MIDDLE EAST AND NORTH AFRICA REGION

2008 Economic Developments and Prospects

REGIONAL INTEGRATION FOR GLOBAL COMPETITIVENESS

THE WORLD BANK

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Abbreviations and Acronyms

AGP	Arab Gas Pipeline
ANIMA	Euro-Mediterranean Network of Investment Promotion Agencies
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
bbl	barrels
bcm	billion cubic meters
BIT	bilateral investment treaty
BOP	balance of payments
COMESA	Common Market for Eastern and Southern Africa
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
GAFTA	Greater Arab Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GDP	gross domestic product
GW	gigawatt
GWh	gigawatt-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 quality of public administration
ILO	International Labour Organization
ITSAM	Integrated Transport System in the Arab Mashreq
JB	joint bank (Arab Republic of Egpyt)
kV	kilovolt
LAC	Latin America and the Caribbean
LF	labor force
LIBOR	London interbank offered rate
LIMC	low- and middle-income countries
LPI	Logistics Performance Index
LNG	liquefied natural gas
MENA	Middle East and North Africa
Mercosur	Southern Cone Common Market
MFA	Multifiber Agreement
MFN	most favored nation
MSCI EM	Morgan Stanley Capital International Emerging Markets index
MVA	manufacturing value added
MW	megawatt
NAFTA	North American Free Trade Agreement
NAV	non–ad valorem
NTBs	nontariff barriers
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OTRI	Overall Trade Restrictiveness Index
PAFTA	Pan-Arab Free Trade Agreement
PPA	power purchase agreement
PPP	purchasing power parity
PSBR	Public Sector Borrowing Requirement
QIZ	qualified industrial zone
RRLA	resource-rich, labor-abundant
RRLI	resource-rich, labor-importing
RTA	regional trade agreement
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 Region (MENA) experienced average growth of 5.7 percent.[1] 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 about 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. Because most countries in the region subsidize food and energy, high food prices will lead to fiscal pressures for many governments. But such pressures are not expected to choke off economic growth. Global financial turbulence and a likely slowdown of growth in the Organisation for Economic Co-operation and Development (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 the region. During 2007, GDP growth was almost evenly distributed across the subgroups of the region. For the resource-poor, labor-abundant economies, output growth slipped to 5.4 percent in 2007 from 6.3 percent in 2006. But with the exception of Djibouti and Morocco, GDP accelerated or equaled its 2006 pace in all other economies of the subgroup. Per capita GDP eased to 3.8 percent in 2007, 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

[1] The region consists of resource-poor, labor-abundant economies (Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, and Tunisia); resource-rich, labor-abundant economies (Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic, and the Republic of Yemen); and resource-rich, labor-importing economies (Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates). This classification of countries is based on the relative abundance of resource endowments, both natural resources and labor. Broadly speaking, those countries classified as "resource-rich" are those with large positive net oil exports. Those classified as "labor-abundant" are those with net inflows of workers remittances, while "labor-importing" are those with net outflows.

exporters. Developments for the group of resource-rich, labor-abundant economies were dominated by key hydrocarbon producers Iran and Algeria. GDP growth for the 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 the Syrian Arab Republic. 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 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.

Though the region has done well in comparison with its own past performance, the same cannot be said when comparing it 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 to ensure 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 2004–06, 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 Morgan Stanley Capital International Emerging Markets index, the Gulf Cooperation Council (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 similar to the experience of all developing countries, the increase in spreads reflected the fall in U.S. Treasury yields (flight to quality), leaving MENA sovereign yields largely unchanged. Also, 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 per barrel (bbl) during early 2008, continues to be a major factor in MENA 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, a rise of $122 billion, and underscores the fact that production in the region has been declining—owing either to binding capacity constraints, or to output in several countries being managed to remain in line with agreed-upon 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 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, for example, Djibouti and the Republic of Yemen. In the Republic of 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. Countries such as Djibouti, the Arab Republic of Egypt, and the Republic of Yemen were 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 the Republic of Yemen experienced episodes of social unrest in recent months.

For many countries, the positive impact of economic growth on poverty has most likely been off-

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

set substantially by food price inflation in 2007, although not enough information is available at this point to provide accurate estimates. Also, some countries have felt the pressure of food price increases directly in national budgets because they subsidize staple foodstuffs. Thus, in 2007, countries such as Egypt and the Islamic Republic of Iran saw food subsidies claim shares of between 4 percent and 8 percent of their budgets, respectively. Among GCC countries, the chief manifestation of food price increases was 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 2000–04, 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 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 toward real estate and energy sector investments, which is generating two concerns: first, that such investments might push up inflation by raising the price of nontradables (especially housing), and second, that such investments 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, as some service sector projects, especially in the tourism and 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 biofuels, and shrinking acreage used 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 population, 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 strong demand in emerging markets and to 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 that are net importers of food and that maintain high subsidies on foodstuffs. As the global environment stabilizes by 2009 and 2010, the region 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. Also, the flux of developments related to continuing tensions in the region will affect global and regional investor confidence. Overall, however, MENA countries have positive prospects, including the opportunity to advance reforms and better position themselves for sustainable growth and employment creation under conditions of global competitiveness.

Regional Integration Developments

The rise in the price of hydrocarbons in recent years has revived interest in intraregional 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—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 intraregional agreements have been signed in the past few decades, and at least one geographically comprehensive agreement, the Greater Arab Free Trade Agreement (GAFTA), is being implemented. The general impression, however, is that intraregional

trade is low compared with its potential and with levels achieved by economic blocs elsewhere in the world. For example, intraregional merchandise exports among GAFTA members is about 9 percent of total bloc exports. This is much less than the levels achieved by blocs such as the North American Free Trade Agreement (NAFTA) and the Association of Southeast Asian Nations (ASEAN), although it is comparable to the levels achieved by other blocs, such as the Southern Cone Common Market (Mercosur) and the Common Market for Eastern and Southern Africa (COMESA).

Low levels of intraregional trade can be explained partly by the lack of complementarity in production and trade structures across the region. Bilateral complementarity indexes 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). Although most trade agreements focus on reciprocal tariff reductions, studies show that the removal of nontariff barriers and improvement of logistics in MENA countries would provide greater welfare benefits at this stage.

Labor mobility. The region is more integrated through labor mobility than through trade and investment. Though the region's share of global trade flows is below 5 percent, 16 percent of all remittances paid out to migrants in the world originate in MENA countries, 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; however, this tendency is constrained both by the desire in those countries to reserve many jobs for nationals and by competition for available jobs from migrants elsewhere, including 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 intraregional capital flows. First, on the demand side, a number of economies that were 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. The amount of capital that actually flows intraregionally depends on regulatory developments applied 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 the upside potential in these markets. Market capitalization in MENA countries 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 are 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 Egypt, Lebanon, Syria, and Tunisia, covering several sectors, including telecommunications, real estate, tourism, banking, and financial institutions.

Intraregional infrastructure links. The region is becoming more integrated through cross-border infrastructure projects in energy, transport, and telecommunications. With the support of the European Union (EU), Egypt, Jordan, Lebanon, and Syria have embarked on the establishment of a regional gas market that ultimately will be 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 so far have been largely neglected in regional integration efforts, notably facilitating trade and transport, opening services markets, and integrating factor markets. These issues clearly deserve a higher profile on the policy agenda. Fortunately, all the associated policy reforms not only are suitable for bringing MENA countries closer together, but also will 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, nontariff 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 (for example, Egypt and Saudi Arabia), the region as a whole has failed to keep pace with business climate reforms elsewhere. In terms of reform efforts, 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 countries, ranking above East Asia, Latin America, South Asia, and Sub-Saharan Africa. However, this ranking has slipped relative to 2006. On the other hand, the quality of public accountability remains very low, 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.

[3] The data used to assess progress in governance are 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, or of the countries they represent.

Table 1: Progress with structural reform

Country/region	Trade policy		Business climate[a]		Governance: quality of administration		Governance: public sector accountability	
	Current status[b]	Reform progress[c]	Current status[b]	Reform progress[c]	Current status[b]	Reform progress[c]	Current status[b]	Reform progress[c]
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[a]	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[a]	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 the 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.

Note: — = Data are not available.

a. The business climate index reported in *MENA Economic Developments and Prospects 2008* 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 report.

b. 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.

c. 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). The order of countries is 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.

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 in the Middle East and North Africa (MENA) Region—such as growth, inflation, balance of payments, and fiscal balances—in 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 the result of one or more of the following conditions: (1) high oil prices may have offset the contractionary effect of falling Organisation for Economic Co-operation and Development (OECD) growth rates following the crisis, (2) financial markets in MENA are not closely integrated with those in the United States and Europe and so may have escaped contagion, and (3) 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, the Islamic Republic of Iran, and the Gulf Cooperation Council [GCC] countries) are major net exporters of hydrocarbons. These countries have benefited greatly from the recent buoyancy in hydrocarbon prices. Still others, such as the Arab Republic of Egypt and the Syrian Arab Republic, 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 the Republic of 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. Countries such as Djibouti, Egypt, and Yemen have been the most vulnerable, because the bottom two quintiles of

[1] The cutoff date for historical 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 per barrel (bbl) as of mid-June 2008, and selected food prices have 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.

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 because they subsidize staple foodstuffs. Thus, countries such as Egypt, Iran, and Syria saw 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.

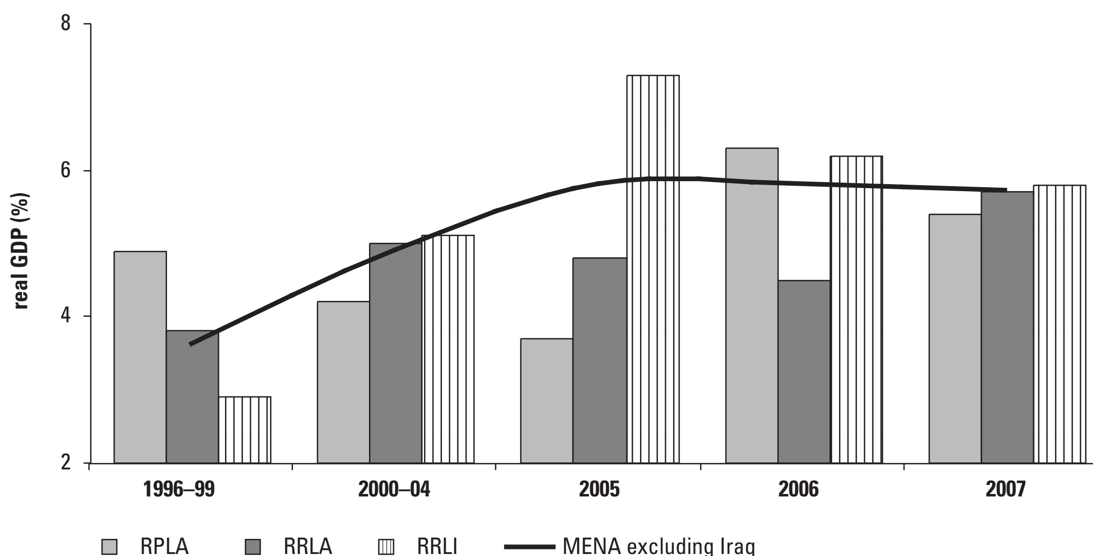
1.1 Overview of Recent Economic Developments

Figure 1.1 shows that growth for the MENA region eased by just a 10th of a point, to 5.7 percent in 2007, and was almost evenly distributed across the important subgroups of the region.[2] This suggests that either the shocks that occurred in 2007 offset each other or the impact has yet to work out fully, or both. One of the shocks, that involving oil and gas prices, worked in the region's favor, and the region was not badly affected by the subprime crisis in the United States or by the shock's associated dampening effect on growth in the industrialized world. The lack of contagion may also be attributable to weaker integration of MENA's financial sector with the financial sectors of the United States and Europe and to improvements in MENA's fundamentals over the past decade—including better fiscal and monetary management, more open regimes with more flexible exchange rates, and better debt and financial management, which has reduced exposure to international capital markets.

Though growth was not affected on average, the same cannot be said for inflation, which rose almost everywhere in the region in 2007 and continues to rise in 2008 (figure 1.2). The spike in 2008 is largely due to food price pressures. In the Gulf countries that peg their currencies to the dollar, inflationary

[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) includes Algeria, Iran, Iraq, Syria, and Yemen. It should be noted that because of data limitations and uncertainties regarding data quality, this report often excludes Iraq from the group of resource-rich economies and from the MENA region. (Table and figure notes highlight this exclusion.) 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, Egypt, Jordan, Lebanon, Morocco, Tunisia, and the West Bank and Gaza. As with Iraq, data limitations and data quality issues for the West Bank and Gaza require that this economy be excluded from subregional and regional aggregates (highlighted in table and figure notes).

Figure 1.1: GDP growth in MENA economic groups, 1996–2007



Sources: National agencies and World Bank estimates.

Note: See footnote 2 for economic groups.

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.

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 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 2007, still well above the 2.6 percent pace of

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*
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

Sources: National agencies, International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), and World Bank staff estimates.

Note: The MENA region includes the RPLA economies Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, and the West Bank and Gaza; the RRLA economies Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic, and the Republic of Yemen; and the RRLI economies Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Because of data limitations, the West Bank and Gaza is not included in regional or subregional aggregates.
* Estimated.

2000–04 (table 1.1). Consumer price index (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 percent in 2007), where food and fuel prices, as well as strong liquidity conditions, contributed. Egypt's CPI eased from 12 percent in March 2007 (year on year) to 6.5 percent by November, but price pressures across several MENA economies continue and remain a concern (figure 1.2).

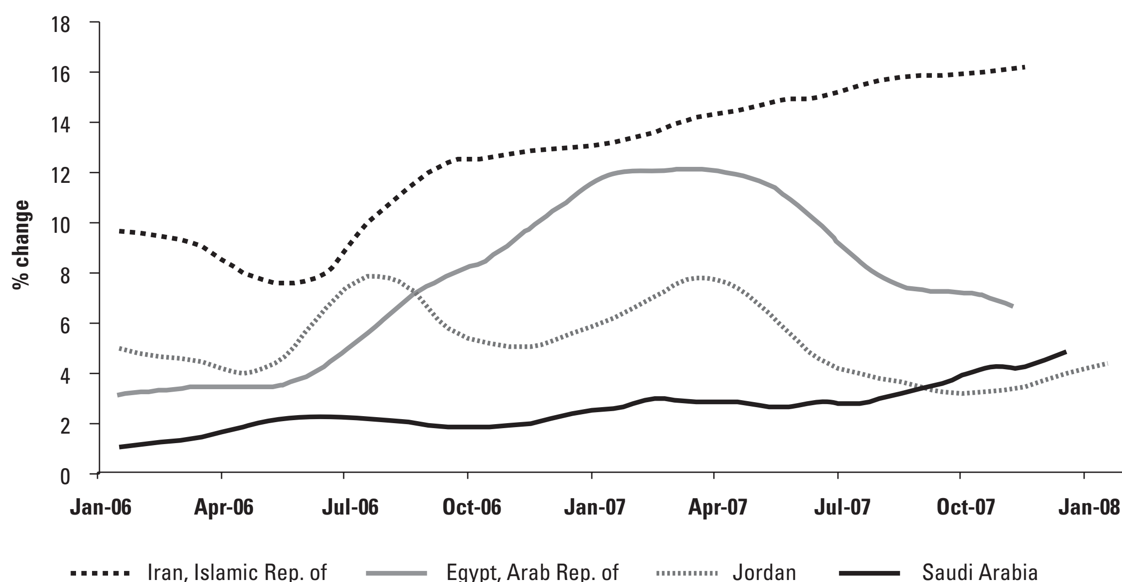
RPLA industrial production picked up, reaching a GDP-weighted average of 4.6 percent in 2007, the strongest across all MENA groups, with favorable performance in Tunisia (10 percent), Morocco (5 percent), and Egypt and Jordan (4 percent). Fiscal balances deteriorated moderately, coming to stand at a 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. Regarding foreign direct investment (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).

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 further down the scale of oil supply (with quickly diminishing reserves), with economies that are more diversified in manufacturing and basic services. Economic conditions in Iraq, which is classified with the RRLA 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 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 the Islamic Republic of Iran. In part because of its policy imperative of "sharing the wealth," Iran continues to register a fiscal deficit (4.7 percent of GDP)—despite rising, large current account surplus positions of 11 percent—and inflation continues to accelerate (to 16.8 percent in 2007). FDI is, for the first time, increasing in Algeria, while hydrocarbon production is dropping across all economies of the group.

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

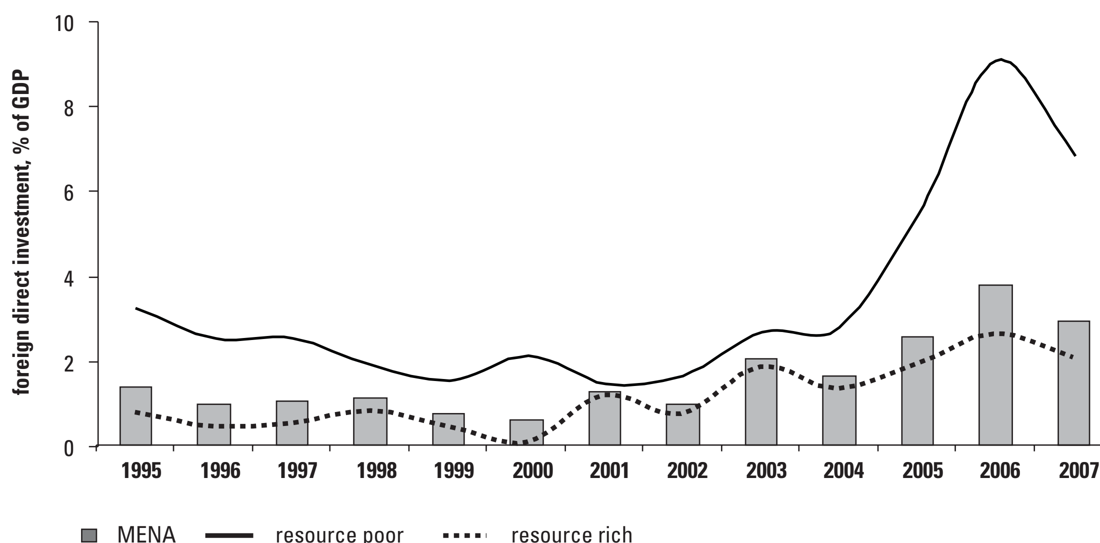
Figure 1.2: Inflation trends in selected countries, 2006–08



Source: IMF.

Note: Graph shows the year-on-year change (percent) in consumer prices (with any period's prices calculated according to a three-month moving average).

Figure 1.3: FDI flows to MENA region, 1995–2007



Sources: National agencies, IMF, UNCTAD, and World Bank staff estimates.

For the *resource-rich, labor-importing* (RRLI) countries, developments were mixed in 2007. GDP growth fell to 5.8 percent from 6.2 percent in 2006, as five out of seven oil exporters saw growth rates ease because of a scaling back of crude oil production, which fell by a total of 4.7 percent for the group. 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 the 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 roles of different sources of growth for the MENA region have 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). In addition, the contribution of government consumption to growth, which had increased over 2004–06, declined in 2007.

Table 1.2 also highlights that the RPLA economies witnessed a falloff in GDP growth of almost a full point, to 5.4 percent in 2007. This occurred 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 over the year (boosting GDP by 4.7 points). Counterbalancing that gain was a large increase (17 percent) 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. As a result, net exports exerted a 3.2 point drag on growth (offsetting the 8.6 point gain in overall domestic demand).

Among oil exporters of the region, the RRLA group (excluding Iraq), experienced an increase 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—in some cases, from an administered wage hike for public employees, in others, from 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.

In contrast to the moderate growth upturn for the RRLA group in 2007, activity among the RRLI countries—effectively the Gulf Cooperation Council members and Libya—dipped by 0.4 percentage

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[a]
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, general number field sieve (GNFS)b	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

Sources: National agencies, IMF, UNCTAD, and World Bank staff calculations.

a. Estimated for 2007.

b. Change in net exports of goods and nonfactor services as a share of lagged GDP, or GDP [−1], includes residual. Also see note to table 1.1.

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 past three years from consumption toward investment outlays. But as oil export volumes for this group experienced effectively zero growth in the year (revenue gains coming 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 8.0 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 percent in 2007, is broadly based, with non-oil manu-

facturing and retail trade accounting for half of overall output growth. The 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

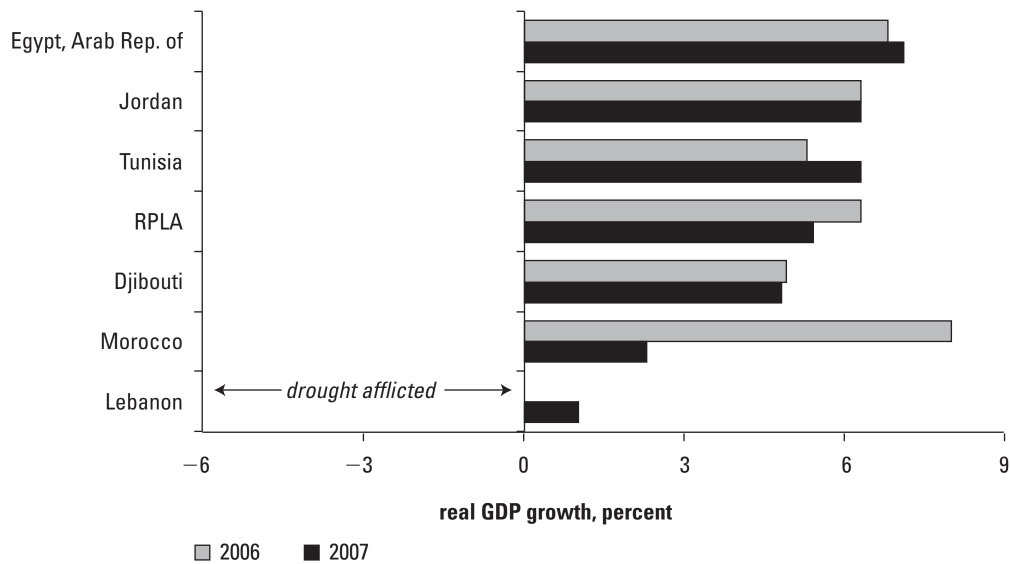
Table 1.3: GDP growth for the region, by country group, 1996–2007

Country group	1996–99 (average)	2000–04 (average)	2005	2006	2007*
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 Rep. 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 (WBG)	—	—	—	—	—
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 Rep. of	3.8	5.7	4.6	5.9	7.6
Iraq	—	–22.5	–0.7	6.2	2.8
Syrian Arab Rep.	4.4	3.9	4.5	5.1	3.9
Yemen, Rep. 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 and 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

Sources: National agencies and World Bank staff estimates.

Note: See footnotes to table 1.1 for MENA groupings definitions based on resource allocations. Additionally, the table above presents aggregates for groups based on geography and trade. The Maghreb consists of Algeria, Libya, Morocco, and Tunisia. The Mashreq comprises Iraq, Jordan, Lebanon, Syria, and the West Bank and Gaza. The Gulf Cooperation Council (GCC) members include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. "Other" consists of Djibouti, Egypt, Iran, and Yemen.
— = data not available.
* Estimate.

Figure 1.4: Growth among RPLA economies, 2007



Sources: National agencies and World Bank staff estimates.

on trade and help maintain current account surplus positions.

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. Morocco was awarded investment-grade status for its sovereign bonds and quickly raised 500 million euros ($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 by Egypt, Jordan, Morocco, and Tunisia (the Agadir Agreement) that sought to align rules of origin with those adopted under the Euro-Mediterranean free trade 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.

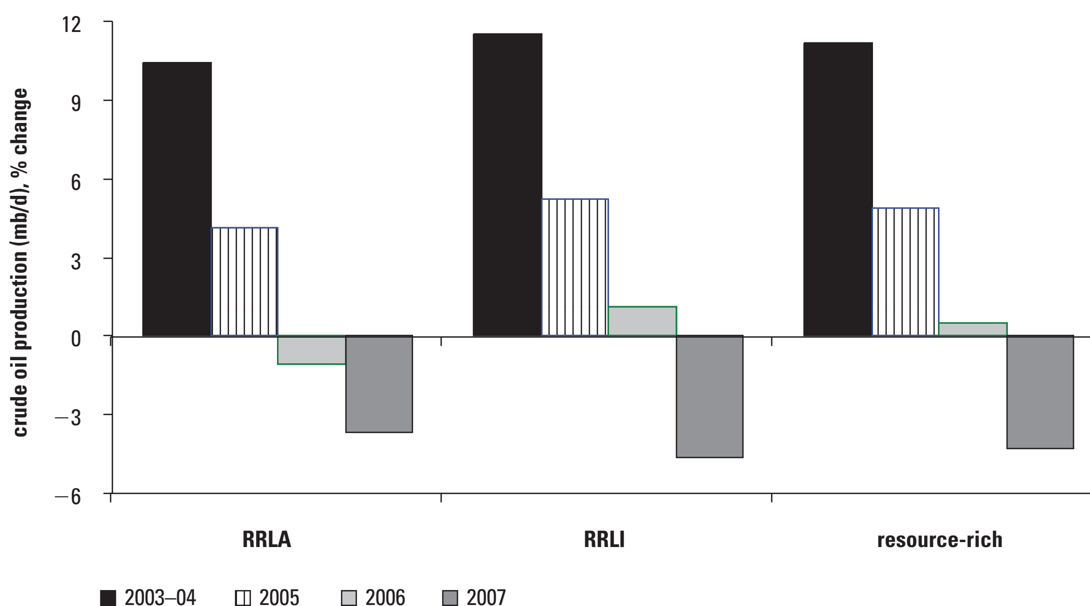
Output in Tunisia grew by 6.3 percent in 2007, with private consumption, government infrastructure spending, and FDI—a strong $3.8 billion in the year—powering growth. Output gains in Jordan duplicated the strong 6.3 percent pace of 2006, as remittances ($2.8 billion), tourism revenues ($1.7 billion), 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 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; and 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).

Owing to capacity constraints or to management of oil output to keep production in line with OPEC quotas, cuts in production (in terms of million barrels per day [mb/d]) amounted to 4.3 percent for

Figure 1.5: Crude oil production cuts, 2007—capacity maximum or OPEC quotas



Sources: International Energy Agency (IEA), World Bank staff estimates

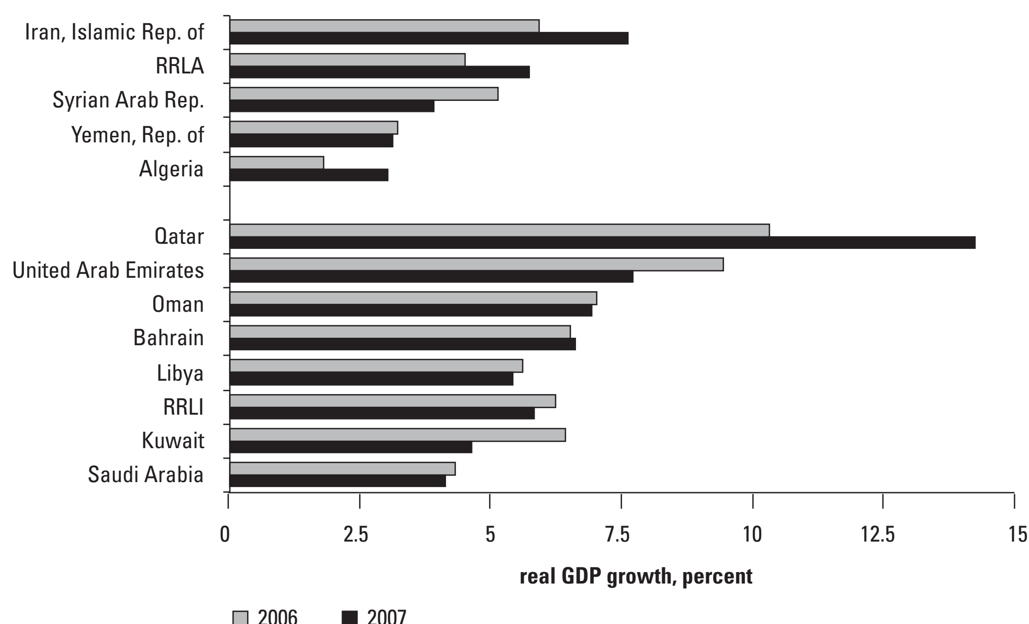
Note: mb/d = million barrels per day. Graph refers to the year-on-year change (percent) in maximum capacity oil production (or quotas where applicable).

all resource-rich economies in 2007, with the scaling back among labor-importing countries a sharper 4.6 percent. Reductions in output ranged from 11.7 percent in Yemen, to 8.4 percent in Kuwait, 4.9 percent in Saudi Arabia, and 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. However, 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 initiative is now boosting job growth in construction and related sectors and underpinning strong household spending. In Iran, following major fiscal expansion over 2006 and 2007—seen in a growing budget deficit since 2005, to 11.9 percent of GDP—growth has risen to 7.6 percent, up from 5.9 percent in 2006.

Among the resource-rich, labor-importing economies, some five of seven oil exporters experienced a growth slowdown in 2007, in large measure linked to a drag on GDP from net exports (so-called leakage of growth momentum), and very little growth in export volumes against continued double-digit gains in import demand. GDP growth for Saudi Arabia, Kuwait, the United Arab Emirates, Oman, and Libya retained firm tenor in the year but diminished from 2006 rates (see figure 1.6). Saudi Arabia's GDP eased to 4.1 percent from 4.3 percent in 2006; the UAE had a more marked slowdown, from 9.4 percent to 7.7 percent; and 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, and which sustained that growth over 2007. Growth was supported by rising government spending and 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

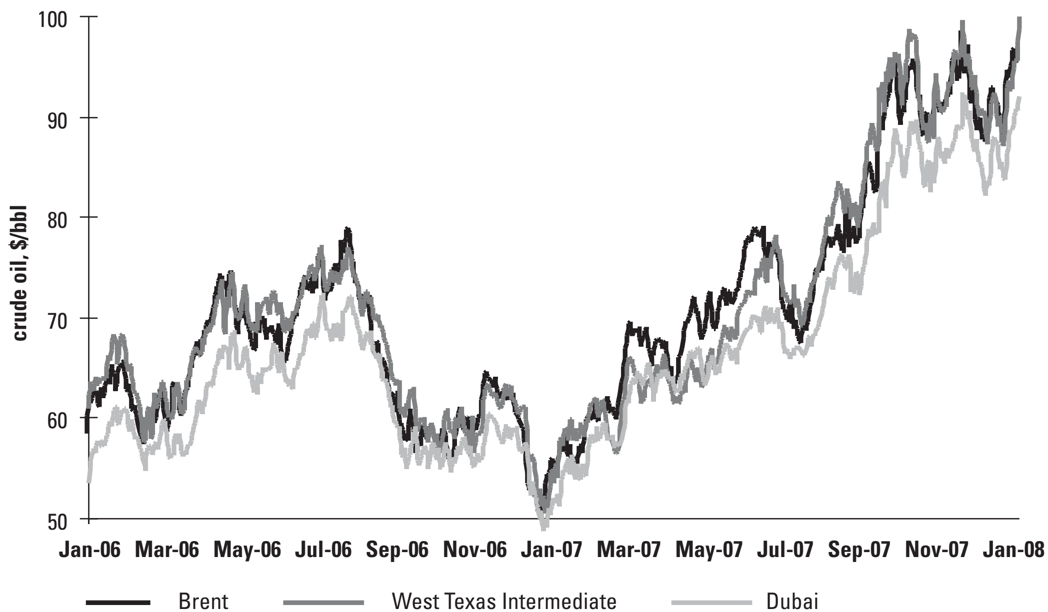
MENA trade in goods and services set fresh records during 2007. Goods exports were supported by higher oil prices and by improved conditions in key export markets. Imports continued rapid growth, particularly among the resource-rich economies, in support of ongoing investment projects. In nominal terms, 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 (abundant resource-pool labor) or surplus (resource-rich) positions in goods trade. Current account positions saw moderate declines in the year from the highs of 2006 (as a share of GDP). External finance also was quite favorable, once more underpinned by near-record flows of foreign direct investment, a larger share of which now originates 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 June 2008, fluctuating at the $140/bbl level. As equity and fixed-income markets in the industrial countries have come under pressure, tied to the subprime 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 1.7). In real terms, crude oil prices increased 43 percent during 2007 to reach $60.2/bbl, as measured in 2000 U.S. dollars.

Higher oil prices have reduced growth in global oil demand, particularly in high-income countries. OECD countries' 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. In non-OECD economies, oil demand grew just over 1 million barrels per day since 2005, down sharply from the surge of 2004. And supply in several non-OPEC producers, especially the Russian Federation and countries in Western Africa, increased during the second half of 2007. Among OECD countries, Canadian production continues to grow, predominantly from oil sands, while significant new output from U.S. deepwater wells in the 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 1.7: Sharply rebounding oil prices, 2006–08



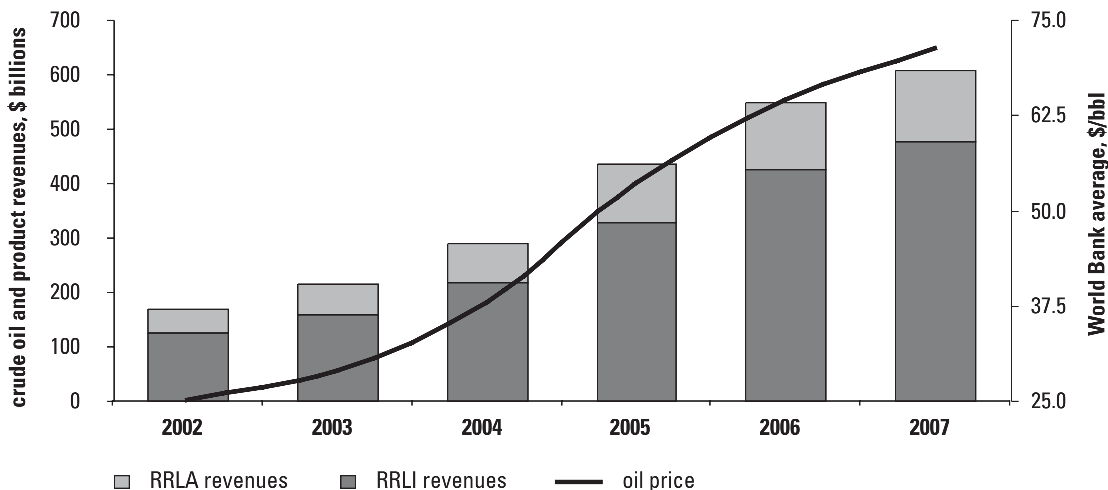
Source: DECPG Commodities Group and World Bank staff.

Figure 1.8 shows that, for the resource-rich oil exporters in MENA (excluding Iraq), the oil price advances of the past two 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).

1.2.2 Exports of goods

Exports of merchandise from the region amounted to nearly $800 billion in 2007, of which $620 billion comprised revenues from oil and related products. This represents an 11.8 percent advance from 2006,

Figure 1.8: Oil price and growth of revenues among oil exporters, 2002–07



Source: UN Comtrade, IMF, IEA, and World Bank.

with oil exports gaining 11 percent and non-oil exports growing a robust 15 percent. Higher oil prices accounted for the full upswing in export receipts, while increased 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, representing 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.

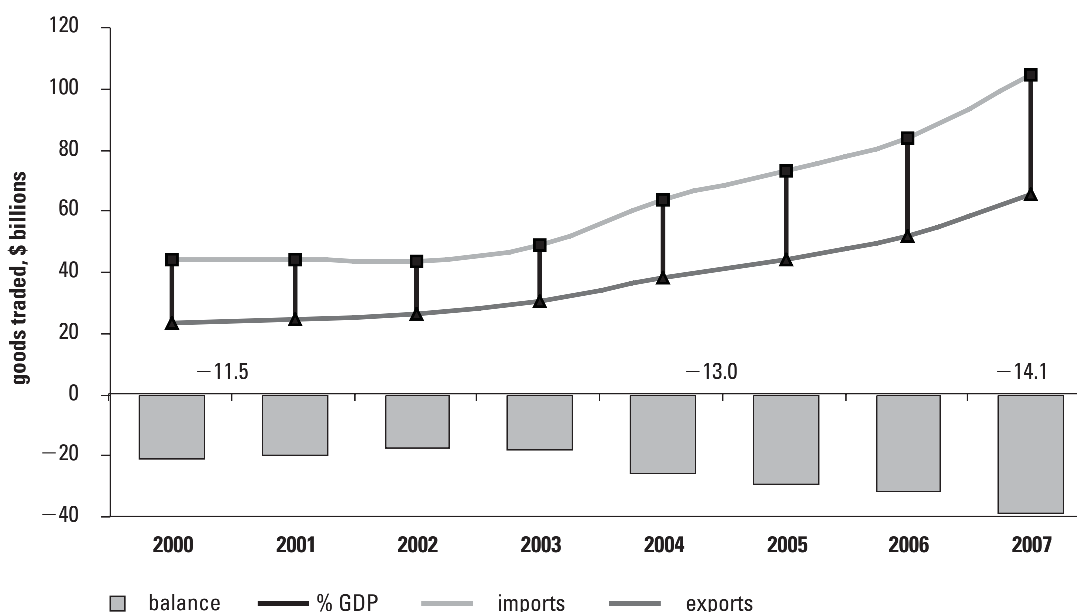
Scaled-back output was a clear factor in the oil-export picture for the year, with estimates that MENA exporters cut production by 4.3 percent. The World Bank's average oil price for 2007 registered \$71.1/bbl, up 10.6 percent from the \$64.3/bbl level of 2006 (see table 1.4). Though prices of country- or quality-specific crude oils will vary from the World 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 adversely affect terms of trade for the RPLA countries. 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 1.9 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 14.1 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: Widening of the RPLA deficit on goods trade, based on strong imports, 2000–07



Sources: National agencies, IMF, and World Bank.

Table 1.4: 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
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. 10-year Treasury 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 emerging market (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

Sources: 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 (USD).
c. Nominal, broad measure.
e. = estimate.
f. = forecast. These projections were based on oil price forecasts from the spring of 2008. Subsequently, oil price projections have increased substantially. Under higher oil price assumptions, current account balances for most of the resource-rich economies in the region would be expected to escalate sharply. The implications for growth are mixed, given restrictions in oil production and the resurgence in inflation seen in domestic economy, which may serve to dampen growth in consumer spending, for example.
mb/d = million barrels per day.
— = data not available.

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 sizable 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 tourist visits of a religious nature, and Dubai for a broader range of tourist attractions. For the region as a whole, tourism revenues[4] grew by 12 percent in 2007 to reach $29.2 billion.

As highlighted in figure 1.10, Egypt and Morocco, among the RPLA group, have enjoyed the strongest growth in revenues over the past years, in part because investment in improved tourism infrastructure is increasingly in place (much of that tied to FDI from the Gulf countries), and because economic growth in Europe has gained firmer footing. Egypt's efforts to diversify the tourism base, by 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 grew by 12.6 percent, with earnings up 14 percent to $8.2 billion (6.5 percent of GDP). In Morocco, tourism receipts advanced 22 percent in 2007, to reach $7.2 billion (almost 10 percent of GDP).

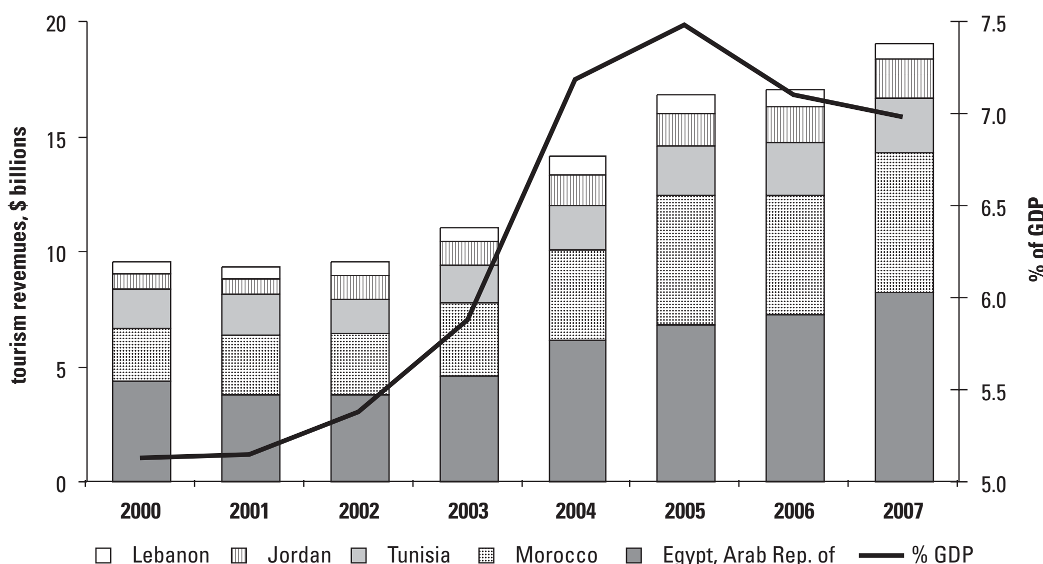
1.2.5 Remittances

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 for 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.

[4] Tourism revenues here are 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.

[5] See the World Bank's migration and remittances Web site: http://www.worldbank.org/prospects/migrationandremittances, for the projects under way, data definitions, and access to the World Bank's database on remittances.

Figure 1.10: RPLA tourism revenues, 2000–07



Sources: World Bank, IMF, World Tourism Organization.

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, for example, Morocco and Saudi Arabia. Gross remittance inflows to recipient countries in MENA increased 17.6 percent in 2007, to $24.7 billion. 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 1.11). 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 reach $1.5 billion.

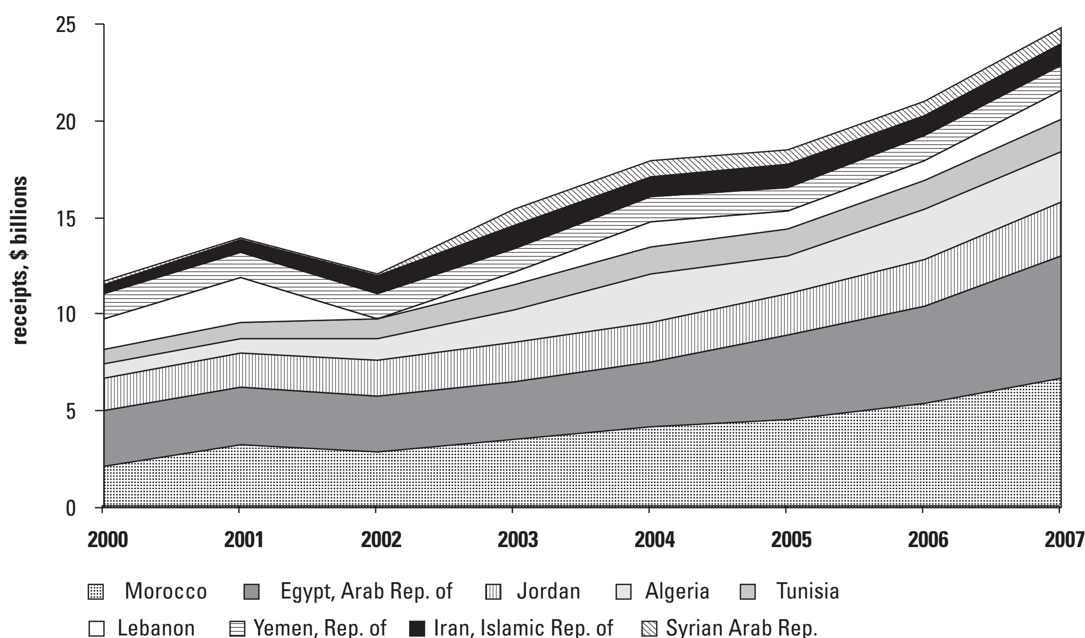
The bulk of remittance receipts noted above are from the expatriate labor force in Western Europe—a shift from the 1970s and early 1980s (due in part to political considerations), when a good portion of income was secured, for example, by Egyptian or Palestinian workers in Saudi Arabia or Kuwait. The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

Among the resource-rich labor-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 1.12). 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 under way 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 of the longer-term trend of sourcing labor from South and East Asia for work efforts among the GCC countries.

1.2.6 Current account balances

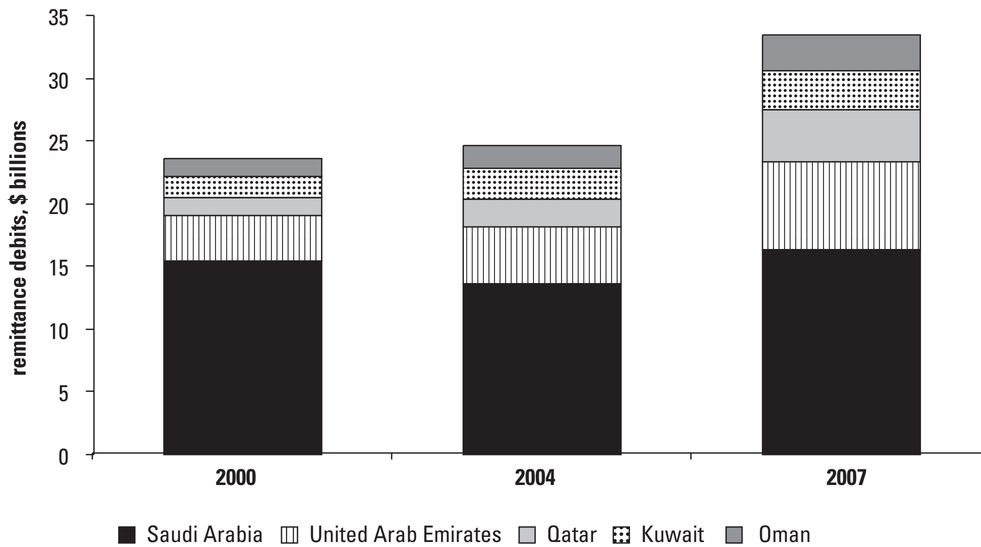
Given developments in goods trade, services exports, and inflows and outflows of remittances during the year, the regional current account surplus

Figure 1.11: Worker remittances, by selected recipient countries, 2000–07



Sources: World Bank, IMF, and national agencies.

Figure 1.12: Changes in GCC countries remittance outflows, 2000–07



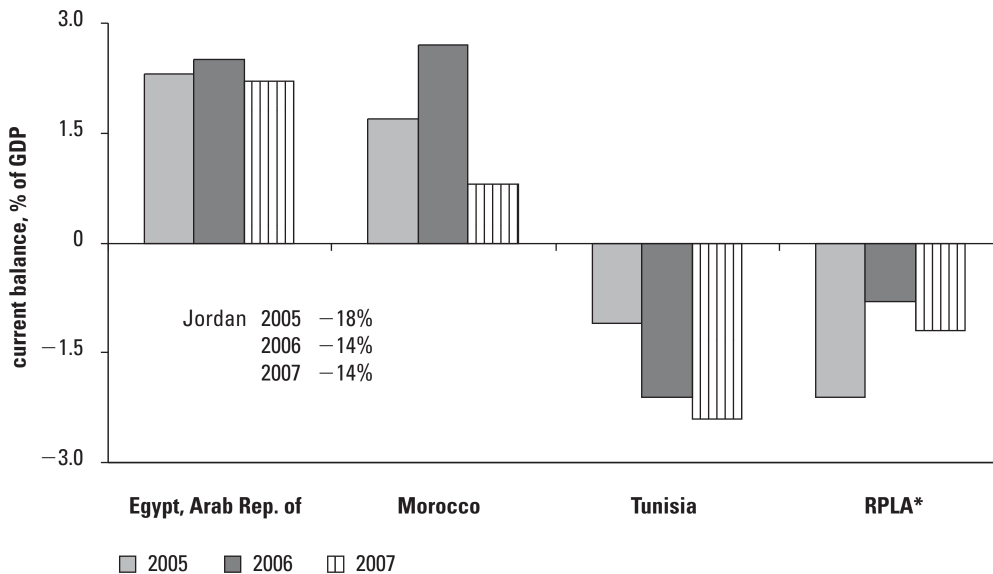
Sources: World Bank, IMF, and national agencies.

position inched higher, to $290 billion from $282 billion in 2006 (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 1.13). The RPLA current account deficit as a share of GDP widened from 0.8 to 1.2 percent in the year.

Among the resource-rich economies, the surplus position of the RRLI group moved slightly higher, but different developments characterized the major oil exporters of the group (figure 1.14). Among

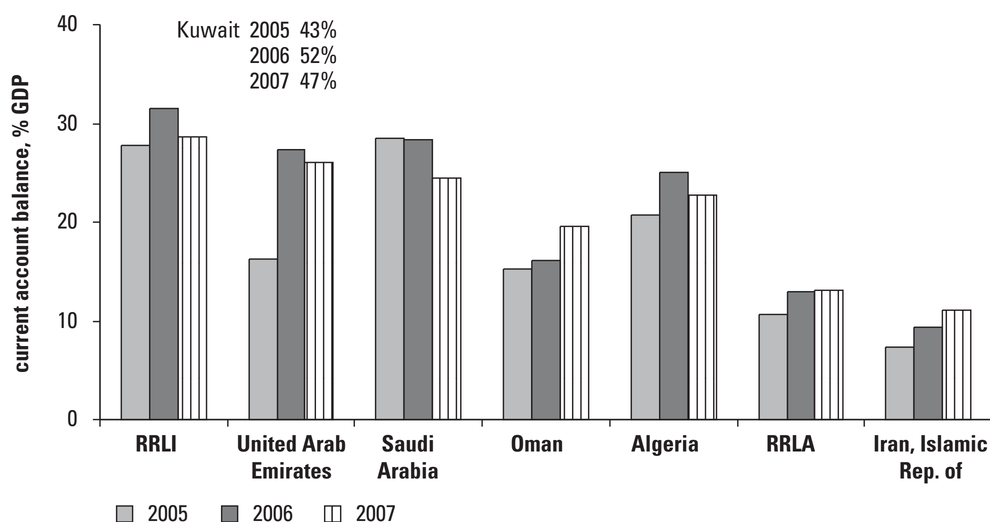
Figure 1.13: RPLA current account balance, 2005–07



Sources: National agencies and World Bank.

*Excludes Lebanon and the West Bank and Gaza.

Figure 1.14: Current surplus balances, selected resource-rich countries, 2005–07



Sources: National agencies and World Bank.

large downward shifts Libya saw its current account surplus fall from 43 percent of GDP to 34 percent, and Kuwait's fell from 51.7 percent of GDP to 46.9 percent. 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.

1.2.7 Foreign direct investment

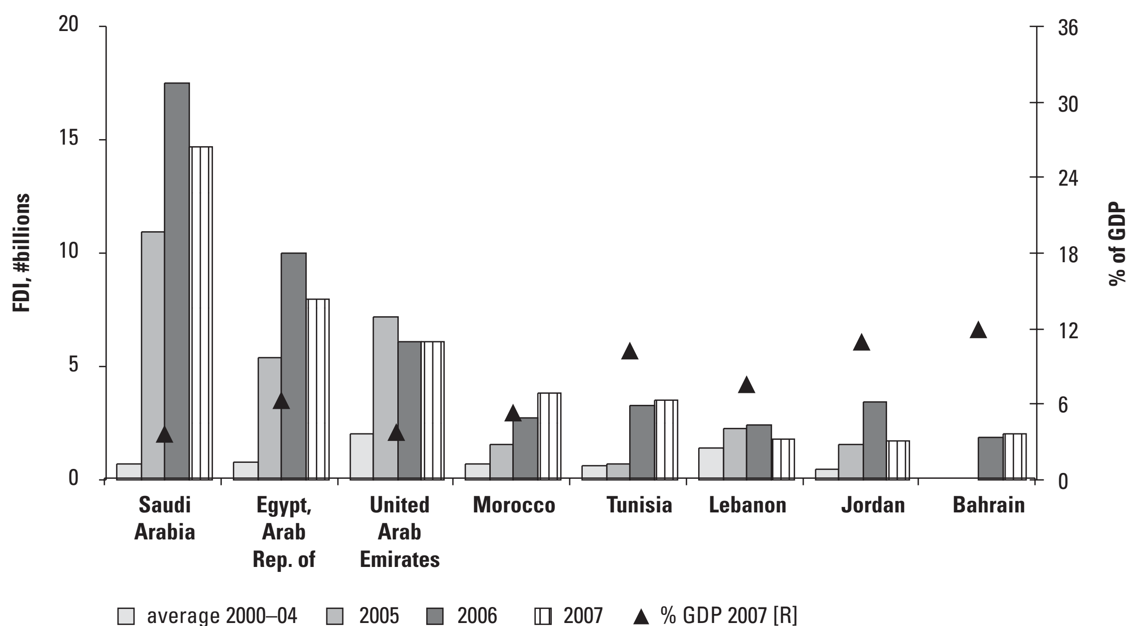
Sustained economic growth over 2003–06, in conjunction with economic diversification and ongoing reforms and privatizations, attracted large FDI flows to the MENA region. The year 2006 was a peak year for FDI for both resource-rich and resource-poor countries (with resource-rich economies benefiting particularly from a $7 billion increase in flows to Saudi Arabia). While FDI has fallen from the record levels achieved in 2006, both groups have received larger FDI flows over 2007 than the years prior to 2006. FDI flowing to oil-exporting economies in particular has grown substantially.

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 that country into second place in the year ($8 billion). In contrast with FDI-to-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 for 2003–06 suggest that, although 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 sizable flows, and Morocco attracted investment into its agrobusiness sector.

Although comprehensive data on intraregional FDI flows are not readily available, some examples provide a flavor. In 2006 the UAE invested 6 billion euros ($7.6 billion) in Egypt in transport infrastructure, tourism, real estate, and telecommunications. Egypt also received 1.4 billion euros ($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," which is expected to create 40,000 jobs, while Emaar Properties (UAE) plans to invest $1.9 billion in Qussor Marina proj-

Figure 1.15: Foreign direct investment in selected countries, 2000–07



Sources: United Nations and World Bank estimates.

ects. 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 has led to a drawdown in foodgrain inventories, making food prices increasingly sensitive to shifts in supply and demand.

Though rising food prices are an issue of concern throughout the MENA region, 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, that is, 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 prices for countries that 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, nontraded commodities (e.g., highly perishable foods) and other inputs such as preparation and transportation. Furthermore, any exchange rate appreciation relative to 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, vulnerability is under 5 percent. Data on food imports as a share of total consumption are more limited; by this measure, Yemen is most exposed to international food price risk, because 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: Djibouti (100 percent of food consumption imported), Yemen (40 percent), and Jordan and Lebanon (between one-quarter and one-third in both cases).

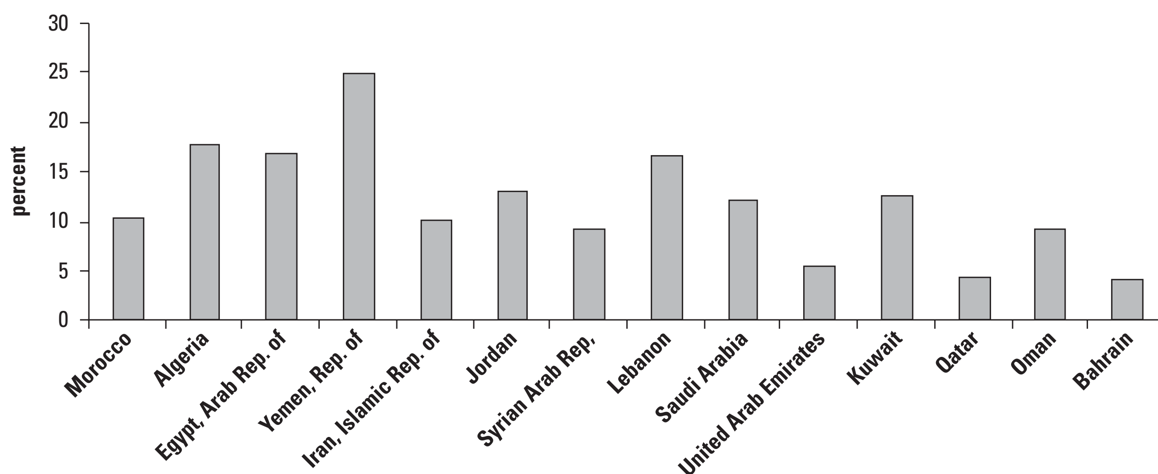
Beyond this general level, it is necessary to look at subgroups within MENA given the wide variation in circumstances in the region. In the classic senses of internal and external balance, the GCC countries have no concerns, with large trade and fiscal surpluses. Hence, even though they are highly reliant 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 are considered first.

1.3.1 Impact on non-GCC MENA countries

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 10 MENA countries where data were available. As the figure shows, 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 Yemen, the inflation problem is to a significant extent a food price inflation problem, whereas in Iran, the issue is general inflation.

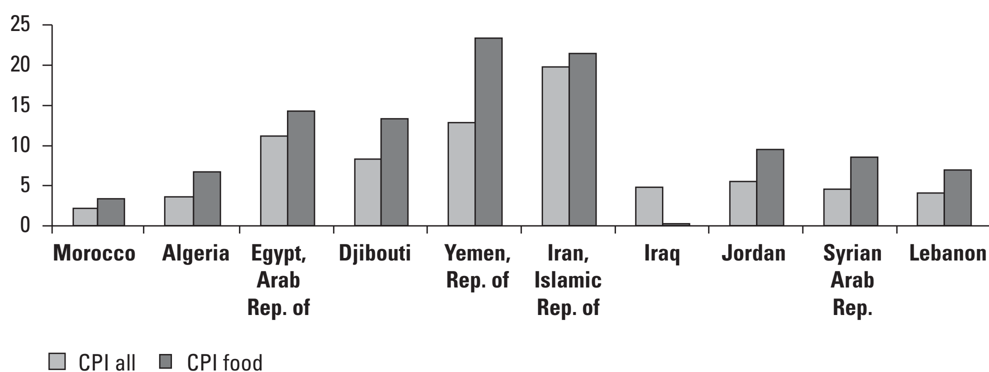
However, food is not the sole driver of inflation even when it has led overall inflation; the general determinants of inflation still matter. For example, though Egypt and Morocco have both seen food prices outpace prices overall, the level of inflation is higher in Egypt. This differential reflects 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 1.16: Food imports as a share of total imports, 2006



Source: World Bank data.

Figure 1.17: CPI for all goods and for food, in selected countries, 2007



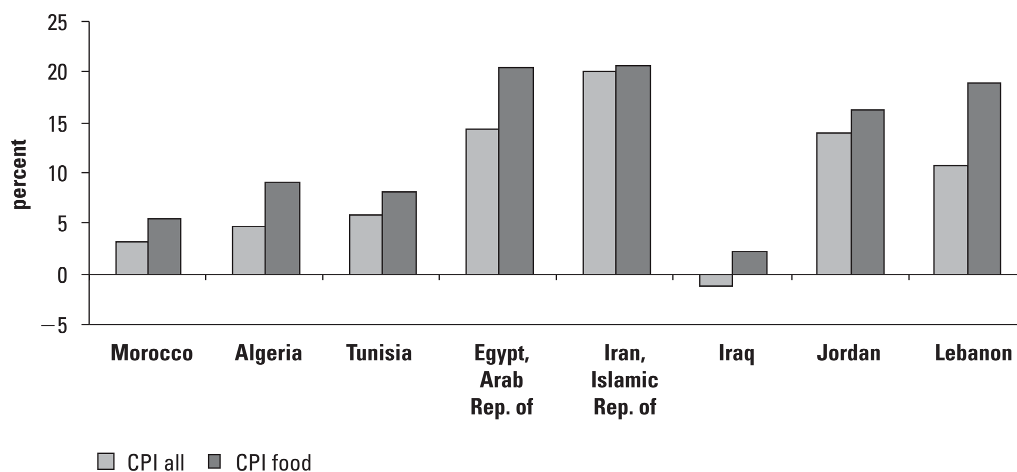
Source: World Bank data.

For the most recent data (generally covering the latest month or the first quarter of 2008), the picture is similar. Of the eight indicated countries in figure 1.18, food price inflation is near or above 10 percent in five countries and is up to 20 percent in Egypt and Iran. As in 2007, Iran is not seeing much of an increase in food prices relative to other goods, 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.

Macroeconomic vulnerability depends on the extent of imbalances but also on the associated financing capacity. Trade and fiscal balances are presented in figure 1.19. There is a clear divergence between the resource-rich countries such as Algeria and Iran and resource-poor countries such as Morocco, Yemen, Jordan, and Lebanon. However, the size of these imbalances alone is not sufficient to identify which countries will experience the most severe stress. For example, although 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 effects 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.

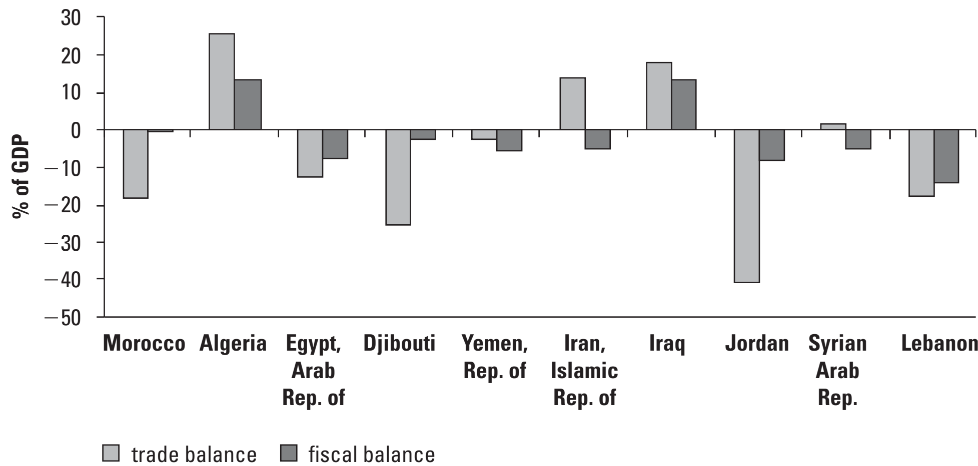
Available evidence indicates that food plays a particularly large role in expenditures by low-income

Figure 1.18: CPI for all goods and for food, 2008



Source: World Bank data.

Figure 1.19: Fiscal and trade balances, 2007



Source: World Bank data.

households in Djibouti, Egypt, and Yemen (figure 1.20). Food accounts for at least 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. Although 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 which may benefit as food producers.

1.3.2 Impact on GCC countries

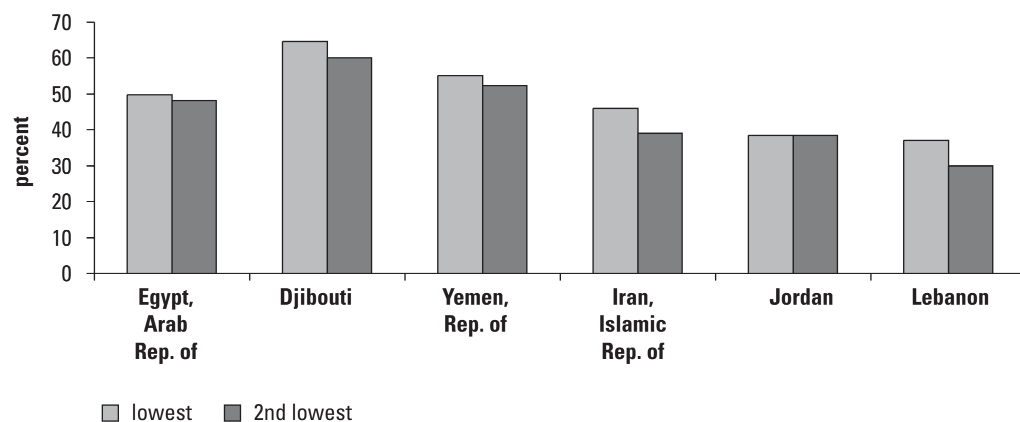
In the GCC countries, the main manifestation of the food price increases is in inflation. Figure 1.21 presents 2008 CPI data for four of the six GCC countries.[6] Saudi Arabia and Oman display the conventional pattern in which food price increases outstrip the overall index. But in Kuwait and Qatar, food prices have increased 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 six countries, food and housing together account for much of the increase in inflation.

1.3.3 Policy framework and response

Available data show that major food subsidy programs in 2007 were concentrated in a relatively few coun-

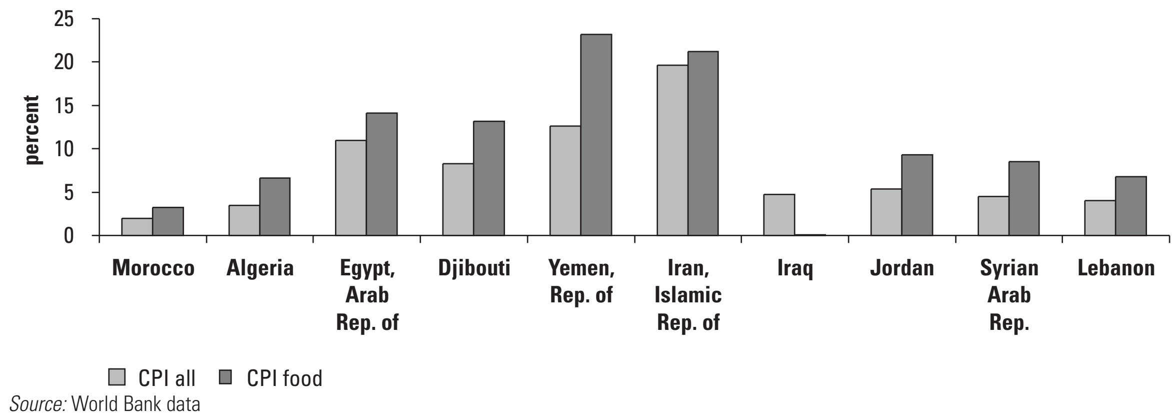
[6] Bahrain and the UAE have revised or are in the process of revising their CPIs, which has impeded availability and comparability of recent CPI data.

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



Source: National agencies' household surveys, latest available year.

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



Source: World Bank data

tries: Egypt, Iran, Jordan, and Syria—in the range of 1 to 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 all these countries have, or had 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 that subsidies are now relatively more significant for Iran, where the government expenditure share is low by MENA standards.

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

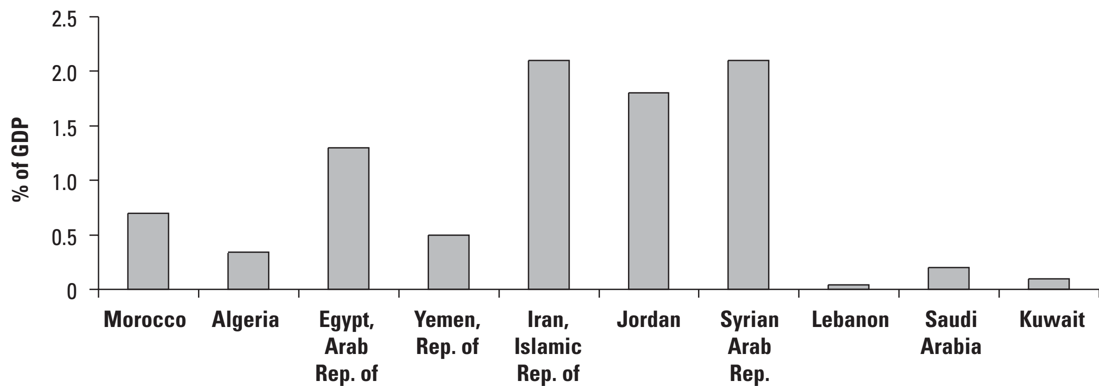
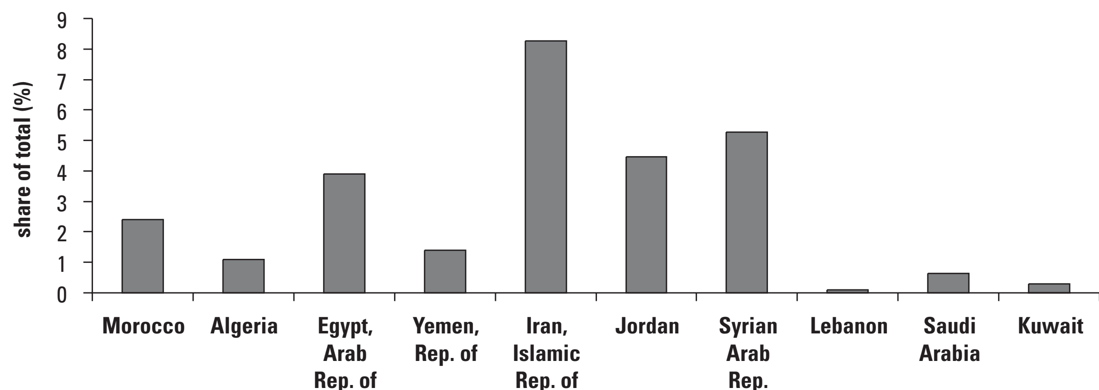


Figure 1.22b: Food subsidies as a share of government expenditure, 2007



Source: World Bank data

In fact, when a trade-off has been forced between cutting energy subsidies or food subsidies, countries have shown a clear preference for scaling 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 apparently view rationalizing food subsidies as the least preferable option. However, the relative strength of many economies in the region may be why 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 countries, where food subsidies are administered by commodity on a universal basis or with eligibility requirements that are not necessarily related to poverty (e.g., military families, as in Yemen).

Policy responses of MENA countries have tended to rely on economy-wide approaches such as selective tax reductions and measures aimed at the retail price of food rather than on existing social protection programs (table 1.5 presents a summary for 10 countries in the region plus the GCC). Unlike in some countries, such as Indonesia, MENA countries have not had effective safety-net programs in place onto which a policy response could be grafted, for example, 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 subsidies—those for flour and baladi (flat bread)—are universal and thus do not form a good basis for targeting.[7]

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 by reduced subsidies on energy and selected higher taxes. Specu-

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

Table 1.5: Policy actions by selected countries

	Economy-wide policies				Existing social protection programs			
Country	Reduced taxes on foodgrains	Increased supply using foodgrain stocks	Export restrictions	Price controls/ consumer subsidies	Cash transfer	Food for work	Food ration/ stamp	School feeding
Egypt, Arab Rep. of			√	√	√		√	
Morocco	√	√		√				√
Tunisia	√	√		√	√			
Yemen, Republic of			√	√	√			
Lebanon	√			√				√
Syrian Arab Rep.	√	√		√	√		√	√
Jordan	√			√	√			√
West Bank and Gaza	√				√		√	√
Iraq	√	√	√	√	√		√	
Djibouti	√			√		√		√
GCC	√			√				

Source: World Bank data.

lation 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 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 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, 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 Web sites) and voluntary price restraint through agreements with supermarket chains.[9] These should be seen as responses not just to food prices, but to rising prices generally—and as attempts to deflect criticism of the dollar pegs under which five of the six GCC countries operate. The one exception to the low level of food subsidies in the GCC countries is Kuwait, where basic food products are provided extensively at low prices through a cooperative supermarket system.

In Saudi Arabia, the primary subsidies are not consumer subsidies per se but are 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 2008, the government decided to stop all domestic wheat purchases over eight years through a 12.5 percent annual reduction in government purchases. Thus, Saudi Arabia will move from self-sufficiency and some exports to 100 percent reliance on imports over this period. The situation is thus sensitive because the increased reliance on imports is unfolding just as global wheat prices rise (and Saudi Arabia adds to the demand). Countries are 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 because of better availability of water and arable land.

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.

Though 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.

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[8] Nevertheless, the combined effect of food and energy prices has caused a 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.

1.4 Near-Term Economic Prospects, 2008–10

A number of factors are likely to shape the profile for growth in the MENA region. One important factor in the external environment is the anticipation of a distinct slowing of industrial-country demand for 2008, primarily in the United States, but also in Europe and Japan. This slowing is likely to be accompanied by high and rising oil prices, tied in part to growing demand in emerging markets, but moretightly tied 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 pace (5.9 percent) in 2008.

As the global environment stabilizes by 2009 and 2010, MENA should be able to maintain growth momentum averaging 5.5 percent. Domestic conditions will vary markedly across the economies of the region, as will efforts at reform. Also, 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 2008–10 (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 growth in oil demand above 2 percent per year. Non-OPEC supply is likely to pick up to a pace above 2 percent, and OPEC is forecast to begin a gradual increase in output to grow 2.3 percent by 2010. Under these circumstances oil prices are expected to decline gradually from $100/bbl or more in early 2008, toward $70/bbl by 2010.[11] In real terms, the decline would amount to some 38 percent over the period.

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

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

[11] Growth projections were based on oil price forecasts from the spring of 2008 (expected to register at $84/bbl in 2008 and $73/bbl by 2010). Subsequently, oil price projections have increased substantially. Under higher oil price assumptions, current account balances for most of the resource-rich economies in the region would be expected to escalate sharply. The implications for growth are mixed, given restrictions in oil production and the resurgence in inflation seen in domestic economy, which may serve to dampen growth in consumer spending, for example.

(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 in 2008, as the U.S. slowdown and strong euro clampdown on exports; at the same time, domestic demand will become 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 will see 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.

Financial markets

Though difficult to appraise in the wake of the U.S. subprime crisis and its spillovers to other financial market segments, it appears clear that policy interest rates and global rates (e.g., London interbank offered rate, or LIBOR) will be lower than would otherwise be the case. LIBOR is expected to average 3.5 percent during 2008, (reflecting the policy rate reductions by the U.S. Federal Reserve) down sharply from the 5.2 percent level of 2007. But short-term and longer-term Treasury rates are anticipated to recalibrate fairly quickly, both reaching 5 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 to decline, albeit moderating from the near free-fall of early 2008. Also, 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

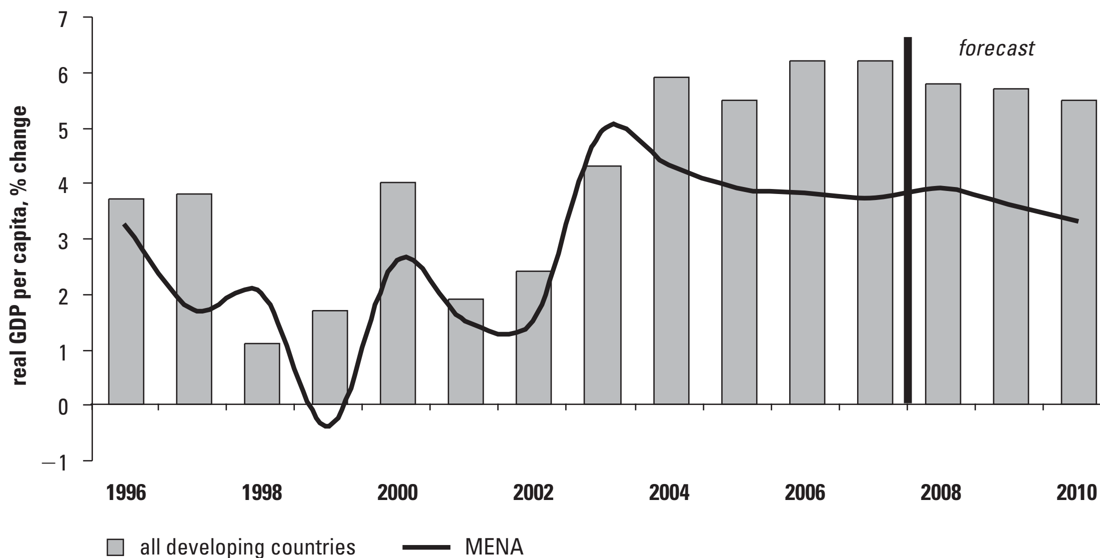
The rapid increase in agricultural, food, and metals and mineral prices over the past years is an important element of concern in the global outlook, but especially so for the MENA region, where many countries are net food and materials importers. During 2007, grain prices jumped 23 percent, fertilizers 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 biofuels, plus 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 (biofuels mandates). Continued escalation in cereals prices could extract a heavy toll on MENA external accounts as well as fiscal positions over the next years.

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 5.9 percent from the 5.7 percent outturn of 2007—this despite the OECD slowdown and easing of export markets. Resource-poor and resource-rich countries should share in the acceleration in growth. GDP among the RPLA economies is expected to increase to 6.2 percent from 5.4 percent in 2007, and GDP for the resource-rich to 5.9 percent from 5.8 percent. GDP gains for the oil-exporting region should ease over 2009 and 2010 to reach 5.3 percent (table 1.6). On a per capita basis, growth is expected to increase 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).

For the RPLA group, a rebound in Morocco to 5.5 percent growth from the depths of drought, and for Lebanon a rise to 3.5 percent, should offset the modest easing across the remainder of the group tied to conditions in the external environment—and support a fillip in growth to 6.2 percent in the year. Beyond 2008, growth is forecast to average 6 percent, as investment-led growth appears increasingly well established in Egypt, and activity there should remain within a 6.5 percent to 7 percent range in the next years. Sustained growth in Jordan and Tunisia should remain near 6 percent, grounded in services exports and increasingly in investment and construction funded by FDI. And a stronger profile of growth is expected to emerge in Lebanon as economic conditions gradually improve. Per capita growth is expected to step up to a 4.4 percent pace in line with the 6 percent GDP

Figure 1.23: Per capita GDP growth in MENA versus all developing countries



Sources: National agencies and World Bank staff projections.

Note: Gray bars represent average for all lower-middle-income countries.

trend, contrasting favorably with 2.6 percent gains over the first half of the 2000s.

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 are seen to widen from near $40 billion in 2007 to $56 billion by 2010, moving from 14 percent toward 15 percent of GDP. Goods export performance is expected to ease 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 would be almost wholly offset by continued, albeit more moderate growth in tourism and remittances flows (9 percent and 7.5 percent, respectively) over 2008–10. Current account surplus positions are expected to diminish for Egypt and Morocco, and the RPLA deficit to widen 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 difference is tied to the ability of countries to respond to demands for higher crude oil production over 2009–10, to 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 improving social infrastructure.

A step-up in GDP across a number of large exporters during 2008 should underpin 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 is expected to contribute 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 would almost fully offset the momentum of domestic demand. For the group, real exports are expected to advance a small 1.8 percent tied to the restart of a revival in crude oil volumes, but real imports should gain 10.8 percent, fully outweighing this advance.

Saudi exports are expected to advance 2.5 percent, and along with 20 percent gains in investment outlays, growth should rise to 6 percent in 2008 from 4.1 percent in 2007. In similar fashion, growth in Kuwait is expected to accelerate sharply to 7.8 percent from 4.6 percent in 2007, while Qatar's growth should ease to a 9.3 percent pace from 14.2 percent in 2007, on a winding down in government spending and investment. Growth for the RRLI economies is expected 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

Table 1.6: Real GDP growth for the region, by country group, 2000–10

(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 Rep. 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 (WBG)	—	—	—	—	—	—
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 Rep. 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 Rep.	4.0	5.1	3.9	3.7	4.8	4.6
Yemen, Rep. 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
Gulf Cooperation Council (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 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 1.3.
e = estimate.
f = forecast. These projections were based on oil price forecasts from the spring of 2008. Subsequently, oil price projections have increased substantially. Under higher oil price assumptions, current account balances for most of the resource-rich economies in the region would be expected to escalate sharply. The implications for growth are mixed, given restrictions in oil production and the resurgence in inflation seen in domestic economy, which may serve to dampen growth in consumer spending, for example.
— = data not available.

moving in a similar easing direction. Though oil production picks up over the period, declining oil prices (falling to near $70/bbl by 2010) 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 forecast 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 should diminish from the strong 7.6 percent pace of 2007 to 5.5 percent in 2008. Growth there is expected 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. 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 past 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 has become a difficult transition.

Finally, some countries will be particularly affected by sustained high food prices. As noted earlier, countries are especially vulnerable with high shares of food imports (to total imports) and with large numbers of poor dependent on purchased food inputs. 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 *MENA Economic Developments and Prospects 2007* report, it was found that time-series data covering foreign direct investment (FDI) for the Gulf Cooperation Council (GCC) countries compiled by the World Bank from national sources were quite sparse. In addition, available data were provided in net terms, without the provision of FDI credits (inflows) and debits (outflows). These credits and debits 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 the 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 United Nations Conference on Trade and Development (UNCTAD), through its Division on Transnational Corporations, Extractive Industries and Development. The *World Investment Report* for 2007 may be found at http://www.unctad.org/wir.

The attributes of this data set proved favorable for measuring the recent pickup in intraregion investment flows, with substantial changes in FDI for Saudi Arabia, the United Arab Emirates (UAE), Bahrain, and Kuwait, the former two countries displaying much larger net inflows, the latter two with larger net outflows over the period 2004–06. And projections sourced from the Economist Intelligence Unit (EIU) continued these broader trends through the forecast endpoint 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 annex table 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 the UAE and Kuwait. Inward FDI increased, from "outflow" (repatriation) of $2.7 billion in 2003 to inflow of $13.5 billion by 2006. This suggests greater participation outside of the oil sector by foreign nationals, in services, and in industry reliant on plentiful nearby energy, such as petrochemicals, aluminum, and other metals processing.

Technical Annex Table 1: Revised FDI estimates flowing into and out of the GCC economies

Millions USD

	Net FDI flows (gross inflow less gross outflow)							
	MENA EDP 2008				Estimates and projections -> EIU			
GCC	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
United Arab Emirates								
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	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	1,900.0	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	20,454.4	18,756.5
		Average delta 2000–05: 2,572.9				Average delta 2006–10: 17,181.6		

2

Regional Integration for Global Competitiveness

The Middle East and North Africa (MENA) region has economic, geographical, and cultural elements that provide a favorable context for deep regional economic integration. Many attempts have been made to foster integration, a recent and comprehensive one being the Greater Arab Free Trade Agreement (formerly referred to as the Pan-Arab Free Trade Agreement). At present, intraregional exports are about 9 percent of all merchandise exports and about 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 the North America Free Trade Agreement (NAFTA) and the European Union (EU), but similar to trade blocs among developing countries, such as the Southern Cone Common Market (Mercado Común del Sur—Mercosur) and the Common Market for Eastern and Southern Africa (COMESA).

Other channels of integration have become more prominent in recent years. Intraregional foreign direct investment (FDI) and portfolio investments have risen in many MENA countries. In particular, the enormous expansion in revenues accruing to the Gulf Cooperation Council (GCC) countries from the soaring price of oil has been partly recycled within the region. Between 2002 and 2006, about $60 billion, or 11 percent 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 about 10 percent, while its share in global trade was less than 5 percent. A large proportion of the remittances paid and received is intraregional.

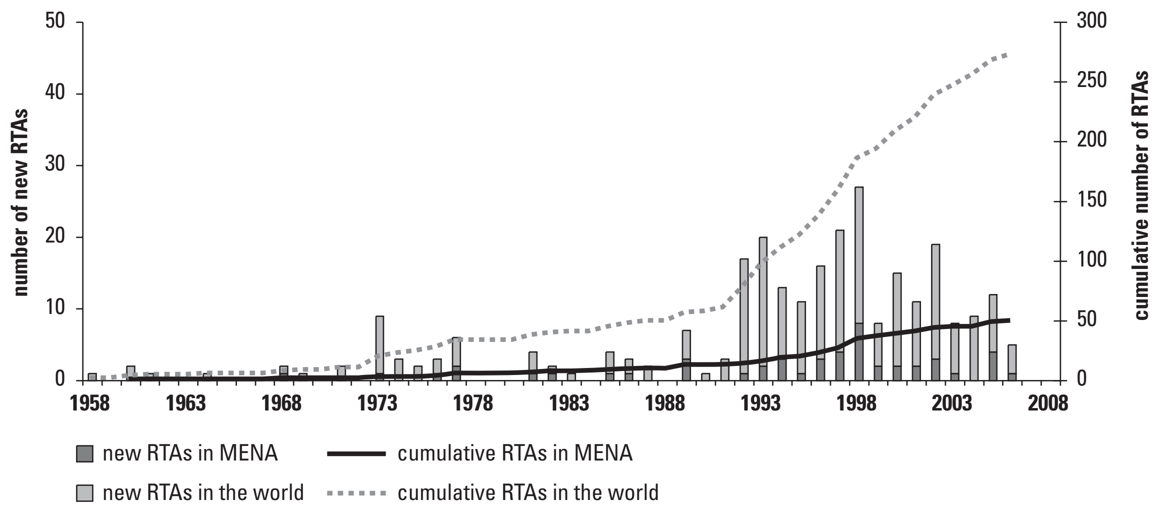
Integration via infrastructure links is at an initial stage in the region. Cross-border initiatives involving gas pipelines, electricity networks, telecommunications, and road links are increasing in number. However, the benefits from such initiatives will be modest unless countries in the region commit 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 (such as regulatory and standards harmonization and recognition of equivalent practices)—is worth striving for. However, regional integration should not be seen as an end in itself, but rather as a means to improve the use of available resources and to foster higher economic growth. Regionalism can be a stepping stone toward the ultimate goal of development and global competitiveness, and it is in this context that intraregional 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 past two decades (figure 2.1). Such agreements

Figure 2.1: Growth in the number of regional trade agreements, 1958–2007



Source: World Bank staff estimates.

Note: MENA RTAs are agreements with at least one MENA country participant.

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 procompetitive 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 by enhancing the credibility of FDI-related policies and providing a restraint on sudden policy reversals.

Some observers justify 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 nonpartner 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 contribute to harmonization of rule making, and some arrangements (sometimes called "World Trade Organization–Plus") contain provisions in areas such as investment protection or labor migration that go beyond current multilateral trade law in terms of their integrative ambition (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 past 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

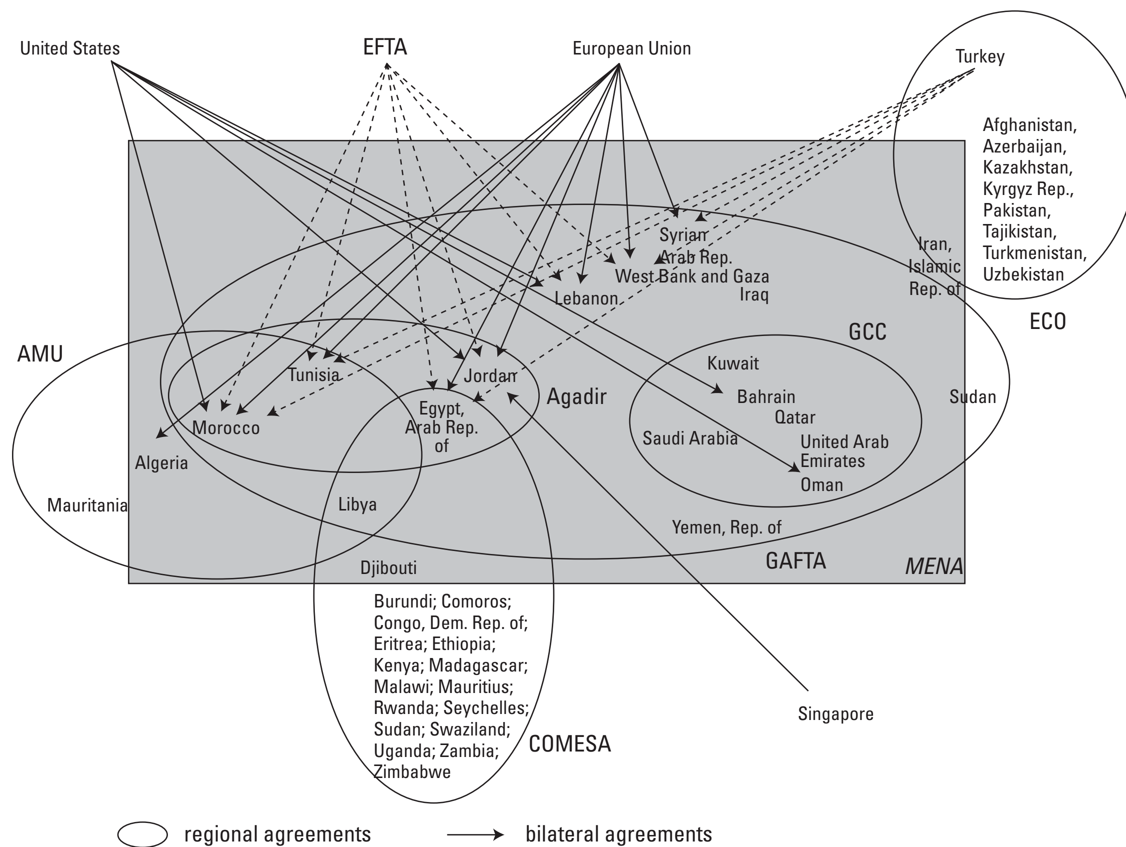
Box 2.1

The long history of MENA integration

Many pan-regional cooperation attempts have been launched in the past 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 in 1964. During the 1980s, 18 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 Greater 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



Source: World Bank staff.

Note: Only major agreements are depicted.
Agadir = Agadir Agreement for the Establishment of a Free Trade Zone between Arabic Mediterranean Nations (4); AMU = Arab Maghreb Union (5); COMESA = Common Market for Eastern and Southern Africa (19); ECO = Economic Cooperation Organization (10); EFTA = European Free Trade Association (4), including Iceland, Switzerland, Norway, and Liechtenstein; GAFTA = Greater Arab Free Trade Agreement (18); GCC = Gulf Cooperation Council (6).

of five regional integration agreements or more. For a long time, policy makers have focused their integration efforts primarily on intra-MENA arrangements, whereas more recent 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-Mediterranean Agreements of the European Union with several Mediterranean MENA countries, as well as the bilateral agreements between the United States and, respectively, Bahrain, Jordan, Lebanon, Morocco, and Oman. Moreover, the large number of bilateral investment and cooperation agreements within MENA further adds to the complicated web of institutional arrangements (table 2.1).

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, Nugent, and Yousef 2004; Péridy 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 nontariff 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 intraregional trade in total merchandise trade has increased over the past two decades (figure 2.3). Nevertheless, the extent of intraregional trade remains lower than in all other regions of the world, except for South Asia (World Bank 2005). Though the ratio of intraregional trade to GDP exceeds 15 percent in the Syrian Arab Republic and Jordan, in most MENA countries the ratio remains in the low single digits (figure 2.4). In particular, resource-rich, labor-importing countries generally show a very low level of intra-MENA exports in relation to GDP, despite high total export-to-GDP ratios.

Table 2.1: Bilateral treaties in MENA

	Algeria	Bahrain	Djibouti	Egypt, Arab Rep. of	Iraq	Iran, Islamic Rep. of	Jordan	Kuwait	Lebanon
Algeria		—	—	—	—	—	—	—	—
Bahrain	—		—	—	—	—	—	—	—
Djibouti	—	—		—	—	—	—	—	—
Egypt, Arab Rep. of	BIT, TA	BIT	BIT**		—	—	—	—	—
Iraq	—	BIT**	—	*FTA*		—	—	—	—
Iran, Islamic Rep. of	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
Oman	BIT	—	—	BIT	—	BIT	—	—	BIT*
Qatar	TA	—	—	BIT**	—	BIT, TA	—	—	FA
Saudi Arabia	—	—	—	BIT	—	—	—	—	TA
Syrian Arab Rep.	BIT**, TA	TA, BIT	—	BIT, TA	BIT**, TA**	BIT, TA	BIT, FTA	BIT, TA	TA, BIT
Tunisia	BIT**, TA	—	—	BIT, FTA	—	BIT	BIT, FTA	BIT**, TA	BIT
UAE	BIT	—	—	BIT	—	—	FTA	BIT**	TA, BIT
WBG	—	—	—	TA, BIT	—	—	TA	—	—
Yemen, Rep. of	BIT**, TA	BIT**	—	BIT	—	BIT	BIT	BIT**	FA, BIT

Source: World Bank staff, based on national sources.

Notes: Framework agreements (FAs) call for cooperation and for exchange of information and expertise. Free trade agreements (FTAs) involve broad tariff reductions on a preferential basis. Trade agreements (TAs) are less demanding than FTAs but are more concrete than an FA. For example, a TA could include tariff reductions, special exemptions, or creation of a free trade zone. Bilateral investment treaties (BITs) provide investor protection.
* = not ratified ; ** = not enforced; *in italic* = status unknown; — = data not available.

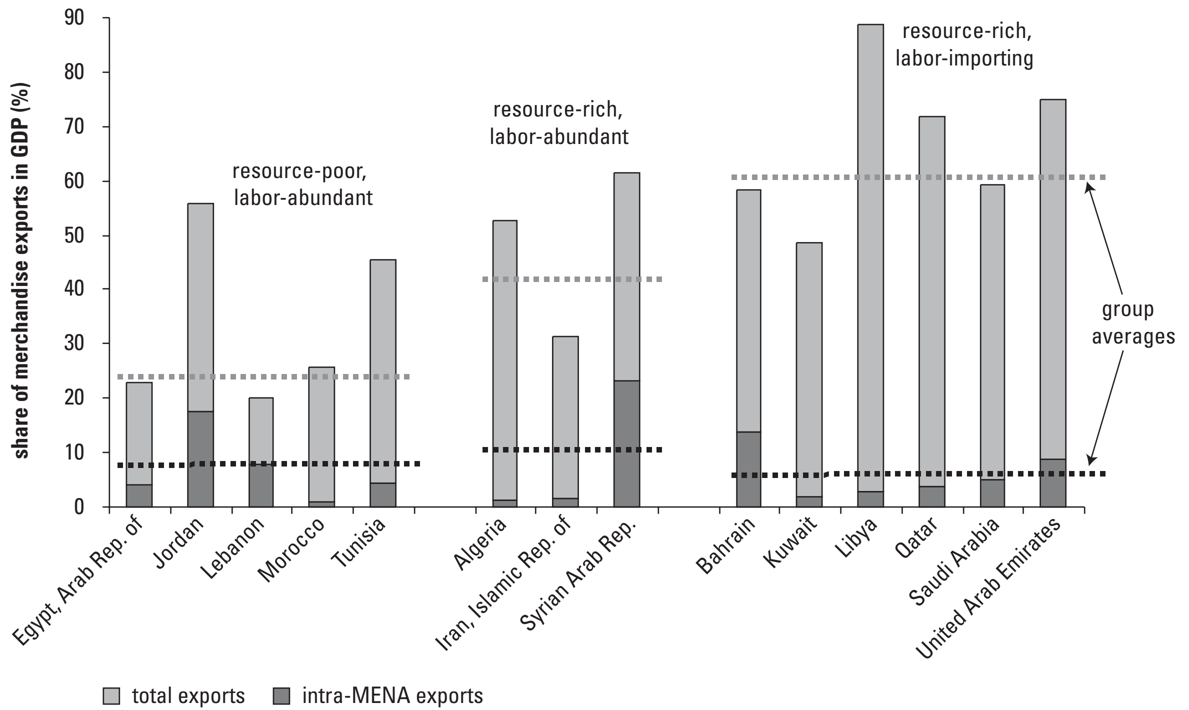
Figure 2.3: Intraregional trade for selected MENA countries, 1985–2005

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

This low level of intraregional trade is due in part to a larger 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 coure, substantial differences exist in intraregional trade exposure across countries. For Lebanon and Syria, regional markets account for more than half of their non-oil exports, while this share is in the single digits for Morocco, Tunisia, Algeria, and Libya.

Libya	Morocco	Oman	Qatar	Saudi Arabia	Syrian Arab Rep.	Tunisia	United Arab Emirates	West Bank and Gaza	Yemen, Rep. of
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—
BIT, TA		—	—	—	—	—	—	—	—
—	BIT, *FA*		—	—	—	—	—	—	—
—	BIT, FA**	—		—	—	—	—	—	—
—	*TA*	—	—		—	—	—	—	—
BIT, TA	BIT, FA	BIT**, FA	BIT**, TA	TA		—	—	—	—
BIT**, FTA	BIT**, FTA	BIT	—	—	TA		—	—	—
—	BIT, FA, FTA	—	—	—	BIT, TA*	BIT**		—	—
—	—	—	—	—	—	FA	—		—
—	BIT**, FA	BIT	—	—	BIT, FA*	—	BIT	—	

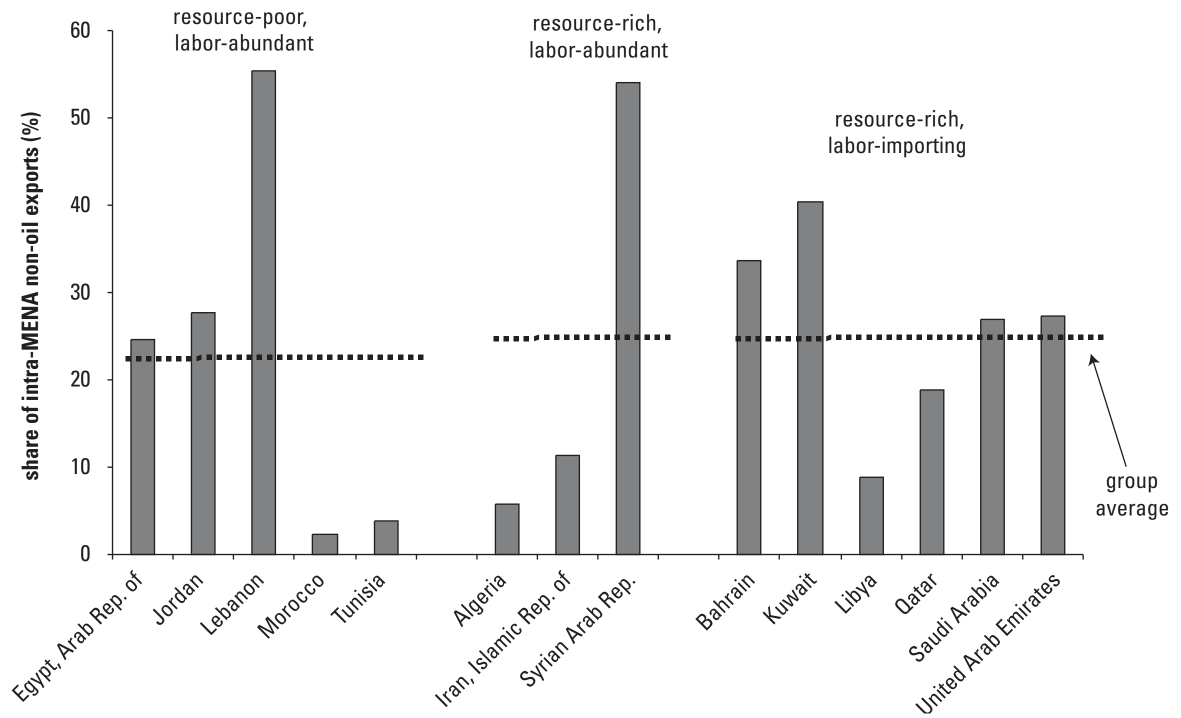
Figure 2.4: Intra-MENA exports as a share of GDP, 2006*



Source: World Bank staff estimates, based on the IMF Directions of Trade and World Development Indicators databases.

Note: Exports derived from mirror data.
* Or latest year available.

Figure 2.5: Share of intra-MENA non-oil exports in total non-oil merchandise exports, 2006*



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

* Or latest year available.

Trade within subregional 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.

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 100, which implies a perfect match. The higher the index between two countries, the greater the product complementarity.

Complementarity indexes 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 indexes 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 (tables 2.3 and 2.4). In most cases, the complementarity of non-oil trade is higher than for total trade, but it still rarely exceeds an indicator value of 20.

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

Table 2.2: Low level of trade with partners in regional agreements

Merchandise imports and exports with partners as a share of total merchandise trade (%)

	Agadir Agreement	Arab Maghreb Union	GCC	GAFTA
MENA countries	—		—	—
Algeria	—	1.2	—	—
Bahrain	—	—	35.0	38.6
Egypt, Arab Rep. of	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
Syrian Arab Rep.	—	—	—	46.7
Tunisia	1.4	6.7		7.4
United Arab Emirates	—	—	4.8	7.4
Yemen, Rep. of	—	—	—	24.5
Non-MENA countries	—	—	—	—
Mauritania	—	2.8	—	—
Sudan	—	—	—	18.3

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

Note: GAFTA = Greater Arab Free Trade Agreement.
— = data not available.

Table 2.3: Bilateral trade complementarity in MENA

Bilateral complementarity index, 2006*

	Importer									
Exporter	Algeria	Bahrain	Jordan	Morocco	Oman	Qatar	Saudi Arabia	Syrian Arab Rep.	Tunisia	Yemen, Rep. of
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
Syrian Arab Rep.	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, Rep. of	1.2	56.1	20.0	13.5	4.8	5.7	1.8	8.2	5.2	—

Source: World Bank estimates based on UN Comtrade data..

Note: Indexes calculated at the Harmonized System six-digit level. The product complementarity index C_{jk} between two countries *j* and *k* is defined as $C_{jk} = 100 - \sum i(|M_{ik} - X_{ij}|/2)$, where X_{ij} represents the share of good *i* in total exports of country *j*, and M_{ik} represents the share of good in total imports of country *k*. Indexes for Djibouti, Iran, Iraq, Kuwait, Lebanon, Libya, United Arab Emirates (UAE), and the West Bank and Gaza (WBG) were not computed because of lack of detailed trade data. Egypt was not included, as the country reports trade data in the Standard International Trade Classification.

— = data not available.

* Or latest trade data available.

(and large-scale exporter of refined petroleum products) and a complementary trading partner to the crude petroleum exporters in the region.

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 2005a), so 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 in-

Table 2.4: Bilateral complementarity for non-oil trade

Bilateral complementarity index for non-oil trade, 2006*

	Importer									
Exporter	Algeria	Bahrain	Jordan	Morocco	Oman	Qatar	Saudi Arabia	Syrian Arab Rep.	Tunisia	Yemen, Rep. of
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
Syrian Arab Rep.	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, Rep. of	6.2	7.4	7.9	5.3	7.8	9.3	6.6	8.4	5.1	—

Source: World Bank estimates based on information from the UN Comtrade database.

* or latest trade data available.

— = data not available.

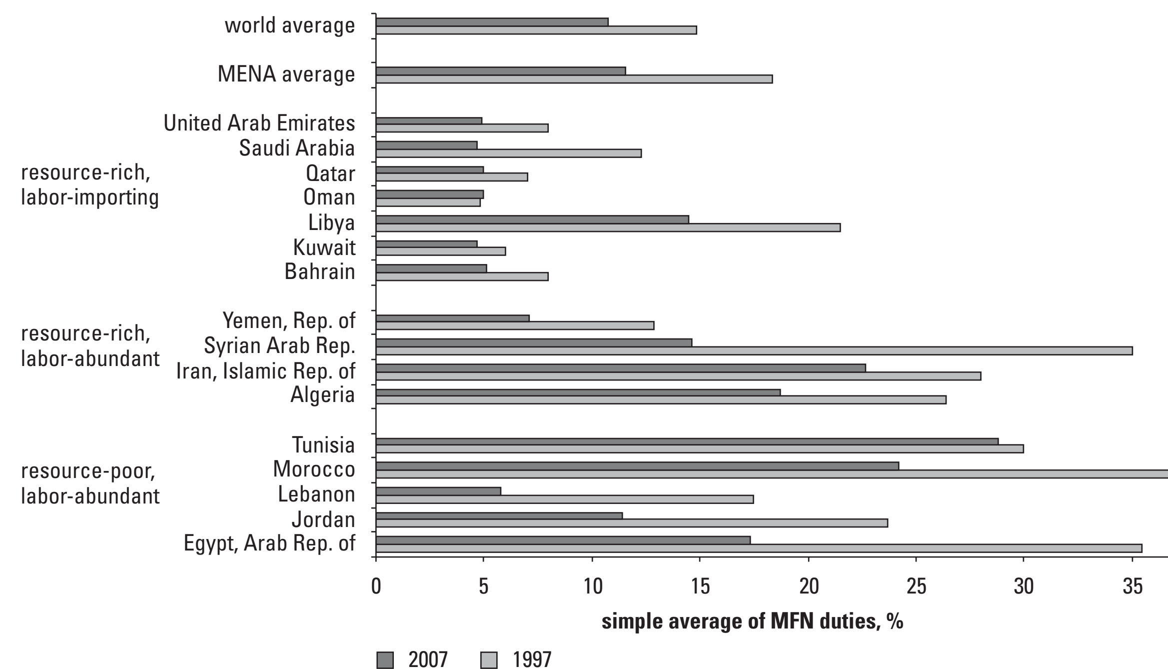
dustries in partner countries benefit to a differing extent from policy-generated transfers, so that the costs and benefits of moving to freer trade are unevenly distributed (Fawzy 2003). Achieving agreement under these circumstances to open markets among regional partners is politically difficult.

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 toward 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 occurring is further increased if the intensity of trade is low between partners prior to bilateral liberalization, as it is in MENA.

The simple average of MFN-duties in MENA countries ranges from about 5 percent 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 toward 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.

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

Figure 2.6: Variations in import tariffs across MENA



Source: World Bank staff estimates based on IMF Trade Restrictiveness database.

Note: Duties include customs duties or surcharges.

reducing and eliminating adverse impacts of trade diversion.

2.1.3 Nontariff barriers and logistics

With the worldwide progress made in tariff reduction over the past two decades, policy makers have increasingly turned their attention toward 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 owing to a legacy of restrictive nontariff measures and neglect of trade-facilitating efforts.

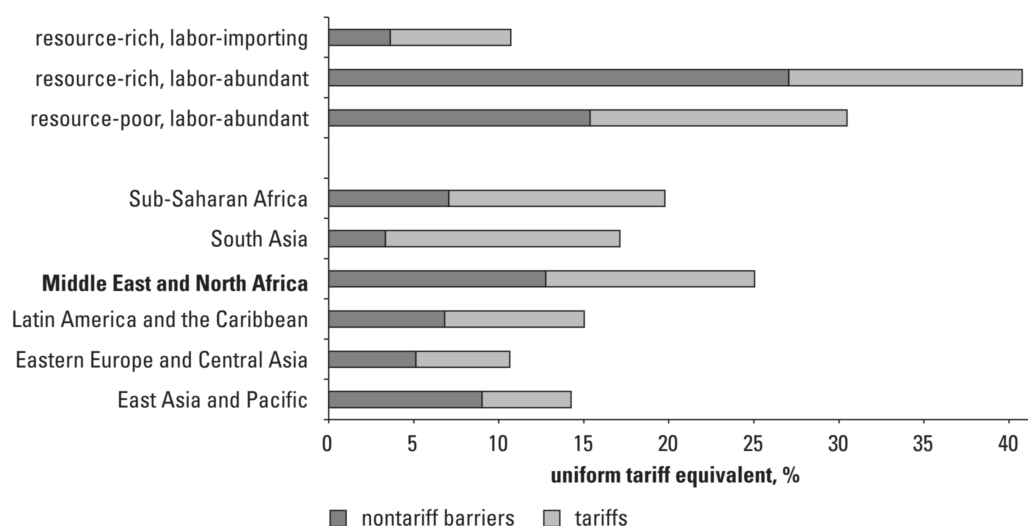
The situation is captured in recent analytical work. In particular, a team of analysts in the World Bank's Development Research Group has estimated an Overall Trade Restrictiveness Index (OTRI), which corresponds to the uniform tariff that, if imposed on all imports from partner countries, would leave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

It turns out that nontariff barriers to trade are more substantial in the MENA region than in any other region of the world (figure 2.7). Also, nontariff barriers contribute more to overall trade restrictiveness than tariffs. Nontariff barriers 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 nontariff barriers is high, more than 10 percent of the value of goods shipped (Zarrouk 2003).

In some cases, nontariff barriers can significantly reduce or even nullify the trade preferences in regional agreements. For example, the Greater Arab Free Trade Agreement (GAFTA) has phased in preferential tariff reductions among members, leading to free intraregional 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.

Differences in the rules of origin of the various regional agreements can also generate additional compliance costs. While most of the intraregional agreements adhere to a 40 percent value-added rule to confer origin, they differ with respect to cumulation rules. Though GAFTA allows for diagonal cumula-

Figure 2.7: Nontariff measures are highly restrictive in MENA countries



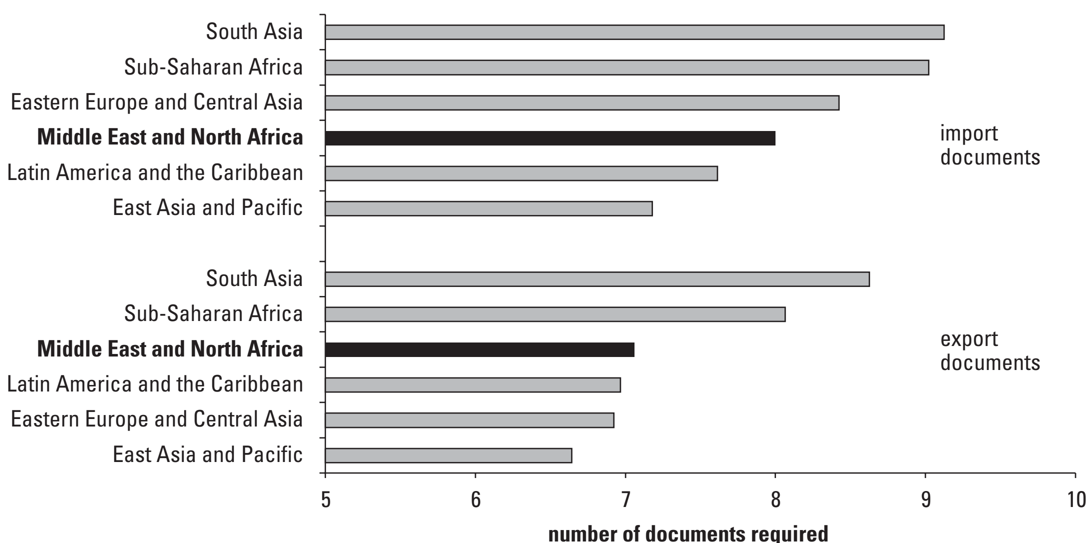
Source: World Bank staff estimates based on Kee, Nicita, and Olarreaga 2005.

Note: The information on non-tariff measures is based on UNCTAD's Trains database, which covers a broad range of measures, including price-based measures (e.g. price controls), quantity-based measures (e.g. import quotas), and technical measures (e.g. SPS and health standards). This information was used in the calculations of the Overall Trade Restrictiveness Index (Kee, Nicita, and Olearraga, 2005), which is published annually in the Global Monitoring Report.

tion, that is, the use of inputs from other member countries toward the value-added target, the Arab Maghreb Union and the Agadir Agreement do not (Wippel 2005). Also, the intraregional 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.

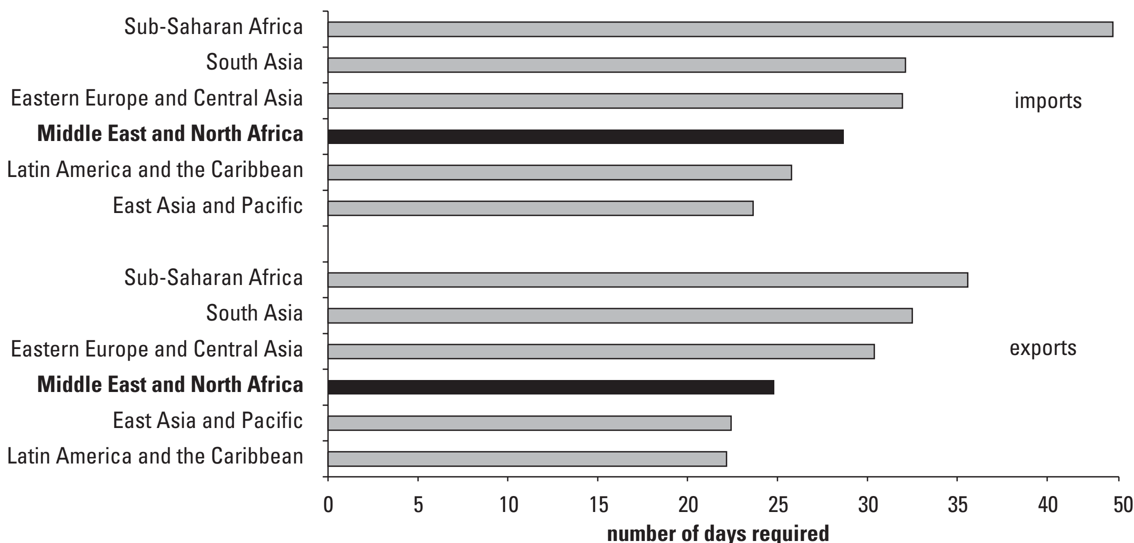
Trade procedures are relatively more difficult and time consuming to undertake in MENA countries than in other middle-income economies (figures 2.8 and 2.9). In particular, although MENA governments require lighter importing and exporting documentation, on average, than their counterparts in low-income 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 versus other regions



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

Figure 2.9: Time needed to complete trade procedures in MENA versus other regions



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

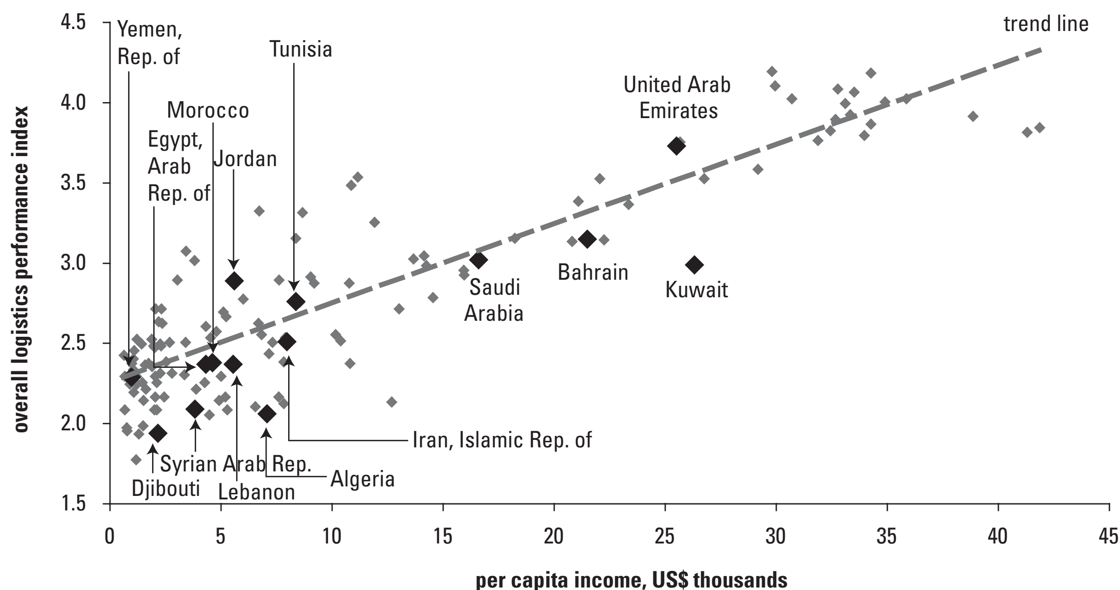
The newly developed Logistics Performance Index (LPI) (World Bank 2007), which is based on a worldwide survey of global freight forwarders and express carriers, makes it possible to compare the situation of countries across a broad set of transport and trade-facilitation dimensions. Richer countries are in a position to devote more resources to investments in transport infrastructure, interagency coordination, and staff training; hence, in general they show lower trade transaction 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 the Republic of Yemen, Jordan, Tunisia, and the United Arab Emirates 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).

Logistics chain analysis suggests that transport and nontransport 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 intraregional trade facilitation would indeed be more than three times as high as those from intraregional tariff elimination (Dennis 2006).

2.2 Integration via Services

Services typically account for a large share of GDP and are important inputs into the production of most goods. Therefore, removing barriers to entry for both domestic and foreign firms and increasing the efficiency of services delivery promise substantial economic gains. These potential gains often make it politically more feasible to gather support for reforming services than reforming 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 and thus has 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 ap-

Figure 2.10: The logistics performance of MENA countries



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

Note: Higher index rating is better.

Table 2.5: Logistics performance within country groups and across components

Logistics Performance Index (higher is better)

	Customs	Infrastructure	Int. shipments	Logistics competence	Tracking and tracing	Domestic logistics costs	Timeliness	Overall
Resource-poor, labor-abundant								
Djibouti	1.64	1.92	2.00	2.00	1.82	2.80	2.30	1.94
Egypt, Arab Rep. of	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
Average RPLA	2.26	2.31	2.59	2.39	2.41	2.92	2.78	2.45
Resource-rich, labor-abundant								
Algeria	1.60	1.83	2.00	1.92	2.27	3.17	2.82	2.06
Iran, Islamic Rep. of	2.50	2.44	2.59	2.69	2.00	2.93	2.80	2.51
Syrian Arab Rep.	2.17	1.91	2.00	1.80	2.00	2.89	2.67	2.09
Yemen, Rep. of	2.18	2.08	2.20	2.22	2.30	2.67	2.78	2.29
Average RRLA	2.11	2.07	2.20	2.16	2.14	2.92	2.77	2.24
Resource-rich, labor-importing								
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
United Arab Emirates	3.52	3.80	3.68	3.67	3.61	2.80	4.12	3.73
Average RRLI	2.88	3.08	3.02	3.00	3.16	2.74	3.70	3.13
Average MENA	2.47	2.56	2.69	2.60	2.67	2.81	3.15	2.69
Average world	2.56	2.58	2.72	2.71	2.73	2.89	3.17	2.74

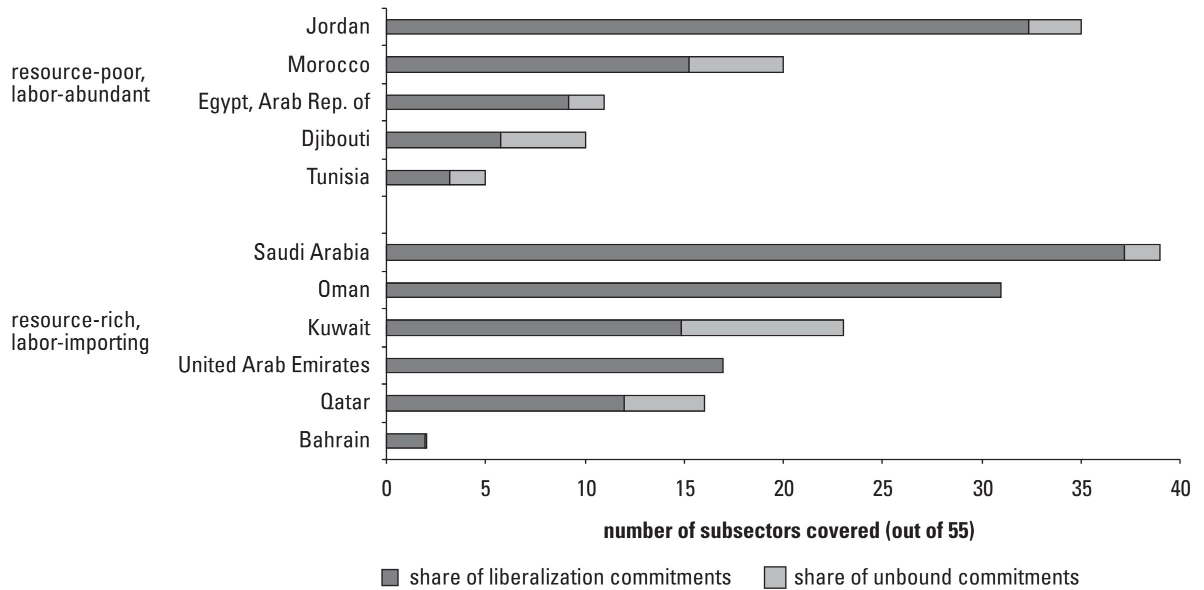
Source: World Bank 2007.

propriate 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 the magnitude of those achieved through tariff removal alone (Konan 2003). The size of the reform benefits depends, of course, on the extent of prereform 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 to international services integration, as illustrated by the very diverse extent of the General Agreement on Trade in Services (GATS) liberalization commitments of the region's World Trade Organization (WTO) members (figure 2.11).

The existing regional integration agreements in MENA generally do not cover services trade, or only marginally, such as through "intentions of cooperation" in certain services sectors. Intraregional differences in regulations, restrictions on currency convertibility, and limits on the physical movement of individuals are currently creating a situation in which it is often easier for MENA countries' service 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), significant opportunities could exist for increased regional exchange.

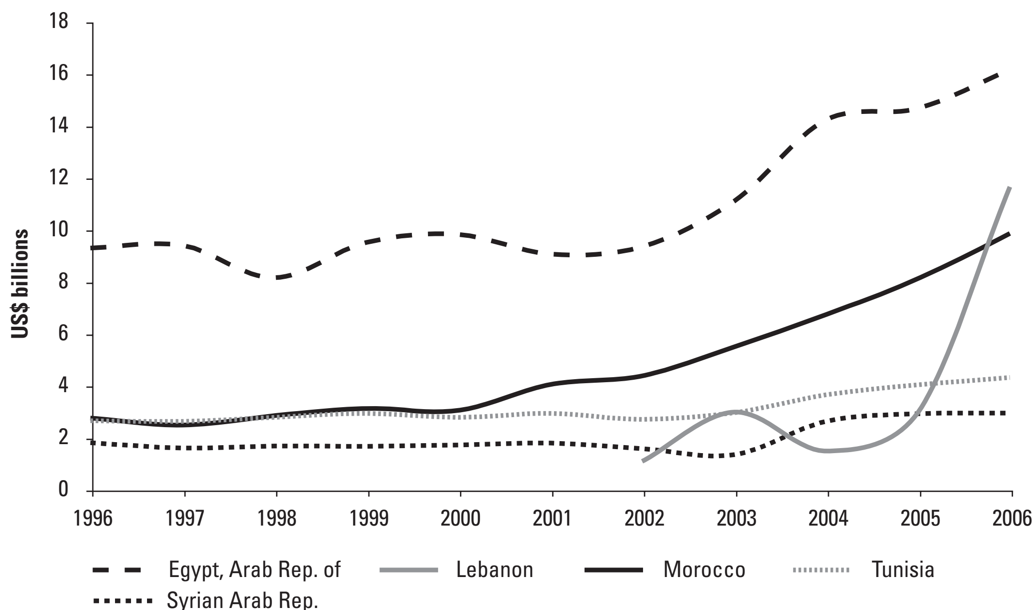
Figure 2.11: Countries' attitudes toward reform, as illustrated by GATS commitments



Source: World Bank staff estimates based on national General Agreement on Trade in Services (GATS) schedules.

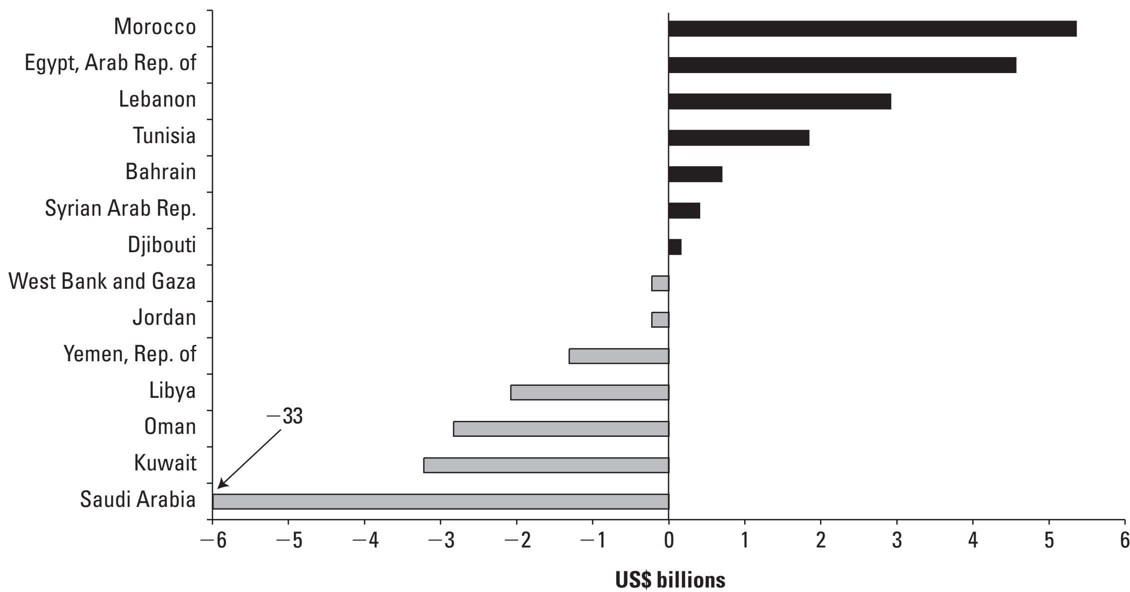
Some countries have been showing the way. For example, Kuwait has pursued an export strategy for telecommunications services to the regional market and has become one of the world's largest providers (almost tripling its exports in one year to reach $3.4 billion in 2006). Kuwaiti service providers are 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.

Figure 2.12: Services exports for selected countries, 1996–2006



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

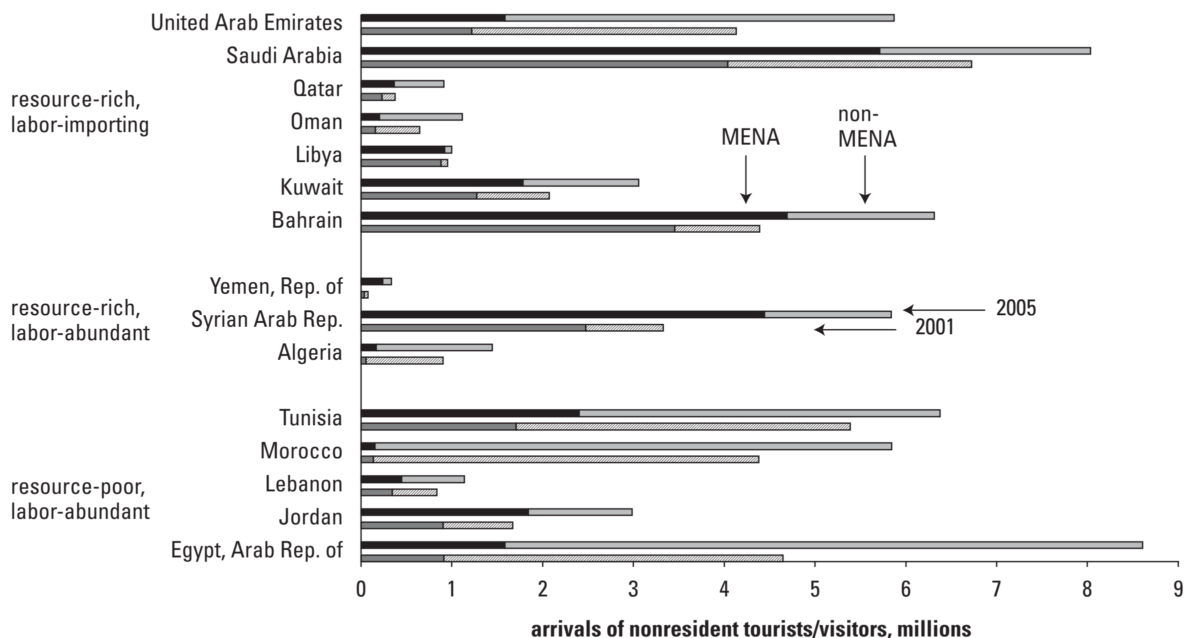
Figure 2.13: MENA countries' net services trade position, 2006



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

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. However, wide variations in the importance of the regional market for tourism exports exist. In Libya, 92 percent of all nonresident visitors are from other MENA countries, but in Morocco the share is merely 3 percent (figure 2.14).

Figure 2.14: Growth of total and intra-MENA tourism exports



Source: World Bank staff estimates based on World Tourism Organization 2007.

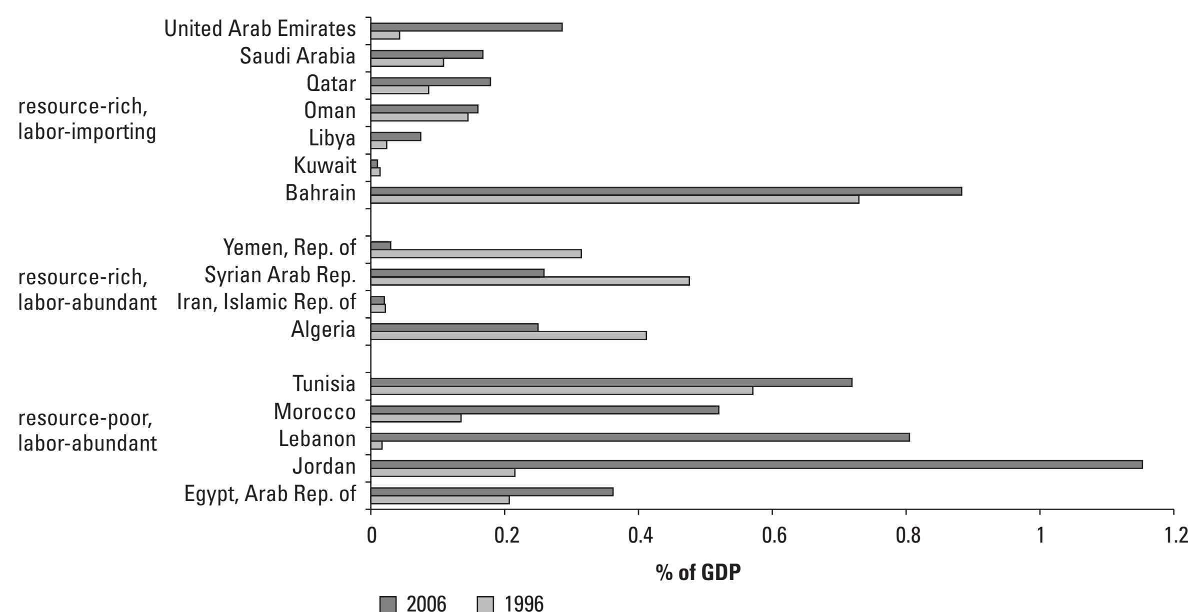
Moreover, the MENA countries that have concluded free trade agreements with the United States have included services sector provisions—notably concerning banking, insurance, and telecommunications—in the agreements. The arrangements generally lock in prevailing openness, and only in some cases, such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

The agreements with the United States 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 ("nondiscrimination"). 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 of 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, Baroncelli, and Malouche 2006).

Inward FDI is much less important in the resource-rich countries in the region, and the FDI-to-GDP ratio has actually fallen in resource-rich, labor-abundant (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 10-fold 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, whereas in more distant Morocco, such investors accounted for about 10 percent of total FDI in 2006.

These intraregional 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

Figure 2.15: Expansion of inward FDI stocks in MENA countries



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

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 intercountry wage differentials within the region, short transport distances, and economies of scale from specialization (Haddad 2007). The resulting fragmentation of production is intensifying intraregional trade, but it tends to depend heavily on extraregional demand for final goods. Hence, an essential strategy for success is two-pronged and is based on (1) closer integration of factor and product markets to facilitate the emergence of production linkages within the region, and (2) openness towards international markets.

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 percent to 10 percent of total exports. However, most of this trade is in the context of networks with Europe, rather than with partners in the MENA region.

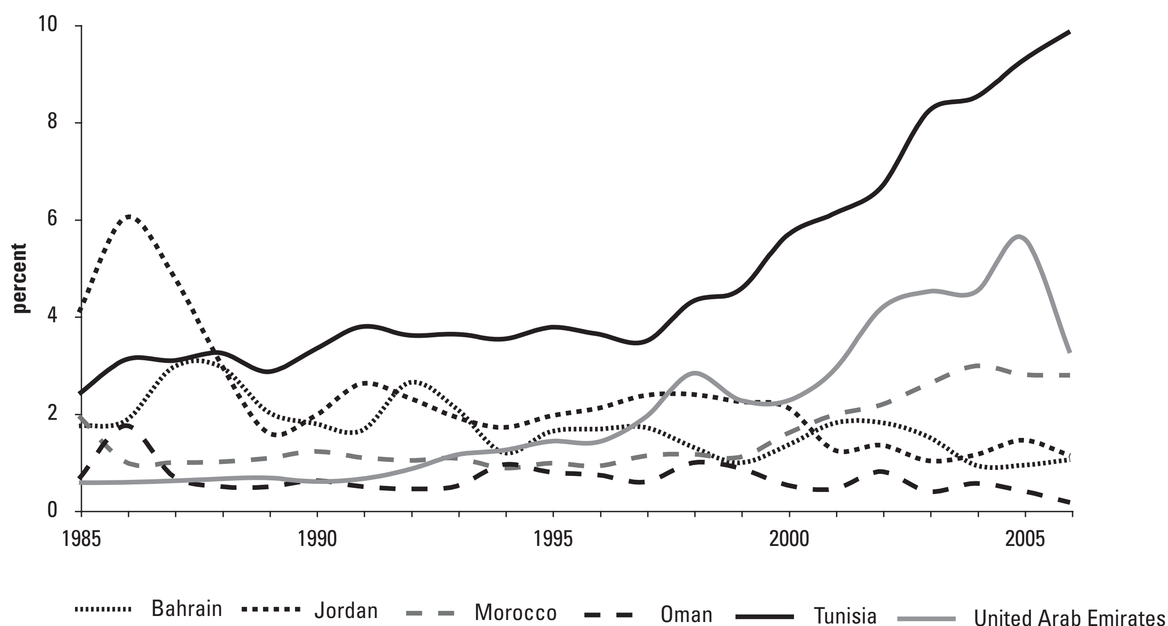
2.3 Integration through Labor Mobility

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 10 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 significantly since the 1990s, at a time when remittances to India, China, Mexico, and the Philippines have increased exponentially.

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 mingrant-sending countries. Oil wealth has been distributed throughout the region

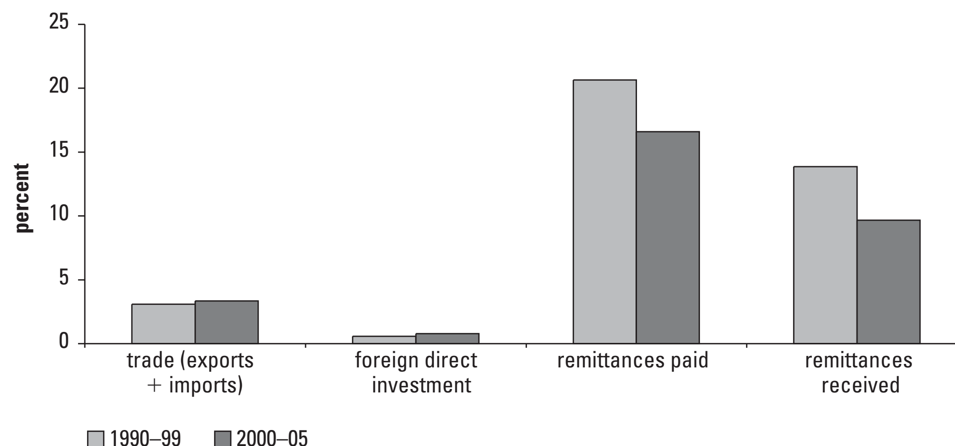
[1] Because of incomplete reporting and differences in recording, global remittances received and paid are not identical.

Figure 2.16: Exports of parts and components in relation to total exports



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

Figure 2.17: MENA region's share in world trade, FDI, and remittances paid and received



Source: Based on *World Development Indicators* (World Bank 2007b).

through migration and remittances, rather than through 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?

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

2.3.1 Intraregional 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 Southeast 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 fivefold between 1977 and 1990; remittance payments from the GCC countries increased more than fivefold in the same period, reaching $13 billion in 1990 (World Bank 2007b).

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.

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 with 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 migra-

Box 2.2

Prioritizing nationals in employment

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 of education and training programs. The countries 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. An estimated 34 professions currently 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 (UAE), the Emiratization drive has led to increases in the number of nationals in the financial sector by 189 percent 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. However, in both Qatar and the UAE, the urgency of restricting the inflow of expatriates is not as pressing as in other GCC states, owing to shortages of national manpower in relation to private sector needs.

In Oman, the government restricted the overall number of expatriate permits and simultaneously carried out a tough civil services retrenchment policy. These changes, combined with incentives to recruit and train nationals as well as levy fees on expatriates, led to a shift in expectations of Omanis toward the private sector and that sector's 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 preset 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, Hadad-Zervos, and Coulibaly 2003, as presented in Yousef 2005.

tion. 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, national preference policies, competition from Asian workers, and political tensions resulted in a leveling-off of intraregional 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 10 percent, while the number of Asian workers increased by 250,000, or 60 percent.

2.3.2 Intraregional migration since 2000

More recently, two forces have influenced intraregional 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

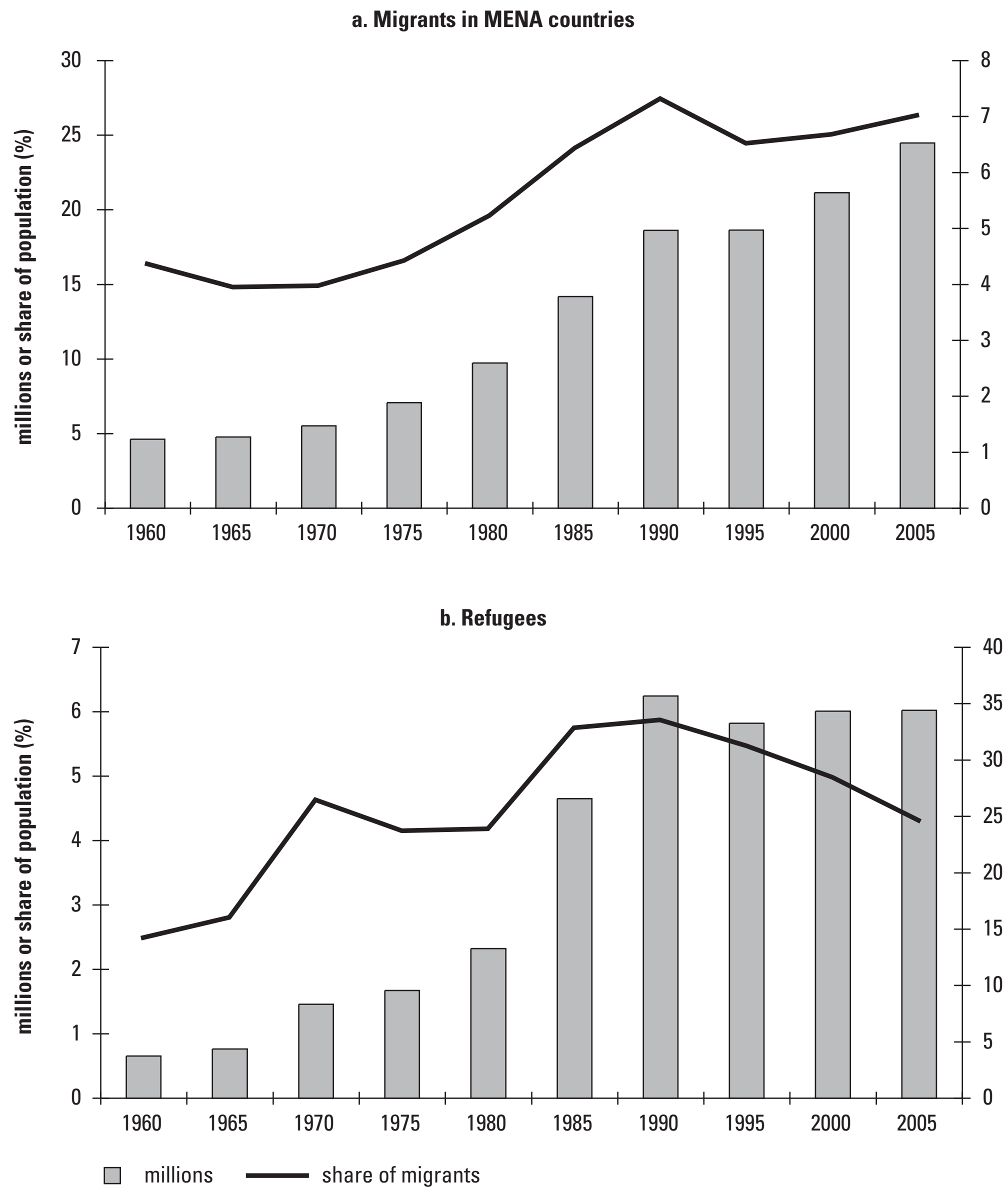
GCC of migrants from countries supporting Iraq. In addition to these politically motivated flows, the recent phenomena of high growth and falling unemployment in the MENA region are affecting migration as well. Though unemployment data are not particularly reliable for some countries, recent estimates suggest that average unemployment rates for the region have fallen from about 14 percent in 2000 to about 12 percent more recently (in 2006).[2]

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

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).

Are these entirely conflict-driven flows? This does not seem to be the case. In fact, though the number of refugees remains appallingly high, at 6 million people, the share of refugees among migrants has fallen since 1990, from 34 percent to 25

Figure 2.18: Migrants and refugees in the MENA region, 1960–2005



Source: UN data.

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

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 with 79 percent in 2002, and in the UAE, the share of expatriates in the population increased from 75 percent to 80 percent between 1995 and 2005. In contrast, the quite significant increase of migrants in Jordan—by 500,000 people between 2000 and 2005—is largely due to displaced persons from Iraq (figure 2.19).

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 sending countries from Maghreb, MENA migrants are overwhelmingly living or working (or both) in other MENA countries (figure 2.20). Thus, economically motivated migration within the region remains important.

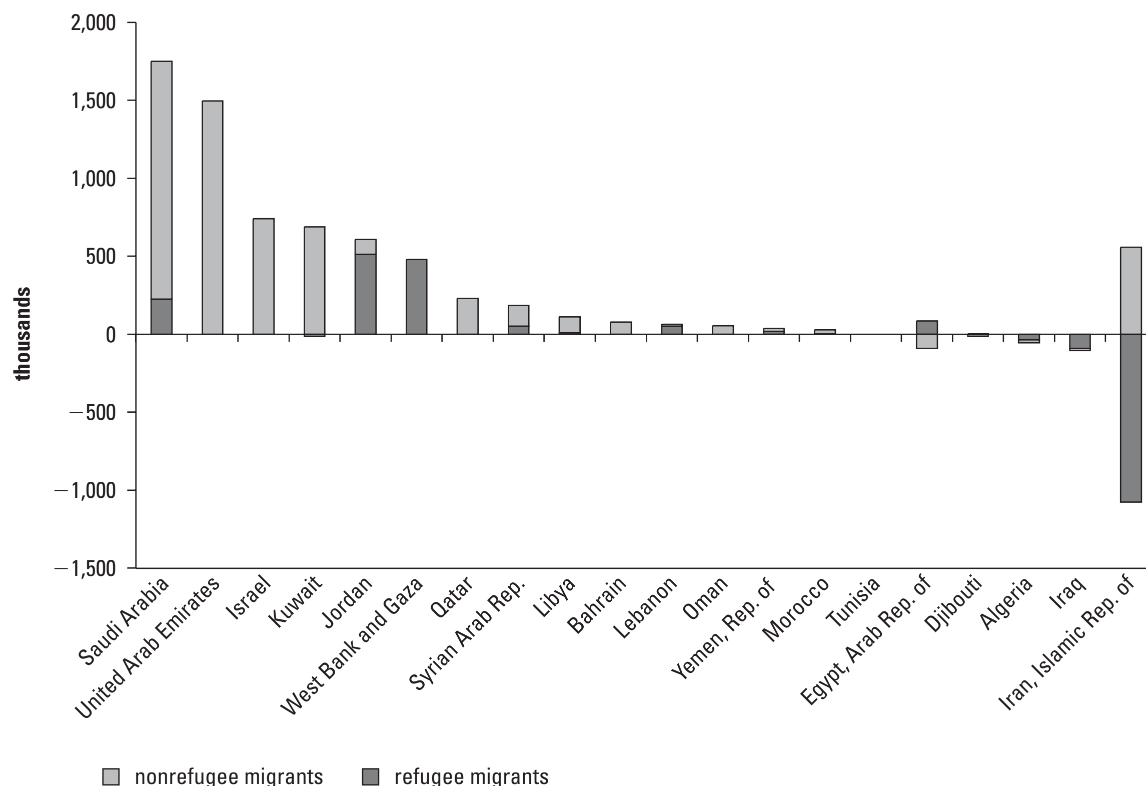
Table 2.6 shows two clear patterns in intraregional migration in MENA.[3] First, just over half the migrants to Maghreb countries originate in MENA, whereas only a quarter of those arriving in the Mashreq come from MENA countries (reflecting the importance of non-MENA sources of migration for the Mashreq.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

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

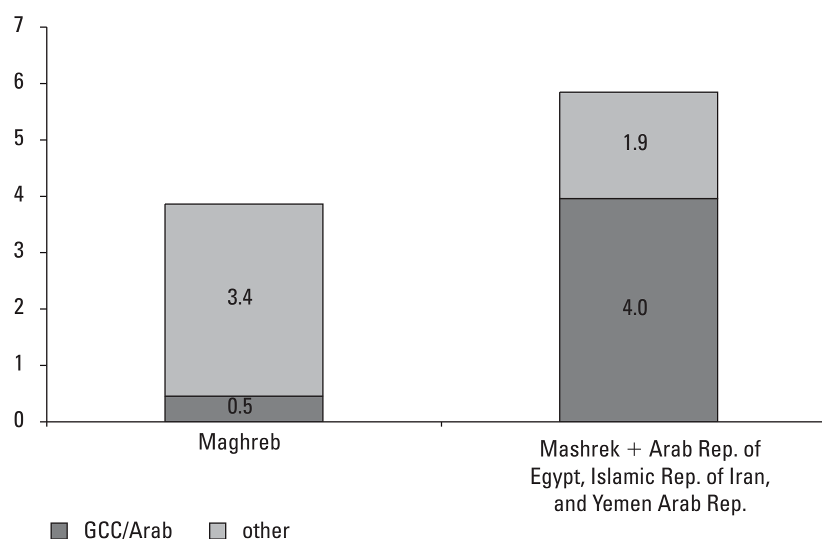
[3] The data are comparatively complete and internally consistent; on the other hand, the data are built up for the purpose of a global estimate of bilateral migration flows, using assumptions that may not be realistic at an individual country level. For details on the source and assumptions used for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

Figure 2.19: Increase in refugee and nonrefugee migrants, 2000–05



Source: UN Data.

Figure 2.20: MENA migrants in GCC/Arab countries vs. other countries



Sources: OECD database on immigrants and expatriates (Demography and Population), November 2005. Data for migrants living in GCC and Arab countries are from several sources: data on migrants from Yemen, Syria, Jordan, and Iran are from Martin Baldwin-Edwards 2005; data on migrants from Algeria (1995), Egypt (2000), Lebanon (2001), Morocco (2004), and Tunisia (2003) are from the CARIM database.

Note: The figure shows the number of Maghreb migrants residing in GCC/Arab countries versus other countries, as well as the number of migrants originating from Mashreq, Egypt, Iran, and Yemen residing in GCC/Arab countries versus other countries.

fallen everywhere else. These developments in significant MENA remittances-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]

[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.

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).

Remittances estimates are drawn from the same database as estimates of bilateral migration stocks. They concur (partly by construction) with the migrants stock data message. The most intense intraregional remittance corridors remain those from GCC countries to Mashreq, from GCC countries

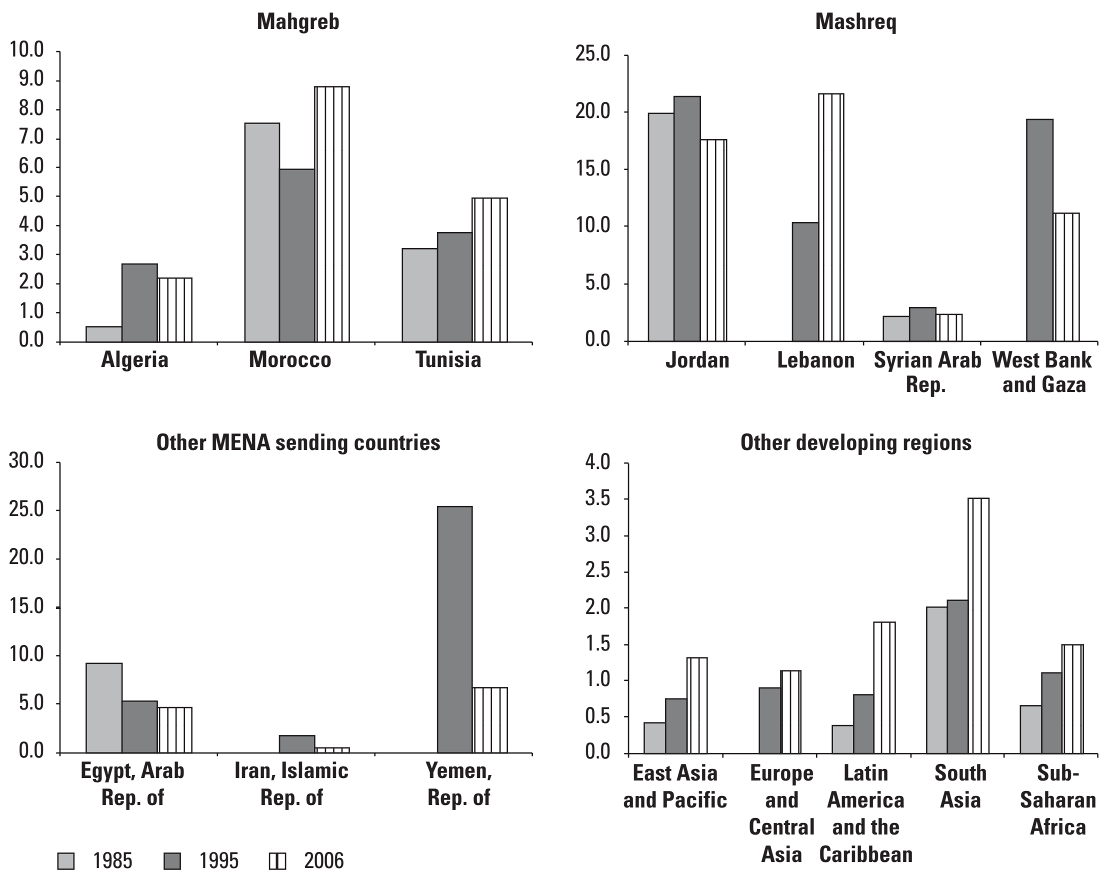
Table 2.6: MENA intraregional migration, 2000
(thousands)

	Destination country or region							
Source country/region	Maghreb	GCC	Mashreq	Other	Israel	Total	Total in MENA incl. Israel	
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	538	2,356	1,521	349	569	5,334	—	—
excl. Israel	52%	18%	27%	14%	21%	22%	—	—

Source: Database prepared for Ratha and Shaw 2007, http://www.worldbank.org/prospects/migrationandremittances.

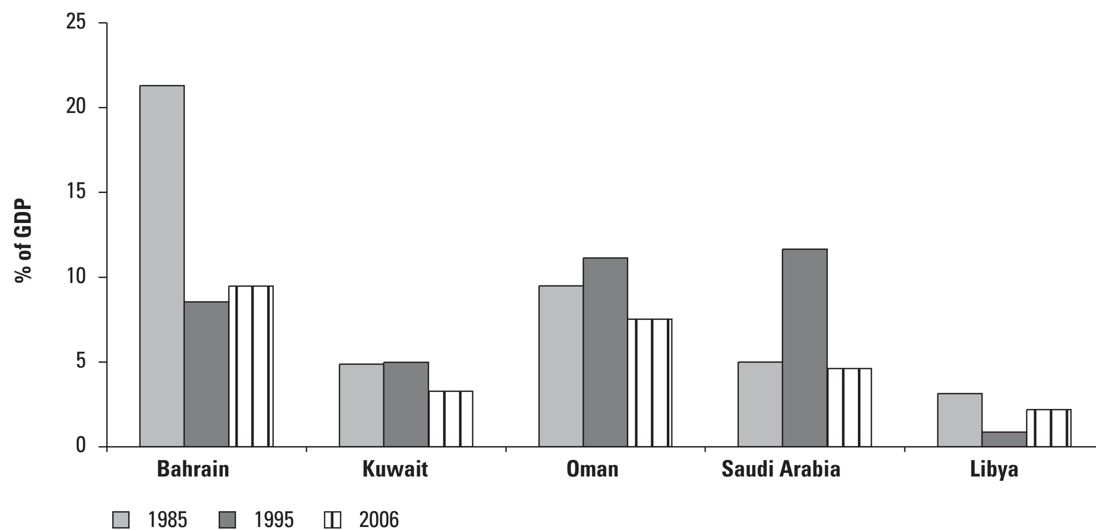
Note: Maghreb includes Algeria, Morocco, Tunisia, and Libya; GCC includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates; Mashreq includes Iraq, Jordan, Lebanon, Syria, and the West Bank and Gaza; while "other" refers to Egypt, Djibouti, Iran, and Yemen.
— = data not available.

Figure 2.21: Remittances received, as a share of GDP



Source: Estimates based on *World Development Indicators* (World Bank 2007b).

Figure 2.22: Remittances paid



Source: Estimates based on *World Development Indicators* (World Bank 2007b).

to Egypt and Yemen, and between Mashreq countries (West Bank and Gaza and 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 accounts for a high share of remittances received in Mashreq as well (table 2.7).

2.3.4 Prospects for regional migration

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 fueling domestic demand and are likely to have boosted demand for foreign labor. For example, the Economist Intelligence Unit (EIU) reports that the private sector in Bahrain created some 7,000 new jobs in the first half of 2006; however, less than 70 percent of these jobs went to nationals. Though 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, and dramatically so between 2001 and 2005 (table 2.8).

At the same time, concerns remain 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

Table 2.7: Intraregional remittances, 2000

US$ million

	Remittance-receiving country, US$ millions		
Remittance paying country	**Maghreb**	**Mashreq**	**Other**
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: World Bank data.

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: World Bank estimates based on data from the General Directorate for External Employment, Egypt's Ministry of Manpower and Emigration, as reported in World Bank 2008.

* Data for 2005 include a statistical artifact, as persons previously working in Jordan without visas now need to show evidence of a contract. However, the Jordan cases make up only 40 percent of all contracts.

workers. As late as 2004, official government responses to the United Nation's survey on migration policy foretold a hardening climate (table 2.9). Saudi Arabia, Kuwait, Oman, the UAE, and 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—which want 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, as the country is struggling with large inflows of refugees and illegal workers and with high rates of unemployment (about 14 percent in recent years). However, as skills and wage expectations of national workers remain at odds with private sector demand, foreign workers, including from MENA, fill the gap.

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 nonactive population to the labor force will stabilize. As a result, without additional migrant workers, two GCC workers would still have to support three inactive persons over the foreseeable future.

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

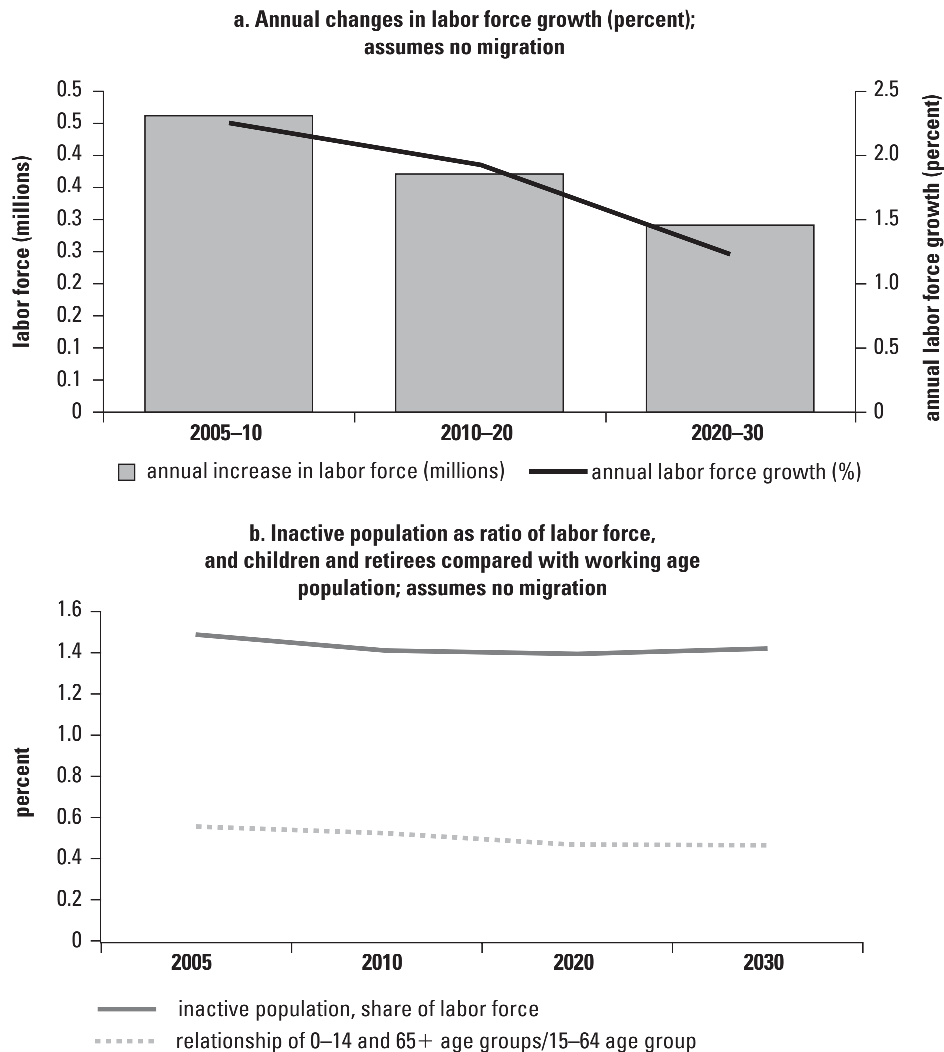
Table 2.9: Views of national governments on levels of migration and proposed policies

	Immigration		Policy type				Immigration		Encourage
	View	Policy	Permanent	Temporary	Dependents	Integration	View	Policy	return?
Algeria	√	√	—	—	—	—	√	√	Yes
Bahrain	√	√	—	—	—	—	√	√	—
Egypt, Arab Rep. of	√	Reduce	—	—	—	—	Too low	Increase	No
Israel	Too low	Increase	Increase	Reduce	Reduce	Yes	√	√	Yes
Jordan	Too high	Reduce	—	—	—	—	Too low	Increase	—
Kuwait	Too high	Reduce	Reduce	Reduce	Reduce	No	Too high	Reduce	—
Lebanon	Too high	Reduce	—	—	—	—	√	√	—
Libya	√	√	—	—	—	—	√	√	—
Morocco	√	√	√	—	—	—	√	Reduce	Yes
Oman	Too high	Reduce	—	Reduce	—	—	√	√	—
Qatar	√	√	—	—	—	—	√	√	—
Saudi Arabia	Too high	Reduce	√	Reduce	Reduce	Yes	√	Reduce	Yes
Syrian Arab Rep.	√	√	—	—	—	—	Too high	Reduce	—
Tunisia	√	Reduce	—	—	—	—	√	√	No
Turkey	Too high	Reduce	√	Reduce	√		√	Increase	No
UAE	Too high	Reduce	—	—	—	—	√	√	—
Yemen, Rep. of	Too high	Reduce	—	—	—	—	√	Increase	—

Source: World Bank data.

Note: A checkmark indicates satisfactory level or maintenance of existing policy.
— = data not available.

Figure 2.23: Population and labor force projections for GCC countries



Source: UN population projections as presented in Koettl 2006.

unemployment and surging sentiments about 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: (1) countries such as Syria, Egypt, Libya, Morocco, and Tunisia have begun to deepen structural and institutional reforms, increasing the demand for capital; and (2) 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 percent per annum since 2002, but also M2-to-GDP ratios surpassed 60 percent, and bank claims to the private sector increased as well. 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. Also, in the relatively more open Arab economies, opportunities exist in which, for instance, the access to banking services' (ratio of banks to citizens) remains quite low.[5]

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 percent of the bank ownership is public or quasi-public. For example, because of entry barriers and regulatory caps on foreign ownership, no bank license has been 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 financial hub in Qatar, operate under special regimes. However, these zones are not the result of a MENA integration trend; they were set up to target Western or Asian institutions and serve as a regional hub (box 2.3).

[5] 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 percent of the Bank of Alexandria by an Italian investor. Other international and Arab investors submitted bids.

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 the Bank of 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. However, with a small domestic market, Lebanese banks are looking to regional markets, and since 2003, they have either opened branches or acquired banks in Iraq, Jordan, Egypt, Oman, Saudi Arabia, Syria, and (soon) Libya.

In Jordan, private banks are largely owned by GCC funds and institutions, rendering them quasi-public. (The exception is the Arab Bank, the only Arab financial institution with a diversified ownership portfolio and branches across the MENA region.) 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 ongoing, 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 (Rafidain and Rachid) are being restructured, but of the 20 or so

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.

Currently 104 firms are registered with the DFSA. Of those, 40 percent are branches of banks primarily regulated elsewhere, with the majority being subsidiaries of large financial institutions and only a few being 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. Seven fund operators currently are licensed by the DFSA, and seven private funds are 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 Web site (http://www.difc.ae) and Article IV Consultation, July 2006, International Monetary Fund.

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, Rep. of (10), Jordan, WBG (23), Lebanon, Morocco (11), Egypt, Arab Rep. of (11), Qatar (3), Syrian Arab Rep., Bahrain, Algeria, Tunisia
Al Ahli Bank of Jordan	Jordan	—	2	Lebanon, and West Bank and Gaza
Al Ahli Bank of Kuwait	Kuwait	18	1	—
National Bank of Kuwait	Kuwait	56	11	—
Gulf International Bank	Bahrain	—	4	Investment bank, office in Saudi Arabia, GCC as shareholders
The Gulf Bank	Bahrain	42	—	—
Bank Misr	Egypt, Arab Rep. of	450	1	—
Bank of Alexandria	Egypt, Arab Rep. of	193	0	—
Banque du Caire	Egypt, Arab Rep. of	230	5	UAE (4), Bahrain (1), equity participation in two banks (Jordan and Saudi Arabia)
Audi Bank	Lebanon	79	35	Jordan (2003), Syria (2005), Egypt (2006), Saudi Arabia (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 (http://www.uabonline.com) and individual bank Web sites.

— = data not available.

smaller private banks, a few have been partially bought by Gulf investors.

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. For example, investors from the Gulf are increasing their investments in Jordanian and Egyptian stock markets. In 2004, about 20 percent 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 percent (figure 2.24).

Market capitalization in MENA, as a percentage of GDP, increased from a low 13 percent a decade ago to 50 percent by 2005 (World Bank 2006). 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.

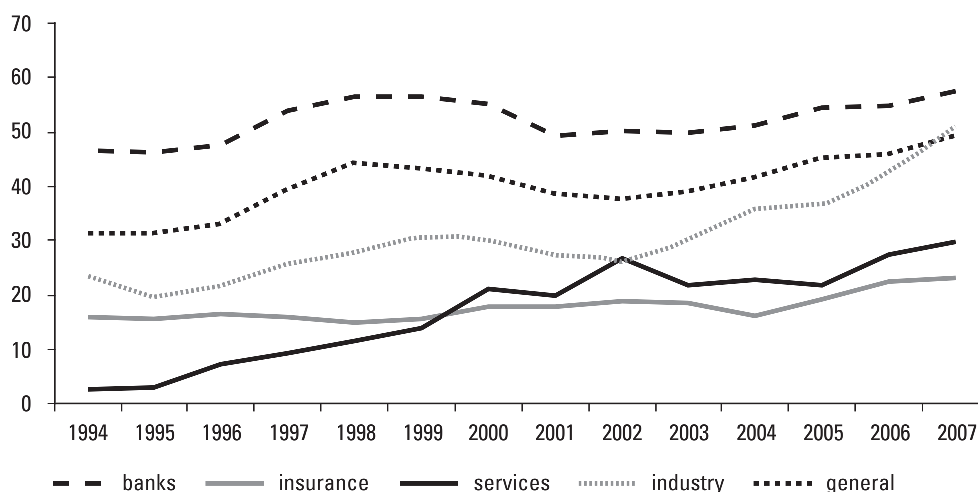
2.4.3 Project-based investments in MENA

Compared with conditions in 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.[6] A large share of

[6] According to the EIU (Global Outlook for May 2007), the GCC announced investment plans on the order of $700 billion over 2006–10, equivalent to 100 percent 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).

Figure 2.24: Ownership in the Amman stock market

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



Source: Amman Stock Market Web site.

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 mark, and new ventures for 2007 are expected to reach another $80 billion.[7] 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.[8]

With the existing legal and institutional frameworks in the MENA region, one cannot foresee significant intraregional capital flows; however, the ample liquidity available in resource-rich states is being invested via other channels in traditional markets, in both MENA and in Asia. The sovereign wealth funds (essentially oil money) are increasingly looking for opportunities in MENA, either because of the upside potential in these markets or the de facto restrictions the funds 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 captured $60 billion, or 11 percent of total GCC outflows between 2002 and 2006 (see box 2.4).

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

[7] *Khaleej Times*, September 6, 2007.

[8] Perspectives, Multilateral Investment Guarantee Agency, February 2007, and *Iktisad wa Amal* magazine, June 2007.

[9] Perspectives, Multilateral Investment Guarantee Agency, February 2007, and *Iktisad wa Amal* magazine, June 2007.

Table 2.11: Stock market indicators in the MENA Region

	1994	1995	1996	1997	1998	1999
MENA market capitalization (US$ millions)						
Abu Dhabi	—	—	—	—	—	—
Amman	4,627	4,724	4,556	5,456	5,863	5,835
Bahrain	5,129	4,707	5,019	7,826	6,772	7,161
Saudi Arabia	38,693	40,904	45,856	59,378	42,631	60,953
Kuwait	10,967	14,400	20,600	27,245	18,424	19,599
Casablanca	4,446	5,971	8,555	12,249	15,610	13,702
Algeria	—	—	—	—	—	—
Tunis	2,559	3,869	3,852	2,316	2,229	2,638
Dubai	—	—	—	—	—	—
Palestine	—	—	—	—	—	—
Muscat	1,856	1,971	2,753	7,313	4,537	4,303
Doha	—	—	—	—	—	—
Beirut	—	—	2,391	2,905	2,425	1,921
Egypt, Arab Rep. of	4,259	8,074	14,185	20,876	24,381	33,039
Total	**72,537**	**84,619**	**107,766**	**145,562**	**122,872**	**149,150**
Value traded (US$ millions)						
Abu Dhabi	—	—	—	—	—	—
Amman	616	517	351	502	655	549
Bahrain	160	106	177	472	577	444
Saudi Arabia	6,632	6,194	6,767	16,547	13,745	15,087
Kuwait	1,959	6,394	19,224	34,579	10,918	6,001
Casablanca	214	291	545	1,067	1,402	2,525
Algeria	—	—	—	—	—	—
Tunis	334	604	241	225	165	457
Dubai	—	—	—	—	—	—
Palestine	—	—	—	—	—	—
Muscat	241	211	580	3,875	2,371	714
Doha	—	—	—	—	—	—
Beirut	—	—	67	610	337	91
Egypt, Arab Rep. of	356	672	2,579	6,018	5,368	9,726
Total	**10,513**	**14,988**	**30,530**	**63,895**	**35,536**	**35,594**
Number of listed firms on stock markets						
Abu Dhabi	—	—	—	—	—	—
Amman	95	97	97	139	150	152
Bahrain	34	36	37	40	42	41
Saudi Arabia	62	69	70	71	74	72
Kuwait	48	51	60	74	78	85
Casablanca	61	44	48	49	53	54
Algeria	—	—	—	—	—	—
Tunis	21	26	30	34	39	44
Dubai	—	—	—	—	—	—
Palestine	—	—	—	—	—	—
Muscat	68	82	97	119	137	140
Doha	—	—	—	—	—	—
Beirut	—	—	6	8	12	13
Egypt, Arab Rep. of	700	676	646	650	861	1,033
Total	**1,089**	**1,081**	**1,091**	**1,184**	**1,446**	**1,634**

Source: Arab Monetary Fund.

— = data not available.

2000	2001	2002	2003	2004	2005	2006
—	—	20,376	30,363	55,490	132,413	80,745
4,943	6,314	7,087	10,963	18,383	37,639	29,729
6,624	6,601	7,716	9,702	13,513	17,364	21,122
67,166	73,201	74,851	157,306	306,256	646,121	326,852
19,848	26,662	35,099	59,528	73,581	123,893	105,950
10,876	9,031	8,564	13,050	25,175	27,274	49,415
—	—	—	144	140	91	96
2,809	2,230	2,126	2,440	2,574	2,821	4,222
—	—	9,470	14,284	35,091	111,993	86,895
—	—	—	—	—	4,457	2,729
3,518	2,634	5,268	7,246	9,318	12,062	13,037
—	—	10,567	26,702	40,435	87,143	60,905
1,583	1,248	1,395	1,503	2,331	4,917	8,304
30,791	24,309	26,339	27,847	38,077	79,508	93,496
148,158	**152,230**	**208,858**	**361,078**	**620,364**	**1,287,696**	**883,497**
—	—	363	1,004	4,449	28,506	19,222
406	934	1,335	2,607	5,327	23,806	21,616
245	250	206	261	463	711	1,387
17,313	22,223	30,974	159,056	472,991	1,103,583	1,402,942
4,208	11,711	22,123	54,729	51,818	97,290	59,600
1,211	841	1,440	2,443	3,757	7,859	9,110
—	—	—	0	0	0	0
687	342	246	189	257	529	563
—	—	688	1,027	13,735	110,304	94,735
—	—	—	67	—	2,103	1,067
551	420	582	1,334	1,985	3,320	2,214
—	—	883	3,220	6,344	28,252	20,585
118	53	115	131	198	923	2,032
11,799	5,913	6,444	4,349	6,835	27,720	48,954
36,539	**42,688**	**65,400**	**230,417**	**568,158**	**1,434,908**	**1,684,029**
—	—	24	30	35	59	60
163	161	158	161	192	201	227
41	42	40	44	45	47	50
75	76	68	70	73	77	86
86	88	95	108	125	156	180
54	55	55	52	53	54	63
—	—	—	3	3	3	2
44	45	46	45	44	45	48
—	—	12	13	18	30	46
—	—	—	47	—	28	33
131	96	140	141	123	125	121
—	—	25	28	30	32	36
13	14	13	14	16	15	16
1,071	1,110	1,150	967	792	744	603
1,678	**1,687**	**1,826**	**1,723**	**1,549**	**1,616**	**1,571**

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, the hotel industry, and the like, pushing net FDI holdings from 11 percent to 15 percent of the total identified asset base. A greater share of GCC funds is staying in the MENA region, in large part as a result of liberalization and privatization measures and greater integration. The volume of capital outflows destined to MENA economies is estimated to be about $60 billion, or 11 percent 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.

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 $500 million 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 health care 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 health care services. With a projected investment outlay of about 18.35 billion dirhams ($5 billion) over the next decade, Emaar's plan is to develop and manage about 100 hospitals and super medical specialties added in key centers.

Source: Emaar Web site, *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 telecommunication networks. However, such initiatives are in their infancy and face many regulatory and financial challenges.

2.5.1 Electricity grid 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 network interconnection. The amount of exported and imported power remains low in different cases. For instance, only 12 percent of total capacity of the Algeria-Morocco links is used, 17 percent in the case of the Algeria-Tunisia interconnection. Likewise, the Lebanon-Syria interconnection uses only 53.3 percent of the line-designed capacity.

Table 2.12 shows that electricity demand exceeds capacity in the majority of the countries in the region. Only a few countries have surpluses that can be traded. In 2005, total installed capacity in the region amounted to 151.8 gigawatts (GW), 36 percent of

which was in the GCC countries and 28 percent in Iran. The maximum load amounted to 102 GW.

The total energy generated reached 555,000 gigawatt-hour (GWh), whereas the total amount of power consumed was 480,000 GWh.[10] It is therefore clear that expanding regional trade of power energy in the region will require that (1) an appropriate institutional environment for energy trade be established at a regional level, (2) additional generation capacity be developed in countries where it is cheaper to do so, and (3) 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 kilovolts (kV)[11] were constructed between Algeria and Tunisia with a capacity of 112 megawatts (MW). The power exchange was rarely used, and both lines were open-ended until the late 1970s. Since then the two countries have installed two additional lines of 150 kV and 220 kV, respectively, with a total capacity of 180 MW.

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

The interconnections between Algeria, Morocco, and Tunisia attained potential results because of the difference in peak load times among the three systems. The power exchanges led to reductions in an individual system's reserve margin, lower generation costs, and efficient use of the power line capacities. Subsequently, the three countries signed power purchase agreements to institutionalize their power energy trade.[12] In December 2003, the EU

[10] A watt is a unit of power; a gigawatt is 1 million watts. A gigawatt-hour is the power of a million watts of energy generated for one hour.

[11] Volt is the unit of electrical pressure, kV = 1,000 volts.

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

Table 2.12: Power systems information in MENA countries, 2005

Country	Installed generation capacity (MW)[a]	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	4.48	0.36	0.28
Bahrain	1,819	8.19	7.61	0.57	0	0
Egypt, Arab Rep. of	18,474	102.45	84.49	17.18	0.17	0.9
Djibouti	90	0.20	0.19	0.01	0	0
Iraq	3,800	31.99	31.25	2.13	1.39	0
Jordan	1,906	9.07	8.49	1.32	0.74	
Kuwait	9,392	41.11	36.28	4.83	0	0
Libya	4,710	21.15	18.18	2.97	0	0
Lebanon	2,537	9.57	8.44	1.59	0.46	0
Morocco	5,076	21.37	20.67	1.50	0.80	0
Oman	3,336	11.89	8.66	3.23	0	0
Qatar	2,890	13.54	12.52	1.02	0	0
Saudi Arabia	30,450	165.55	146.95	18.61	0	0
Syrian Arab Rep.	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, Rep. of	1,000	4.46	3.38	1.08	0	0
Iran, Islamic Rep. of	42,749	170.37	136.21	33.48	2.07	2.76

Source: U.S. Department of Energy, http://www.eia.doe.gov/iea/elec.html.

a. Installed capacity is as of January 1, 2005.b. Jordan exported 0.004 GWh of power.

commission and the energy ministers of Algeria, Morocco, and Tunisia signed a protocol aimed at developing a regional electricity market compatible with that of the EU. Since then, the EU has been providing technical assistance to the three countries to prepare studies outlining a road map for market integration.[13]

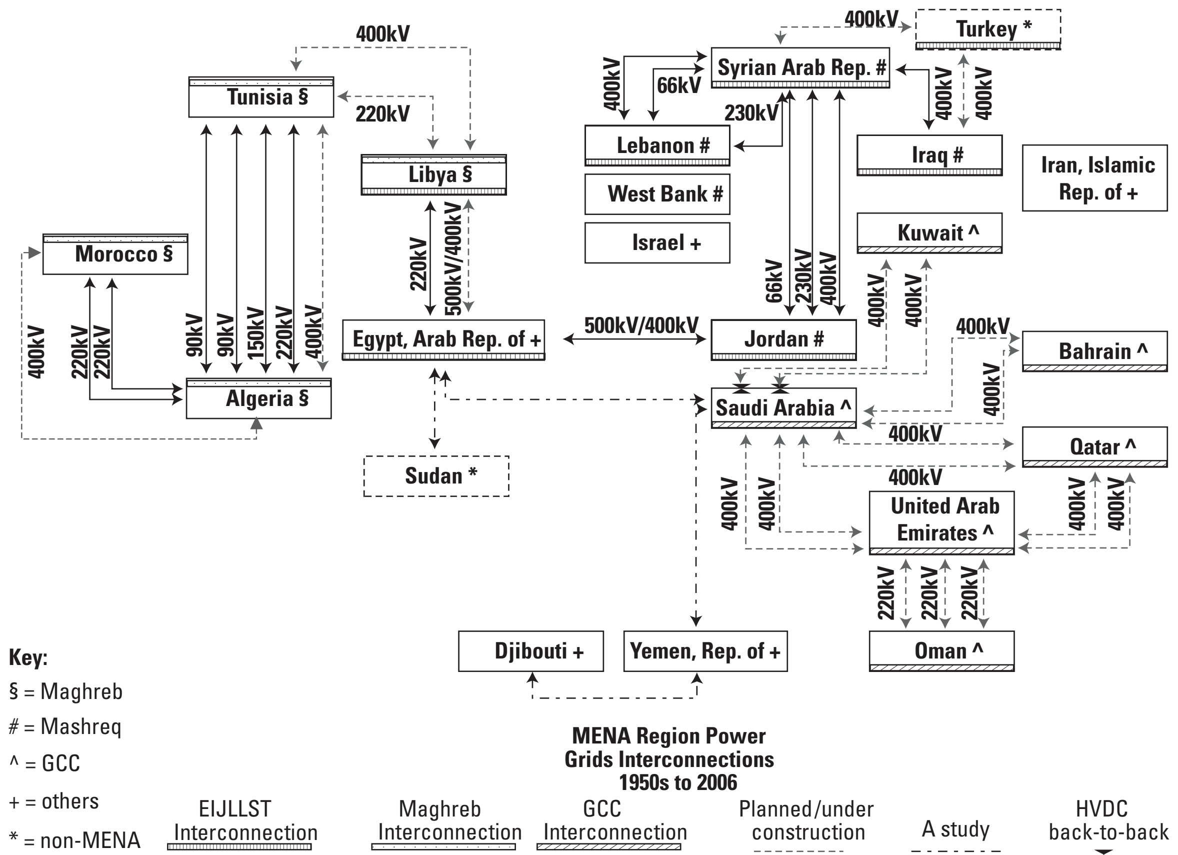
In the Arab Mashreq, Lebanon and Syria interconnected their power grids through a 66kV transmission line in 1973 (Farahat 2006). A 230 kV transmission line was subsequently added to increase the power exchange between the two countries, although energy trade on the first power line never exceeded 53.3 percent of the designed capacity (150 MW). Similarly, Jordan and Syria installed 66 kV and 230 kV transmission lines across their common border. Both lines were used to back up either of the two systems in case of network outages.

[13] The integration is part 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.

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 use 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 of 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 (see figure 2.25). In this context, three main projects have been initiated in the region: the seven-consortium electricity grids project, the GCC countries electricity grids interconnection project, and the Arab Maghreb countries electricity grids interconnection project. These projects are at different implementation stages.

Figure 2.25: Power grid interconnection projects in MENA region



Source: World Bank staff.

2.5.2 *Cross-border gas pipelines*

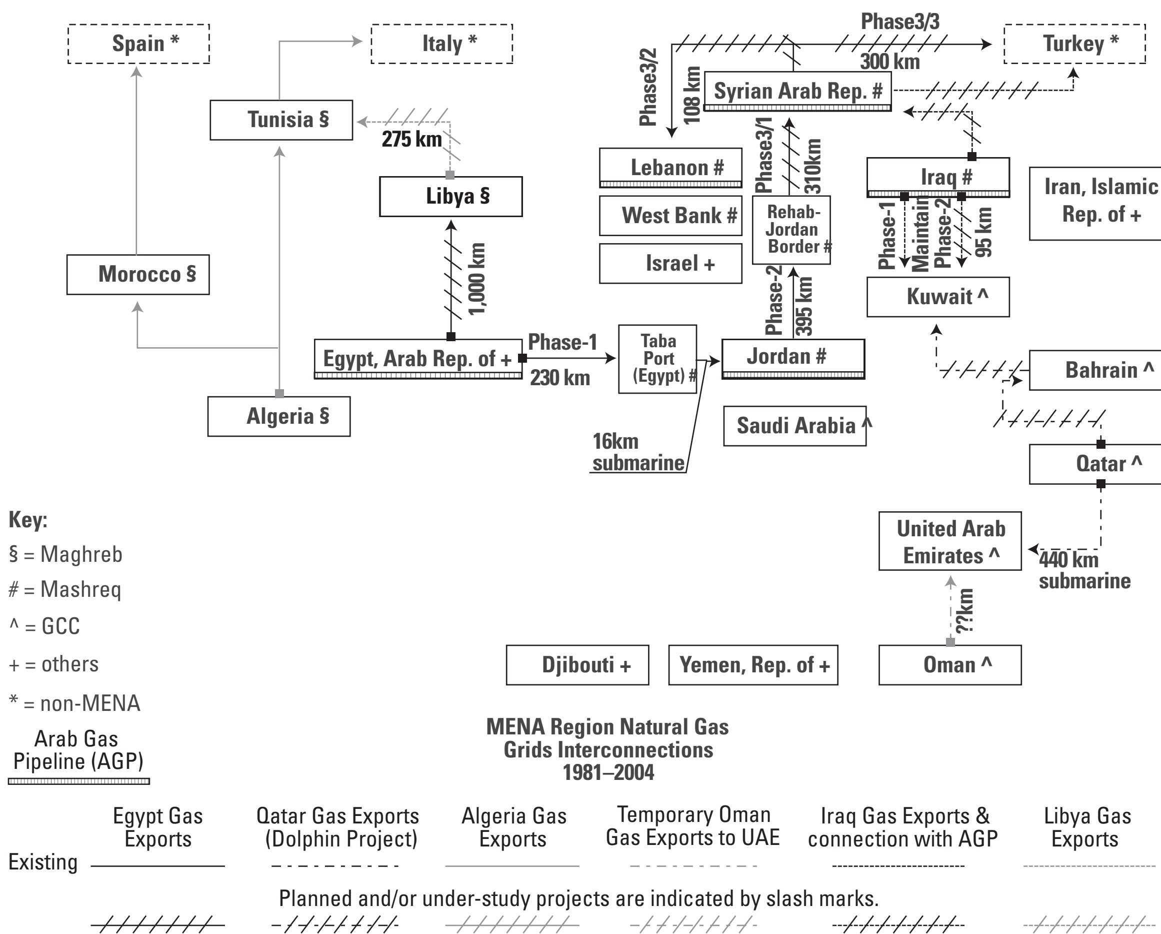
As in the case of power grid interconnections, the region has witnessed rapid development in the number of gas pipeline projects. Figure 2.26 provides a snapshot of the main gas pipelines in the region. Overall, there are three main cross-border gas pipeline projects in the region.

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 ready-to-export gas of 1,651 billion cubic meters (bcm) out of 1,850 bcm proven reserves (Farahat 2006). 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 the UAE, Bahrain, and Kuwait. Qatar is the richest country in the region in terms of natural gas reserves, with 25,513 bcm of ready-to-export gas out of 25,780 bcm proven reserves by the end of 2004. The pipeline project includes the following components: (1) Dolphin Gas pipeline, which is used to export natural gas from the Qatar Northern field to the United Arab Emirates, in operation since it was commissioned in 2007; (2) Qatar-Bahrain pipeline, which will be used to export natural gas from Qatar to Bahrain; (3) Qatar-Bahrain-Kuwait pipeline, which will be used to export natural gas from Qatar to Bahrain and Kuwait;[14] and (4) Oman-United

[14] *Source:* UN-ESCWA, "Annual Review of Developments in Globalization and Regional Integration in the Arab countries," 2006.

Figure 2.26: Cross-border gas pipelines in the MENA region



Source: World Bank staff.

Arab Emirates pipeline, which is under construction and will enable the emirate of Fujairah to operate its power and water desalination plant. The Oman-UAE pipeline is temporary until the Dolphin project is fully operational, by spring 2009.[15] In the Maghreb countries, transit countries such as Tunisia and Morocco have evolved into important gas-consuming countries. This situation has changed the geopolitics of cross-border gas pipeline projects in the Maghreb region.

Among other important gas pipeline projects under consideration in the region are (1) Iraq Gas pipeline, which aims to export Iraq's natural gas to Turkey through Syria and will connect Iraq to the AGP pipeline as a backup for Egypt and Syria gas exports; (2) Iraq-Kuwait Gas pipelines, which will enable the export of 35 mcf/day from Iraq to Kuwait after rehabilitating the existing pipelines; and (3) Libya-Tunisia Gas pipeline, which is planned to enable the export of 1 bcm of Libyan gas to Qabis, Tunisia.

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 the lack of appropriate maintenance or of poor service operations due to institutional deficiencies. Cost-effective transport services, efficient facilitation, and transport infrastructure supplemented with good intermodal connectivity are required to accommodate the growth in global and intraregional trade. However, regional integration initiatives remain at an early stage of development in the transport sector. As a result of 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 with their neighbors as well as with neighboring countries in Europe, Asia, and Africa. Despite problems related to poor maintenance of road assets in many countries in the region and delays in rehabilitation or in upgrading 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 interconnecting road system that enables an acceptable level of regional connectivity.

The coastal highway that links the main cities in the Maghreb provides, in principle, a seamless connection between the Maghreb countries and enables connectivity between the Maghreb subregion 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 corridor (Transport Corridor Europe Caucasus-Asia) 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 kilometers (km) of roads called for in the Agreement on International Roads in the Arab Mashreq 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.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 road safety.

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 multiplying of checkpoints at border crossings are impediments to intraregional exchanges by land. Though 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 the need to streamline procedures hampering traffic flow at border crossings. The challenge entails harmonization of standards (training of truck drivers, vehicles conditions, and so forth) and regulations applying to road safety.

To facilitate trade, a protocol promoting cooperation in the harmonization of procedures applicable

[15] Dolphin Energy Web site, http://www.dolphinenergy.com.

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 that system, the United Nations Economic and Social Commission for West Asia (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 May 17, 1999. The meeting report's declaration statement listed all the reasons that prompted ESCWA to undertake such venture, among which are the economic advantages that such a plan will definitely bring to the countries concerned, and that this project was not the first 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 20 years ago.

ESCWA's counselors, after taking these first steps, started supervising the practical implementation of the plan. The Agreement on International Roads in the Arab Mashreq was reached in the 2000. Among the benefits of the 31,400-kilometer roads network are the increase in the exchange of trade and tourism, the facilitation of multimodal transport, the strengthening of economic integration between members, and, the reduction of transport costs. Many 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 that end, a special committee of transport was established and meets every year to discuss the progress made and to plan the operation for the next period.

Source: ESCWA. http://www.escwa.un.org/.

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 has been uneven, as illustrated by box 2.7.

2.5.5 Rail transport

Railway lines exist in several MENA countries but are generally not interconnected (see table 2.13). Sixty percent of the total railway network called for by the Agreement on International Railways in the Arab Mashreq has yet to be built (see box 2.8). 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 important, large sections of the existing railways in the region cannot be interconnected because of track gauge differences. The existence of narrow gauge railroads in Jordan, Syria, and Tunisia is an impediment to regional interconnection of railroads in the region. Finally, political factors have also impeded railway interconnectivity, even when physical interconnection was possible. For instance, the closure of the Algeria-Morocco border has prevented smooth traffic flow between the railway networks for the past two decades.

Beyond the factors described above, further integration of the railroads in MENA remains a long-term endeavor that not only entails the construction of new railway lines in some countries but also requires significant upgrades in the existing national railway systems.

2.5.6 Air transport

The air transport industry in the 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 agree-

Box 2.7

Implementation status of the international roads agreement

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, the Al-Mudawara border crossing with Saudi Arabia, the Jaber border crossing with Syria, and the King Hussein Bridge border crossing with Palestine.

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 percent 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, then 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.

In the Syrian Arab Republic, the implementation of the Agreement on International Roads in the Arab Mashreq was launched in January 2006. One thousand international road signs have been produced and put in place on all routes. Furthermore, a new numbering scheme for the road network in Syria was prepared. Because 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 Syria and Turkey.

Within Iraq, a section of route M40 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.

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 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; the remaining sections need to be rehabilitated.

Source: ESCWA 2007.

ments is growing.[16] Bahrain, Jordan, Lebanon, Morocco, Oman, Qatar, and the UAE have signed open skies agreements. Furthermore, in Bahrain, Lebanon, and the 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, ensuring consumer protection, and preserving the quality of the environment. But to effectively handle the anticipated growth in traffic, governments will also need to address a combination of critical issues, from the urgent need to expand or modernize airports to the adoption and enforcement of common rules ensur-

[16] "Open skies agreement" refers to a bilateral or multilateral air transport agreement that 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 liberalize 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.

Table 2.13: Railway lines in selected countries

Country	Gauge	Total length (km)	Single track (km)	Double track (km)	Electrified track (km)
Algeria	Standard	3,209	2,864	345	313
	Narrow	1,081	1,081		
Egypt, Arab Rep. of	Standard	4,903	4,903	1,257	42
Iraq	Standard	2,045	1,941	104	—
	Narrow	450	450		
Iran, Islamic Rep. of	Standard	6,716	5,182	1,534	—
	1,676 mm	92			
Jordan	Standard	3,209	788	—	—
Morocco	Standard	1,907	1,907	271	271
Saudi Arabia	Standard	1,392	1,078	314	—
Syrian Arab Rep.	Standard	1,754	1,754	—	—
	Narrow	327	327		
Tunisia	Standard	457	422	35	—
	Narrow	1,484	1,411	73	68

Source: Sabouni 1997.

Note: Standard gauge is 1,435 mm, narrow gauges are 1,000, 1,050, 1,055, and 1,067 mm.
— = data not available.

ing air transport safety and security within the regional space.[17] 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 2.9).

Although 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

[17] A sum of $40 billion has already been appropriated for airport development in the GCC countries, of which $20 billion will be spent 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, and $4.1 billion more is 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.

Box 2.8

Agreement on International Railways 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 April 14, 2003, and entered into force on May 23, 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 10 east-west axes. The agreement also lays down technical specifications and standards to be complied with by member countries as they develop the missing links. The length of the international railways network covered by the agreement totals roughly 19,600 km, of which 8,000 km already exist and 11,600 km 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 31, 2006; completion of the work necessary to improve existing links: December 31, 2006; construction of the missing links: December 31, 2020.

Source: ESCWA 2006, Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, p. 61.

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 percent 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 feet of terminal space. A transparent and competitive bidding process was designed and implemented in a relatively short time frame. 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 percent 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 Jordanian government transferred control of the Queen Alia International Airport to the private consortium.

Source: Akalay and Hoque 2008.

liberalize air transport has been signed by 12 member countries. The accord includes clauses on awarding of air traffic rights, implementation of air traffic rights, granting of operating licenses and permits, commercial requirements for airlines, government subsidies to airlines, flight safety and civil aviation security, protection of the environment and consumer interests, and consultations and disputes resolution.

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 anticompetitive 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 maintained a monopoly in the provision of mobile service in 2005–06. Approximately half of the countries are providing third-generation mobile communications service, and 53 percent have liberalized their fixed-line communications market segment by issuing several long-distance licenses.

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 1970s and 1980s. 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 10 countries, whereas the SEA-ME-WE system connects about 13 countries.

In the same vein, Arabsat is one of the most successful regional integration initiatives implemented in the telecommunications sector by the MENA countries (see box 2.10). Designed and launched in the late 1970s, Arabsat has provided the region with

Table 2.14: Telecommunications market characteristics in MENA countries, 2006

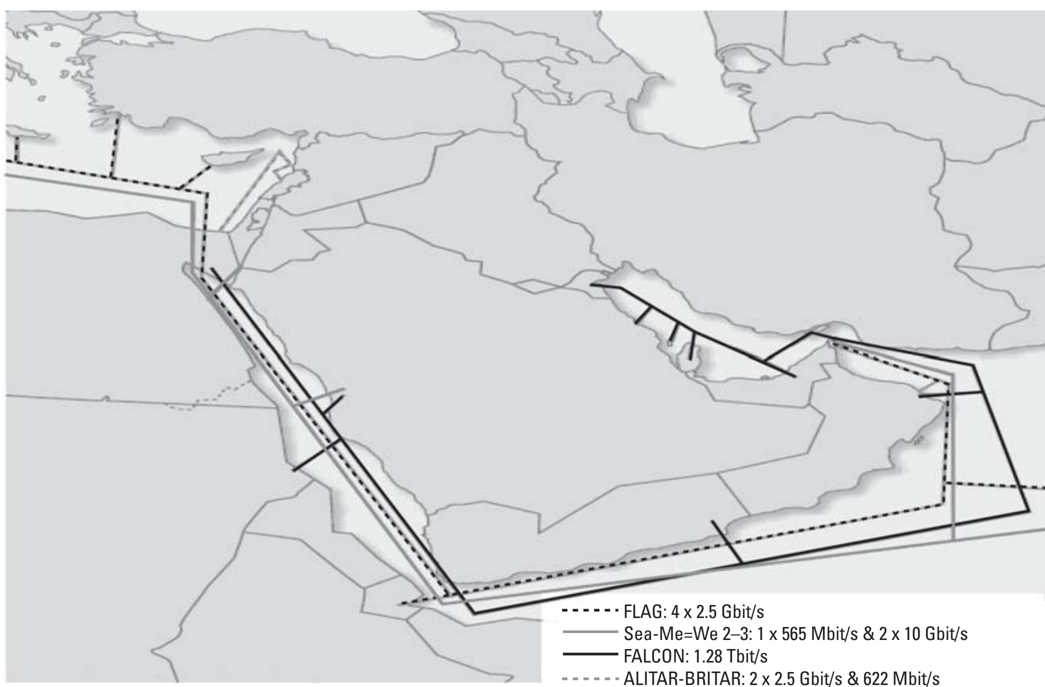
Available characteristics	Number of countries (out of 19)	Percentage
Corporate offers	16	84
3G services	9	47
International long-distance competition	10	53
Number of working cellular operators		
One	1	5
Two	11	58
Three	5	26
Four	1	5
Five	2	11
Other comparisons		
Average post-paid package families	15.7	
Average prepaid 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.

independent access to a satellite communications system. Without Arabsat, the flourishing broadcasting media industry that the MENA region now enjoys would not have been possible, nor would an Arab-origin international broadcasting network such as Al Jazeera exist.

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

Figure 2.27: Submarine Fiber Optic Cable in MENA Region



Source: World Bank data.

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 ninth 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 four 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 television and radio broadcasting services, professional data network solutions, telephony and IP-trunking backbone connectivity, and broadband Internet access to media and entertainment companies, corporate customers, or government entities.

Arabsat recently announced that, starting in 2008, it will launch one new satellite every year over the next four years, with a second fourth-generation satellite to be launched soon and three fifth-generation spacecraft either under construction or at proposal stage.

Source: Arabsat Web site.

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 (see box 2.11).

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, and 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 that 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 market integration. For the time being, policy makers 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.

2.6 The Road Ahead

Regional integration is no panacea. With limited coverage of services and labor flows in existing agreements, high most-favored-nation tariffs and nontariff barriers in some countries, and low shares of intraregional 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, noneconomic 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 toward this end.

Stronger regional linkages do have a constructive role to play. For example, preferential opening of markets can help export-oriented firms 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

Box 2.11

Cross-border investors in telecommunications in MENA

Kuwait's Mobile Telecommunications Company (MTC, or Zein began its ambitious expansion plan by acquiring Dutch-based firm CelTel, which operated in 13 African nations, at a cost of about $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.

Egypt's 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 Telecom operations, 1999–2006

Orascom: Key figures	1999	2000	2001	2002	2003	2004	2005	2006
Total subscribers (thousands)	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$ millions)	309	575	851	827	1,119	1,966	3,226	4,401
Net income (US$ millions)	11	10	−95	213	123	298	659	719

Source: Orascom 2007.

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 advisers.

exposed to foreign competition initially on a limited intraregional basis, which might force them to upgrade their offer, which in turn might better prepare them 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, who 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 discussions with major players, such as the EU or the United States, or in the context of multilateral World Trade Organization 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 intraregional as well as extraregional trade.

Moreover, trade agreements can help reinforce positive elements in the domestic reform program by anchoring policy in the agreement itself. It is subsequently more difficult for domestic lobbying 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

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, which took place in Algeria in 2003. Fifteen Arab representatives participated in the first meeting, and Algeria took the responsibility of the general secretariat of the network. The presidency of the network changes annually according to alphabetical order of its members.

More specifically, ARNET supports national information and communication technology (ICT) regulators by (1)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; (2)supporting initiatives that promote the harmonization of regulatory procedures in the Arab world and that work on legislative convergence among the Arab countries; and (3) 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 2004–07 covered the following areas: (1) develop ARNET's institutional capacity by developing the association Web site and by preparing a common Arabic glossary for ICT technical terms and initiating studies for the establishment of an ARNET investment fund; (2) prepare common guidelines for regulatory policies for licensing, interconnection, universal service, competition, pricing and billing, and dispute settlement; (3) elaborate a set of common standards for ICT equipment, equipment approval, health and environment protocols, and standards and quality of services; (4) exchange of expertise between its members by preparing a common database for regional experts and establishing a permanent interactive virtual forum on the Web site, preparing common guidelines for best administrative practices and methods of HR development, and preparing a detailed work plan for multilateral training on technical and personal skills.

Source: ARNET Web site (http://www.aregnet.net/).

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 a 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 example, with regard to discretionary application of administrative rules and requirements—that hampers proper implementation. Hence, well-functioning monitoring mechanisms and sustained high-level political attention to institutional improvements (such as those concerning reductions in tariff and behind-the-border barriers) are essential for the success of regional integration initiatives. Technical reviews of progress toward 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 nontariff barriers between countries in the region, as well as barriers to 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 not only are suitable for bringing MENA countries closer together, but also tend to make the economies of the region more competitive in international markets.

3

Structural Reform Progress for Long-Term Growth

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, the report evaluates reform to understand where countries currently stand relative to one another—and to the rest of the world—and to monitor reform progress over time (see appendix B for a full description of structural reform indicators).

Using 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, nontariff barriers remain high, and trade logistics performance, reflecting the quality of customs, ports, and transport arrangements, remains subpar.

Business climate reforms. Despite notable improvements in some countries (e.g., the Arab Republic of 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 good. The quality of public administration remains relatively high in MENA, ranking above East Asia, Latin America, South Asia, and Sub-Saharan Africa, although in 2007 this ranking slipped relative to 2006. While the quality of public accountability remains very low in MENA, in terms of reform effort in this area, MENA ranked in the 64th percentile, above all other regions.

3.1 Trade-Related Reforms

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

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).

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 receive greater financial assistance from and enhanced market access to the EU. The first to sign ENP action plans were Jordan, Morocco, the Palestinian Authority, and Tunisia in 2005, and in 2007, two additional countries—Egypt and Lebanon—also reached agreement. Also, in February 2007, the GCC and the EU reini-

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

Box 3.1

Trade relationships and recent developments with the European Union

Association agreements and 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 by a number of political and security events. Syrian Arab Republic'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 of their European Neighborhood Policy (ENP) action plans. Libya was under international embargo for most of the past two decades, and 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 agroindustrial 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 they 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: Adoption of Bilateral Action Plans

The ENP, developed in 2004, 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 West Bank and Gaza, Syria, and Tunisia).

The central element of the ENP is the bilateral ENP action plans agreed to 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 subcommittees.

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, which have no such agreements in force. Algeria, meanwhile, has not yet initiated negotiations on an action plan. The action plans for Jordan, Morocco, the Palestinian Authority, and Tunisia 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.

tiated talks on trade cooperation after a long period of inaction.

Agreements with the United States have also been signed by Bahrain, Jordan, Morocco, and Oman, with one for the United Arab Emirates under preparation (table 3.1). Jordan's qualified industrial zone (QIZ) preferential trade agreement with the United States (offering duty-, quota-, and tax-free access to U.S. goods with both Jordanian and Israeli value added) has helped raise manufacturing exports, and a similar QIZ protocol was recently put in 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.

Intraregionally, MENA economies have sought to foster greater trade and investment through the Greater Arab Free Trade Agreement (GAFTA),[2] and through the GCC customs union, which is progressing toward a common market arrangement (see table 3.1). Egypt, Jordan, 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,

[2] MENA members are noted in table 3.1. In addition, Sudan is a member.

Table 3.1: Trade policy map of MENA countries: Free trade agreements

	WTO		GAFTA	EU		EFTA		Other FTAs	GCC	Agadir
		Member since		(Association Agreement)	Entry into force		Entry into force			
Algeria	Observer			√	09/2005					
Bahrain	√	01/1995	√					United States (08/2006)	√	
Djibouti	√	05/1995								
Egypt, Arab Rep. of	√	06/1995	√	√	06/2004	√	8/2007	Turkey (2007), QIZ		√
Iraq	Observer		√							
Iran, Islamic Rep. of[a]	Observer		n.a.							
Jordan	√	04/2000	√	√	05/2002	√	09/2002	United States (12/2001), Singapore (08/2005), QIZ		√
Kuwait	√	01/1995	√						√	
Lebanon	Observer		√	√	03/2003	√	01/2007			
Libya	Observer		√							
Morocco	√	01/1995	√	√	03/2000	√	12/1999	United States (01/2006), Turkey (01/2006)		√
Oman	√	11/2000	√					United States (pending)	√	
Qatar	√	01/1996	√						√	
Saudi Arabia	√	12/2005	√						√	
Syrian Arab Rep.	Accession not initiated	√			1977 Agreement			Turkey (01/2007)		
Tunisia	√	03/1995	√	√	03/1998	√	06/2005	Turkey (07/2005),		√
United Arab Emirates	√	04/1996	√					United States (in negotiation)	√	
West Bank and Gaza	n.a.		√	√	07/1997	√	07/1999	Turkey (06/2005)		
Yemen, Rep. of	Observer		√							

Sources: World Trade Organization, U.S. Trade Representative, European Union Commission. Note: √ means the country is a member.. Gulf Cooperation Council (GCC) has had a custom union since 2003; European Free Trade Association (EFTA) states include Iceland, Switzerland, Norway, and Liechtenstein. The Greater Arab Free Trade Agreement (GAFTA) entered into force on January 1, 1998; duties were reduced to 0 percent on January 2005. The Agadir Agreement 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. Goods exported from the QIZ enter the United States at preferential rates.

Note: n.a. = not applicable.

a. The Islamic Republic of Iran is the founding member of the Economic Cooperation Organization (ECO), which groups Turkey, Pakistan, Afghanistan, and countries of the former Soviet Union.

thus raising the negotiating power of the free trade zone with respect to the EU. Countries that have signed on to 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 free trade agreement with the EU, enacting sharp tariff cuts both in 2004, when it reduced the average tariff to 9.1 percent, and in 2007, when it brought the average down further to 6.9 percent (box 3.2).

Resource-rich, labor-abundant economies have also lowered tariff rates, though tariffs remain high among the group. In 2004, the Islamic Republic of 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 government of the Republic of Yemen to lower import tariff rates in 2005, when almost two-thirds of its tariff lines were set at 5 percent, and the average was reduced to just over 7 percent, which at the time was the lowest average tariff outside GCC in MENA.[4] And in 2007, Syria introduced a number of changes to its custom laws, and peak tariff rates were cut from a high of 255 percent to 60 percent.[5]

Tariff rates among the GCC countries have converged to 5 percent, 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 sim-

[3] The Barcelona Process is the name given to the launch of the Euro-Mediterranean Process of integration.

[4] Subsequently, Lebanon and Egypt reduced tariffs slightly lower.

[5] Economic Monitoring Notes for Syria, October 2007, World Bank.

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 macroeconomic 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 45.0 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, then to 6.9 percent after the February 2007 cuts. Consequently, customs fees plus import-tariff revenues fell from 17.3 percent of imports in 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 sizable 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, and agriculture and electrical machinery are among the least protected.

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

plification 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 the 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.

3.1.2 Quantifying progress with trade reform

As in past *MENA Economic Developments and Prospects* reports, MENA's trade policy is evaluated in terms of both its current status (relative to the world) and its progress in reform (relative to the

Table 3.2: Association agreements and action plans with the European Union

Country	Signed	Entered into force	Tariff dismantlement on industrial goods to start	Developments in 2006–07
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, Arab Rep. of	June 2001	Interim agreement January 2004; full agreement June 2004	Annexes: II (Jan. 2004, over 4 years), III (Jan. 2007, over 7 years), IV (Jan. 2009, over 8 years), V (Jan. 2010 over 10 years)	Action Plan (ENP) signed in March 2007; began reducing tariffs in 2007 (Annex III).
Jordan	November 1997	May 2002	For one annex: May 2002 (over 5 years); and two annexes, starting May 2006 (over 5 and 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)	European Neighborhood Policy (ENP) Action Plan signed 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 percent in 2012.
Syrian Arab Rep.	Initialed October 2004	EU Council to decide on signature date	n.a.	n.a.
Tunisia	July 1995	March 1998	For two annexes: March 1998 (over 5 and 12 years); for Annex 3, 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 percent and 33 percent of original level. Average tariff on EU goods in 2007 is 6 percent. In January 2008 it will reach 0 percent.
West Bank and 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, Rep. of	November 1997	July 1998	Cooperation (framework) Agreement, no schedule for tariff dismantlement	n.a.
GCC	Trade relations still governed by the 1988 Cooperation Agreement. Negotiations on an FTA with the European Union were relaunched in February 2007. (First talks were held as early as 1990, but an agreement was not reached and the signature of an FTA was postponed.)			
Iran, Islamic Rep. of	Negotiations on a trade cooperation agreement and the Economic Dialogue were suspended in December 2003.			

Sources: European Union Commission Web site (http://www.europa.eu) and national authorities.

n.a. = not applicable.

world). MENA's current trade policy relative to other countries worldwide is evaluated through a composite index, using four trade-related indicators: (1) the simple average (applied) tariff (most-favored-nation 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 2008 report (data for 2007) provides the data for the latter two indicators, and the WTO and the TRAINS database are the source of data for tariffs and other duties.[6]

Trade policy reform progress for MENA is 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 2000–07 period through progress in reducing average tariffs. Though it only captures one element of trade policy, this reform measure is nonetheless useful in examining reform progress over a relatively long period.[7] In addition, in this year's *MENA Economic Developments and Prospects* report and going forward, trade reform is analyzed more broadly, by looking at the change in the composite trade policy index (using 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 percentile 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.

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, Jordan, and Lebanon underlie this strong performance by the resource-poor group. Egypt ranks in the 96th percentile, the highest in the region, and Jordan and Lebanon both rank in the 91st percentile (the 2007 tariff rate in Lebanon was almost half its 2000 level). But notable tariff reform has also occurred among the resource-rich, labor-abundant economies, where tariff reform on average ranks among the top third of countries worldwide, spurred by the strong tariff cuts in Iran, which cut tariffs from an average of about 66 percent in 2000 to 22 percent in 2007, and Yemen, which cut tariffs from an average of 13 percent in 2000 to 7 percent in 2007.

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 percent.

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, the measure of trade reform from 2000 to 2007 reflects 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 as measured through the time required for import-clearing and export-clearing procedures. These more accurately reflect 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 past 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 46th percentile worldwide to 47th percentile. These improvements are compared with dynamic trade reform in the OECD countries, which rose from the 69th percentile on average in

[6] See Appendix B for a description of methodology behind the structural reform indicators.

[7] Other trade-related indicators, including behind-the-border procedures and non–ad valorem duties, are only available for the past three years, and thus may fail to capture the spirit of reform over the past decade.

Table 3.3: Trade policy reform progress, 2000–07

Percentile rank

Country or region	Current trade policy[a]	Trade policy reform progress 2000–07[b]
Algeria	58	69
Bahrain	—	71
Djibouti	52	47
Egypt, Arab Rep. of	72	96
Iran, Islamic Rep. of	1	73
Iraq	—	—
Jordan	50	91
Kuwait	58	7
Lebanon	13	91
Libya[c]	—	—
Morocco	64	55
Oman	44	70
Qatar	—	8
Saudi Arabia	61	87
Syrian Arab Rep.[d]	32	38
Tunisia	56	57
United Arab Emirates	77	—
West Bank and Gaza	—	—
Yemen, Rep. of	20	87
Regional averages (unweighted)		
MENA	47	63
Resource-poor, labor-abundant	51	73
Resource-rich, labor-abundant	28	67
Resource-rich, labor-importing	60	49
East Asia and Pacific	49	43
Europe and Central Asia	50	55
Latin America and the 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:

a. 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, and 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.

b. 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.

c. In 2006 the Libyan government eliminated all tariffs but converted its import protection mechanism into excise duties, levying consumption taxes—sometimes as high as 50 percent—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 percent are equivalent to trade protection and reduce the transparency of the trade regime. Overlooking this high and hidden trade protection by considering 0 percent as the Libyan simple tariff would distort regional averages and, more important, provide misleading conclusions with respect to Libya's trade policy. According to the 0 percent 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 percent, 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 is to remove Libya from the sample, and by doing so, avoid providing misleading conclusions or wrongly calibrating the level of the Libyan trade profile. At this stage of the evaluation, 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 percent.

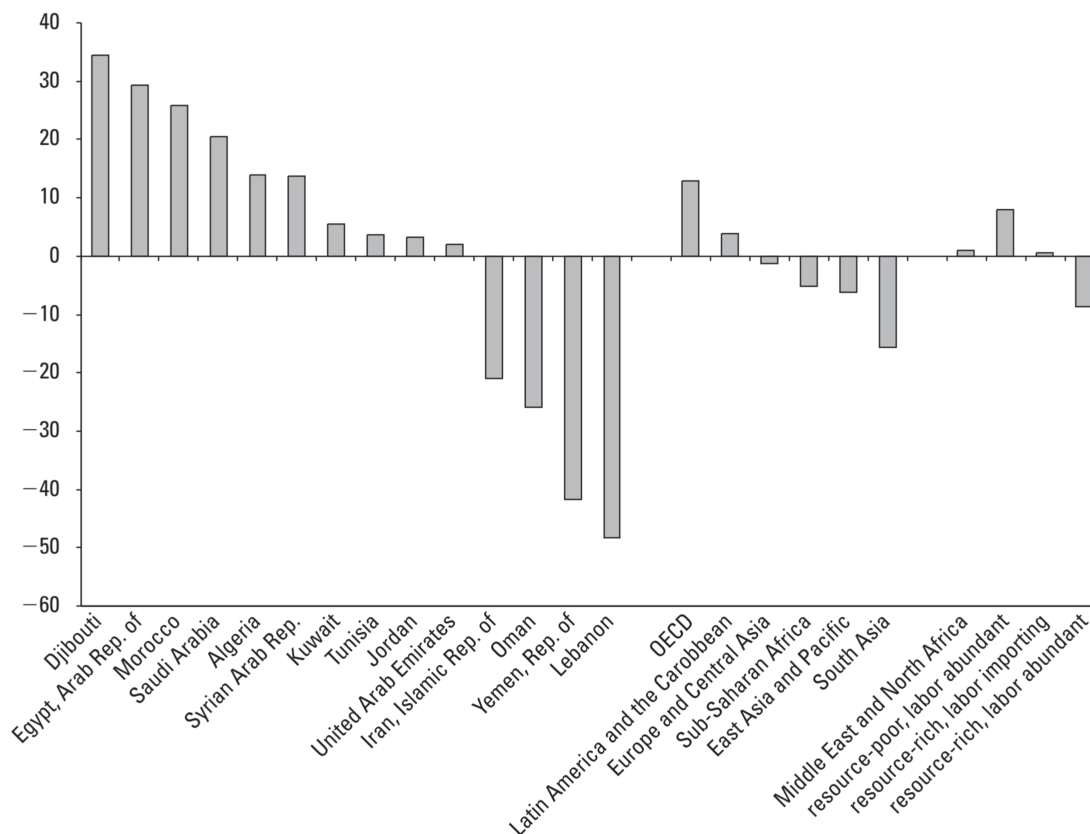
d. Value does not reflect the August 2007 reduction in peak tariff rates.

2005 to the 82nd percentile by 2007, and Latin America, which rose from the 57th percentile to the 60th percentile, on average, and with declining trade policy rankings in Africa, East Asia, and Europe and Central Asia.

Resource-poor countries are leading the overall trade policy improvements in MENA, in large part because of 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 days to 15 days) and import (from 29 days 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 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 past two years in this broader trade policy measure (even countries that may have demonstrated strong tariff reform over the past seven years). The largest single decline in trade policy ranking took place in Lebanon, where 2006 and 2007 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 in MENA countries and other regions, 2005–07



Source: World Bank estimates.

Note: The figure shows regional absolute change in current trade policy index (composed using information on average tariffs, non–ad valorem duties, and the time for clearing imports and exports). See appendix B for a full description of the trade policy index. Regional averages are unweighted, and data for the UAE and Djibouti cover only the 2006–07 time frame.

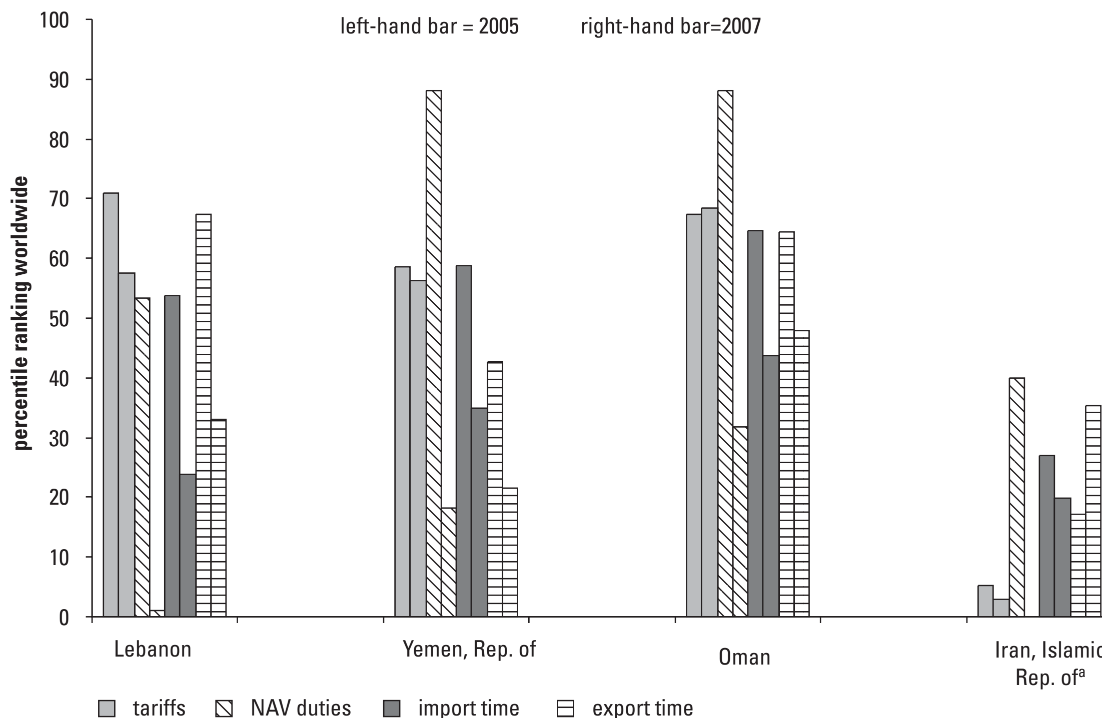
Other MENA countries are also exhibiting significant deteriorations in the climate for trade over the past two years, including Iran, Oman, and Yemen (all three of which also exhibited strong tariff reform progress over 2000–07). Figure 3.2 highlights the factors underlying the recent deteriorations 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 percent 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; the average time required for exporting has declined from about 32 days to 26 days, while average time for importing has gone 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.

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, 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 (which place the economies in the bottom 18th percentile, on average[8]) and cum-

[8] See table B2, appendix B.

Figure 3.2: Factors underlying trade policy index declines, 2005–07



Source: World Bank estimates.

a. NAV duties are not available for Iran in 2007.

bersome import-processing procedures. Iran in particular stands out for a debilitating trade environment, ranking in the bottom 1 percent worldwide with regard to tariffs and time for trade processing. Regionwide, cutting back on the significant barriers to trade will be required if businesses are to expand and create markets abroad.

3.2 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 also have a vested interest in improving their own business climate in order to attract foreign investors and to acquire new technologies for their oil-based sectors as well as to diversify their economies.

3.2.1 Recent developments[9]

Strategies for improving the business climate in MENA have evolved from efforts concentrated on industrial policies toward specific sectors (including the industrial 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 *MENA Economic Developments and Prospects 2006* report (World Bank 2006c). 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 affected both the direction of credit in MENA and the operating efficiency and ability of the banking sector to conduct robust risk analysis. The degree of state ownership is especially high in the resource-rich, labor-abundant economies of Algeria, Iran, Syria, and Libya, but state ownership is also high in several of the resource-poor economies such as 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 under way, 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 percent 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 with 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), were 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 (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

[9] Recent developments were drawn from three principle sources: the World Bank Doing Business 2008 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.

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, increasingly, mobile operators have been established in Egypt, Morocco, Tunisia, and Jordan. In Lebanon, encouraging steps toward 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, labor-abundant economies has moved more slowly. Algeria's long-anticipated privatization of Algeria 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 has 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, audiovisual communications, and 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 shipbuilding, although the actual privatization process has moved slowly, and access to these sectors is 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 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 (IMF 2006). In addition, banking laws have been revised to improve supervision of nonbank 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 nonperforming 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 the 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-money-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 (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 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 the raising of 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.

3.2.2 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 Multifiber Agreement (MFA),[10] 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, and in Morocco, following the success of Casa Nearshore Park, the Moroccan government has defined an extensive list of incentives to promote new 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 the Russian Federation. While Djibouti has had a long-standing free zone, it was only after a 2004 law was issued to govern the free zone and establish the incentives to operate there that foreign investments began to flow.

The GCC economies have also heavily used 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 that incorporates hotels, residential facilities, and amenities.[11] 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 health care, 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

[10] In January 2005, the World Trade Organization's Multifiber Agreement (MFA) on Textiles 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.

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

hub for both health care services and education, with the recently established Hamad Medical City and Education City, which are designed to attract overseas institutions to set up campuses (including Cornell University) while promoting the development of knowledge-intensive industries.

3.2.3 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 eight 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 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 used, 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 (2003–07) 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, this year's *MENA Economic Developments and Prospects* report began to analyze business reform more broadly, looking at the change in the composite business climate index from 2005 to the present and using the data from the eight indicators noted above. The first year all eight areas of the business climate are available is 2005. 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 (29th percentile) and lower than any other region of the world (see table 3.4). Only a few countries in the region have kept pace with business reform 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 are available since 2003.

The majority of the region's progress in reform of the business regulatory environment over the past 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 69th 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 pounds (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 percent 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 seven, while the registration time declined from 39 to 15 days.

By far, the least progress in reform has occurred among the resource-rich, 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 region's progress with reform across several fronts (including the ease of starting a business, closing a business, hiring and firing, and enforcing contracts)

Table 3.4: Business and regulatory reform

Percentile rank

Country/region	Current business environment 2007[a]	Reform progress, 2003–07[b]
Algeria	30	51
Djibouti	11	—
Egypt, Arab Rep. of	20	61
Iran, Islamic Rep. of	21	1
Iraq	37	—
Jordan	49	37
Kuwait	77	12
Lebanon	42	3
Morocco	31	17c
Oman	76	69
Saudi Arabia	87	55
Syrian Arab Republic	23	8[c]
Tunisia	49	52
United Arab Emirates	54	6
West Bank and Gaza	33	—
Yemen, Rep. of	63	10
Regional averages (unweighted)		
MENA	44	29
Resource-poor, labor-abundant	32	42
Resource-rich, labor-abundant	35	17
Resource-rich, labor-importing	73	35
East Asia and Pacific	63	45
Europe and Central Asia	56	63
Latin America and the 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 reform policies available in 2003 and 2007, 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 (countries) that exhibited greater deterioration.
c. The business reform index for 2003–07 is significantly changed from the 2007 report (evaluating reform over the 2003–06 period), primarily because of changes to the underlying historical data.
— = data not available.

over the longest time period available (since 2003). Other important elements of business reform—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 indicators. This more accurately reflects overall changes in the business climate, albeit over a short time period.

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

Table 3.5: Quality of public administration and reform progress

Percentile rank

Country or region	Quality of administration 2007	Quality of administration reform progress 2000–07
Algeria	32	11
Bahrain	75	62
Egypt, Arab Rep. of	42	94
Iran, Islamic Rep. 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 Rep.	13	48
Tunisia	73	75
United Arab Emirates	44	2
Yemen, Rep. of	23	18
Regional averages (unweighted)		
MENA	47	47
Resource-poor, labor-abundant	61	70
Resource-rich, labor-abundant	24	29
Resource-rich, labor-importing	53	44
East Asia and Pacific	46	50
Europe and Central Asia	54	64
Latin America and the Caribbean	43	42
High-income OECD	89	48
South Asia	34	51
Sub-Saharan Africa	31	45
World	**50**	**50**

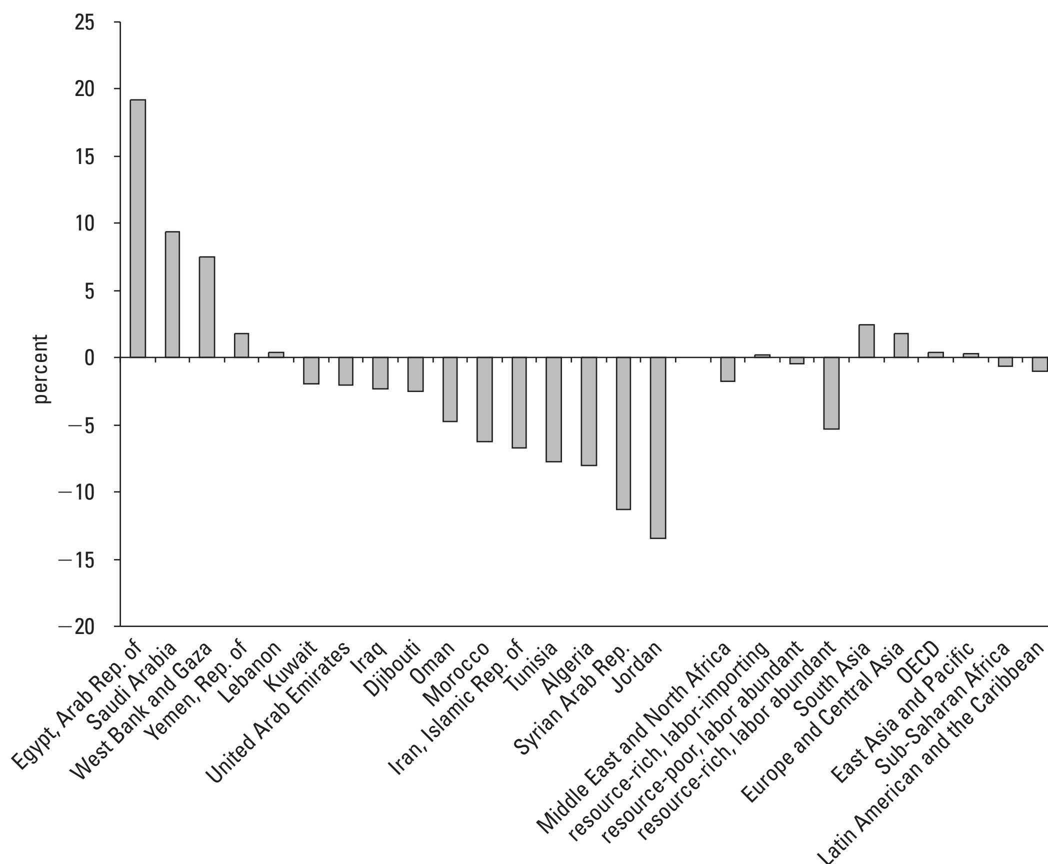
Source: See appendix B for the methodology behind the governance indexes.

Note: Current status reflects a country's current placement in a worldwide ordering of countries, based on a variety of indicators of quality of public administration, expressed as a point in the worldwide cumulative frequency distribution, with 100 reflecting the country or countries with the best or most efficient public administration worldwide and 0 reflecting the country or countries with the weakest or most inefficient public administration worldwide. Reform progress reflects the improvement in a country's ranking between 2000 and 2007 in a worldwide ordering of countries based on quality of public administration, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank worldwide, and 0 reflecting the country (countries) that exhibited the greatest deterioration.

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, labor-abundant countries (with significant declines in Algeria, Iran, and Syria), which as a group have fallen over the past two years from an average of the 40th percentile to the 35th percentile.

Egypt has made the greatest progress in the past 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 the progress Egypt made in facilitating business start-up, it also eased the bureaucracy that builders face in getting construction permits. The cost of registering property was also reduced, from 3 percent 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.

Figure 3.3: Change in business climate index, 2005–07



Source: World Bank estimates.

Note: The figure reflects absolute change in the current business climate index (composed using information across eight separate spheres of the business environment). Regional averages are unweighted.

Moving forward, the business climate in general remains problematic for the MENA region, with both resource-poor and resource-rich, labor-abundant economies ranking close to the bottom third of countries worldwide.[12] 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, labor-abundant countries, the areas of the business climate that 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 2,000 percent of income per capita (in Syria, it's closer to 4,000 percent), compared with an average of 115 percent worldwide.

3.3 Governance Reform

Achieving the transition to more open, market-oriented economies requires fundamental changes in the role of government in some key areas of policymaking and considerable enhancement of its effectiveness in others. The MENA region faces traditional challenges to efficient public sector management, including ensuring the efficiency of the bureaucracy, protecting the rule of law and property rights, controlling corruption and improv-

[12] See table B4, appendix B.

ing mechanisms of internal accountability. Equally important, the region faces challenges of improving public sector accountability and inclusiveness, crucial to guard against poor policies and ensure that the good policies needed to meet MENA's growth potential enjoy legitimacy and are implemented.

3.3.1 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 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. Over the past couple of years Egypt undertook a number of important changes that aim to improve its business environment, which has served as a catalyst to reform the domestic public administration.[13] Several measures were introduced to reform the tax and customs codes, streamline registration procedures, and speed up the privatization process. In addition, the Egyptian government recently proposed a number of reform measures (including the early retirement of public sector employees) to reduce redundancies in the public sector.

Jordan also 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 anticorruption 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.[14]

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 passed and the audiovisual sector liberalized. Moroccan civil society is active, and press freedoms are relatively progressive.

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 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 toward 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,

[13] The quality of public administration (IQA) index includes seven underlying indicators, three of which are from Doing Business and another two of which 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 past 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.

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

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, strong actions from a few countries have been undertaken over the past several years. In Bahrain, after full suffrage was granted to all citizens and an independent judiciary was created, the second parliamentary elections in 30 years were held in November 2006. In Oman, a second Consultative Council was elected in October 2007, and progress is seen on the gender front, with proposals to strengthen women's rights. This follows the appointment of Oman's 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-thirds of which is elected by the people, is expected to be formed in 2008. As for Saudi Arabia, the country held nationwide elections for the first time in February 2005 to elect municipal councils.

3.3.2 Quantifying progress

Two structural reform indexes 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 11 subindexes collected from Freedom House, Polity, and the International Country Risk Guide.[15] The quality of public administration was assessed using indicators on corruption, bureaucracy, property rights, regulation, and the ease of doing business. Reform progress was measured over the 2000–07 time frame.[16]

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 (see table 3.5). This compares with a reform rank of the 57th percentile only last year.

Within the region, resource-poor countries have implemented the strongest efforts to improve public sector administration, ranking in the top 30 percent of countries worldwide with respect to reform. Especially strong efforts emerged from Egypt, Morocco, and Tunisia. Egypt was the 2007 top 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.[17] As for Tunisia, the country's reform efforts encompassed the business regulatory environment, the protection of intellectual property rights, and the doing business climate, in particular closing a business.

Resource-rich, 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.

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 resource-rich, labor-importing 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 intellectual property rights protection.

With regard to the accountability of government, the MENA region continues to demonstrate significant progress over the past several years (table 3.6). In terms of reform efforts, the region ranks at the 64th percentile, which is the highest worldwide. The resource-rich, labor-importing 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 (in the case of Bahrain) and freedom of the press (the case of Kuwait).

Despite this, much more needs to be done on the public sector accountability front. 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 globally competitive economy, are limited by the environment in which policy is made and administered. Continuing and significantly strengthening this area of reform is paramount.

[15] The most recent data were collected, and, with the exception of the Polity IV indicators, data apply to 2007.

[16] See appendix B for a description of the methodology behind the governance indicators.

[17] Improvement reflected by the index was computed by the Heritage Foundation.

Table 3.6: Public sector accountability and reform progress

Percentile rank

Country or region	Public sector accountability 2007	Public sector accountability reform progress 2000–07
Algeria	27	56
Bahrain	25	94
Egypt, Arab Rep. of	23	75
Iran, Islamic Rep. 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 Rep.	8	67
Tunisia	20	30
United Arab Emirates	20	84
Yemen, Rep. of	19	57
Regional averages (unweighted)		
MENA	20	64
Resource-poor, labor-abundant	27	61
Resource-rich, labor-abundant	19	47
Resource-rich, labor-importing	16	74
East Asia and Pacific	39	41
Europe and Central Asia	53	56
Latin America and the 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 indexes.

Note: Current status reflects the country's current placement in a worldwide ordering of countries, based on a variety of indicators of public sector accountability, expressed as a point in the worldwide cumulative frequency distribution, with 100 reflecting the country (countries) with the best or most accountable governance structure worldwide and 0 reflecting the country (countries) with the weakest or 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 country (countries) that exhibited the greatest improvement in rank worldwide, and 0 reflecting the country (countries) that exhibited the greatest 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 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 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). Because of data limitations, the West Bank and Gaza (WBG) is not included in regional or subregional 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 consists of Iraq, Jordan, Lebanon, Syria, and WBG. The Gulf Cooperation Council (GCC) members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. And "other" consists 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 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

Sources: UN population database, national agencies, and World Bank estimates.

e = estimate.
Note: See note to table A.1.

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 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

Sources: International Labor Organization, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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

Sources: UN population database, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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 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

Sources: International Labour Organization, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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 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

Sources: National agencies and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

Table A.7: Population, 1996–2007

(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 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

Sources: UN population database, national agencies, and World Bank estimates.

e = estimate.
Note: See note to table A.1.

Table A.8: Labor force, 1996–2007

(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 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

Sources: International Labour Organization, national agencies, and World Bank estimates.

e = estimate.
Note: See note to table A.1.

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 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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.

— = data not available.

Note: See note to table A.1. Aggregate Consumer price index (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 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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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 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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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 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

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

e = estimate.
— = data not available.
Note: See note to table A.1.

Table A.16: Merchandise exports, 1996–2007

(current 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 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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

Table A.17: Crude oil and refined product exports, 1996–2007

(current 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

Sources: International Monetary Fund, International Energy Agency, UN Comtrade database, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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 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

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

e = estimate.
— = data not available.
Note: See note to table A.1.

Table A.19: Workers' remittances (net), 1996–2007

(current 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 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

Sources: World Bank estimates, International Monetary Fund, and national agencies.

e = estimate.
Note: See note to table A.1.

Table A.20: Tourism revenues (balance of payments basis), 1996–2007

(current 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

Sources: International Monetary Fund, national agencies, World Tourism Organization, and World Bank estimates.

e = estimate.

Note: See note to table A.1.

Table A.21: Current account balance, 1996–2007

(current 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 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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.

— = data not available.

Note: See note to table A.1.

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 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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

Table A.23: Foreign direct investment, 1996–2007

(current 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 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

Sources: Economist Intelligence Unit, International Monetary Fund, UN Conference on Trade and Development (UNCTAD), national agencies, and World Bank estimates.

e = estimate.

Note: See note to table A.1.

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 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

Sources: International Monetary Fund, UNCTAD, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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 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

Sources: International Monetary Fund, UNCTAD, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

Table A.26: Gross foreign reserves (including gold), 1996–2007

(current 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 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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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 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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

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)	—	—	—	—	—

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

— = data not available.
Note: See note to table A.1.

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

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

e = estimate.
— = data not available.
Note: See note to table A.1.

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

Sources: International Monetary Fund, national agencies, and World Bank estimates.

e = estimate.
— = data not available.
Note: See note to table A.1.

Appendix B: Structural Reform Indicators for 2008

Appendix B describes the structural reforms indices in four areas of reform. 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 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 *Economic Developments and Prospects* (EDP) reports, in this year's report no change was made to the list of subindicators.

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. These indicators are (1) the simple average most-favored-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's (WTO) 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 2008* report.

For each underlying trade indicator, countries were ranked from "good" to "bad" (i.e., most open to least open) 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 the percentile ranking was calculated 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 one with 100 has 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 were dated January 2008 but cover the year 2006 (most recent).

[2] The most recent data on non–ad valorem duties were published by the World Trade Organization (WTO) in April 2007.

B.1.2 Trade policy reform

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

[3] In the 2007 EDP, the reform progress was evaluated over a four-year period, that is, between 2003 and 2006. In this year's report, the evaluation could have spanned another four-year period, that is, 2004–07, and with that, adding a few countries to the sample; however, the choice was to expand the time frame 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 subindicators; and with reforms slowly affecting different aspects of the business environment, any noticeable variations (i.e., reform progress index) are best captured over longer periods.

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

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 (unweighted)									
MENA	26	54	30	49	12.6	40	1.0	50	47
Resource-poor, labor-abundant	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 and Pacific	25	48	26	53	8.3	53	1.4	56	49
Europe and Central Asia	29	50	31	53	6.7	65	2.8	29	50
Latin America and 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. If data are unavailable for two or more of the four trade indicators, the country is dropped from the trade composite index calculations.
— = data not available.

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 change 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 further up the worldwide frequency distribution than 80 percent of all other countries.

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. 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 de-

Table B.2: Trade policy reform index

Country or region	Average tariff 2000		Average tariff 2007		Trade policy reform
	%	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, labor-abundant	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 and Pacific	10.3	55	8.6	51	43
Europe and Central Asia	9.1	60	6.8	65	55
Latin America and the 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.

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 were used.
— = data not available.

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, Doing Business 2008.

tailed map of the eight categories and the underlying indicators used to compute the composite index.

The 26 indicators were drawn from the World Bank's *Doing Business 2008* report or its online edition. Within each of the eight business climate categories, the country's performance on the underlying indicators (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 indicator, 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.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 country's percentile rank in all the eight categories and expressing the average as a point in the worldwide cumulative frequency distribution. For example, a country 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.

B.2.2 Business-reform index

Historical data do not exist for all 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 were available in 2003.

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.

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 separate 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.

Table B.4: Business climate indices for 2007

(percentile rank)

Country or region	Starting a business	Dealing with licenses	Hiring and firing	Regis-tering 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, labor-abundant	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 and Pacific	54	63	69	60	56	64	54	47	63
Europe and Central Asia	59	36	49	61	54	38	71	53	56
Latin America and the 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.

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's Doing Business database. From the PRS, two indicators were used: (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 was the same one followed in last year's report, and the weights used in computing last year's composite index on quality of public administration 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

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 (unweighted)	
MENA	44
Resource-poor, labor-abundant	32
Resource-rich, labor-abundant	35
Resource-rich, labor-importing	73
East Asia and Pacific	63
Europe and Central Asia	56
Latin America and the Caribbean	47
High-income OECD	84
South Asia	46
Sub-Saharan Africa	26
World	**50**

Source: World Bank staff estimates.

Table B.6: Building the composite business reform indexes

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)

countries with respect to that dimension of governance.

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; thus, 2003 data were used as proxies for 2000 data values.

Table B.8 presents the results for the current status of the quality of the public administration and the reform progress between 2000 and 2007. 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 dis-

Table B.7: Business reform progress, 2003–07

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, labor-abundant	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 and Pacific	53	43	50	40	45
Europe and Central Asia	58	50	64	57	63
Latin America and the 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 are available. The four other categories are excluded because data were 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 greatest deterioration.

tribution. For instance, a score of 100 implies that the country made the greatest improvement in rank between 2000 and 2007.

B.3.2 Public sector accountability

The current status of public sector accountability was evaluated using 11 measures from three different sources. Drawing on Freedom House, three indicators were used: (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: (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 final indicator is (11) the index of democratic accountability drawn from the Political Risk Services.

The same methodology adopted in computing the index on quality of public administration 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.8: The quality of public administration and reform progress

Percentile rank

Country/region	2000	2007	Reform progress 2000–07
Algeria	52	32	11
Bahrain	71	75	62
Egypt, Arab Rep. of	20	42	94
Iran, Islamic Rep. of	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, Rep. of	32	23	18
Regional averages (unweighted)			
MENA	48	47	47
Resource-poor, labor-abundant	51	61	70
Resource-rich, labor-abundant	32	24	29
Resource-rich, labor-importing	55	53	44
East Asia and Pacific	46	46	50
Europe and Central Asia	47	54	64
Latin America and the 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.

Table B.9: Public sector accountability and reform progress

percentile rank

Country/region	2000	2007	Reform progress: 2000–07
Algeria	26	27	56
Bahrain	15	25	94
Egypt, Arab Rep. of	20	23	75
Iran, Islamic Rep. of	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, Rep. of	18	19	57
Regional averages (unweighted)			
MENA	18	20	64
Resource-poor, labor-abundant	26	27	61
Resource-rich, labor-abundant	20	19	47
Resource-rich, labor-importing	12	16	74
East Asia and Pacific	42	39	41
Europe and Central Asia	51	53	56
Latin America and the 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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