Rating the Competitiveness of the Economies of the South

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In March 2007, after a protracted process of negotiations, Egypt signed its "Action Plan" with the EU. This brings to seven the number of southern partners (MPCs) who have such an agreement, with Algeria and Syria remaining reluctant partners, and Turkey aspiring to full access. In principle, the action plans provide a detailed framework for bilateral relations between these countries and the EU. But an important aspect is that they provide an opportunity to assess the performance of MPCs, and to establish benchmarks against which their progress could be measured. This is particularly important in order to measure the degree of convergence between the economies of the North and the South, which is the ultimate objective of creating a space of prosperity in the Mediterranean (Radwan, 2005).

It is the objective of this article to provide an evaluation of the performance of MPCs, assess their competitive position, and speculate on the role of the European Neighbourhood Policy (ENP) in enhancing their competitive edge.

Rating MPCs' Competitiveness

The reform drive in several countries of the South has begun to deliver some results, especially at the macro-economic level. Table (25) provides a summary of the relevant indicators. GDP growth in real terms was about 5% in 2005, thus reversing a long-term trend of slow growth. Although unemployment remains at the highest rate in the world, it has shown some decline. Inflation seems to be under control and reserves are up, but both budget and current account deficit continue to represent a challenge to the policy makers.

Yet, the integration of the MPCs in the global market is far from complete. Measured in terms of its share in world trade, the MPCs combined represent only 2.3% in 2004, up from 1.7% in 1995. More significant perhaps is the structure of these countries' exports.

As Table (26) shows, 76% of MPCs exports to the EU, and 68% to the rest of the world were of "low technology and high natural resources content", and only 24 % and 32% respectively of "high and medium technology content."Finally, GNP per capita puts the MPCs within the lower echelons of the middle income category of countries as defined by the World Bank (see table 25). This, together with a typically skewed income distribution pattern explains the persistence of the problem of poverty in the region.

This performance, together with other factors – partly structural and partly institutional –, goes a long way to explain the competitiveness situation of the MPCs vis-à-vis the rest of the world. Table 27 sums up the rankings of these countries on the basis of the Global Competitiveness Index (GCI) published by the World Economic Forum. This index draws on a large number of indicators under nine "pillars" that determine a country's competitive standing. These are: Institutions, Infrastructure, Macroeconomy, Health and Primary Education, Higher Education and Training, Market Efficiency, Technologies Readiness, Business Sophistication and Innovation.

Out of a sample of 125 countries, the ranking of MPCs ranges from the 30th position for Tunisia to the 63rd for Egypt and the 76th for Algeria. This compares fairly well with countries like South Africa and Indonesia, but certainly remains far below Malaysia, Korea and Israel. Another observation relates to the change over time in the ranking. While countries like Tunisia, Turkey, Morocco and Algeria have registered some

TABLE 25 **Macroeconomic Aggregates in the Mediterranean Countries**

	GDP real growth (% average annual rate)			GDP per capita PPP, international $		Unemployment (%)		Budget Balance (% GDP)		
	1995-2004	2000-2004	2005	1995	2004	2000	2005	1995-2000	2000-2004	2005
Algeria	3.2	4.8	5.8	5,004	6,069	29.5	17.1	1.6	5.2	9
Egypt	5.4	3.4	4.9	3,025	3,870	9	9.5	-1.9	-5.5	-9.3
Israel	4.5	1.2	5.2	21,186	22,408	8.8	9.0	-1.8	-3.7	-1.9
Jordan	3.1	4.6	6.1	4,056	4,308	13.7	10.9	-9.6	-11.3	-10.8
Lebanon	2.3	3.5	0.1	4,113	5,364	n.a.	n.a.	-17.9	-15.7	-8.8
Morocco	3.6	4.7	4.0	3,202	3,961	21.7	11.0	-3.5	-5.6	-6.2
Syria	3.6	3.5	2.6	3,159	3,318	11.2	n.a.	-0.2	-0.6	-1.7
Tunisia	5.6	4.5	4.0	5,083	7,139	15.7	14.2	-4.5	-3.2	-3.3
Turkey	3.9	3.6	7.4	5,837	7,125	6.5	10.2	-7.6	-11.4	-2
MPC	3.6	3.6	4.9	4,113	5,364	12.5	10.9	-3.5	-5.5	-3.3

	Monetary Growth (% average annual rate)			Inflation Rate (%)			Investment Rate (%)		
	1995-2004	2000-2004	2005	1995-2004	2000-2004	2005	1995-2004	2000-2004	2005
Algeria	15.7	21.8	10.9	10.4	2.6	1.9	24.4	23.4	22.6
Egypt	9.9	15.3	11.3	6.2	4.7	4.9	18.6	17.4	17.2
Israel	16.5	4.9	11.8	7.0	1.6	1.3	22.8	18.6	17.5
Jordan	7.1	10.9	21.4	2.7	1.9	4.5	25.1	20.1	20.2
Lebanon	16.6	9.6	4.5	5.3	2.0	2.4	27.9	19.8	18.4
Morocco	9.4	9.2	9.6	2.6	1.6	1.0	21.7	22.0	22.7
Syria	12.2	16.2	131	1.6	1.8	5.0	21.4	20.8	21.9
Tunisia	13.6	8.2	11.0	3.7	2.8	2.1	24.7	24.8	22.4
Turkey	87.1	35.4	25.2	76.5	37.6	8.2	24.0	18.1	19.6
MPC	13.6	10.9	11.3	5.3	2.0	2.4	24.0	20.1	20.2

	Current Account Balance (%GDP)			Debt Servicing (% of exports)			Reserves, Import Cover (months)		
	1995-2004	2000-2004	2005	1995-2004	2000-2004	2005	1995-2004	2000-2004	2005
Algeria	3.4	13	21.1	30.9	17.4	7.6	7	19.8	25
Egypt	-0.9	1.9	2.3	10.8	9.7	5.7	10.2	7.7	7.5
Israel	-3	0.7	1.9	17.2	13.6	11.3	5.5	6.5	5.9
Jordan	-0.1	3.5	-12.6	13.8	11.4	8.8	5.6	7.5	5.7
Lebanon	-27.1	-17.1	-20	14.2	36.4	31.2	14.8	18.4	20.6
Morocco	-1.2	2.3	0.2	26.4	19.2	14.3	4.8	8.7	9.9
Syria	2	4.4	4.6	5.4	4	6.3	5.1	7.5	8.2
Tunisia	-3.3	-3.4	-1.2	16.7	15.5	15.6	2.3	2.7	3.6
Turkey	-1.5	-2.4	-6.4	27.4	38.7	36.4	4.6	5.2	5.1
MPC	-1.2	1.9	0.2	16.7	15.5	11.3	5.5	7.5	7.5

Unemployment rate Jordan: 2004, Syria: 2001.
Source: EIU, excluding the unemployment rate and the GDP per capita, World Bank, WDI, 2005.

improvement in their competitive position, Jordan and Egypt scored less in 2006 than before.

An important question is how to explain this ranking. Going into the details of the indices that make up the GCI, we find that a common feature of the South is the low score in what is called "Efficiency Enhancers" and "Innovation Factors," which mainly refer to education and business sophistication. Whatever our view maybe about these rankings, they point to the major constraints on increased competitiveness, especially the quality of the human resources which defines a country's ability to engage and deal with technology, and the way business is organized and conducted.

Business Climate

The latter point is dealt with in details in by the World Bank Report "Doing Business". Table 28 presents the ranking of the Southern economies in terms of the ease of doing business. Like the GCI, the Doing

TABLE 26 **MPCs Exports by Technological Intensity**

		High and medium technology content	Low technology and high natural resources content
EU	1995	24%	76%
	2004	37%	62%
Rest of the World	1995	32%	68%
	2004	36%	64%

Source: Comtrade, calculations Institut de la Méditerranée

TABLE 27 **Global Competitiveness Index Rankings (GCI) (Rankings out of 125)**

Country	**GCI 2006 Rank**	**GCI 2005 Rank**
Tunisia	30	37
Jordan	52	42
Turkey	59	71
Egypt	63	53
Morocco	70	76
Algeria	76	82
Comparator Countries		
Israel	15	23
Korea, Rep.	24	19
Malaysia	26	25
India	43	45
South Africa	45	40
Indonesia	50	69
China	54	48

Source: World Economic Forum, The Global Competitiveness Report, 2006-2007, Table 1

Business Index is a composite of ten indicators that characterize the business environment in a given economy.

These are: Starting a Business, Dealing with Licenses, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading across Borders, Enforcing Contracts and Closing a Business. With the exception of Israel, and to a lesser extent Tunisia, the next of MPCs score low along this measure. Examining the details of constraints that militate against a business-friendly environment we found that two factors, with urging degrees of importance in the different countries, are common. First, is that the reform of these countries has certainly been serious, but it is not deep enough. To give but one example from Egypt, the bald reforms of the tax and customs systems and the sweeping improvement in investment environment are usually frustrated by a well-entrenched bureaucracy of 5.7 million civil servants. Secondly, there are too many rules and regulations that have accumulated from the past, and now stand as an obstacle against reform. Dealing with these two constraints will be a challenge for MPCs in the future.

Improving Performance: The Role of the ENP

There is no doubt that the task of improving the performance and rating of MPCs lies primarily at the national level. We believe, however, that a stronger linkage with the EU can provide both a stimulus and a framework for such a task. This position has been expounded elsewhere in the work of FEMISE (Radwan & Reiffers, 2005) and only a summary will be provided here based on the report on the Euro-Mediterranean Partnership, 2006 (Radwan & Reiffers, 2007).

The Barcelona Declaration is attractive for its ambition to establish a large Euro-Mediterranean region based on elements that go beyond free trade, by including a political project of co-development – peace and shared prosperity – supported by financial transfers, by reaching out to civil society and sub-national cooperation. This ambition is far from having reached its objective.

In the face of this, multiple voices have called for actions that bring this project to fruition, which ultimately indicates the fundamental need for it. Whether for this reason or not, Europe has started implementing its new European Neighbourhood Policy (ENP). The outline of this new tool should now be carefully drawn up. The ENP embraces a wider geographic zone than that of the Euro-Med, which creates fears of loss of influence for the MEDA partners (whether this be justified or not does not matter, as these fears exist in actual fact). The method adopted here is pragmatic: to concentrate on relations between the Neighbourhood Policy and the Barcelona Process, in a way that the ENP effectively constitutes a complement which consolidates the partnership without substituting it.

The first point of this method consists of defining precisely the notion on which this policy is based – theoretically, the translation of a vision and a project. Until now, the term associated de facto is deep integration. This concept is the one that has undoubtedly presided over the development of European integration, marking an undeniable success story. The basic contract of the European model, which embodies 2,000 directives of the Internal Market, is not only of an economic nature, but also a social one that encompasses a conception of democracy, individuals' rights and, also, a strategic vision towards forming a group that has its weight in world relations. It is quite obvious that the concept of deep integration goes far: basically, it is a political project built on economic stages. The project requires serious institutional evolutions and important actions of convergence inside the whole zone. The orientations announced by the Commission indicate that the Neighbourhood has certainly the concern to take into account social and political elements, as is the case with the Partnership. It will however, include an additional innovative point, "a stake in the internal market": specific elements of the European legal frameworks, case by case and partner by partner negotiations.

This is where we depart far from the notion of deep integration: the modus operandi of the ENP is fundamentally bilateral; the regional logic seems to be replaced by the logic of partner by partner negotiation. This allows deeper integration with some partners, while only providing simple technical assistance to others, with the hope of not having a third case equivalent to an exit the Euro-Mediterranean institutional environment. The notion of bilateral negotiation is justified by the concern to respect the willingness and the specifications of every neighbour; although at the same time, both the TACIS Eastern Europe countries and the MEDA countries of the South are put in the same framework. This may be a detail, as long as the Euro-Mediterranean specificities continue to be recognized, but keeping in mind that the bilateral discussion cannot improve South-South integration. Here, the point of view of FEMISE is that the solution allowing the ENP to take its full dimension is to strengthen simultaneously the weight of the coordination level, which is in fact the Partnership. Actually, the essential question is not to know if a new orientation as the ENP can bring more with regard to the initial situation, but to find the best combination "Partnership-ENP," the most appropriate according to the objectives of development in the Mediterranean. It requires at first to always refer to the initial purpose of creating a zone of peace and shared prosperity, then to mix the regional and bilateral approaches in view of this purpose. Finally to determine the arrangements that will allow the necessary convergence of average incomes between the EC and the Mediterranean. Some kind of political coherence still remains to be assumed. It is clear, from the viewpoint of European construction, that the only coherent perspective with the concept of European integration is membership (accession). That is the only engine able to activate the implementation of all necessary adjustments and reforms, of supplying the necessary means and willingness, and insuring anticipations that reduce the risk. That is to say, in conclusion, that the reference to the deep integration for the Euro-Mediterranean region is not adapted and can only, at this moment, lead to new disappointments. This does not mean a rejection of the ENP. On the contrary, it is necessary, once the concept is clarified, to build the right tool, which means an indispensable reversal of the perspective: the starting point should be to determine the concrete conditions of a better insertion of the MP in the European market.

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It is the advantage of the European proposal – the concession of a stake in the internal market – to provide this reference, an advantage that compensates partly the absence of vision. The merit of the European offer is, indeed, to depend on a precise group of 2,000 directives which constitute an explicit normative device

TABLE 28 **Ease of Doing Business (2006-2007)**

	Ranking on Ease of Doing Business	
Economy	**2007**	**2006**
Israel	26	26
Tunisia	80	77
Lebanon	86	87
Turkey	91	84
Morocco	115	117
Algeria	116	123
West Bank and Gaza	127	127
Syria	130	135
Egypt	165	165

Source: World Bank and IFC, Doing Business 2007, How to Reform, Washington, D.C., 2006

with the double advantage to allow an increased access to the main market of the MP and an undeniable rise in the quality of the implemented techniques of production and institutions. The method of understanding adopted in the report is divided into three large stages. Firstly, it is a matter of well identifying the directives impossible to circumvent and which correspond, in a certain way, to an improvement of universal quality. Here, there is an undeniable contribution of the EU which offers a normative framework. It is then necessary to thoroughly study the economic and social indices, which will largely decide the feasibility of the transposition of a consequent number of directives, which means that the diffusion of part of the *acquis communitaire* that should impulse the behavioural and institutional modifications that benefit the Mediterranean development, could not be neutral and without any consequences on societies. It seems quite obvious, from the point of view of convergence of institutions between European and Mediterranean societies, that implementing technical or sanitary standards on products does not have the same implication as liberalizing services, opening procurement contracts or cultural goods markets or initiating discussions on questions of deep integration, such as people circulation. Here a decisive step has to be made, which consists, in fact, of replying to a question that was raised during the Barcelona Summit: to what extent do European and Mediterranean societies want to converge? From the answer comes the third stage, which consists of organizing priorities into a hierarchy, given the shared vision, and defining the main responsibility levels. In other words, what is contained in the national domain, the bilateral negotiation and regional multilateral discussion. From this point of view, with the idea to build a great Euro-Mediterranean area, it is necessary to support as much as possible the regional level by strengthening the partnership coordination mechanisms, in particular by establishing the authorities in charge of implementation (authorities in charge of solving conflicts, of monitoring, etc).

This Euro-Mediterranean dialogue represents an interesting case with regard to an approach that is restricted to the sole economic efficiency, in which the question of stakes would arise differently since it is not in function of the European integration model anymore but of world integration. It will be the responsibility of the authorities to incarnate this decision of convergence; to precisely define the set-up of the Partnership tools, including the ENP, by taking account of the strong interdependence between Europe and the Mediterranean, of the European experience in terms of convergence, thereby increasingly involving the social domain. This will attribute a major importance to the regional contextualization, as can be shown with the issue of the role of women in the economic development of the Mediterranean.

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