantify the quality of MENA's public administration and public accountability, each measuring both the "level" and the "change" of governance ratings relative to the rest of the world. The quality of public sector accountability was assessed using current information on political rights, civil liberties, freedom of the press, and various measures of executive recruitment and participation processes. The composite index includes eleven sub-indices collected from Freedom House, Polity, and the International Country Risk Guide.[20] The quality of public administration was assessed via indicators on corruption, bureaucracy, property rights, regulation, and the ease of doing business. Reform progress was measured over the 2000-2007 timeframe.[21]

With respect to the quality of public administration, the MENA region has not kept pace with worldwide reform efforts, ranking on average in the 47th percentile with respect to reform. This compares with a reform rank of the 57th percentile only last year. The slowdown in public sector accountability reform primarily reflects the declines among a few countries (including Algeria, Jordan, and the United Arab Emirates), particularly with regard to the level of bureaucracy and an unfavorable business climate, namely starting and closing a business.

Within the region, resource poor countries have implemented the strongest efforts to improve public sector efficiency, ranking in the top 30% of countries worldwide with respect to reform. Especially strong efforts emerged from Egypt, Morocco, and Tunisia. Egypt was the 2007 world reformer in doing business, and Morocco was also a major reformer with respect to starting a business and scored high in terms of business regulation.[22] As for Tunisia, the country's reform efforts encompassed the business regulatory environment, the protection of intellectual property rights (IPR), and the doing business climate, in particular closing a business.

Resource rich and labor abundant economies, on the other hand, continued to lose ground with respect to the rest of the world in terms of the quality of the public sector administration, with the group now ranking in the bottom quarter of countries worldwide with respect to public sector efficiency. Particularly weak progress in Algeria and Yemen to tackle corruption, reduce the high level of bureaucracy, or ease the process to start a business. In addition little reform was undertaken in Yemen to strengthen the protection of intellectual property.

[20] The most recent data was collected and with the exception of the Polity IV indicators, data applies to 2007.
[21] See Appendix B for a description of the methodology behind the governance indicators.
[22] Improvement reflected by the index computed by the Heritage Foundation.

Table 3.5: Quality of public administration in 2007, and 2000-2007 reform index

Country/region	(percentile rank) **Quality of administration index current status 2007**	(percentile rank) **Quality of administration reform index 2000-07**
Algeria	32	11
Bahrain	75	62
Egypt, Arab Republic of	42	94
Iran, Islamic Republic of	30	38
Jordan	54	22
Kuwait	55	29
Libya	4	15
Morocco	75	90
Oman	56	28
Qatar	61	82
Saudi Arabia	71	92
Syrian Arab Republic	13	48
Tunisia	73	75
United Arab Emirates	44	2
Yemen, Republic of	23	18
Regional averages (un-weighted)		
MENA	47	47
Resource-poor	61	70
Resource-rich, labor-abundant	24	29
Resource-rich, labor-importing	53	44
East Asia Pacific	46	50
Europe Central Asia	54	64
Latin America Caribbean	43	42
High Income OECD	89	48
South Asia	34	51
Sub-Saharan Africa	31	45
World	**50**	**50**

Source: See Appendix B for the methodology behind the governance indices.
Note: Current status reflects country's current placement in a worldwide ordering of countries, based on a variety of indictors of quality of public administration, expressed as a point in the worldwide cumulative frequency distribution, with 100 reflecting the country (countries) with the best / most efficient public administration worldwide and 0 reflecting the country (countries) with the weakest / most inefficient public administration worldwide. Reform progress reflects the improvement in a country's worldwide ranking between 2000 and 2007 in a worldwide ordering of countries based on quality of public administration, with 100 reflecting the county (countries) that exhibited the greatest improvement in rank worldwide, and 0 reflecting the country (countries) that exhibited the greatest deterioration.

Among the GCC countries, the quality of administration has generally been superior, ranking on average in the 61st percentile worldwide. Over the past seven years, the RRLI group has kept pace with worldwide improvements in the quality of public sector administration, with particularly strong efforts from Bahrain in the areas of business regulation and IPR protection. At the same time, the ranking of the United Arab Emirates has slipped from 61 to 44, reflecting slow progress in improving the business climate, in particular with respect to starting or closing a business.

With regard to the accountability of government, the MENA region continues to demonstrate significant progress over the last several years (Table 3.6). Indeed, in terms of reform efforts, the region ranks at the 64th percentile, which is the highest worldwide. The RRLI group has demonstrated the strongest reform effort, ranking in the 74th percentile. Bahrain and Kuwait made particularly strong progress over the past few years, reflecting improvements in terms of democratic accountability[23] - case of Bahrain – and freedom of the press – case of Kuwait.[24]

Despite these improvements, the region's current rank in public sector accountability remains the lowest among all world regions. This suggests that much more needs to be done to draw abreast of the rest of the world. The region has begun to see the impacts from reform, with growing private sector investment and private employment over the past several years. However, the continued impacts of these trade and business reforms, within the context of a global competitive economy, are limited by the environment in which policy is made and administered. Continuing and significantly strengthening this area of reform is paramount. While governance reforms over the last several years are a good signal, the gap between MENA and the rest of the world remains immense. And in the end, within the global economy, the private sector will invest and thrive only where the demands for accountable and transparent institutions are met.

[23] Index computed by International Country Risk Guide, Political Risk Services.
[24] Kuwait is now ranked on top in the MENA region, by Freedom House with respect to freedom of the press.

Table 3.6: Public Sector Accountability, 2007, and 2000-2007 Reform Index

Country/region	(percentile rank) Public sector accountability index current status 2007	(percentile rank) Public sector accountability reform index 2000-07
Algeria	27	56
Bahrain	25	94
Egypt, Arab Republic of	23	75
Iran, Islamic Republic of	22	8
Jordan	34	62
Kuwait	32	77
Libya	0	45
Morocco	32	77
Oman	17	88
Qatar	14	65
Saudi Arabia	5	68
Syrian Arab Republic	8	67
Tunisia	20	30
United Arab Emirates	20	84
Yemen, Republic of	19	57
Regional averages (un-weighted)		
MENA	20	64
Resource-poor	27	61
Resource-rich, labor-abundant	19	47
Resource-rich, labor-importing	16	74
East Asia Pacific	39	41
Europe Central Asia	53	56
Latin America Caribbean	57	42
High Income OECD	91	48
South Asia	37	29
Sub-Saharan Africa	36	53
World	**50**	**50**

Source: See Appendix B for the methodology behind the governance indices.
Note: Current status reflects country's current placement in a worldwide ordering of countries, based on a variety of indictors of public sector accountability, expressed as a point in the worldwide cumulative frequency distribution, with 100 reflecting the country (countries) with the best / most accountable governance structure worldwide and 0 reflecting the country (countries) with the weakest / most least accountable governance structure worldwide. Reform progress reflects the improvement in a country's worldwide ranking between 2000 and 2007 in a worldwide ordering of countries based on quality of public administration, with 100 reflecting the county (countries) that exhibited the greatest improvement in rank worldwide, and 0 reflecting the country (countries) that exhibited the great est deterioration.

Appendix A: Statistical Tables

Table A.1: Real GDP growth, 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	4.6	5.8	5.8	5.7
MENA (excl. Iraq)	3.6	4.9	5.8	5.8	5.7
By resource-based classification					
Resource-poor, labor-abundant	4.9	4.2	3.7	6.3	5.4
Djibouti	-0.7	2.4	3.2	4.9	4.8
Egypt, Arab Republic of	5.6	3.9	4.4	6.8	7.1
Jordan	2.9	5.6	7.1	6.3	6.3
Lebanon	2.8	4.2	1.0	0.0	1.0
Morocco	4.4	4.8	2.4	8.0	2.3
Tunisia	5.9	4.6	4.0	5.3	6.3
West Bank and Gaza	—	—	—	—	—
Resource-rich	3.2	5.1	6.5	5.7	5.8
Resource-rich, labor-abundant (incl. Iraq)	5.3	4.1	4.7	4.5	5.7
Resource-rich, labor-abundant (excl. Iraq)	3.8	5.0	4.8	4.5	5.7
Algeria	3.4	4.3	5.1	1.8	3.0
Iran, Islamic Republic of	3.8	5.7	4.6	5.9	7.6
Iraq	—	-22.5	-0.7	6.2	2.8
Syrian Arab Republic	4.4	3.9	4.5	5.1	3.9
Yemen, Republic of	4.9	4.3	5.6	3.2	3.1
Resource-rich, labor-importing	2.9	5.1	7.3	6.2	5.8
Bahrain	4.0	5.6	7.9	6.5	6.6
Kuwait	1.2	6.8	11.5	6.4	4.6
Libya	1.0	3.8	6.3	5.6	5.4
Oman	2.9	4.6	5.6	7.0	6.9
Qatar	12.0	9.1	9.2	10.3	14.2
Saudi Arabia	2.1	3.7	6.1	4.3	4.1
United Arab Emirates	5.2	7.6	8.2	9.4	7.7
By geographic subregion					
Maghreb	3.4	4.4	4.5	4.7	3.8
Mashreq (excl. WBG, Iraq)	3.5	4.3	3.7	3.4	3.4
GCC	3.1	5.3	7.4	6.3	5.9
Other	4.7	4.8	4.6	6.2	7.2
By oil-trade group					
Oil-exporting countries (excl. Iraq)	3.5	4.9	6.2	5.8	6.0
Oil-importing countries (excl. WBG)	4.2	4.7	3.0	5.6	3.4
Comparator regions					
MENA (excl. Iraq)	3.6	4.9	5.8	5.8	5.7
All Developing countries	4.1	5.0	6.8	7.5	7.4
East Asia and the Pacific	6.2	8.0	9.1	9.8	10.0
Europe and Central Asia	2.0	5.4	6.2	6.9	6.7
Latin America and the Caribbean	3.0	2.2	4.7	5.6	5.1
South Asia	5.7	5.6	8.7	8.9	8.4
Sub-Saharan Africa	3.4	4.0	5.8	5.7	6.1

Source: National agencies and World Bank staff estimates.
e = estimate.
— = data not available.
Note: The MENA region includes the resource poor-labor-abundant (RPLA) economies: Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia and the West Bank and Gaza; the resource-rich labor-abundant (RRLA) economies: Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic and the Republic of Yemen, and the resource-rich labor-importing (RRLI) economies: Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). Due to data limitations, the West Bank and Gaza (WBG) is not included in regional or sub-regional aggregates. In addition to the resource-based classifications, aggregates are presented for groups based on geography- and trade. The Maghreb consists of Algeria, Libya, Morocco and Tunisia. The Mashreq is comprised of Iraq, Jordan, Lebanon, Syria and WBG. The Gulf Cooperation Council (GCC) members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE. And 'other' consisting of Djibouti, Egypt, Iran and Yemen. Finally, net oil importers of the region include Djibouti, Jordan, Lebanon, Morocco and Tunisia. All others are considered net exporters.

Table A. 2: Population growth, 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007 [e]
MENA region (incl. Iraq)	2.0	2.0	2.0	2.1	2.0
MENA (excl. Iraq)	2.0	1.9	1.8	2.0	1.9
By resource-based classification					
Resource-poor, labor-abundant	1.8	1.6	1.6	1.6	1.6
Djibouti	3.3	2.4	1.8	1.6	1.6
Egypt, Arab Republic of	1.9	1.8	1.8	1.8	1.8
Jordan	2.7	2.5	2.3	2.3	2.6
Lebanon	1.6	1.3	1.3	1.3	1.2
Morocco	1.5	1.2	1.0	1.2	1.0
Tunisia	1.3	1.0	1.0	1.0	1.0
West Bank and Gaza	4.4	3.6	3.5	5.0	3.2
Resource-rich	2.1	2.0	2.0	2.2	2.2
Resource-rich, labor-abundant (incl. Iraq)	2.0	2.1	2.1	2.2	2.2
Resource-rich, labor-abundant (excl. Iraq)	1.9	1.8	1.8	2.0	2.0
Algeria	1.5	1.5	1.5	1.5	1.5
Iran, Islamic Republic of	1.6	1.4	1.4	1.8	1.8
Iraq	2.3	3.4	3.4	3.3	3.1
Syrian Arab Republic	2.7	2.4	2.4	2.4	2.4
Yemen, Republic of	3.4	3.2	3.2	3.0	3.0
Resource-rich, labor-importing	2.8	2.8	2.8	2.9	2.9
Bahrain	3.3	2.0	2.0	2.0	2.0
Kuwait	4.0	3.1	2.9	2.3	2.2
Libya	2.0	2.0	2.0	1.9	1.9
Oman	2.5	1.1	1.3	1.8	2.1
Qatar	4.3	5.2	5.3	4.6	4.5
Saudi Arabia	2.5	2.4	2.6	2.5	2.4
United Arab Emirates	5.9	7.2	5.8	7.2	7.2
By geographic subregion					
Maghreb	1.5	1.4	1.3	1.3	1.3
Mashreq (excl. WBG, Iraq)	2.5	2.2	2.2	2.2	2.2
GCC	3.0	3.0	3.0	3.1	3.1
Other	1.9	1.8	1.8	2.0	2.0
By oil-trade group					
Oil-exporting countries (excl. Iraq)	2.0	2.0	2.0	2.1	2.1
Oil-importing countries (excl. WBG)	1.6	1.3	1.2	1.3	1.2
Comparator regions					
MENA (excl. Iraq)	2.0	1.9	1.8	2.0	1.9
All Developing countries	1.5	1.3	1.2	1.2	1.2
East Asia and the Pacific	1.1	0.9	0.8	0.8	0.8
Europe and Central Asia	-0.1	0.0	0.0	0.0	0.2
Latin America and the Caribbean	1.6	1.4	1.1	1.3	1.3
South Asia	1.9	1.7	1.6	1.4	1.4
Sub-Saharan Africa	2.5	2.3	2.2	1.9	1.9

Source: UN population database, National agencies and World Bank staff estimates.

e = estimate.

Note: See footnotes to table A1.

Table A. 3: Labor force growth, 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007 [e]
MENA region (incl. Iraq)	3.7	3.5	3.2	3.5	2.8
MENA (excl. Iraq)	3.7	3.7	3.3	3.6	2.8
By resource-based classification					
Resource-poor, labor-abundant	2.8	2.6	2.0	3.1	2.7
Djibouti	3.8	2.6	2.2	2.2	2.2
Egypt, Arab Republic of	2.9	2.6	2.7	2.8	2.8
Jordan	4.1	3.8	3.3	2.7	3.2
Lebanon	2.7	2.7	2.6	2.6	2.5
Morocco	2.4	2.5	0.3	3.9	2.4
Tunisia	3.1	3.0	2.8	2.8	3.0
West Bank and Gaza	—	—	—	—	—
Resource-rich	4.4	4.4	4.1	4.0	2.9
Resource-rich, labor-abundant (incl. Iraq)	4.3	4.1	3.8	3.6	2.5
Resource-rich, labor-abundant (excl. Iraq)	4.5	4.5	4.2	3.9	2.7
Algeria	4.3	4.0	3.5	3.6	4.0
Iran, Islamic Republic of	4.7	4.9	4.5	4.0	1.4
Iraq	3.0	1.4	1.4	1.4	1.4
Syrian Arab Republic	4.2	3.9	3.9	3.9	3.9
Yemen, Republic of	4.1	4.1	4.3	4.2	4.2
Resource-rich, labor-importing	4.1	4.1	4.1	4.1	3.9
Bahrain	4.0	2.7	2.7	2.7	2.7
Kuwait	6.4	5.3	5.0	5.0	5.0
Libya	4.5	4.1	3.9	3.8	2.1
Oman	3.5	1.0	1.4	0.8	0.8
Qatar	2.5	2.2	1.9	-0.5	1.4
Saudi Arabia	3.3	3.6	3.9	3.7	3.7
United Arab Emirates	6.0	7.2	5.8	7.2	7.2
By geographic subregion					
Maghreb	3.4	3.3	2.2	3.6	3.1
Mashreq (excl. WBG, Iraq)	3.9	3.7	3.6	3.5	3.5
GCC	4.0	4.1	4.1	4.1	4.2
Other	3.8	3.8	3.7	3.5	2.3
By oil-trade group					
Oil-exporting countries (excl. Iraq)	4.0	3.9	3.8	3.7	2.9
Oil-importing countries (excl. WBG)	2.7	2.7	1.3	3.4	2.6
Comparator regions					
MENA (excl. Iraq)	3.7	3.7	3.3	3.6	2.8
All Developing countries	1.7	1.7	1.7	1.7	1.7
East Asia and the Pacific	1.4	1.3	1.4	1.3	1.3
Europe and Central Asia	-0.3	0.5	0.5	0.5	0.5
Latin America and the Caribbean	2.5	2.3	2.1	2.1	2.1
South Asia	2.1	2.1	2.1	2.1	2.1
Sub-Saharan Africa	2.6	2.4	2.3	2.3	2.3

Source: International Labor Organization, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 4: Real GDP per-capita growth, 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007 [e]
MENA region (incl. Iraq)	—	2.6	3.8	3.7	3.6
MENA (excl. Iraq)	1.6	3.0	3.9	3.8	3.7
By resource-based classification					
Resource-poor, labor-abundant	3.1	2.6	2.2	4.6	3.8
Djibouti	-3.9	0.1	1.4	3.2	3.2
Egypt, Arab Republic of	3.7	2.0	2.6	4.9	5.2
Jordan	0.3	3.1	4.7	3.9	3.6
Lebanon	1.2	2.8	-0.3	-1.3	-0.2
Morocco	2.8	3.5	1.4	6.7	1.3
Tunisia	4.5	3.6	2.9	4.3	5.2
West Bank and Gaza	—	—	—	—	—
Resource-rich	1.1	3.0	4.4	3.4	3.5
Resource-rich, labor-abundant (incl. Iraq)	3.2	3.2	3.2	3.2	3.2
Resource-rich, labor-abundant (excl. Iraq)	1.8	3.2	2.9	2.4	3.6
Algeria	1.8	2.8	3.5	3.5	1.5
Iran, Islamic Republic of	2.2	4.2	3.2	3.2	5.7
Iraq	—	-25.0	-4.0	-4.0	-0.3
Syrian Arab Republic	1.7	1.4	2.1	2.1	1.5
Yemen, Republic of	1.5	1.1	2.3	0.2	0.1
Resource-rich, labor-importing	0.1	2.2	4.3	3.2	2.8
Bahrain	0.8	3.5	5.8	4.4	4.5
Kuwait	-2.7	3.5	8.3	4.0	2.4
Libya	-0.9	1.8	4.2	3.6	3.4
Oman	0.4	3.5	4.3	5.1	4.6
Qatar	7.4	3.7	3.7	5.4	3.7
Saudi Arabia	-0.3	1.2	3.4	1.8	1.6
United Arab Emirates	-0.6	0.4	2.3	2.1	0.5
By geographic subregion					
Maghreb	1.8	3.0	3.2	3.3	2.5
Mashreq (excl. WBG, Iraq)	1.0	2.0	1.4	1.2	1.1
GCC	0.2	2.2	4.3	3.1	2.7
Other	2.7	2.9	2.7	4.1	5.1
By oil-trade group					
Oil-exporting countries (excl. Iraq)	1.5	2.9	4.1	3.7	3.8
Oil-importing countries (excl. WBG)	2.5	3.3	1.8	4.3	2.2
Comparator regions					
MENA (excl. Iraq)	1.6	3.0	3.9	3.8	3.7
All Developing countries	2.6	3.7	5.5	6.2	6.2
East Asia and the Pacific	5.1	7.0	8.3	8.9	9.1
Europe and Central Asia	2.1	5.4	6.2	6.9	6.5
Latin America and the Caribbean	1.4	0.8	3.5	4.2	3.8
South Asia	3.7	3.8	7.0	7.3	6.8
Sub-Saharan Africa	0.9	1.6	3.5	3.7	4.1

Source: UN population database, National agencies and World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnotes to table A1.

Table A. 5: Real GDP per-labor force growth, 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007 [e]
MENA region (incl. Iraq)	—	1.1	2.5	2.2	2.9
MENA (excl. Iraq)	-0.1	1.2	2.4	2.1	2.8
By resource-based classification					
Resource-poor, labor-abundant	2.1	1.6	1.7	3.1	2.5
Djibouti	-4.3	-0.2	0.9	2.6	2.5
Egypt, Arab Republic of	2.7	1.2	1.7	3.9	4.2
Jordan	-1.1	1.7	3.6	3.5	3.0
Lebanon	0.1	1.5	-1.6	-2.5	-1.5
Morocco	2.0	2.3	2.1	3.9	-0.1
Tunisia	2.6	1.5	1.1	2.5	3.2
West Bank and Gaza	—	—	—	—	—
Resource-rich	-1.1	0.7	2.3	1.7	2.8
Resource-rich, labor-abundant (incl. Iraq)	1.0	0.0	0.9	0.8	3.1
Resource-rich, labor-abundant (excl. Iraq)	-0.7	0.5	0.6	0.5	3.0
Algeria	-0.9	0.3	1.5	-1.7	-0.9
Iran, Islamic Republic of	-0.9	0.8	0.1	1.8	6.1
Iraq	—	-23.5	-2.1	4.7	1.4
Syrian Arab Republic	0.2	-0.1	0.6	1.1	0.0
Yemen, Republic of	0.8	0.2	1.3	-1.0	-1.1
Resource-rich, labor-importing	-1.1	1.0	3.1	2.1	1.9
Bahrain	0.0	2.8	5.1	3.7	3.8
Kuwait	-4.8	1.5	6.2	1.3	-0.4
Libya	-3.3	-0.3	2.3	1.7	3.2
Oman	-0.6	3.6	4.1	6.2	6.1
Qatar	9.3	6.8	7.1	10.8	12.7
Saudi Arabia	-1.1	0.1	2.0	0.6	0.4
United Arab Emirates	-0.7	0.3	2.3	2.0	0.4
By geographic subregion					
Maghreb	0.0	1.0	2.3	1.1	0.7
Mashreq (excl. WBG, Iraq)	-0.4	0.6	0.1	0.0	-0.2
GCC	-0.8	1.1	3.2	2.1	1.6
Other	0.8	0.9	0.8	2.6	4.8
By oil-trade group					
Oil-exporting countries (excl. Iraq)	-0.4	1.0	2.3	2.1	3.0
Oil-importing countries (excl. WBG)	1.5	1.9	1.7	2.1	0.8
Comparator regions					
MENA (excl. Iraq)	-0.1	1.2	2.4	2.1	2.8
All Developing countries	2.3	3.2	5.0	5.7	5.6
East Asia and the Pacific	4.7	6.6	7.7	8.4	8.6
Europe and Central Asia	2.3	4.9	5.7	6.5	6.2
Latin America and the Caribbean	0.5	-0.1	2.5	3.4	3.0
South Asia	3.6	3.4	6.4	6.6	6.1
Sub-Saharan Africa	0.8	1.5	3.4	3.3	3.7

Source: International Labor Organization, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 6: Nominal GDP, 1996-2007
(current US billions)

Country	1996-99	2000-04	2005	2006	2007 [e]
MENA region (incl. Iraq)	658.1	838.9	1,225.8	1,421.4	1,593.4
MENA (excl. Iraq)	640.9	822.9	1,194.4	1,371.9	1,531.7
By resource-based classification					
Resource-poor, labor-abundant	163.6	185.6	212.5	241.2	275.1
Djibouti	0.5	0.6	0.7	0.8	0.8
Egypt, Arab Republic of	80.4	89.4	89.7	107.5	127.8
Jordan	7.6	9.7	12.6	14.1	15.7
Lebanon	15.8	18.8	21.5	22.7	23.7
Morocco	39.5	44.3	59.0	65.4	73.0
Tunisia	19.8	22.7	29.0	30.7	34.0
West Bank and Gaza	—	—	—	—	—
Resource-rich	477.3	673.3	981.9	1,130.8	1,256.7
Resource-rich, labor-abundant (incl. Iraq)	184.8	238.9	371.1	438.7	487.3
Resource-rich, labor-abundant (excl. Iraq)	175.3	223.0	339.7	389.2	425.6
Algeria	48.0	64.0	102.3	115.5	134.9
Iran, Islamic Republic of	105.8	126.4	192.0	222.9	236.8
Iraq	12.7	16.0	31.4	49.5	61.7
Syrian Arab Republic	14.8	21.4	28.6	31.7	33.3
Yemen, Republic of	6.6	11.2	16.8	19.1	20.6
Resource-rich, labor-importing	302.1	414.4	642.2	741.6	831.1
Bahrain	6.3	9.0	13.4	15.8	19.8
Kuwait	29.5	48.7	80.8	98.7	111.4
Libya	32.1	27.4	41.6	50.5	56.6
Oman	15.2	21.3	30.7	38.4	42.4
Qatar	10.8	22.0	42.5	52.7	65.8
Saudi Arabia	157.5	205.3	315.8	349.1	375.3
United Arab Emirates	50.7	80.7	117.5	136.3	159.7
By geographic subregion					
Maghreb	119.6	135.7	202.9	231.4	264.6
Mashreq (excl. WBG, Iraq)	38.2	50.0	62.7	68.5	72.7
GCC	270.0	387.0	600.6	691.1	774.5
Other	193.4	227.5	299.2	350.2	386.0
By oil-trade group					
Oil-exporting countries (excl. Iraq)	557.7	726.8	1,071.6	1,238.2	1,384.4
Oil-importing countries (excl. WBG)	83.2	96.2	122.8	133.7	147.3
Comparator regions					
MENA (excl. Iraq)	641	823	1,194	1,372	1,532
All Developing countries	5,667	7,004	9,654	11,336	13,561
East Asia and the Pacific	1,514	2,188	2,969	3,431	4,042
Europe and Central Asia	1,105	1,265	1,986	2,436	3,045
Latin America and the Caribbean	1,824	1,911	2,473	2,909	3,478
South Asia	544	746	1,015	1,150	1,419
Sub-Saharan Africa	330	450	627	711	802

Source: National agencies and World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnotes to table A1.

Table A. 7: Population, 1996-2007
(in millions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	286.5	313.0	331.7	338.6	345.5
MENA (excl. Iraq)	264.4	287.7	303.8	309.8	315.8
By resource-based classification					
Resource-poor, labor-abundant	109.3	117.8	123.4	125.4	127.3
Djibouti	0.7	0.7	0.8	0.8	0.8
Egypt, Arab Republic of	63.5	69.0	72.8	74.2	75.5
Jordan	4.6	5.1	5.5	5.6	5.7
Lebanon	3.6	3.9	4.0	4.1	4.1
Morocco	27.5	29.2	30.1	30.5	30.8
Tunisia	9.4	9.9	10.1	10.2	10.3
West Bank and Gaza	2.7	3.2	3.5	3.7	3.8
Resource-rich	155.1	170.0	180.4	184.4	188.5
Resource-rich, labor-abundant (incl. Iraq)	144.6	158.2	168.2	171.9	175.7
Resource-rich, labor-abundant (excl. Iraq)	122.5	133.0	140.3	143.1	145.9
Algeria	29.4	31.4	32.9	33.3	33.8
Iran, Islamic Republic of	61.3	65.5	68.3	69.5	70.8
Iraq	22.1	25.2	27.9	28.8	29.7
Syrian Arab Republic	15.2	17.0	18.2	18.6	19.1
Yemen, Republic of	16.6	19.1	21.0	21.6	22.3
Resource-rich, labor-importing	32.6	37.0	40.1	41.3	42.5
Bahrain	0.6	0.7	0.7	0.8	0.8
Kuwait	2.0	2.3	2.5	2.6	2.6
Libya	5.1	5.5	5.9	6.0	6.1
Oman	2.3	2.5	2.6	2.6	2.7
Qatar	0.5	0.7	0.8	0.8	0.9
Saudi Arabia	19.3	21.5	23.1	23.7	24.3
United Arab Emirates	2.8	3.8	4.5	4.9	5.2
By geographic subregion					
Maghreb	71.3	75.9	79.0	80.0	81.1
Mashreq (excl. WBG, Iraq)	23.4	26.0	27.7	28.3	28.9
GCC	27.5	31.5	34.3	35.3	36.4
Other	142.1	154.4	162.9	166.1	169.3
By oil-trade group					
Oil-exporting countries (excl. Iraq)	218.7	239.0	253.3	258.6	264.0
Oil-importing countries (excl. WBG)	45.7	48.7	50.6	51.2	51.8
Comparator regions					
MENA (excl. Iraq)	264	288	304	310	316
All Developing countries	4,703	5,083	5,256	5,318	5,381
East Asia and the Pacific	1,688	1,782	1,822	1,837	1,852
Europe and Central Asia	439	438	438	438	439
Latin America and the Caribbean	477	519	537	544	551
South Asia	1,258	1,390	1,451	1,472	1,493
Sub-Saharan Africa	607	695	738	752	766

Source: UN population database, National agencies and World Bank staff estimates.

e = estimate.
Note: See footnot es to table A1.

Table A. 8: Labor force, 1996-2007
(in millions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	90.7	106.8	118.3	122.2	125.6
MENA (excl. Iraq)	84.7	100.2	111.5	115.3	118.6
By resource-based classification					
Resource-poor, labor-abundant	35.2	40.0	43.0	44.4	45.6
Djibouti	0.3	0.3	0.3	0.3	0.3
Egypt, Arab Republic of	18.5	21.1	22.9	23.5	24.2
Jordan	1.3	1.6	1.7	1.8	1.8
Lebanon	1.4	1.6	1.7	1.8	1.8
Morocco	10.7	11.9	12.5	13.0	13.3
Tunisia	3.1	3.5	3.8	4.0	4.1
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	49.5	60.3	68.2	70.9	72.9
Resource-rich, labor-abundant (incl. Iraq)	44.4	53.5	59.9	62.1	63.7
Resource-rich, labor-abundant (excl. Iraq)	38.4	46.9	53.2	55.2	56.7
Algeria	10.0	12.0	13.4	13.9	14.4
Iran, Islamic Republic of	19.3	24.1	27.5	28.7	29.1
Iraq	6.0	6.5	6.8	6.9	7.0
Syrian Arab Republic	4.7	5.6	6.3	6.5	6.8
Yemen, Republic of	4.4	5.3	5.9	6.2	6.5
Resource-rich, labor-importing	11.1	13.3	15.0	15.6	16.2
Bahrain	0.3	0.3	0.4	0.4	0.4
Kuwait	0.8	1.0	1.2	1.2	1.3
Libya	1.7	2.1	2.3	2.4	2.5
Oman	0.9	0.9	1.0	1.0	1.0
Qatar	0.3	0.3	0.4	0.4	0.4
Saudi Arabia	5.7	6.7	7.5	7.7	8.0
United Arab Emirates	1.4	2.0	2.4	2.5	2.7
By geographic subregion					
Maghreb	25.5	29.5	32.1	33.3	34.3
Mashreq (excl. WBG, Iraq)	7.4	8.8	9.7	10.1	10.4
GCC	9.4	11.3	12.7	13.2	13.8
Other	42.4	50.7	56.7	58.7	60.0
By oil-trade group					
Oil-exporting countries (excl. Iraq)	68.0	81.3	91.0	94.4	97.1
Oil-importing countries (excl. WBG)	16.8	18.9	20.2	20.9	21.4
Comparator regions					
MENA (excl. Iraq)	85	100	111	115	119
All Developing countries	2,230	2,423	2,535	2,579	2,623
East Asia and the Pacific	964	1,027	1,063	1,077	1,091
Europe and Central Asia	214	216	220	221	222
Latin America and the Caribbean	214	240	254	260	265
South Asia	500	554	585	598	610
Sub-Saharan Africa	255	287	305	312	320

Source: International Labor Organization, National agencies and World Bank staff estimates.

e = estimate.
Note: See footnotes to table A1.

Table A. 9: Consumer price inflation, 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	—	—	—
MENA (excl. Iraq)	5.1	3.5	4.8	5.1	7.2
By resource-based classification					
Resource-poor, labor-abundant	5.3	3.4	5.3	6.2	6.7
Djibouti	2.6	2.0	3.1	3.6	4.5
Egypt, Arab Republic of	7.5	4.7	8.8	7.7	9.9
Jordan	3.4	1.8	3.5	6.2	5.4
Lebanon	3.6	1.5	-0.7	5.6	3.2
Morocco	1.9	1.6	1.0	3.3	2.1
Tunisia	3.3	2.1	2.0	4.5	3.1
West Bank and Gaza	7.4	3.4	3.5	4.2	9.5
Resource-rich	5.1	3.6	4.6	5.4	7.3
Resource-rich, labor-abundant (incl. Iraq)	12.6	10.7	11.3	16.6	17.2
Resource-rich, labor-abundant (excl. Iraq)	13.9	9.2	9.2	9.3	11.3
Algeria	7.8	2.4	1.6	2.5	3.5
Iran, Islamic Republic of	19.6	14.1	13.4	11.9	16.8
Iraq	3.1	20.8	31.6	64.8	4.7
Syrian Arab Republic	2.0	2.1	7.2	10.0	3.3
Yemen, Republic of	11.4	10.4	11.4	18.4	12.6
Resource-rich, labor-importing	0.7	0.8	2.8	3.5	4.7
Bahrain	0.7	-0.3	2.6	2.2	3.5
Kuwait	1.8	1.3	4.1	3.1	4.9
Libya	1.0	0.9	0.9	0.9	0.9
Oman	-0.9	-0.3	1.9	3.2	4.8
Qatar	3.7	2.6	8.8	11.8	12.0
Saudi Arabia	-0.3	-0.2	0.5	2.3	3.0
United Arab Emirates	2.5	3.0	8.0	6.5	9.5
By geographic subregion					
Maghreb	4.0	2.1	2.0	3.6	3.4
Mashreq (excl. WBG, Iraq)	4.3	2.3	2.8	6.2	5.3
GCC	2.2	1.6	5.6	7.6	8.1
Other	5.9	5.4	5.8	9.1	6.4
By oil-trade group					
Oil-exporting countries (excl. Iraq)	4.8	3.5	5.4	5.6	7.1
Oil-importing countries (excl. WBG)	2.7	1.7	1.1	4.4	2.9
Comparator regions					
MENA (excl. Iraq)	5.1	3.5	4.8	5.1	7.2
All Developing countries	7.7	5.6	6.0	7.8	6.7
East Asia and the Pacific	6.7	4.5	3.8	4.3	4.6
Europe and Central Asia	17.1	5.9	5.8	7.3	6.9
Latin America and the Caribbean	6.8	6.1	6.6	10.0	8.7
South Asia	6.8	4.1	5.7	7.5	7.0
Sub-Saharan Africa	7.8	6.0	6.0	6.5	5.8

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.
Aggregate CPI figures are GDP-weighted averages of country constituents.

Table A. 10: Overall fiscal balance, 1996-2007
(current US billions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	133.3	174.1	183.5
MENA (excl. Iraq)	-13.1	19.5	129.9	168.2	178.0
By resource-based classification					
Resource-poor, labor-abundant	-6.1	-11.2	-14.5	-13.9	-16.4
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	-1.5	-5.8	-8.6	-8.8	-9.8
Jordan	-0.1	-0.2	-0.6	-0.6	-0.9
Lebanon	-2.9	-2.9	-2.0	-2.7	-3.1
Morocco	-0.7	-1.6	-2.4	-1.0	-1.6
Tunisia	-0.8	-0.7	-0.9	-0.9	-1.0
West Bank and Gaza	—	—	—	—	—
Resource-rich	-7.0	30.1	147.4	148.1	168.9
Resource-rich, labor-abundant (incl. Iraq)	-0.3	4.4	15.0	4.7	7.5
Resource-rich, labor-abundant (excl. Iraq)	-0.3	4.4	11.6	-1.2	2.0
Algeria	0.1	3.8	12.2	16.1	15.6
Iran, Islamic Republic of	-1.6	0.8	1.0	-16.1	-11.1
Iraq	—	—	3.4	5.9	5.5
Syrian Arab Republic	0.1	-0.2	-1.3	-1.4	-1.4
Yemen, Republic of	1.1	0.0	-0.3	0.2	-1.0
Resource-rich, labor-importing	-6.7	25.8	135.7	149.6	167.4
Bahrain	-0.3	0.1	0.5	0.4	0.3
Kuwait	4.1	11.2	30.8	41.7	37.0
Libya	0.9	2.7	13.3	19.6	20.7
Oman	0.1	1.5	2.0	7.0	7.5
Qatar	-0.9	2.0	4.0	8.0	8.0
Saudi Arabia	-8.0	3.1	58.1	67.4	75.8
United Arab Emirates	-2.3	5.8	24.0	39.2	43.1
By geographic subregion					
Maghreb	-0.9	4.2	22.0	33.9	33.7
Mashreq (excl. WBG, Iraq)	-2.9	-3.3	-3.8	-4.6	-5.3
GCC	-7.2	23.7	119.4	163.6	171.7
Other	-2.0	-5.0	-8.0	-24.7	-22.1
By oil-trade group					
Oil-exporting countries (excl. Iraq)	-8.5	21.2	139.8	137.3	161.9
Oil-importing countries (excl. WBG)	-4.6	-5.4	-5.9	-5.1	-6.6
Comparator regions					
MENA (excl. Iraq)	-13.1	19.5	129.9	168.2	178.0
All Developing countries	-86.8	-151.4	-62.0	-9.0	-96.0
East Asia and the Pacific	-19.6	-46.7	-42.0	-19.0	-35.0
Europe and Central Asia	-52.1	-29.8	39.0	70.0	47.0
Latin America and the Caribbean	1.2	-2.9	-18.0	-14.0	-12.0
South Asia	-41.5	-56.3	-65.0	-73.0	-87.0
Sub-Saharan Africa	-8.7	-6.4	4.0	11.5	-1.9

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 11: Overall fiscal balance, 1996-2007
(percentage of GDP)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	10.9	12.2	11.5
MENA (excl. Iraq)	-2.1	2.2	10.9	12.3	11.6
By resource-based classification					
Resource-poor, labor-abundant	-3.7	-6.0	-6.8	-5.7	-6.0
Djibouti	-2.4	-2.2	0.2	-2.4	-3.4
Egypt, Arab Republic of	-1.8	-6.8	-9.6	-8.2	-7.7
Jordan	-1.9	-2.1	-4.7	-3.9	-5.5
Lebanon	-18.6	-15.7	-9.1	-11.7	-12.9
Morocco	-1.7	-3.7	-4.1	-1.5	-2.2
Tunisia	-4.2	-3.2	-3.0	-2.9	-3.0
West Bank and Gaza	—	—	—	—	—
Resource-rich	-1.5	4.6	14.7	16.1	15.5
Resource-rich, labor-abundant (incl. Iraq)	-0.2	1.9	4.1	1.1	-0.1
Resource-rich, labor-abundant (excl. Iraq)	-0.2	1.9	3.4	-0.3	-0.1
Algeria	0.2	5.7	12.0	14.0	11.5
Iran, Islamic Republic of	-1.6	0.5	0.5	-7.2	-4.7
Iraq	—	—	10.8	11.9	8.9
Syrian Arab Republic	0.7	-0.7	-4.4	-4.4	-4.1
Yemen, Republic of	16.8	0.4	-1.8	0.9	-5.4
Resource-rich, labor-importing	-2.3	6.2	20.7	24.7	23.2
Bahrain	-4.3	1.0	3.4	2.7	1.6
Kuwait	13.9	23.7	38.2	42.2	33.2
Libya	3.0	9.7	31.9	38.9	36.6
Oman	0.8	7.3	6.6	18.1	17.7
Qatar	-8.1	8.1	9.5	15.1	12.1
Saudi Arabia	-5.2	0.9	18.4	19.3	20.2
United Arab Emirates	-4.4	7.1	20.4	28.7	27.0
By geographic subregion					
Maghreb	-0.8	2.9	11.0	14.7	12.7
Mashreq (excl. WBG, Iraq)	-7.7	-6.6	-6.1	-6.7	-7.3
GCC	-2.7	6.2	19.9	23.7	22.2
Other	-1.0	-2.2	-2.7	-7.1	-5.7
By oil-trade group					
Oil-exporting countries (excl. Iraq)	-1.6	3.1	12.7	14.0	13.3
Oil-importing countries (excl. WBG)	-5.5	-5.8	-4.8	-3.8	-4.5
Comparator regions					
MENA (excl. Iraq)	-2.1	2.2	10.9	12.3	11.6
All Developing countries	-1.5	-2.6	-0.9	-0.1	-1.0
East Asia and the Pacific	-1.3	-3.0	-1.9	-0.7	-1.2
Europe and Central Asia	-4.4	-2.8	3.0	4.3	2.4
Latin America and the Caribbean	0.1	-0.2	-1.0	-0.7	-0.5
South Asia	-8.4	-10.0	-8.6	-8.3	-8.6
Sub-Saharan Africa	-2.7	-1.9	0.9	2.1	-0.3

Source: International Monetary Fund, National agencies and World Bank staff estimates.
e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 12: Total fiscal revenue (including grants), 1996-2007
(percentage of GDP)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	41.4	42.8	42.5
MENA (excl. Iraq)	28.1	26.2	39.6	41.3	41.3
By resource-based classification					
Resource-poor, labor-abundant	24.3	24.3	23.4	25.3	25.5
Djibouti	31.7	31.8	37.1	35.0	35.0
Egypt, Arab Republic of	24.6	23.9	20.6	24.5	24.8
Jordan	33.6	34.0	34.2	34.7	35.1
Lebanon	17.4	21.3	22.8	24.2	26.1
Morocco	24.7	23.4	25.3	25.6	25.3
Tunisia	24.3	24.2	23.9	24.2	23.3
West Bank and Gaza	—	—	—	—	—
Resource-rich	29.3	35.4	43.1	44.7	44.8
Resource-rich, labor-abundant (incl. Iraq)	23.5	25.0	38.6	35.6	34.6
Resource-rich, labor-abundant (excl. Iraq)	24.7	26.7	32.3	29.4	29.1
Algeria	30.5	36.4	41.1	43.4	41.5
Iran, Islamic Republic of	20.5	20.7	26.6	20.3	20.9
Iraq	—	—	107.4	85.0	72.5
Syrian Arab Republic	25.8	30.1	37.4	37.0	33.1
Yemen, Republic of	48.5	32.6	34.6	38.2	34.9
Resource-rich, labor-importing	32.0	26.1	48.9	52.8	52.9
Bahrain	26.9	32.6	33.0	30.9	28.4
Kuwait	60.3	58.9	62.7	65.1	64.9
Libya	36.8	49.5	66.8	71.1	68.8
Oman	39.5	45.6	43.7	51.5	51.1
Qatar	36.0	39.9	39.8	42.2	35.9
Saudi Arabia	28.5	35.3	48.0	50.3	53.3
United Arab Emirates	34.0	37.9	41.8	50.5	48.5
By geographic subregion					
Maghreb	29.0	38.8	45.2	47.6	45.9
Mashreq (excl. WBG, Iraq)	23.9	27.5	31.8	32.3	31.2
GCC	33.8	39.7	47.7	51.5	51.7
Other	23.2	22.9	25.2	22.6	23.0
By oil-trade group					
Oil-exporting countries (excl. Iraq)	28.6	34.4	41.2	43.0	43.0
Oil-importing countries (excl. WBG)	24.1	24.3	25.5	26.0	26.0

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 13: Total fiscal expenditures, 1996-2007
(percentage of GDP)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	30.5	30.4	30.9
MENA (excl. Iraq)	30.1	30.8	28.7	29.1	29.6
By resource-based classification					
Resource-poor, labor-abundant	28.0	30.8	30.4	31.3	31.9
Djibouti	34.1	34.0	36.8	37.4	38.4
Egypt, Arab Republic of	26.4	31.8	30.2	32.6	32.5
Jordan	35.5	36.1	38.9	38.6	40.6
Lebanon	36.0	36.9	32.0	35.9	39.0
Morocco	26.4	27.2	29.9	27.6	28.3
Tunisia	28.6	27.4	26.9	27.2	27.9
West Bank and Gaza	—	—	—	—	—
Resource-rich	30.9	30.8	28.4	28.6	29.1
Resource-rich, labor-abundant (incl. Iraq)	23.7	23.2	34.6	34.0	33.0
Resource-rich, labor-abundant (excl. Iraq)	24.9	24.8	28.8	29.7	28.6
Algeria	30.3	30.7	29.2	29.4	30.0
Iran, Islamic Republic of	22.0	20.2	26.1	27.5	25.6
Iraq	—	—	96.5	68.5	63.5
Syrian Arab Republic	25.1	30.7	41.8	41.4	37.2
Yemen, Republic of	31.7	32.1	36.4	37.4	40.3
Resource-rich, labor-importing	34.3	34.1	28.1	28.0	29.4
Bahrain	31.2	31.6	25.5	26.2	25.3
Kuwait	46.5	35.2	24.5	22.9	29.1
Libya	33.8	39.8	34.8	32.2	33.1
Oman	38.7	38.3	37.1	33.4	33.4
Qatar	44.1	31.8	30.3	27.0	28.6
Saudi Arabia	33.6	34.4	29.6	31.0	30.8
United Arab Emirates	38.4	30.9	21.4	21.7	21.5
By geographic subregion					
Maghreb	29.8	35.9	34.4	33.1	34.6
Mashreq (excl. WBG, Iraq)	31.6	34.1	37.8	39.0	38.5
GCC	36.6	33.7	27.7	27.7	28.7
Other	24.2	25.4	27.9	29.6	28.7
By oil-trade group					
Oil-exporting countries (excl. Iraq)	30.2	30.9	28.5	29.0	29.3
Oil-importing countries (excl. WBG)	29.6	30.1	30.5	30.1	31.8

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 14: Current fiscal expenditures, 1996-2007
(percentage of GDP)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	23.6	23.6	23.3
MENA (excl. Iraq)	24.3	25.0	22.1	22.4	22.2
By resource-based classification					
Resource-poor, labor-abundant	22.2	24.6	25.4	26.9	26.0
Djibouti	29.6	29.2	27.5	29.9	26.0
Egypt, Arab Republic of	20.5	24.8	25.7	30.2	27.3
Jordan	28.1	28.5	31.9	30.7	33.8
Lebanon	29.3	34.0	29.8	33.1	34.0
Morocco	22.2	22.3	24.2	21.6	21.9
Tunisia	21.6	19.8	20.5	20.2	20.5
West Bank and Gaza	0.0	0.0	—	—	—
Resource-rich	25.0	25.1	21.5	21.5	21.4
Resource-rich, labor-abundant (incl. Iraq)	16.9	17.0	24.5	24.4	23.5
Resource-rich, labor-abundant (excl. Iraq)	17.8	18.2	19.7	20.5	19.6
Algeria	23.0	21.8	16.5	17.0	17.5
Iran, Islamic Republic of	15.6	15.8	19.2	20.3	18.9
Iraq	0.0	0.0	77.2	55.3	50.4
Syrian Arab Republic	13.5	18.7	29.6	29.5	26.2
Yemen, Republic of	25.1	23.7	26.6	28.3	31.6
Resource-rich, labor-importing	29.2	28.8	22.4	22.0	22.3
Bahrain	25.6	25.2	20.2	18.5	18.3
Kuwait	41.0	32.2	24.5	22.9	29.1
Libya	29.1	27.9	15.0	14.5	14.5
Oman	31.4	29.4	25.2	23.9	24.8
Qatar	38.6	26.3	19.8	18.8	15.8
Saudi Arabia	29.6	29.9	24.4	25.1	24.6
United Arab Emirates	29.0	25.5	18.7	17.3	17.3
By geographic subregion					
Maghreb	23.7	26.5	21.4	20.4	20.7
Mashreq (excl. WBG, Iraq)	22.9	26.4	30.1	30.9	30.4
GCC	31.1	28.9	22.9	22.5	22.8
Other	17.9	19.7	21.6	23.8	22.4
By oil-trade group					
Oil-exporting countries (excl. Iraq)	24.3	25.0	21.8	22.2	21.9
Oil-importing countries (excl. WBG)	24.0	24.7	25.1	24.2	24.8

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnotes to table A1.

Table A. 15: Exports of goods and services, 1996-2007
(percentage of GDP)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	33.2	43.7	55.3	57.4	57.3
MENA (excl. Iraq)	33.5	42.5	55.1	57.4	57.2
By resource-based classification					
Resource-poor, labor-abundant	23.3	27.0	35.5	36.3	37.2
Djibouti	38.8	37.9	40.6	39.9	41.4
Egypt, Arab Republic of	17.3	22.0	34.2	34.1	33.9
Jordan	48.0	46.2	52.6	54.5	51.8
Lebanon	13.2	16.4	21.2	23.7	26.0
Morocco	25.2	29.2	31.9	33.3	33.6
Tunisia	42.5	45.7	50.1	51.5	58.5
West Bank and Gaza	0.0	0.0	—	—	—
Resource-rich	37.0	47.1	59.3	61.9	61.6
Resource-rich, labor-abundant (incl. Iraq)	25.5	31.2	41.1	42.6	42.8
Resource-rich, labor-abundant (excl. Iraq)	23.4	32.4	39.1	40.7	40.5
Algeria	27.5	38.2	47.7	49.6	46.3
Iran, Islamic Republic of	19.2	28.6	35.2	37.7	39.0
Iraq	60.4	117.8	62.8	57.4	59.0
Syrian Arab Republic	35.0	35.6	34.5	30.9	31.9
Yemen, Republic of	35.0	36.4	38.6	38.3	32.2
Resource-rich, labor-importing	44.9	55.0	70.0	73.0	72.4
Bahrain	77.6	84.2	88.7	88.2	83.1
Kuwait	48.7	47.7	63.9	66.5	63.0
Libya	25.7	53.4	70.5	74.3	71.3
Oman	47.4	57.8	63.4	57.7	55.0
Qatar	49.2	74.8	69.2	70.6	72.9
Saudi Arabia	36.1	44.6	59.3	62.6	65.4
United Arab Emirates	76.6	78.0	102.4	107.2	99.0
By geographic subregion					
Maghreb	33.3	45.7	54.9	57.2	55.7
Mashreq (excl. WBG, Iraq)	28.6	30.4	33.6	33.4	34.2
GCC	47.2	55.3	69.9	72.9	72.5
Other	19.0	26.1	35.1	36.7	37.0
By oil-trade group					
Oil-exporting countries (excl. Iraq)	34.2	43.9	57.2	59.5	59.0
Oil-importing countries (excl. WBG)	29.1	32.3	36.5	38.1	40.2
Comparator regions					
MENA (excl. Iraq)	33.5	42.5	55.1	57.4	57.2
All Developing countries	25.4	31.5	35.7	36.7	36.1
East Asia and the Pacific	33.0	38.0	44.0	47.0	49.0
Europe and Central Asia	31.5	39.3	41.0	40.0	38.0
Latin America and the Caribbean	18.5	24.0	26.0	26.0	25.0
South Asia	13.0	15.3	19.0	20.0	18.0
Sub-Saharan Africa	29.0	32.3	37.0	39.0	39.0

Source: National agencies and World Bank staff estimates based on National Income Account concept.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 16: Merchandise exports, 1996-2007
(current in US$ billions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	190.9	326.9	611.4	741.7	834.2
MENA (excl. Iraq)	184.6	310.3	591.7	713.3	797.8
By resource-based classification					
Resource-poor, labor-abundant	20.6	28.5	44.0	52.2	65.7
Djibouti	0.0	0.0	0.0	0.1	0.1
Egypt, Arab Republic of	4.9	8.5	16.1	20.5	26.7
Jordan	1.8	2.8	4.3	5.2	5.5
Lebanon	1.1	1.6	2.4	3.0	3.6
Morocco	7.1	8.2	10.7	11.9	14.6
Tunisia	5.7	7.4	10.5	11.5	15.2
West Bank and Gaza	—	—	—	—	..
Resource-rich	164.0	281.8	547.7	661.2	732.1
Resource-rich, labor-abundant (incl. Iraq)	43.2	80.9	138.7	171.7	191.3
Resource-rich, labor-abundant (excl. Iraq)	36.9	64.3	119.0	143.3	154.9
Algeria	12.4	23.2	46.3	54.7	59.9
Iran, Islamic Republic of	18.7	31.7	60.0	75.7	82.3
Iraq	6.3	16.6	19.7	28.4	36.4
Syrian Arab Republic	3.6	5.7	6.6	6.1	6.5
Yemen, Republic of	2.1	3.8	6.1	6.7	6.2
Resource-rich, labor-importing	127.1	217.5	428.7	517.9	577.2
Bahrain	4.2	6.4	10.2	12.1	14.5
Kuwait	12.8	20.6	46.9	58.6	62.9
Libya	8.3	14.2	28.8	37.0	39.9
Oman	7.0	11.7	18.7	21.2	22.3
Qatar	5.2	15.8	26.2	35.0	45.6
Saudi Arabia	52.7	87.4	180.7	211.3	237.7
United Arab Emirates	37.0	61.3	117.2	142.6	154.4
By geographic subregion					
Maghreb	33.4	53.1	96.4	115.1	129.5
Mashreq (excl. WBG, Iraq)	6.5	10.0	13.4	14.2	15.7
GCC	118.8	203.2	399.8	480.9	537.4
Other	25.8	44.0	82.2	103.1	115.2
By oil-trade group					
Oil-exporting countries (excl. Iraq)	168.9	290.3	563.8	681.7	758.8
Oil-importing countries (excl. WBG)	15.7	20.0	28.0	31.6	39.0
Comparator regions					
MENA (excl. Iraq)	185	310	592	713	798
All Developing countries	1,191	1,902	2,959	3,607	4,253
East Asia and the Pacific	434	747	1,173	1,447	1,779
Europe and Central Asia	242	415	676	833	967
Latin America and the Caribbean	297	404	562	674	761
South Asia	56	86	134	158	185
Sub-Saharan Africa	86	125	202	245	280

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 17: Crude oil and refined product exports, 1996-2007
(current in US$ billions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	129.2	226.7	461.1	584.8	653.4
MENA (excl. Iraq)	123.7	212.0	442.0	557.1	617.8
By resource-based classification					
Resource-poor, labor-abundant	2.9	3.4	6.8	8.3	10.1
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	2.3	2.5	5.5	7.0	8.4
Jordan	0.0	0.0	0.1	0.1	0.0
Lebanon	0.0	0.0	0.0	0.0	0.0
Morocco	0.1	0.3	0.3	0.2	0.2
Tunisia	0.5	0.7	1.0	1.0	1.5
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	120.8	208.6	435.3	548.9	607.7
Resource-rich, labor-abundant (incl. Iraq)	36.4	69.2	127.1	150.4	166.5
Resource-rich, labor-abundant (excl. Iraq)	30.9	54.5	108.0	122.7	130.9
Algeria	11.4	22.8	45.5	53.6	59.0
Iran, Islamic Republic of	15.3	25.3	53.2	59.1	63.0
Iraq	5.5	14.7	19.1	27.7	35.6
Syrian Arab Republic	2.3	3.1	4.1	4.2	3.9
Yemen, Republic of	1.9	3.3	5.2	5.7	5.1
Resource-rich, labor-importing	89.9	154.1	327.3	426.2	476.8
Bahrain	1.1	1.8	7.2	9.2	11.0
Kuwait	11.8	18.5	44.1	58.6	62.8
Libya	7.9	13.0	28.3	37.0	39.9
Oman	5.5	8.4	13.6	15.4	16.2
Qatar	3.8	8.4	22.8	31.2	40.7
Saudi Arabia	45.6	77.2	161.4	205.0	230.6
United Arab Emirates	14.1	26.7	49.9	69.8	75.6
By geographic subregion					
Maghreb	19.9	36.8	75.1	91.8	100.5
Mashreq (excl. WBG, Iraq)	2.3	3.1	4.1	4.2	3.9
GCC	81.9	141.1	299.0	389.2	436.9
Other	19.5	31.1	63.8	71.9	76.5
By oil-trade group					
Oil-exporting countries (excl. Iraq)	123.1	211.1	440.7	555.8	616.1
Oil-importing countries (excl. WBG)	0.6	1.0	1.3	1.3	1.8

Source: International Monetary Fund, International Energy Agency, U.N Comtrade database and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 18: Imports of goods and services, 1996-2007
(percentage of GDP)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	35.0	38.0	40.4	40.7
MENA (excl. Iraq)	31.8	32.6	37.0	38.4	38.7
By resource-based classification					
Resource-poor, labor-abundant	32.3	33.5	43.7	43.7	45.8
Djibouti	50.6	48.0	50.9	57.3	57.6
Egypt, Arab Republic of	24.9	24.8	38.3	37.8	39.2
Jordan	69.3	70.6	93.9	91.9	91.4
Lebanon	45.6	38.6	41.7	39.9	44.8
Morocco	28.4	33.3	38.6	39.5	42.8
Tunisia	45.0	49.5	50.6	53.8	56.5
West Bank and Gaza	—	—	—	—	—
Resource-rich	31.6	32.3	35.5	37.3	37.2
Resource-rich, labor-abundant (incl. Iraq)	20.0	26.7	32.4	35.8	35.8
Resource-rich, labor-abundant (excl. Iraq)	21.1	25.1	28.2	27.9	28.0
Algeria	22.9	23.6	24.1	22.0	24.6
Iran, Islamic Republic of	16.6	23.9	28.4	28.7	27.9
Iraq	—	89.5	77.8	97.5	89.1
Syrian Arab Republic	37.2	30.4	37.5	36.2	35.9
Yemen, Republic of	44.7	36.3	35.4	40.9	39.7
Resource-rich, labor-importing	37.8	36.2	39.4	42.2	41.9
Bahrain	68.1	66.2	66.1	64.2	62.6
Kuwait	43.6	30.7	28.3	24.9	23.5
Libya	22.8	32.3	35.1	34.2	33.1
Oman	40.4	37.2	36.1	37.2	37.0
Qatar	49.5	29.0	31.1	36.5	36.8
Saudi Arabia	26.7	26.5	26.4	29.9	31.5
United Arab Emirates	71.3	64.7	84.2	90.0	83.0
By geographic subregion					
Maghreb	32.1	36.4	37.8	36.7	38.7
Mashreq (excl. WBG, Iraq)	47.0	41.3	50.3	48.9	50.8
GCC	39.5	36.6	39.7	42.7	42.5
Other	21.1	24.9	31.8	32.2	32.3
By oil-trade group					
Oil-exporting countries (excl. Iraq)	30.6	31.3	57.2	59.5	59.0
Oil-importing countries (excl. WBG)	39.4	42.0	36.5	38.1	40.2
Comparator regions					
MENA (excl. Iraq)	31.8	32.6	37.0	38.4	38.7
All Developing countries	25.4	31.5	35.7	36.7	36.1
East Asia and the Pacific	33.2	38.1	44.1	46.9	48.6
Europe and Central Asia	31.4	39.5	40.6	40.3	35.7
Latin America and the Caribbean	18.5	24.1	25.8	26.2	24.8
South Asia	13.3	15.5	17.4	17.6	18.5
Sub-Saharan Africa	29.0	32.4	37.0	39.0	39.2

Source: National agencies and World Bank staff estimates. (National Income Account concept)

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A. 19: Workers' remittances (net), 1996-2007
(current in US$ billions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	-14.2	-11.2	-10.1	-11.9	-10.4
MENA (excl. Iraq)	-14.2	-11.2	-10.1	-11.9	-10.4
By resource-based classification					
Resource-poor, labor-abundant	8.9	10.3	13.3	15.4	19.0
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	3.4	3.0	4.3	5.0	6.3
Jordan	1.6	1.9	2.2	2.5	2.8
Lebanon	1.3	1.2	0.9	1.1	1.5
Morocco	2.0	3.2	4.5	5.4	6.7
Tunisia	0.7	1.1	1.4	1.5	1.7
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	-23.1	-21.5	-23.5	-27.3	-29.4
Resource-rich, labor-abundant (incl. Iraq)	2.9	3.9	5.0	5.6	5.7
Resource-rich, labor-abundant (excl. Iraq)	2.9	3.9	5.0	5.6	5.7
Algeria	0.9	1.3	2.0	2.5	2.5
Iran, Islamic Republic of	0.6	0.9	1.0	1.0	1.1
Iraq	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	0.2	0.4	0.8	0.8	0.8
Yemen, Republic of	1.2	1.3	1.3	1.3	1.3
Resource-rich, labor-importing	-26.1	-25.4	-28.5	-32.9	-35.1
Bahrain	-0.7	-1.1	-1.2	-1.5	-1.7
Kuwait	-1.5	-2.0	-2.6	-3.0	-3.1
Libya	0.0	0.0	0.0	0.0	0.0
Oman	-1.4	-1.6	-2.3	-2.8	-2.8
Qatar	-1.2	-1.6	-3.0	-3.9	-4.1
Saudi Arabia	-14.8	-14.9	-14.0	-15.6	-16.4
United Arab Emirates	-6.3	-4.2	-5.4	-6.0	-7.0
By geographic subregion					
Maghreb	3.6	5.6	7.9	9.4	9.8
Mashreq (excl. WBG, Iraq)	3.3	3.5	3.9	4.3	5.1
GCC	-26.1	-25.4	-28.5	-32.9	-35.0
Other	5.1	5.1	6.6	7.3	8.8
By oil-trade group					
Oil-exporting countries (excl. Iraq)	-19.8	-18.5	-19.1	-22.2	-23.0
Oil-importing countries (excl. WBG)	5.5	7.3	9.0	10.4	12.6
Comparator regions					
MENA (excl. Iraq) – *net recipients*	11.8	14.2	18.4	21.0	24.7
All Developing countries	61.5	107.8	155.2	177.0	201.0
East Asia and the Pacific	11.5	25.2	36.7	42.4	58.0
Europe and Central Asia	6.9	11.8	18.4	17.8	20.0
Latin America and the Caribbean	15.1	30.0	46.3	53.9	55.0
South Asia	14.9	24.0	31.3	37.8	40.0
Sub-Saharan Africa	2.3	3.5	6.0	7.3	8.0

Source: World Bank, International Monetary Fund and National Agencies.

e = estimate.
Note: See footnotes to table A1.

Table A. 20: Tourism revenues (BOP basis), 1996-2007
(current in US$ billions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	11.9	16.6	23.5	26.1	29.2
MENA (excl. Iraq)	11.9	16.6	23.5	26.1	29.2
By resource-based classification					
Resource-poor, labor-abundant	7.9	10.7	15.8	17.7	20.1
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	3.3	4.5	6.9	7.2	8.2
Jordan	0.8	1.0	1.4	1.6	1.7
Lebanon	0.4	0.6	0.8	0.7	0.7
Morocco	1.7	2.9	4.6	5.9	7.2
Tunisia	1.7	1.7	2.1	2.3	2.4
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	4.0	5.9	7.7	8.4	9.0
Resource-rich, labor-abundant (incl. Iraq)	1.8	2.4	3.3	3.5	3.9
Resource-rich, labor-abundant (excl. Iraq)	1.8	2.4	3.3	3.5	3.9
Algeria	0.4	0.6	1.1	1.1	1.2
Iran, Islamic Republic of	0.2	0.7	0.9	1.0	1.2
Iraq	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	1.1	1.0	1.0	1.2	1.3
Yemen, Republic of	0.1	0.2	0.2	0.2	0.2
Resource-rich, labor-importing	2.3	3.5	4.4	4.9	5.2
Bahrain	0.4	0.8	1.1	1.1	1.2
Kuwait	0.0	0.0	0.0	0.0	0.0
Libya	0.0	0.0	0.0	0.0	0.0
Oman	0.2	0.5	0.7	0.8	0.9
Qatar	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	1.0	1.2	1.4	1.5	1.6
United Arab Emirates	0.7	1.0	1.3	1.4	1.5
By geographic subregion					
Maghreb	3.7	5.2	7.9	9.3	10.7
Mashreq (excl. WBG, Iraq)	2.2	2.5	3.3	3.5	3.7
GCC	2.3	3.5	4.4	4.9	5.2
Other	3.7	5.4	8.0	8.4	9.6
By oil-trade group					
Oil-exporting countries (excl. Iraq)	7.4	10.4	14.5	15.7	17.2
Oil-importing countries (excl. WBG)	4.5	6.1	9.0	10.5	12.0

Source: International Monetary Fund, National agencies, World Tourism Organization.

e = estimate.

Note: See footnotes to table A1.

Table A. 21: Current Account Balance, 1996-2007
(current in US$ billions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	100.1	209.7	286.6	294.9
MENA (excl. Iraq)	1.6	66.5	210.5	282.0	291.0
By resource-based classification					
Resource-poor, labor-abundant	-6.0	-2.3	-4.4	-2.0	-3.2
Djibouti	0.0	0.0	0.0	-0.1	-0.1
Egypt, Arab Republic of	-1.1	1.4	2.1	2.6	2.8
Jordan	0.1	0.4	-2.2	-1.9	-2.2
Lebanon	-4.3	-4.3	-5.0	-3.8	-3.6
Morocco	-0.1	1.0	1.0	1.8	0.6
Tunisia	-0.5	-0.7	-0.3	-0.6	-0.8
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	7.5	68.8	214.9	284.0	294.2
Resource-rich, labor-abundant (incl. Iraq)	3.6	12.5	35.3	54.7	59.5
Resource-rich, labor-abundant (excl. Iraq)	3.6	14.4	36.1	50.1	55.6
Algeria	0.9	8.1	21.2	29.0	30.8
Iran, Islamic Republic of	3.0	4.9	14.0	20.7	26.3
Iraq	—	-9.5	-0.8	4.6	3.9
Syrian Arab Republic	-0.4	0.8	0.3	0.3	-0.6
Yemen, Republic of	0.1	0.6	0.6	0.2	-0.9
Resource-rich, labor-importing	4.0	54.4	178.7	233.9	238.6
Bahrain	-0.1	0.3	1.5	2.1	3.1
Kuwait	5.6	11.0	34.3	51.0	52.2
Libya	1.2	5.6	14.9	22.2	19.6
Oman	-0.9	1.9	4.7	6.2	8.3
Qatar	-1.6	4.6	14.1	16.1	21.7
Saudi Arabia	-2.9	23.1	90.1	99.1	92.0
United Arab Emirates	2.8	7.9	19.1	37.2	41.7
By geographic subregion					
Maghreb	1.5	13.9	36.8	52.3	50.2
Mashreq (excl. WBG, Iraq)	-4.7	-3.1	-6.9	-5.4	-6.3
GCC	2.8	48.8	163.8	211.7	219.0
Other	2.0	6.9	16.8	23.4	28.2
By oil-trade group					
Oil-exporting countries (excl. Iraq)	6.5	70.1	217.0	286.6	297.0
Oil-importing countries (excl. WBG)	-4.9	-3.6	-6.5	-4.6	-6.0
Comparator regions					
MENA (excl. Iraq)	1.6	66.5	210.5	282.0	291.0
All Developing countries	-64.2	106.8	266.6	399.9	407.7
East Asia and the Pacific	-1.1	67.9	168.8	287.6	408.6
Europe and Central Asia	-3.9	13.0	21.9	15.4	-40.5
Latin America and the Caribbean	-44.2	-6.7	34.6	46.2	18.3
South Asia	-9.5	3.0	-12.7	-15.4	-33.9
Sub-Saharan Africa	-7.2	1.7	-2.1	-1.2	-8.0

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnotes to table A1.

Table A. 22: Current account balance, 1996-2007

(percentage in GDP)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	9.7	17.1	20.2	18.5
MENA (excl. Iraq)	0.2	7.9	17.6	20.6	19.0
By resource-based classification					
Resource-poor, labor-abundant	-3.6	-1.2	-2.1	-0.8	-1.2
Djibouti	1.0	1.6	1.1	-8.8	-8.1
Egypt, Arab Republic of	-1.2	1.8	2.3	2.5	2.2
Jordan	0.6	3.9	-17.6	-13.5	-13.8
Lebanon	-27.6	-23.0	-23.2	-16.7	-15.0
Morocco	-0.2	2.3	1.7	2.7	0.8
Tunisia	-2.8	-3.4	-1.1	-2.1	-2.4
West Bank and Gaza	—	—	—	—	—
Resource-rich	1.5	10.6	21.9	25.1	23.4
Resource-rich, labor-abundant (incl. Iraq)	1.9	5.7	9.5	12.5	12.2
Resource-rich, labor-abundant (excl. Iraq)	2.0	6.8	10.6	12.9	13.1
Algeria	1.9	12.6	20.7	25.1	22.8
Iran, Islamic Republic of	2.8	4.4	7.3	9.3	11.1
Iraq	—	-36.7	-2.5	9.3	6.3
Syrian Arab Republic	-2.8	4.0	1.0	0.9	-1.8
Yemen, Republic of	1.1	5.6	3.8	1.0	-4.2
Resource-rich, labor-importing	1.1	12.7	27.8	31.5	28.7
Bahrain	-2.3	3.7	11.2	13.3	15.7
Kuwait	18.5	23.0	42.5	51.7	46.9
Libya	3.6	19.1	35.9	43.9	34.6
Oman	-6.3	9.0	15.3	16.1	19.6
Qatar	-16.5	20.8	33.2	30.5	33.0
Saudi Arabia	-2.0	10.5	28.5	28.4	24.5
United Arab Emirates	5.7	9.9	16.2	27.3	26.1
By geographic subregion					
Maghreb	1.2	10.1	18.2	22.6	19.0
Mashreq (excl. WBG, Iraq)	-12.4	-6.2	-11.0	-7.9	-8.7
GCC	0.9	12.2	27.3	30.6	28.3
Other	1.0	3.1	5.6	6.7	7.3
By oil-trade group					
Oil-exporting countries (excl. Iraq)	1.1	9.5	20.2	23.1	21.5
Oil-importing countries (excl. WBG)	-5.9	-3.9	-5.3	-3.5	-4.1
Comparator regions					
MENA (excl. Iraq)	0.2	7.9	17.6	20.6	19.0
All Developing countries	-0.8	1.5	2.8	3.5	3.0
East Asia and the Pacific	0.9	3.1	5.7	8.4	10.1
Europe and Central Asia	-0.4	1.2	1.1	0.6	-1.3
Latin America and the Caribbean	-2.6	-0.3	1.4	1.6	0.5
South Asia	-1.7	0.4	-1.3	-1.3	-2.4
Sub-Saharan Africa	-1.7	0.3	-0.3	-0.2	-1.0

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnotes to table A1.

Table A. 23: Foreign Direct Investment, 1996-2007
(current in US$ billions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	6.1	11.0	31.1	52.1	45.4
MENA (excl. Iraq)	6.1	10.9	30.6	51.6	44.9
By resource-based classification					
Resource-poor, labor-abundant	3.5	4.0	11.6	21.9	18.9
Djibouti	0.0	0.0	0.1	0.1	0.1
Egypt, Arab Republic of	0.7	0.8	5.4	10.0	8.0
Jordan	0.1	0.5	1.6	3.4	1.7
Lebanon	1.5	1.4	2.3	2.4	1.8
Morocco	0.6	0.7	1.6	2.7	3.8
Tunisia	0.4	0.6	0.7	3.3	3.5
West Bank and Gaza	—	—	—	—	—
Resource-rich	2.7	6.9	19.0	29.8	26.0
Resource-rich, labor-abundant (incl. Iraq)	0.3	2.1	3.4	8.7	5.2
Resource-rich, labor-abundant (excl. Iraq)	0.3	2.0	2.9	8.2	4.7
Algeria	0.4	0.8	1.1	1.8	2.5
Iran, Islamic Republic of	0.0	0.1	0.3	4.6	0.8
Iraq	0.0	0.1	0.5	0.5	0.5
Syrian Arab Republic	0.1	0.2	0.5	0.7	0.8
Yemen, Republic of	-0.2	0.8	1.1	1.1	0.6
Resource-rich, labor-importing	2.3	4.9	16.0	21.6	21.4
Bahrain	-0.6	0.0	-0.1	1.9	2.0
Kuwait	0.4	0.9	-4.9	-7.8	-6.4
Libya	0.0	0.0	0.0	0.0	0.0
Oman	0.1	0.1	0.4	0.4	0.4
Qatar	1.2	1.3	2.5	3.5	4.7
Saudi Arabia	-0.1	0.7	10.9	17.5	14.7
United Arab Emirates	0.3	2.0	7.2	6.1	6.1
By geographic subregion					
Maghreb	1.4	2.2	3.4	7.8	9.8
Mashreq (excl. WBG, Iraq)	1.8	2.1	4.4	6.4	4.2
GCC	2.3	4.9	16.0	21.6	21.4
Other	0.6	1.7	6.8	15.8	9.5
By oil-trade group					
Oil-exporting countries (excl. Iraq)	3.1	6.8	22.3	38.0	31.5
Oil-importing countries (excl. WBG)	2.7	3.2	6.2	11.8	10.9
Comparator regions					
MENA (excl. Iraq)	6.1	10.9	30.6	51.6	44.9
All Developing countries	135.0	181.0	280.5	285.0	299.3
East Asia and the Pacific	48.0	54.9	96.9	95.0	99.8
Europe and Central Asia	19.9	40.7	73.6	72.0	75.6
Latin America and the Caribbean	55.3	62.2	70.1	65.0	68.3
South Asia	3.7	5.8	9.9	9.0	9.5
Sub-Saharan Africa	5.4	10.9	16.2	16.0	16.8

Source: The Economist Intelligence Unit, International Monetary Fund, UNCTAD, National agencies and World Bank staff estimates.

e = estimate.
Note: See footnotes to table A1.

Table A.24: Foreign Direct Investment as a share of gross fixed investment 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	—	—	—
MENA (excl. Iraq)	4.4	6.2	11.9	17.0	12.1
By resource-based classification					
Resource-poor, labor-abundant	9.8	10.4	25.1	41.6	28.9
Djibouti	6.4	12.6	44.6	44.0	31.5
Egypt, Arab Republic of	4.8	5.0	33.5	49.9	28.6
Jordan	8.0	21.7	51.8	88.9	40.2
Lebanon	32.9	37.4	62.5	85.9	45.8
Morocco	7.2	5.7	9.2	14.4	17.9
Tunisia	8.5	11.4	11.3	48.0	45.5
West Bank and Gaza	—	—	—	—	—
Resource-rich	2.6	4.9	9.0	11.9	8.5
Resource-rich, labor-abundant (incl. Iraq)	0.7	3.6	4.1	9.1	4.7
Resource-rich, labor-abundant (excl. Iraq)	0.7	3.4	3.5	8.6	4.3
Algeria	3.1	5.8	4.7	6.8	7.6
Iran, Islamic Republic of	0.1	0.1	0.5	7.8	1.3
Iraq	—	—	—	—	—
Syrian Arab Republic	4.2	4.2	7.4	10.3	10.2
Yemen, Republic of	-13.1	40.3	33.9	33.6	12.3
Resource-rich, labor-importing	4.0	6.1	12.7	13.9	10.9
Bahrain	75.0	0.6	-2.6	58.5	51.7
Kuwait	8.6	16.8	-30.5	-34.6	-19.3
Libya	0.0	0.0	0.0	0.0	0.0
Oman	2.5	3.0	6.7	5.2	5.4
Qatar	35.7	24.9	17.8	31.8	34.7
Saudi Arabia	-0.5	1.8	20.9	29.5	18.7
United Arab Emirates	1.9	8.9	25.3	13.7	12.4
By geographic subregion					
Maghreb	4.8	6.2	6.3	12.8	13.5
Mashreq (excl. WBG, Iraq)	18.7	19.8	32.5	48.3	27.4
GCC	4.3	6.3	13.4	14.7	11.5
Other	1.3	3.2	9.6	19.2	9.8
By oil-trade group					
Oil-exporting countries (excl. Iraq)	2.8	4.9	11.4	15.5	10.5
Oil-importing countries (excl. WBG)	13.5	13.9	20.7	36.5	29.1
Comparator regions					
MENA (excl. Iraq)	4.4	6.2	11.9	17.0	12.1
All Developing countries	10.2	10.7	11.1	9.3	7.8
East Asia and the Pacific	10.1	7.5	8.7	7.2	6.3
Europe and Central Asia	10.2	15.7	18.1	13.6	10.7
Latin America and the Caribbean	14.9	17.1	14.8	11.0	9.2
South Asia	3.0	3.3	3.7	2.8	2.2
Sub-Saharan Africa	7.7	13.4	13.0	10.5	9.1

Source: International Monetary Fund, UNCTAD, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A.25: Foreign Direct Investment as a share of GDP, 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	0.9	1.3	2.5	3.7	2.8
MENA (excl. Iraq)	1.0	1.3	2.6	3.8	2.9
By resource-based classification					
Resource-poor, labor-abundant	2.1	2.2	5.5	9.1	6.9
Djibouti	0.6	2.0	8.5	13.0	12.0
Egypt, Arab Republic of	0.9	0.9	6.0	9.3	6.3
Jordan	1.9	4.7	12.8	23.8	10.7
Lebanon	10.1	7.6	10.7	10.5	7.6
Morocco	1.6	1.4	2.6	4.1	5.2
Tunisia	2.1	2.8	2.5	10.7	10.3
West Bank and Gaza	—	—	—	—	—
Resource-rich	0.6	1.0	1.9	2.6	2.1
Resource-rich, labor-abundant (incl. Iraq)	0.2	0.9	0.9	2.0	1.1
Resource-rich, labor-abundant (excl. Iraq)	0.2	0.9	0.9	2.1	1.1
Algeria	0.8	1.4	1.1	1.6	1.9
Iran, Islamic Republic of	0.0	0.0	0.1	2.1	0.3
Iraq	0.0	0.4	1.6	1.0	0.8
Syrian Arab Republic	0.9	0.9	1.7	2.2	2.3
Yemen, Republic of	-3.1	7.7	6.4	5.8	2.9
Resource-rich, labor-importing	0.9	1.1	2.5	2.9	2.6
Bahrain	9.0	-0.2	-0.6	12.2	9.9
Kuwait	2.0	2.3	-6.1	-7.9	-5.8
Libya	0.0	0.0	0.0	0.0	0.0
Oman	0.4	0.4	1.3	0.9	0.9
Qatar	11.2	5.6	5.9	6.6	7.1
Saudi Arabia	0.0	0.3	3.5	5.0	3.9
United Arab Emirates	0.6	2.0	6.1	4.5	3.8
By geographic subregion					
Maghreb	1.1	1.6	1.7	3.4	3.7
Mashreq (excl. WBG, Iraq)	5.9	4.1	7.0	9.4	5.8
GCC	1.0	1.2	2.7	3.1	2.8
Other	0.3	0.8	2.3	4.5	2.5
By oil-trade group					
Oil-exporting countries (excl. Iraq)	0.6	0.9	2.2	3.1	2.3
Oil-importing countries (excl. WBG)	3.6	3.3	5.1	8.8	7.4
Comparator regions					
MENA (excl. Iraq)	1.0	1.3	2.6	3.8	2.9
All Developing countries	2.4	3.1	4.0	3.5	3.1
East Asia and the Pacific	3.5	3.5	4.3	3.6	3.4
Europe and Central Asia	1.7	4.2	5.8	4.4	3.8
Latin America and the Caribbean	3.1	3.3	4.0	3.2	2.8
South Asia	0.7	1.0	1.3	1.0	0.9
Sub-Saharan Africa	1.6	3.2	3.7	3.0	2.7

Source: International Monetary Fund, UNCTAD, National agencies and World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnotes to table A1.

Table A.26: Gross foreign reserves (including gold), 1996-2007
(current in US$ billions)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	89.5	5.1	293.5	375.0	501.6
MENA (excl. Iraq)	89.5	166.6	281.4	355.0	473.2
By resource-based classification					
Resource-poor, labor-abundant	32.8	43.5	64.5	79.4	89.7
Djibouti	0.1	0.1	0.1	0.1	0.1
Egypt, Arab Republic of	14.7	13.9	21.4	25.6	29.5
Jordan	2.0	4.3	5.5	7.0	8.0
Lebanon	9.3	11.7	16.6	19.2	20.2
Morocco	4.7	10.9	16.5	20.8	24.0
Tunisia	2.0	2.6	4.4	6.8	7.8
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	56.7	123.1	216.9	275.6	383.5
Resource-rich, labor-abundant (incl. Iraq)	16.6	54.5	125.6	154.8	202.7
Resource-rich, labor-abundant (excl. Iraq)	16.6	52.8	113.5	134.8	174.3
Algeria	6.2	26.2	56.5	78.1	110.6
Iran, Islamic Republic of	8.8	19.9	47.8	46.2	52.0
Iraq	0.0	1.8	12.1	20.0	28.4
Syrian Arab Republic	0.4	2.4	3.1	3.1	3.1
Yemen, Republic of	1.2	4.3	6.1	7.5	8.6
Resource-rich, labor-importing	40.0	70.3	103.4	140.7	209.2
Bahrain	1.3	1.7	1.9	2.7	3.4
Kuwait	4.1	8.5	9.0	12.7	16.7
Libya	6.9	17.7	35.9	59.7	90.9
Oman	2.2	3.0	4.4	4.9	5.3
Qatar	1.0	2.1	4.6	5.4	10.3
Saudi Arabia	15.3	21.8	26.8	27.8	34.0
United Arab Emirates	9.2	15.4	21.0	27.6	48.5
By geographic subregion					
Maghreb	19.8	57.5	113.3	165.3	233.4
Mashreq (excl. WBG, Iraq)	11.8	18.4	25.1	29.2	31.3
GCC	33.1	52.6	67.6	81.1	118.3
Other	24.8	38.2	75.4	79.4	90.2
By oil-trade group					
Oil-exporting countries (excl. Iraq)	65.2	110.7	181.8	223.1	302.3
Oil-importing countries (excl. WBG)	18.1	29.6	43.1	53.9	60.2
Comparator regions					
MENA (excl. Iraq)	90	167	281	355	473
All Developing countries	583	1,198	2,051	2,415	2,657
East Asia and the Pacific	225	550	1,020	1,200	1,320
Europe and Central Asia	95	212	395	450	495
Latin America and the Caribbean	150	196	263	325	358
South Asia	39	107	157	170	187
Sub-Saharan Africa	28	46	82	95	105

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnotes to table A1.

Table A.27: Reserves in months of import coverage 1996-2007
(months of goods imports)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	10.0	9.8	10.1	11.9
MENA (excl. Iraq)	7.1	10.0	10.1	10.7	12.6
By resource-based classification					
Resource-poor, labor-abundant	9.2	10.6	10.5	11.4	10.3
Djibouti	4.6	4.4	3.9	4.2	4.0
Egypt, Arab Republic of	11.9	11.4	10.8	10.6	9.0
Jordan	6.5	10.3	7.0	8.2	8.4
Lebanon	16.9	20.6	23.3	26.4	23.6
Morocco	6.0	10.4	10.5	11.7	10.8
Tunisia	3.1	3.2	4.3	5.8	5.7
West Bank and Gaza	—	—	—	—	—
Resource-rich	6.2	9.8	10.0	10.5	13.3
Resource-rich, labor-abundant (incl. Iraq)	—	12.4	15.3	13.8	16.4
Resource-rich, labor-abundant (excl. Iraq)	6.8	13.6	18.3	18.8	22.4
Algeria	8.6	24.3	34.1	45.3	50.4
Iran, Islamic Republic of	7.4	9.5	14.0	11.2	12.7
Iraq	—	3.1	5.9	5.0	6.2
Syrian Arab Republic	5.6	5.8	4.2	3.6	3.4
Yemen, Republic of	6.3	16.5	15.8	15.2	14.5
Resource-rich, labor-importing	6.0	8.1	6.6	7.4	9.9
Bahrain	4.5	4.2	2.9	3.6	3.6
Kuwait	6.5	12.4	7.6	10.6	13.7
Libya	14.5	31.6	35.0	49.2	67.9
Oman	5.8	6.2	6.5	5.6	5.4
Qatar	3.0	5.8	6.0	4.4	6.5
Saudi Arabia	7.0	8.2	5.9	5.2	5.6
United Arab Emirates	3.9	4.6	3.1	3.3	5.4
By geographic subregion					
Maghreb	7.5	16.2	21.4	28.1	32.8
Mashreq (excl. WBG, Iraq)	9.8	13.2	11.3	12.0	11.6
GCC	5.4	6.5	4.6	4.6	6.0
Other	9.4	10.7	13.0	11.3	11.3
By oil-trade group					
Oil-exporting countries (excl. Iraq)	6.8	8.8	8.2	8.3	10.1
Oil-importing countries (excl. WBG)	7.9	10.3	10.4	11.8	11.1
Comparator regions					
MENA (excl. Iraq)	7.1	10.0	10.1	10.7	12.6
All Developing countries	4.4	5.9	7.6	8.0	8.6
East Asia and the Pacific	5.1	6.9	9.0	9.9	10.5
Europe and Central Asia	3.5	4.3	5.3	5.9	7.0
Latin America and the Caribbean	4.3	4.3	4.7	4.6	4.8
South Asia	4.6	7.6	11.0	11.0	11.0
Sub-Saharan Africa	3.1	3.6	4.4	5.2	6.0

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnotes to table A1.

Table A.28: Exchange rates, 1996-2007

(unit of local currency per US$)

Country	1996-99	2000-04	2005	2006	2007
MENA region (incl. Iraq)	—	—	—	—	—
MENA (excl. Iraq)	—	—	—	—	—
By resource-based classification					
Resource-poor, labor-abundant	—	—	—	—	—
Djibouti	177.72	177.72	177.72	177.72	177.72
Egypt, Arab Republic of	3.39	4.52	6.00	5.75	5.72
Jordan	0.71	0.71	0.71	0.71	0.71
Lebanon	1,533.72	1,507.50	1,507.50	1,507.50	1,507.50
Morocco	9.41	10.28	8.87	8.80	8.20
Tunisia	1.10	1.35	1.30	1.33	1.30
West Bank and Gaza	—	—	—	—	—
Resource-rich	—	—	—	—	—
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	—	—	—	—	—
Algeria	59.44	76.32	73.28	72.65	69.40
Iran, Islamic Republic of	3,100.88	7,263.18	8,963.96	9,170.94	10,534.92
Iraq	—	1,845.60	1,467.05	1,459.08	1,254.86
Syrian Arab Republic	51.27	50.11	52.14	53.90	55.41
Yemen, Republic of	137.25	174.85	191.42	197.05	199.00
Resource-rich, labor-importing	—	—	—	—	—
Bahrain	0.38	0.38	0.38	0.38	0.38
Kuwait	0.30	0.30	0.29	0.29	0.29
Libya	0.42	0.99	1.31	1.31	1.31
Oman	0.38	0.38	0.38	0.38	0.38
Qatar	3.64	3.64	3.64	3.64	3.64
Saudi Arabia	3.75	3.75	3.75	3.75	3.75
United Arab Emirates	3.67	3.67	3.67	3.67	3.67
By geographic subregion					
Maghreb	—	—	—	—	—
Mashreq (excl. WBG, Iraq)	—	—	—	—	—
GCC	—	—	—	—	—
Other	—	—	—	—	—
By oil-trade group					
Oil-exporting countries (excl. Iraq)	—	—	—	—	—
Oil-importing countries (excl. WBG)	—	—	—	—	—

Source: International Monetary Fund and World Bank (Atlas exchange rates).

— = data not available.

Note: See footnotes to table A1.

Table A.29: Real effective exchange rates, 1996-2007
(percentage change per year)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	—	—	—
MENA (excl. Iraq)	3.5	-1.4	1.0	2.8	-1.6
By resource-based classification					
Resource-poor, labor-abundant	4.2	-4.6	2.2	4.6	-3.7
Djibouti	0.0	0.0	1.0	2.0	3.0
Egypt, Arab Republic of	1.8	-7.2	4.2	8.1	-7.7
Jordan	4.3	-1.5	6.7	4.4	-2.3
Lebanon	24.1	2.0	1.0	2.0	3.0
Morocco	3.4	-1.2	0.1	-0.5	-5.2
Tunisia	0.4	-4.9	-4.5	-0.8	13.2
West Bank and Gaza	—	—	1.0	2.0	3.0
Resource-rich	—	—	—	—	—
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	4.9	2.8	1.8	4.5	-3.4
Algeria	2.4	-3.4	-3.9	-0.3	-0.5
Iran, Islamic Republic of	6.8	6.4	4.7	7.4	-6.1
Iraq	—	—	—	—	—
Syrian Arab Republic	—	—	1.7	0.6	—
Yemen, Republic of	9.4	5.2	3.8	9.9	1.8
Resource-rich, labor-importing	2.4	-2.0	0.2	1.0	0.2
Bahrain	1.6	-1.8	-2.8	-2.9	-1.2
Kuwait	3.2	-1.0	2.0	1.6	—
Libya	0.0	0.0	1.0	2.0	3.0
Oman	1.8	-4.3	3.2	0.2	—
Qatar	5.8	-0.3	7.1	8.3	—
Saudi Arabia	1.6	-3.0	-2.5	-0.6	—
United Arab Emirates	4.7	-0.5	4.0	3.5	—
By geographic subregion					
Maghreb	1.2	-2.8	-2.3	0.1	4.9
Mashreq (excl. WBG, Iraq)	12.2	-1.1	3.8	4.1	-1.1
GCC	4.0	-1.2	3.8	4.7	—
Other	4.5	2.4	2.2	5.6	2.3
By oil-trade group					
Oil-exporting countries (excl. Iraq)	2.7	-1.2	1.5	2.9	—
Oil-importing countries (excl. WBG)	7.0	-1.4	-0.1	0.4	1.1

Source: International Monetary Fund, World Bank and JP Morgan.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Table A.30: Real private fixed investment growth, 1996-2007
(percentage per year)

Country	1996-99	2000-04	2005	2006	2007[e]
MENA region (incl. Iraq)	—	—	—	—	—
MENA (excl. Iraq)	12.3	13.0	14.4	15.3	16.6
By resource-based classification					
Resource-poor, labor-abundant	10.5	9.9	10.1	11.3	13.1
Djibouti	5.3	6.2	9.7	22.0	21.9
Egypt, Arab Republic of	9.3	10.0	10.7	13.6	16.5
Jordan	15.0	10.7	15.0	16.0	15.5
Lebanon	21.1	15.7	14.5	9.7	12.3
Morocco	6.8	5.7	5.1	4.7	4.6
Tunisia	12.1	12.7	11.3	11.2	11.3
West Bank and Gaza	—	—	—	—	—
Resource-rich	12.9	13.9	15.7	16.5	17.6
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	14.9	16.8	19.4	19.2	21.4
Algeria	14.3	11.7	10.7	10.2	11.3
Iran, Islamic Republic of	16.4	21.8	25.4	24.8	28.4
Iraq	—	—	—	—	—
Syrian Arab Republic	9.0	7.2	13.6	14.4	17.0
Yemen, Republic of	14.6	11.3	14.8	15.5	16.5
Resource-rich, labor-importing	11.9	12.5	13.8	15.2	17.0
Bahrain	7.5	9.5	13.3	13.3	14.0
Kuwait	12.5	12.7	22.8	28.8	37.3
Libya	1.8	1.7	-2.7	8.6	11.2
Oman	—	—	—	—	—
Qatar	18.7	15.4	18.1	17.1	20.1
Saudi Arabia	14.1	15.6	12.8	12.0	10.5
United Arab Emirates	11.7	11.0	18.3	18.9	23.6
By geographic subregion					
Maghreb	9.1	8.0	6.2	8.5	6.9
Mashreq (excl. WBG, Iraq)	14.9	11.1	14.2	13.0	15.0
GCC	13.0	13.6	15.4	15.8	17.5
Other	13.0	15.8	18.3	19.3	22.5
By oil-trade group					
Oil-exporting countries (excl. Iraq)	11.2	12.4	14.1	15.3	17.4
Oil-importing countries (excl. WBG)	11.9	9.8	9.5	8.5	9.0

Source: International Monetary Fund, National agencies and World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnotes to table A1.

Appendix B:
Structural Reform Indicators for 2008

Appendix B describes the structural reforms indices in four areas of reform and they are: (1) trade policy; (2) the business climate and governance; (3) public administration; and (4) public sector accountability. The report evaluates the "current status" of reform efforts, which indicates the relative standing of a countries and "reform progress", which assesses each country's progress over a set period, relative to the rest of the world.

Measuring structural reform is a complex process and the results are sensitive to small changes in either the methodology or the measures used to construct the composite indicators. Contrary to the changes made between the 2006 and 2007 EDP reports, in this year's report no change was made to the list of sub-indicators.

B.1. TRADE POLICY

B.1.1 Current Trade Policy

The current trade policy of countries is evaluated using four indicators for a large sample of countries for the year 2007, or the most recent year. The same four indicators used in last year's report were adopted for the 2008 EDP and they are: (1) the simple average most favorite nation applied tariff from UNCTAD's Trade Analysis and Information System (TRAINS) database,[1] (2) the average non ad valorem duty from the World Trade Organization statistical database,[2] (3) the average time for export clearing and (4) the average time for import clearing, the last two from the World Bank's Doing Business in 2008 Report.

For each underlying trade indicator, countries were ranked from "good" to "bad" (i.e., most open to least) on the basis of their trade policies. The ranking was then converted to points in the worldwide cumulative frequency distribution (percentile ranking). For instance, the country with the lowest tariff simple average would have a percentile rank of 100, reflecting the "best' tariff policy. After calculating the percentile ranking for the four trade indicators; each country's overall trade policy was calculated by first averaging the percentile rankings and then expressing those averages as points in a cumulative frequency distribution. A value of 0 implies that a country has the least friendly trade policy and 100 the most friendly. Table B.1 presents the trade policy for 2007 reporting both the actual value and the percentile rank for each of the four trade indicators used in the composite trade policy index.

[1] Data used for the tariff simple average was dated January 2008 but covers the year 2006 (most recent).
[2] The most recent data on non ad valorem duties were published by the WTO in April 2007.

Table B. 1: Trade Policy in 2007

Country/region	Time for export clearing (days)	Percentile rank	Time for import clearing (days)	Percentile rank	Average tariff	Percentile rank	Non ad-valorem duties	Percentile rank	Trade policy index (percentile rank)
Algeria	17	73	23	53	18.7	6	0.0	88	58
Bahrain	—	—	—	—	5.0	68	0.9	32	—
Djibouti	22	48	18	73	30.4	0	0.0	88	52
Egypt, Arab Republic of	15	78	18	73	6.9	58	0.2	49	72
Iran, Islamic Republic of	26	35	42	20	22.1	3	—	—	1
Iraq	102	0	101	1	—	—	—	—	—
Jordan	19	65	22	56	11.5	34	0.1	54	50
Kuwait	20	58	20	64	4.7	71	1.2	27	58
Lebanon	27	33	38	24	7.0	57	6.2	1	13
Libya	—	—	—	—	—	—	0.0	88	—
Morocco	14	79	19	68	22.3	2	0.0	88	64
Oman	22	48	26	44	5.0	68	0.9	32	44
Qatar	—	—	—	—	5.0	69	0.9	32	—
Saudi Arabia	19	65	20	64	5.2	67	1.2	27	61
Syrian Arab Republic	19	65	23	53	19.6	5	—	—	32
Tunisia	17	73	22	56	26.8	1	0.0	88	56
United Arab Emirates	13	82	13	83	4.9	70	0.9	32	77
West Bank and Gaza	25	38	40	21	—	—	—	—	—
Yemen, Republic of	33	22	31	35	7.1	56	2.8	18	20
Regional averages (un-weighted)									
MENA	26	54	30	49	12.6	40	1.0	50	47
Resource-poor	20	59	25	53	17.5	25	1.1	61	51
Resource-rich, labor-abundant	39	39	44	32	16.9	18	1.4	53	28
Resource-rich, labor-importing	19	63	20	64	5.0	69	0.9	39	60
East Asia Pacific	25	48	26	53	8.3	53	1.4	56	49
Europe Central Asia	29	50	31	53	6.7	65	2.8	29	50
Latin America Caribbean	22	55	26	52	8.9	47	0.5	73	60
High-income OECD	10	87	11	87	4.0	86	7.1	17	82
South Asia	31	38	32	42	14.2	25	1.0	47	23
Sub-Saharan Africa	36	28	44	27	13.0	29	0.4	65	29
World	**26**	**50**	**30**	**50**	**9.4**	**50**	**2.0**	**50**	**50**

Source: World Bank Staff estimates.
Note: Data for "time to export" and "time to import" cover 2007; data for "average tariff" and "Non Ad Valorem (NAV) duties" are from 2006 or most recent year available.
— = data not available and if data is unavailable for 2 or more of the four trade indicators, the country is dropped from the trade composite index calculations.

B1.2. Trade Policy Reform

Reform is assessed over the period from 2000 (or the closest available year) and 2007[3] (or the closest available year) and since data was not collected around 2000 for most of the four trade indicators, reform is evaluated using only the simple average tariff indicator.[4]

[3] In the 2007 EDP, the reform progress was evaluated over a four-year period, i.e., between 2003 and 2006. In this year's report, the evaluation could have spanned over another four-year period, i.e., 2004-2007, and with that adding a few countries to the sample; however, the choice was to expand the timeframe at the expense of the few additional observations. Doing business indicators are somewhat sticky in the way they are collected and computed – requiring changes in many sub-indicators - and with reforms slowly impacting different aspects of the business environment, any noticeable variations (i.e., reform progress index) is best captured over longer periods.

[4] Doing business indicators on behind the border constraints to trade became available in 2005.

Furthermore, the sample of countries was restricted to ones with available data for both years. By restricting the sample of countries, the percentile ranking of the reform index changes in the worldwide frequency distribution.

For each year, the countries were ranked based on their simple average (applied) tariff, the rank was then transformed to a point in a worldwide cumulative frequency distribution generating a percentile ranking from 0 to 100. Trade policy reform was calculated as the chance in a country's percentile ranking between 2000 and 2007, expressed as a point in a cumulative frequency distribution. A country, for instance, with a reform index value of 80 can be said to have moved farther up the worldwide frequency distribution than 80% of all other countries.

Table B. 2: Trade Policy Reform Index

	Average tariff 2000		Average tariff 2007		Trade policy reform
Country/region	**%**	**Percentile rank**	**%**	**Percentile rank**	**Percentile rank**
Algeria	22.2	5	18.7	7	69
Bahrain	7.8	67	5.0	69	71
Djibouti	31.0	3	30.4	0	47
Egypt, Arab Republic of	19.9	10	6.9	59	96
Iran, Islamic Republic of	66.2	0	22.1	3	73
Iraq	—	—	—	—	—
Jordan	22.1	6	11.5	34	91
Kuwait	3.6	91	4.7	71	7
Lebanon	14.7	31	7.0	58	91
Libya	17.0	25	—	—	—
Morocco	31.7	2	22.3	1	55
Oman	7.7	68	5.0	69	70
Qatar	4.2	89	5.0	70	8
Saudi Arabia	12.0	47	5.2	67	87
Syrian Arab Republic	19.6	12	19.6	5	38
Tunisia	33.9	1	26.8	1	57
United Arab Emirates	—	—	—	—	—
West Bank and Gaza	—	—	—	—	—
Yemen, Republic of	12.8	38	7.1	57	87
Regional averages (unweighted)					
MENA	20.4	31	13.2	38	63
Resource-poor	25.6	9	17.5	26	73
Resource-rich, labor-abundant	30.2	14	16.9	18	67
Resource-rich, labor-importing	8.7	65	5.0	69	49
East Asia Pacific	10.3	55	8.6	51	43
Europe Central Asia	9.1	60	6.8	65	55
Latin America Caribbean	13.3	40	9.2	45	57
High -income OECD	4.2	88	4.0	87	63
South Asia	17.4	28	15.3	20	40
Sub-Saharan Africa	14.0	38	12.8	29	30
World	**12.0**	**50**	**9.4**	**50**	**50**

Source: World Trade Organization and UNCTAD TRAINS database (for tariff rates) and World Bank Staff estimates.

— = data not available.

Note: The sample of countries is restricted to the ones with available data for both years. Data for 2000 and 2007 do not always correspond to these two particular years; the closest year with data available was often used to maximize the sample size of countries. For instance, if the simple average tariff rate was not available for the year 2000, data from 1999 or 2001 was used.

B.2 Business Climate

B.2.1. Business-climate index

The same eight categories used in last year's report were traced to measure the business climate in 2007 and they are: (1) ease of starting a business; (2) ease of closing a business; (3) ease of hiring and firing; (4) ease of enforcing contracts; (5) ease of registering property; (6) ease of paying taxes; (7) degree to which investors are protected; and (8) ease of dealing with licensing procedures. Table B.3 provides a detailed mapping of the eight categories and the underlying indicators used to compute the composite index.

Table B. 3: Building the Current-Status Indices

Business climate category	**Underlying indicators**
Starting a business	(1) the average number of procedures; (2) the average time (days); (3) the average cost (percent of income per capita); and (4) the minimum capital requirements (percent of income per capita)
Closing a business	(1) the average time (years); (2) the average cost (percent of estate); and (3) the average recovery rate (cents on the dollar)
Hiring and firing	(1) the difficulty in hiring index; (2) the rigidity of hours index; (3) the difficulty of firing index; and (4) firing costs (weeks of wages)
Enforcing contracts	(1) the average number of procedures; (2) the average time (days); and (3) the average cost (percent of debt)
Registering property	(1) the average number of procedures; (2) the average time (days); and (3) the average cost (percent of property value)
Paying taxes	(1) the average number of payments; (2) the average time (hours); and (3) the total tax rate (percent of profit)
Dealing with licenses	(1) the average number of procedures; (2) the average time (days); and (3) the average cost (percent of income per capita)
Protecting investors	(1) the disclosure index; (2) the director liability index; and (3) the shareholder suits index

Source: World Bank, 2008 Doing Business.

The 26 indicators were drawn from the World Bank's 2008 Doing Business report or its online edition. Within each of the eight business climate category, the country's performance on the underlying indictors (e.g., the average number of procedures to start a business) was ranked from "good" to "bad". The rankings were converted to a point in a worldwide cumulative frequency distribution to get a percentile ranking. The country with the fewest number of procedures would have a percentile rank of 100 for that indictor, reflecting the "best" policy. The percentile rankings were averaged and the average was expressed as a point, again, in the worldwide cumulative frequency distribution yielding the composite index for each of the eight business climate categories. A country with a value of 100 in the category of hiring and firing, for example, could be considered to have the most "flexible" labor market in the world.

Table B.4 presents the composite indices (percentile ranking) in each of the eight categories for the MENA countries.

Table B. 4: Business-climate indices for 2007 (percentile rank)

Country/region	Starting a business	Dealing with licenses	Hiring & firing	Registering property	Protecting investors	Paying taxes	Enforcing contracts	Closing a business	Business and regulatory index
Resource-poor									
Djibouti	9	48	27	24	5	72	11	24	11
Egypt, Arab Republic of	69	9	37	42	49	16	19	23	20
Jordan	27	60	73	39	28	90	28	46	49
Lebanon	26	36	70	48	45	82	32	26	42
Morocco	72	50	7	42	12	26	37	66	31
Tunisia	64	47	41	60	18	17	55	89	49
West Bank and Gaza	3	26	42	35	88	88	30	14	33
Resource-rich labor-abundant									
Algeria	30	39	35	13	60	11	34	78	30
Iran, Islamic Republic of	56	7	21	18	12	46	69	38	21
Iraq	8	40	71	77	28	80	18	14	37
Syrian Arab Republic	7	52	28	47	40	45	4	50	23
Yemen, Republic of	2	81	66	75	26	53	77	65	63
Resource-rich labor-importing									
Kuwait	35	53	78	62	86	96	46	63	77
Oman	42	27	86	92	57	98	40	68	76
Saudi Arabia	78	74	77	99	65	97	24	47	87
United Arab Emirates	12	79	64	95	25	98	19	17	54
Regional Averages, unweighted									
MENA	34	46	51	54	40	63	34	46	44
Resource-poor	41	40	38	41	33	51	30	44	32
Resource-rich, labor-abundant	21	44	44	46	33	47	41	49	35
Resource-rich, labor-importing	42	58	76	87	58	97	32	49	73
East Asia Pacific	54	63	69	60	56	64	54	47	63
East and Central Europe	59	36	49	61	54	38	71	53	56
Latin America Caribbean	49	56	50	50	52	40	39	45	47
High-income OECD	80	75	60	69	70	70	80	86	84
South Asia	64	44	59	40	52	51	28	40	46
Sub-Sahara Africa	29	37	34	29	36	41	35	36	26
World	**50**	**50**	**50**	**50**	**50**	**50**	**50**	**50**	**50**

Source: World Bank Staff estimates.

Table B.5 reports the 2007 current business climate for countries in the region as well as the regional averages. This composite index was computed by averaging each countries percentile rank in all the eight categories and expressing the average as a point in the worldwide cumulative frequency distribution. A country, for instance, with a current business climate index of 70 is said to have an overall business environment that is better than 70 percent of all other countries for 2007.

Table B. 5: Current Business Climate 2007

Country/region	Business climate (percentile rank)
Algeria	30
Djibouti	11
Egypt, Arab Republic of	20
Iran, Islamic Republic of	21
Iraq	37
Jordan	49
Kuwait	77
Lebanon	42
Morocco	31
Oman	76
Saudi Arabia	87
Syrian Arab Republic	23
Tunisia	49
United Arab Emirates	54
West Bank and Gaza	33
Yemen, Republic of	63
Regional averages (un-weighted)	
MENA	44
Resource-poor	32
Resource-rich, labor-abundant	35
Resource-rich, labor-importing	73
East Asia Pacific	63
Europe Central Asia	56
Latin America Caribbean	47
High Income OECD	84
South Asia	46
Sub Saharan Africa	26
World	**50**

Source: World Bank Staff estimates.

B.2.2. Business-reform index

Historical data does not exist for all the eight business climate categories. Thus, business reform was evaluated using the same four indicators (Table B.6) and covered a sample of countries, for which data was available in 2003.

Table B. 6: Building the composite business-reform indices

Business-climate category	Underlying indicators
Starting a business	(1) the average number of procedures; (2) the average time (days); (3) the average cost (percent of income per capita); and (4) the minimum capital requirements (percent of income per capita)
Closing a business	(1) the average time (years); (2) the average cost (percent of estate); and (3) the average recovery rate (cents on the dollar)
Hiring and firing	(1) the difficulty in hiring index; (2) the rigidity of hours index; (3) the difficulty of firing index; and (4) firing costs (weeks of wages)
Enforcing contracts	(1) the average number of procedures; (2) the average time (days); and (3) the average cost (percent of debt)

For each of the four broad aspects of the business environment, several underlying indicators were used to construct the composite reform index. In each category, reform was calculated as the average change in the country's ranking in the worldwide frequency distribution between 2003 and 2007, based on the changes in the country's percentile ranking on each of the underlying indicators. The overall business reform index was then computed as the average of the reform indices in each category, expressed as a point in the worldwide cumulative frequency distribution. Table B.7 reports the business reform indices for each of the four categories as well as the overall business climate reform index for the MENA countries and the other regional averages.

Table B. 7: Business Reform Progress: 2003-2007

Country/region	Starting a business	Hiring and firing	Enforcing contracts	Closing a business	Overall business and regulatory reform index
Algeria	29	46	41	85	51
Djibouti	—	—	—	—	—
Egypt, Arab Republic of	99	47	67	4	61
Iran, Islamic Republic of	21	3	21	12	1
Iraq	—	—	—	—	—
Jordan	90	40	8	36	37
Kuwait	17	71	36	5	12
Lebanon	15	36	4	14	3
Morocco	98	5	24	13	17
Oman	3	92	43	98	69
Saudi Arabia	100	27	33	52	55
Syrian Arab Republic	8	26	40	49	8
Tunisia	48	55	33	65	52
United Arab Emirates	11	44	46	8	6
West Bank and Gaza	—	—	—	—	—
Yemen, Republic of	52	14	8	51	10
Regional averages (unweighted)					
MENA	45	39	31	38	29
Resource-poor	84	37	33	29	42
Resource-rich, labor-abundant	27	22	27	50	17
Resource-rich, labor-importing	33	59	39	41	35
East Asia Pacific	53	43	50	40	45
Europe Central Asia	58	50	64	57	63
Latin America Caribbean	51	54	40	48	46
High Income OECD	51	58	57	61	63
South Asia	40	34	40	55	33
Sub-Saharan Africa	44	51	49	46	46
World	**50**	**50**	**50**	**50**	**50**

Source: Staff estimates from the World Bank Doing Business Indicators.

— = data not available.

Note: Business reform progress reflects the improvement in a country's rank between 2003 and 2007, in a worldwide ordering of countries. The reform composite index is based on four major categories of business and regulatory reform policies where data is available. The four other categories are excluded because data was collected in previous Doing Business reports. The reform index is expressed as a cumulative frequency distribution with 100 reflecting the country or countries that exhibited the greatest improvement in rank, and 0 reflecting the country or countries that exhibited the greater deterioration.

B.3 Governance

Governance in the MENA region was evaluated on two broad dimensions: the quality of the public administration and the accountability of the public sector. For each, two indices were constructed to measure the current status of each country's reforms relative to other countries, and the other to assess each country's reform progress over time.

B.3.1 Quality of public administration

The current status of each country's public administration was measured using seven indicators drawn from three different sources: the Political Risk Services (PRS), the Heritage Foundation, and the World Bank Doing Business database. From the PRS two indicators were used and they were (1) the index of corruption and (2) the index of bureaucratic quality. From the Heritage Foundation, (3) the index of property rights and (4) the index of regulation were used; and from the Doing Business database three indicators were used: (5) the number of procedures required to start a business, (6) the average time needed to enforce a contract, and (7) the average time required to close a business.

The methodology adopted is the same followed in last year's report and the weights used in computing last year's quality of public administration composite index were retained for this year's index. The current status index covers the year 2007 (or the closest available year). The current status of the quality of public administration reflects the resulting composite index, expressed as a point in a worldwide cumulative frequency distribution. A country with a percentile rank of 60 is believed to score better than 60 percent of countries with respect to that dimension of governance.

In order to evaluate progress, the index was also computed for the year 2000; however data for three (i.e., the doing business indicators) of the underlying seven indicators were not available for 2000 and thus 2003 data were used as proxies for 2000 data values.

In Table B.8, the results for the current status of the quality of the public administration and the reform progress between 2000 and 2007 are presented. Progress toward improving the quality of public administration was measured as the change in a country's percentile ranking between the two years and expressed as a point in the worldwide frequency distribution. For instance, a score of a 100 implies that the country made the greatest improvement in rank between 2000 and 2007.

Table B. 8: The quality of public administration and reform progress (percentile rank)

Country/region	2000	2007	Reform progress: 2000-2007
Algeria	52	32	11
Bahrain	71	75	62
Egypt, Arab Rep.	20	42	94
Iran, Islamic Rep.	30	30	38
Jordan	61	54	22
Kuwait	62	55	29
Libya	15	4	15
Morocco	58	75	90
Oman	59	56	28
Qatar	50	61	82
Saudi Arabia	53	71	92
Syrian Arab Republic	13	13	48
Tunisia	64	73	75
United Arab Emirates	75	44	2
Yemen, Republic of	32	23	18
Regional averages (unweighted)			
MENA	48	47	47
Resource-poor	51	61	70
Resource-rich, labor-abundant	32	24	29
Resource-rich, labor-importing	55	53	44
East Asia Pacific	46	46	50
Europe Central Asia	47	54	64
Latin America Caribbean	46	43	42
High Income OECD	89	89	48
South Asia	33	34	51
Sub-Saharan Africa	34	31	45
World	**50**	**50**	**50**

Source: World Bank Staff estimates.

B3.2 Public-sector accountability

The current status of public sector accountability was evaluated using eleven measures from three different sources. Drawing on Freedom House, three indicators were used and they were (1) political rights, (2) civil liberties, and (3) freedom of the press. From the Polity IV database of the Center for International Development and Conflict Management seven measures were used and they were: (4) polity, (5) regulation of executive recruitment, (6) competitiveness of executive recruitment, (7) openness of executive recruitment, (8) regulation of participation, (9) competitiveness of participation, and (10) executive constraints. The 11th indicator is (11) the index of democratic accountability drawn from the Political Risk Services.

The same methodology adopted in computing the quality of public administration index was used to compute the index of public sector accountability. Table B.9 presents the results for current status in 2007 and the reform progress between the years 2000 and 2007.

Table B. 9: Public sector accountability and reform progress (percentile rank)

Country/region	**2000**	**2007**	**Reform progress: 2000-2007**
Algeria	26	27	56
Bahrain	15	25	94
Egypt, Arab Rep.	20	23	75
Iran, Islamic Rep.	30	22	8
Jordan	33	34	62
Kuwait	28	32	77
Libya	1	0	45
Morocco	29	32	77
Oman	11	17	88
Qatar	12	14	65
Saudi Arabia	3	5	68
Syrian Arab Republic	6	8	67
Tunisia	23	20	30
United Arab Emirates	15	20	84
Yemen, Republic of	18	19	57
Regional averages (unweighted)			
MENA	18	20	64
Resource-poor	26	27	61
Resource-rich, labor-abundant	20	19	47
Resource-rich, labor-importing	12	16	74
East Asia Pacific	42	39	41
Europe Central Asia	51	53	56
Latin America Caribbean	58	57	42
High Income OECD	91	91	48
South Asia	42	37	29
Sub-Saharan Africa	36	36	53
World	**50**	**50**	**50**

Source: World Bank Staff estimates.

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