ECONOMIC REFORM IN THE MIDDLE EAST AND NORTH AFRICA (MENA)

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PREFACE

The Middle East and North Africa (MENA) is an extremely important region in the world and draws significant attention from the international community, primarily due to regional politics. Although there is no standard definition of what comprises MENA, for purposes of this paper it includes most countries of the Arab League. MENA states\(^1\) share characteristics with Eastern European countries and the former Soviet Union states in that they are in “transition,”\(^2\) which essentially means they have limited integration with the world economy, large public sectors, and limited private investment. MENA is also an important region for other reasons including its geographic location and its vast natural resources. The region consists of traditionally closed economies with substantial state intervention. In the 1980s, MENA states began a process of reform to cope with economic pressures and to deal with future challenges. While still facing significant hurdles in the path to economic reform this process of reform must carry on into the future if the region hopes to address future economic demands, which include increasing the labor force, diversifying from the hydrocarbon sector, and competing in the global economy.
INTRODUCTION

The purposes of this paper are to provide a historical background on the economic policies of MENA countries, outline examples of recent economic reforms and comment on aspects reform needed to be pursued by MENA states in order to sustain the region’s future economic demands and to integrate the region’s economies with those of the rest of the world. The paper uses specific case studies of Egypt, Tunisia, Syria, Jordan, and the Cooperation Council for the Arab States of the Gulf (GCC), which is a regional organization comprised of six Gulf countries\(^3\) to explore reforms carried out by these states in their path to economic reform in detail. This sample of countries represents a diverse group of economies in the Arab world,\(^4\) and is intended to underscore the dichotomy between oil-dependant and non-oil dependant states, as well as progressive and stagnant economies. It is also intended to represent each geographical region of MENA. Tunisia and Egypt represent North African and the Maghreb, Syria and Jordan represent the Levant and the GCC represents the Gulf region. The paper proceeds in seven parts. Part I begins with a background of the region. Part II discusses challenges to reform in MENA. Part III reviews the recent history of MENA economic models. Parts IV, V, and VI discuss MENA growth rates, MENA trade policy, and foreign direct investment in MENA respectively. Part VII provides case studies of recent economic policy reform in specific MENA countries.
I. BACKGROUND OF MENA

The Arab world has a population of about 300 million people and has an annual per capita income of more than $2000.\(^5\) Aside from MENA’s vast energy resources, there are many other characteristics of the region, which make it an important region in the world today. Its economic growth rates are up 3.1 percent since the late 1990s and the savings rate of the Arab world between 1996 and 2000 was 25 percent, which was higher than many other developing regions.\(^6\) These factors make MENA a potentially large market and a desirable place for future investments. However the region faces many economic challenges in the future. Over the next twenty years MENA will have approximately 74 million new entrants into the work force and will need to create nearly 90 million new jobs to sustain this work force.\(^7\) This new job market will also need to support the current unemployment rate of 13.4 percent, or almost 15.6 million people.\(^8\) This challenge equals a nearly 90 percent job increase from the number of jobs created in MENA between 1960 and 2000.\(^9\) This increased labor force will be far more educated than adults of the past. Between 1980 and 2000 the educational attainment levels for the adult population increased faster than any other region in the world at 150 percent.\(^10\) In addition, most non-oil exporting countries suffer from extremely high debt, and reform policies to ease deficits can potentially hurt the poor due to lack of serious plans to spur job growth.\(^11\) For these non-oil states, foreign aid, which was used to pay for public sector expenditures, is decreasing along with labor migration, which contributed remittances to these states.\(^12\) In addition, the amount of private capital flowing into MENA has amounted to only 2 percent of the amount going to developing countries and Foreign Direct Investments have been stagnant since the 1980s.\(^13\)
While MENA was prosperous in the 1970s due to the oil boom, its economies fell because of a decline in oil prices in the 1980s, and continued to stagnate well into the 1990s. While economic growth between the years 1975-1999 averaged 3.3 percent every year in the Arab World, per capita incomes stagnated in this same time period and in many countries GDP fell in this period. Even recently poverty has continued to spread. In a recent survey in Jordan 60 percent of respondents said that their economic situation worsened over the past twelve months and 23 percent said it remained the same. These factors, as well as others outline the challenges MENA faces and show the reasons why economic reform must continue in order to increase future economic growth, create jobs, and foster investment.

II. CONTEMPORARY CHALLENGES TO REFORM IN MENA

Many Arab governments began taking reform measures more than twenty years ago, but barriers slowed down and in some cases halted this process. Although there is a consensus that economic reform is urgently needed in MENA there is a lack of common understanding of what this reform actually means and there is no common plan of action to spur these reforms. There is a division in thought in many countries as to the relationship between political and economic reform regarding, which type of reform should come first or if the two types of reform should occur at the same time. Moreover, the capacity of MENA states is limited in carrying out reforms due to weak institutions, corruption and reluctance to change the status quo. Governments can address these challenges if they seek to undertake real structural economic reforms. Examples would include shifts from closed and passive economies to open and active economies, from
public-sector dominated to private sector driven economies, and from volatile oil-dominated economies to stable diversified economies. MENA countries must also reform trade, foreign investment laws, improve the business environment, address gender equality in the labor market, and achieve better governance. These are not easy tasks and will require the cooperation of MENA governments, business leaders, and public institutions to address these issues.

Some scholars argue that the weakness in growth in the MENA economies results from external factors over which MENA countries have no control. These factors would include geographical distance from world economic centers, shocks from terms of trade and forced compliance with policy conditionality. However, these arguments are insufficient explanations for economic weakness in MENA. MENA countries are generally not at a large disadvantage in their relation to world economic centers compared to many other countries that are far more isolated. In fact countries such as Yemen, which is probably one of the most isolated Arab countries, narrowed its income gaps with those of developing countries despite the distance from economic centers. In addition, terms of trade issues generally seem to favor Arab countries, thus cannot be used to explain growth weakness. Finally, Arab countries do not heavily rely on organizations such as the IMF or the World Bank, accordingly most MENA countries are not constrained by policies of these financial institutions and the few who are somewhat constrained narrowed the income gaps with industrialized nations. Therefore exogenous factors play a very limited role in MENA economic weakness.
III. RECENT HISTORY OF MENA’S ECONOMIC SYSTEMS:

A. The Interventionist-Redistributive Model:

Historical economic models used by states in the Middle East impacted the current state of their economies. After World War II, MENA countries used models with a strong interventionist-redistributive focus.\(^{28}\) This model relied heavily on state planning and guidance on economic objectives, nationalization of private and foreign assets, and government programs for education, housing, health care and food subsidies.\(^{29}\) The state became an instrument for social transformation, political mobilization and economic distribution. There was significant variation within the region, but all of the states centered on the interventionist-redistributive model. For example, in some states the environment was that of populism with high regulation of private assets such as in Egypt and Syria while in other regions such as Jordan and Saudi Arabia the welfare state focused on interventionist policies, which supported the emergence of private sectors.\(^{30}\)

Before 1950 MENA states showed some of the lowest numbers of socioeconomic development globally and education levels lagged behind other developing countries with illiteracy levels as about 85 percent in 1939.\(^{31}\) These conditions were partly responsible for the welfare systems that emerged after World War II. In this post-war period, even international financial institutions such as the World Bank encouraged expanded economic roles of government to combat what they thought to be a weak private sector.\(^{32}\) Some of these institutions even allowed access to loans conditional on state economic planning.\(^{33}\) Another factor, which influenced the emergence of this model, was the creation of new nations by colonial powers in the region. The new-found nationalism
and anti-colonialism in the region reinforced the idea of the state being an agent of public welfare and being an extension of the nationalist movements.\(^{34}\)

Oil revenues also played an important role in influencing the interventionist-redistributive economic model for both oil and non-oil exporting states. For oil-producing states, oil revenues enabled the creation of huge welfare systems that distributed wealth to citizens and for non-oil exporting states labor exportation to oil-producing states generated large amounts of remittance income for their citizens.\(^{35}\) The numbers of these migrant workers peaked in the 1980s when as many as 3.5 million Arab migrant workers were employed in oil-exporting states.\(^{36}\) These workers went to oil-exporting states to work in order to support their families with remittances in their countries of origin. In addition, oil-producing countries assisted non-oil countries through loans, grants and other assistance.\(^{37}\)

Most of the oil production in MENA began after World War II. In 1950 the region was producing 17 percent of the world’s oil and by 1970 this number increased to 41 percent.\(^{38}\) This increase continued throughout the 1970s, but slowed down in the 1980s due to OPEC output restrictions implemented to stabilize prices.\(^{39}\) Research from the 1990s showed that about half of the world’s top twenty countries with large quantities of natural resources were located in the Middle East.\(^{40}\) All of these reasons combined to shape the MENA economic systems and their development until this time more so than the intrinsic beliefs of the Arab people in regards to culture and values, which some believe played a stronger role.\(^{41}\) If Arab culture and values played a role in development in MENA states, one would not find the amounts of variation in economic performance in MENA both before and after World War II.\(^{42}\)
B. Benefits of the Interventionist-Redistributive Model

From the 1950s to the 1970s the interventionist-redistributive model led to significant economic growth. In fact, between 1960 and 1985 the region experienced an annual per capita GDP growth rate of 3.7 percent per year. At the time this was behind East Asia and the Pacific, which grew at 4.3 percent, but was ahead of Latin America and the Caribbean, which grew at about 1.6 percent in the same interval. The economic boom in the 1960s allowed for high levels of investments into infrastructure, education and health, which oil revenues sustained into the 1970s. This fast paced economic growth included a large expansion in public sector employment, migrant labor opportunities and positive social indicators. In this time period unemployment remained low, life expectancy increased, literacy increased and only 5.6 percent of MENA’s population lived on less than US$1 per day compared to 14.7 percent in East Asia and 28.8 percent in Latin America. MENA was the developing region with the least amount of extreme poverty and is still a low poverty region today. In fact, in the 1990s only 2 percent of the MENA population fell below the poverty. During this time of economic growth, public sector jobs offered better wages, benefits and job security than the private sector. It also promoted gender equality in terms of participation in the work force and kept the wage scale gender neutral. However, there were growing signs for concern because the growth represented large amounts of capital accumulation and a negative rate of total factor productivity growth.

MENA’s economic growth significantly impacted the political systems. Citizens traded restrictions on political participation and transparency for economic stability and state run programs, which provided social services and welfare. The vast amounts of
oil revenue also permitted the creation of powerful security oriented institutions and high
levels of military spending to protect the authoritarian governments from the public
activism.52

C. Challenges of the Interventionist-Redistributive Model

In the 1980s the concerns that began to surface in the 1970s became realities, which strained growth in the region. Declining oil prices, reduced remittance flows from decreasing demand for migrant labor and more international competition brought along the economic crisis.53 At the same time, domestic policy in most MENA states inhibited private investment and created hurdles preventing the integration of MENA economies with global markets.54 The economic slowdown impacted all MENA countries as governments were unable to meet public sector wage demands and public debt continued to increase. The slowdown led some MENA governments to reform policies in the 1980s to encourage economic stabilization. By the 1990s governments generally brought inflation and debt levels under control and began structural adjustments including privatization, trade liberalization and strengthening of institutions.55 Though reforms were sporadic, the per capita GDP growth between 1986 and 2001 averaged 1 percent per year.56 MENA’s pattern of economic boom followed by a slowdown is a pattern followed by most countries rich in natural resources because the wealth from the export of natural resources draws skilled labor away from other non-tradable and entrepreneurial sectors, which in the long run leads to decreased growth and economic declines.57

Another challenge to MENA is transforming the perception regarding the government’s role in economic participation. Even though inflation decreased in MENA countries, government consumption as a percentage of GDP remained high relative to
other developing countries.⁵⁸ Governments, which tried to reduce welfare spending, were met with strong Islamist opposition seeking to keep the welfare system intact.⁵⁹ A recent example of the desire for the welfare state system was seen in the Palestinian territories in 2006 where Hamas defeated Fatah, the ruling party, in elections because of Fatah’s inability to use its power to address the internal social and economic difficulties facing the Palestinian people. Further, profits that were derived from changed economic policies often went to business elites with government ties. This resulted in many citizens losing faith in their government.⁶⁰

This redistributive-interventionist economic model used by MENA countries resulted in large numbers of educated workers with no jobs due to poor economic performance. The model trapped human capital in unproductive public sector employment to the detriment of economic growth and the safety net it provided did not reach more vulnerable segments of society.⁶¹ The current rate of unemployment, near 15 percent, is second highest in the world and job seekers between the ages of 15 and 24 comprise more than 50 percent of the unemployed⁶². This likely indicates that the increase in the labor force is highly linked to high unemployment levels.⁶³ The poor labor market also led to a decline in real wages from the 1980s to 1990s.⁶⁴ Furthermore it is likely that the public sector will not be able to absorb the unemployed and the new entrants into the labor market primarily due to decreasing oil revenues, remittances and foreign aid.⁶⁵
D. Beginnings of Privatization

MENA countries embarked on privatization programs to improve investment in the private sector. The issue was and continues to be that implementation of these reforms is inconsistent and slow because of the varying interests involved and the fear of further job losses. In the 1990s the majority of privatization initiatives took place in only Egypt, Morocco and Kuwait. Many other MENA countries later followed suit, but the potential of privatizations possible in MENA is very large relative to what MENA states accomplished to date. Within specific countries a major issue affecting the success and failure of these initiatives is convincing investors of the governments’ intentions with respect to the methods of privatization, the types of enterprises for sale and the conditions of sales.

MENA states have a strong advantage over other developing regions in creating successful privatization programs because of considerable assets of Arab nationals who could be attracted to bring assets closer to home by investing in Arab states. The value of assets of Arab nationals outside of the region is very high and for some countries the total savings of nationals held abroad are higher than their GDP. MENA states are tapping into private capital from GCC nationals, which could be an even further source of private investment considering the recent spike in oil prices. In addition, non-Arab investment and FDI inflows will likely play a large role. As will be discussed later, MENA states must provide a positive domestic investment climate in order to gain the credibility to attract this investment in a region, which has been plagued by bureaucratic controls. Reforms continue to be sporadic and lack focus, thus for MENA states to compete in the global economy there must be more focus, consistency, and acceleration of reform.
Moreover, privatization should focus on MENA countries selling state owned money losing ventures and attracting private investment through deregulation and decreasing institutional and political barriers. Privatization transactions should also be directed towards sectors that can create an efficient business environment and improve infrastructure in MENA states.

III. MENA GROWTH RATES:

A. Reasons for Low Growth Rates:

The growth rates for MENA countries throughout the 1980s and 1990s remained fairly low and played a strong role in human welfare. However poverty levels in Arab countries are substantially lower than in other developing countries. This is attributed to effective safety nets provided by the governments and to the redistribution of wealth through religious charity systems where the wealthy give fixed percentages of their annual earnings to charity. Nonetheless, this safety net cannot be the sole means to eradicate poverty over time. When MENA economies were in periods of high growth poverty reduced at a much faster rate than in the last two decades of the previous century, where poverty decreased at a slower rate.

There are many reasons for the slow economic growth in the region over last two decades ranging from inefficient transmission from savings to investment, inefficient investments and a bad business environment. Consequently private investment levels remain low in the region. One reason for the poor private investment in MENA is because savings are not adequately channeled by the financial sector into productive projects. In the Arab world the financial systems play a small role in economies and the sector is highly dominated by the banking system with underdeveloped and in some cases
nonexistent capital markets.\textsuperscript{75} With underdeveloped capital markets there is a lack of liquid investments, which in turn negatively effects productive investments regionally because entrepreneurs have a difficult time raising capital for new ventures.\textsuperscript{76} This weakness in capital markets enables the banking sector to be very powerful both politically and economically because potential real investors are pushed into their direction and banks are not efficient enough to play a strong role in economic growth and development.\textsuperscript{77} Lending is very short term in most MENA countries, there is little lending directed towards long term investments and a lack of competition in the banking sector creates a lack of innovation in lending.\textsuperscript{78} Although there are efforts to liberalize the banking system, the state continues to play a strong role and protects against competition by restricting entry at local and international levels. These and other issues lead the banking sector to be an inefficient means to direct savings into investment.\textsuperscript{79} The banking sector needs to be reformed through eliminating the abusive and inefficient regulation and opening the financial markets to domestic and foreign entrants to promote competition, innovation and modernization.\textsuperscript{80} Other goals should include increasing corporate governance and accountability, privatizing state banks and incorporating new technologies to keep pace with the worldwide financial sector.\textsuperscript{81}

In addition to the aforementioned reasons for declining investments in the Arab world, other factors that have prevented progress include political instability, a deteriorated business environment and the low quality of human capital.\textsuperscript{82} Political instability continues to negatively impact MENA countries. This instability brings serious economic repercussions because it destroys the economic stability needed to create a sound business environment needed for growth. Besides these factors, potential
investors in MENA countries face a series of hurdles that make investing difficult. These include complex regulations, licensing, and other institutional obstacles that scare away many investors, decrease competition and increase inefficiency. Numerous surveys cite that issues with licensing and regulation, unpredictable business tax administration and problems of land titling are major constraints to doing business in almost every MENA country.

B. Legal Reform

A fair and efficient legal system is required in MENA countries to supervise processes and to ensure transparency and justice. Countries in the region are perceived as weak in regards to enforcement of property rights and contracts, which reduce investment. Formal court systems are slow in MENA states and for various reasons. In Egypt investors rely on a good commercial arbitration system because of slow courts and in Lebanon courts are slow because of a shortage of judges. The region needs better trained lawyers, state officials, and well trained judges. The court administration process also needs reform as Arab courts face backlogs, poorly trained staff and inadequate technology. Protection of intellectual property rights is weak in MENA states and is a concern for investors especially in Egypt, Jordan, Lebanon and the Gulf states. Within the last few years Egypt and Jordan drafted provisions for the establishment and governance of companies, which will conform to European practices. Some of these changes govern joint stock companies, provide increased minority protection and provide governance of holding companies. MENA economies ranked poorly in a 1999 summary conducted by the Economist Intelligence Unit regarding investment climate across Arab countries with Yemen, UAE and Tunisia ranking among the highest for
investment climate from the MENA countries with scores nearing 60 out of 100, yet still low compared to what best practices should be, a score well over 90.\textsuperscript{91}

Implementing legal reform can have significant impacts on growth and investment. Businesses depend on governments to create institutions that provide stability, create a sound legal environment, which administers and enforces laws, and promotes a competitive environment, without worrying about corruption and inadequate enforcement. Currently these conditions do not exist in the Middle East, which is why growth and investment declined in recent decades. If MENA states established these institutions, there is a strong possibility that the region would attract investors who may not have invested in the past due to a lack of confidence in the legal institutions.

C. Improvements of Human Capital:

The quality of human capital needs improvement in MENA states to bring in more investments. If investors cannot hire a qualified labor force, it is challenging to profit from investments. MENA states should improve education systems to focus not only on increasing enrollments, but also on improving the quality of education.\textsuperscript{92} Even educated people in MENA countries suffer from high unemployment rates because they are not taught the skills needed to compete in the world of global society, which involves rapid technological change.\textsuperscript{93} Future members of the work force should be taught how to learn, so they can better adapt to changing environments brought by continuous technological changes and business practices.\textsuperscript{94} MENA states should be innovative in their approach to educational reform to ensure that the future workforce has the ability to compete in a rapidly changing global economy.
D. Role of the Private Sector in Improving Growth:

The private sector will need to play a strong role, along with the public sector, to address economic concerns in MENA states. In most of the region the public sector remains strong, playing a larger role than in most developing countries, especially in strategic service sectors even in diversified economies.\(^{95}\) Historically, public investment in MENA is higher than in other developing regions. In fact, ninety percent of the almost US$55 billion in oil revenues received in the 1970s by the region were accrued to the public sector.\(^ {96}\) However, recent privatization initiatives are working to incorporate the private sector in the economic reform process. The private sector can bring future growth by enhancing the region’s competitiveness and by creating enough jobs in the future to sustain the increased labor force, something the public sector in MENA will not be able to do.

The Gulf States, which depend the most on oil exports, have some of the most vibrant private sectors in the region and could serve as a model for other Arab States to follow. For example the United Arab Emirates created substantial growth through non-oil sectors that accounted for 70 percent of GDP in 2000 and maintains the lowest unemployment rate in the region at about 2.3 percent.\(^ {97}\) The reasons that these models from Gulf States are not easily replicated in the other parts of Middle East are primarily due to the slow pace of policy reform, a business environment that discourages entrepreneurship, administrative and capital constraints, the difficulties in complying with regulations, weak enforcement of property rights and corruption.\(^ {98}\) Moreover, public banks control the financial systems, which generally favor state-owned enterprises,
larger industrial firms and offshore enterprises, making it difficult for new firms to secure start up capital.\textsuperscript{99}

**IV. TRADE POLICY IN MENA**

The closed economic systems of MENA allowed the region to fall behind in foreign trade and foreign direct investment (FDI) inflows, which led the region to be one of the least economically integrated regions in the world.\textsuperscript{100} Most of the closed mindedness resulted from Pan-Arabism\textsuperscript{101}, nationalism and the state-led development mindset.\textsuperscript{102} MENA economies are fairly integrated in regards to fuel and hydrocarbon exports, but beyond this they are fairly closed systems.\textsuperscript{103} If one looks at trade specifically and excludes the contribution of oil exports, trade declined from 53 percent of GDP in the 1980s to 43 percent of GDP in 2000. Intra-regional trade is also very low at only about 10 percent of total trade.\textsuperscript{104}

These are results of an overly protected trade system, which is evident by the average weighted tariff of 17 percent for the region.\textsuperscript{105} However, even with decreased tariffs in some parts of MENA, there remain issues with high transactional costs with international trade that result from inefficiencies in customs procedures, administrative red tape and deficient transportation systems.\textsuperscript{106} By the 1990s, the result of the protectionist system was that domestic price structures in MENA states differed substantially from international prices for similar goods.\textsuperscript{107} Many MENA countries, including the GCC economies, have government granted monopoly rights in the distribution of imports, which discourage international access and halt positive impacts from trade reforms.\textsuperscript{108} Oil-exporting countries have not fared well in diversifying
exports, for example in Saudi Arabia fuels still account for about 90 percent of its exports.\textsuperscript{109} On the positive side, cooperation with the European Union and the United States is slowly taking place. The EU has signed association agreements with Egypt, Morocco and Tunisia to cover a wide range of issues and the United States to date signed free trade agreements with Jordan, Morocco, Oman and Bahrain.\textsuperscript{110} Future trade reform in MENA should include the liberalization of trade schemes, diversification of the export base and strengthening institutions and infrastructure that can support and facilitate inter-regional and international trade.

In 1998 the Arab Free Trade Agreement (AFTA) was established by eighteen members of the Arab League with the goal of eliminating all trade barriers on goods of Arab origin between member states by 2008.\textsuperscript{111} This was the first of many intra-Arab agreements and the first to use a negative list approach\textsuperscript{112} to negotiations and to use the private sector in monitoring and implementation of the program.\textsuperscript{113} Effective implementation of the AFTA would lead to substantial tariff reductions and offers the potential for increased production and the sharing of industry trade. The inability to agree on negative list items limited the impact of the agreement and it is likely that implementation will exceed the ten year time frame set at the effective date.\textsuperscript{114}

\section*{V. FOREIGN DIRECT INVESTMENT IN MENA}

\subsection*{A. Challenges to Foreign Direct Investment in MENA}

Barriers to trade and political instability are deterrents to FDI in the region. FDI refers to capital provided by an investor in one country to an enterprise in another country to acquire a long-term interest, which usually amounts to 10 percent or more of voting
stock and is often considered important to developing nations because it is a good way to bring capital, technology and other skills to countries to increase productivity. The 2002 UNDP Arab Development Report cited that between 1975 and 1998 there FDI inflows steadily reduced to the Middle East as a percentage of global FDI. From 1975 to 1980 the figure was at 2.6 percent of global FDI and from 1990 to 1998 the number dropped to 0.7 percent. In fact, MENA states attracted the least amount of FDI inflows relative to their economic size since the late 1980s. Although FDI inflows are increasing more recently, they still lag behind other developing countries. Recent studies show that MENA countries can expect to see continued increases in FDI provided their governments improve public institutions, physical infrastructure and human resource development.

A recent World Economic Forum global opinion survey stated three major factors companies look for before investing in a foreign country. These factors are: 1) the ability to repatriate capital and remit profits 2) the predictability and reliability of government policies in the country and 3) their access to local markets. Other factors such as low labor costs and investment incentives such as tax breaks played a smaller role. This survey serves as a guide as to the path MENA states should embark upon to bring in more foreign investment.

B. Features of Foreign Direct Investment in MENA

If one analyzes the historical FDI inflows to MENA countries there are some interesting features to be discovered. Regional inflows recently increased, but have not kept pace with global FDI inflows. The United Nations Conference on Trade and Development (UNCTAD) reported that global FDI inflows grew from an average of
US$180 billion in the period from 1985 to 1995 to US$127 trillion in 2000, which is an increase of 605 percent. Looking only at developing countries the increase remained high at 373.3 percent. During the same period however MENA FDI inflows only increased at a rate of 109.1 percent and by the year 2000 the MENA FDI inflows as a percentage of global FDI inflows was only 0.4 percent. Although from 1985 to 2000 the net FDI flows to the region positively increased as FDI stock rose from US$39.2 billion in 1985 to US$85.3 billion in 2000.

In 2000 the Arab world received 1.9 percent of the total developing country FDI, but this was only slightly higher than developing countries in Europe who had the smallest share at 0.8 percent. Compared to the larger shares of developing country FDI (Latin America and the Caribbean received 35.9 percent and the Asia-Pacific region received 58.9 percent) the Arab world was low. There are many reasons for this deficiency in FDI inflows, but generally the reasons lead back to internal and external challenges that have deterred FDI in MENA. Some of these factors include political instability, restrictions on the sectors FDI can be invested in, capping investments at 49 percent to prevent majority ownership by foreigners, requiring a local partner, and the slow pace of privatization, which has in turn slowed down FDI inflows.

Another feature is that MENA FDI stocks and flows are highly concentrated in a few countries and in limited sectors. In 2003, more than 80 percent of FDI stock in the Arab world was concentrated in Saudi Arabia, Egypt, Tunisia, Bahrain and Morocco while the first three of these countries made up 70 percent of the total FDI stock. On the opposite extreme countries with the lowest amounts of FDI stock in the region in 2003 were Mauritania (0.1 percent), Kuwait (0.6 percent) and Yemen (1.0 percent).
Saudi Arabia is deceiving because it received the majority of its FDI stock between 1981 and 1984 when investments reached US$27.4 billion. This is equivalent to nearly 90 percent of Saudi Arabia’s present FDI stock. Since 1984, FDI in Saudi Arabia slowed down tremendously in contrast most other MENA countries, which received a majority of their FDI inflows in the previous decade such as Egypt, Tunisia, Morocco, Bahrain and Jordan. The concentration of FDI inflows in MENA is generally directed towards petroleum and natural resource activities, which cause investments to be volatile due to the vulnerability of these commodities to price changes. Saudi Arabia, Algeria, Oman, Qatar, Kuwait, Libya and Yemen are continuing to receive large investments in the hydrocarbon sector while Bahrain, the UAE, Egypt, Morocco, Tunisia and Lebanon received investments in more diverse sectors such as tourism, banking, telecommunications, manufacturing and construction. Many of these inflows resulted from cross-border mergers and acquisitions and privatization.

Other features of FDI stock and inflows in MENA are that FDI stock as a percentage of GDP is lower than the percentage for other developing countries and that intra-Arab investment comprises a large amount of FDI inflows. In 2000 FDI as a percentage of GDP was 14 percent for the Arab world, which was lower than the 16.5 percent average for developing countries. Intra-Arab investment was estimated to be US$2.4 billion in 2001, which was equivalent to half of the FDI inflows for the entire region in 2000. Reports cited that the cumulative stock of intra-Arab investment from 1985 to 2000 was US$17 billion, which was a fraction of the total overseas Arab investments. Thus there is a significant opportunity for growth in intra-Arab investments especially since the Arab investments in countries belonging to the
Organization for Economic Co-operation and Development (OECD) is estimated at over US$1.3 trillion.¹⁴¹

C. Reform Measures to Increase Foreign Direct Investment in MENA:

MENA countries are working towards changing the investment conditions to encourage more FDI inflows. Some recent reforms include new or restructured investment legislation, incentives such as tax and custom duty breaks, relaxed restrictions on foreign ownership limitations, privatization and capital market reform.¹⁴² Almost every Arab country passed some type of investment reform legislation in the 1990s. Saudi Arabia, Qatar, and Kuwait passed legislation changing foreign ownership limitations.¹⁴³ Qatar passed a new law in 2000 allowing 100 percent foreign investment ownership in selected sectors such as agriculture, industry, health, education and tourism, which is an increase from the previous cap of 49 percent.¹⁴⁴ Allowing foreigners to own majority stock in more lucrative sectors will attract investment that may have stayed away from MENA countries due to these restrictions. Other countries such as Morocco, Jordan, Lebanon, Egypt, Bahrain and the United Arab Emirates offer strong incentives for FDI including free-trade zones with preferential treatment for foreign investors.¹⁴⁵ Most countries also relaxed restrictions on the operations of foreign firms. Morocco and Lebanon are the most open countries with no limits on foreign ownership, local content, domestic labor, or capital repatriation.¹⁴⁶ GCC countries have some domestic labor requirements and land ownership restrictions to GCC citizens only, but there are no local content and capital repatriation restrictions for foreigners.¹⁴⁷ Tunisia and Egypt have some local content requirements to certain sectors and there are capital repatriation restrictions, however there are no major obstacles otherwise. This is in contrast to Syria
where there are highly constraining repatriation restrictions but local content and labor requirements do not exist.\textsuperscript{148}

Broad capital market reforms in the region progressed in recent years with Morocco privatizing its stock market, which is one of the most active in the Arab world.\textsuperscript{149} Other stock markets, which are not as active, can be found in Tunisia, Jordan, Lebanon, Egypt and GCC countries while Syria is planning to have its stock market operational in 2007.\textsuperscript{150} North Africa is moving ahead of the remainder of the Arab world with the implementation of provisions for new financial utensils such as venture capital and private equity funds.\textsuperscript{151} These reforms on regulation and capital market legislation play an integral role in the new institutions that need to be established in MENA states to create more competitive businesses and jobs, deepen financial markets and increase FDI inflows.\textsuperscript{152}

**D. The Future of Foreign Investment in MENA:**

The prospects for increased FDI inflows in the future of MENA countries are on the rise.\textsuperscript{153} In 2004 the UNCTAD FDI performance index, which measures the levels of investment actually achieved in relation to the resources, reported that Arab countries such as Bahrain, Syria, Jordan and Qatar ranked well in attracting FDI inflows.\textsuperscript{154} In fact, in 2004 the region including the Gulf, the Levant\textsuperscript{155}, Iran and Turkey increased FDI inflows from US$6.5 billion to almost US$10 billion.\textsuperscript{156} Much of the FDI inflows especially focused on the Gulf States because of the billions of dollars they are spending on development and the establishment of commercial and investment laws along with regulatory and financial institutions. In fact Qatar and UAE ranked in the top twenty five globally.\textsuperscript{157}
Although MENA states are enacting structural reforms, some of which are outlined in greater detail below, it is up to governments in the region to execute new policies and ensure that reform continues. Beyond structural reforms, governments should focus on other types of reforms to increase FDI inflows such as investing in physical infrastructure, improving the quality of public institutions and investing in human development.\textsuperscript{158} Public investors analyze the economic policies of a state before investing and pay close attention to issues such as the protection of property rights, the methods in which disputes are settled, and the costs of business including corruption costs.\textsuperscript{159} Communication, transportation and availability of a skilled workforce within a country are also very important.\textsuperscript{160}

The Executive Opinion Survey conducted by the \textit{Arab World Competitiveness Report} revealed problems, which exist in MENA states in regards to these issues. The survey, conducted between October 2001 and March 2002 with over 240 respondents from 10 countries, gave a picture of how MENA’s investment environment compared to that of the leading seventy-three economies in the world. Lebanon and Saudi Arabia ranked 79\textsuperscript{th} and 83\textsuperscript{rd} respectively when assessing the burdens of administrative regulations in those countries.\textsuperscript{161} Saudi Arabia and Egypt ranked 64\textsuperscript{th} and 65\textsuperscript{th} respectively in terms of the costs of corruption to business.\textsuperscript{162} Egypt and Lebanon ranked the lowest in the region in regards to overall infrastructure with Lebanon also being among one of the countries with the highest cost of electricity.\textsuperscript{163} Even the human resource development picture was bleak with Saudi Arabia, Lebanon and Egypt having low ranking public schools and Jordan and Lebanon having a high level of migration among intellectuals.\textsuperscript{164}
The results from the above survey illustrate that even if FDI inflows continue to increase in MENA states they will not solve MENA’s economic problems. In fact some studies show that positive growth resulting from FDI is generally restricted to more advanced host countries. Thus if host countries lack sufficient factors such as qualified workers, they may not benefit from FDI. One study cites that it is unlikely that the average MENA country would benefit from FDI inflows and questions the wisdom of Arab states including financial incentives to attract more FDI. The study correctly asserts that offering financial incentives can be overly costly to a country and are only worthwhile if the positive results expected from FDI outweigh the costs of the incentives. It is difficult to measure some of these positive externalities, but they include some of the factors mentioned above such as the competency of the workforce and the level and quality of institutional development. Although the study is not conclusive of whether or not MENA states can benefit from FDI, it does outline serious concerns that MENA governments should address if they intend to benefit positively from reform and FDI inflows.

VI. CASE STUDIES OF MENA STATES

When studying economic reform in MENA states, it is important to study country specific examples of what policies countries enacted in the past and what current policies are being enacted to further the reform agenda. The following section provides specific examples of economic reform in MENA countries with a focus on reform policies in Egypt, Tunisia, Syria, Jordan and the Cooperation Council for the Arab States of the Gulf (GCC).
A. Egypt

In 1986, Egypt’s twenty-year economic expansion ended being triggered by a regional economic slowdown and by 1991 it began a period of stabilization. Between 1991 and 2001 Egypt’s budget deficit was reduced from 15.2 percent to 3.6 percent of GDP and inflation fell from 15 percent to 3 percent. Egypt also enacted structural reforms, which were designed to open up the economy to increase competition and to decrease the government’s role in the economy. Despite these actions, FDI inflows remained low as did the performance of exports, and recent growth is primarily driven by domestic demand with reliance on accumulation of labor and capital rather than growth productivity. In addition, despite gains in manufacturing, most recent growth comes from non-tradable sectors such as construction and services.

In the trade sector, Egypt’s merchandise exports amounted to less than 3 percent of GDP in 2000 partly due to an anti-export policy and poor incentive structures. Egypt reduced tariffs from 32 percent in 1988 to an average of 18 percent in 1999, but this was still high compared to other lower middle-income countries and did not include other charges, which added about 3 percent. Tariff structures are also not uniform, for example the effective tariffs for fully processed products are higher than tariffs for semi-processed products and raw materials. Other factors, which protect domestic producers and hurt importers, are customs procedures, administrative controls and quality controls.

Egypt’s state-owned enterprises continue to dominate the economy even though it began its privatization program in 1991. In 2003 the public sector employed about 35 percent of the labor force and produced almost 60 percent of nonagricultural output.
After a slow beginning to the privatization program, the program accelerated in 1996 when assets worth US$800 million were privatized and the 1997 plan called for the sale of thirty three companies and initial public offerings for an additional twelve. In 2001, sales fell to US$317 million, which underlined problems that still exist in Egypt’s privatization program. However, the privatization program increased activity in 2004 following the creation of a Ministry of Investment, as the number of sales in the 2004-2005 fiscal year reached US$1 billion, three times the proceeds from the previous four years combined. Several sales followed this in the beginning of the following fiscal year including a US$739 million sale of a fertilizer company. This sudden revitalization of the program came from the government’s ability to broaden the range of assets for sale and its flexible approach to valuations. There are challenges to Egypt’s privatization program particularly because other industries such as telecommunications and power generation require changes in legislation, and privatization of major public financial institutions lags behind efforts in other sectors. Another challenge is that Egypt largely concentrates its program on privatization transactions to holding companies in metallurgy, chemical industries and food industries while the employment sensitive textile sector remains outside of the program.

Even more recently Egypt’s economy remains largely closed. Exports in 2004 accounted for only about 10 percent of GDP at US$8 billion. From this number, exports of petroleum products, cotton yarn, textiles and garments, and agricultural products combined accounted for more than one-third of exports. FDI inflows into Egypt were also rather modest at less than US$1 billion; however this number increased to almost US$4 billion in 2004-2005. Egypt’s public sector still dominates many sectors of the economy including the financial sector and the cotton textile sector.
Furthermore, many Egyptians keep their savings abroad as opposed to investing in the domestic economy, which is another sign of a poor business climate at home. However, recent reforms indicate that Egypt’s economy is continuing its path to reform and liberalization.

In late 2006, the African Development Bank announced it will give a US$500 million loan to Egypt for reforms in its financial and banking sectors. The loans will not only reform banks and promote the non-banking financial sector, but will also help tighten control of the financial sector. Egypt also recently changed policies towards small and medium-sized enterprises that should increase the amount of investment available to them. The new policy lowered the minimum capital required to establish a limited liability company (LLC) from US$8,769 to US$175 and should go into effect in late 2007. The government hopes that this will encourage small private sector businesses to incorporate as LLCs, as these small and medium sized businesses make up the majority of all of Egypt’s enterprises. This change will keep liability low while increasing the ability of small business owners to gain access to financing.

From the year 2000-2003 the Egyptian economy grew at a mere 3 percent, which analysts believe was short of its potential. More recently Egypt reported that it recorded GDP growth was 6.9 percent during 2005-2006, which is the fastest economic growth rate since the early 1980s. Higher exports of liquefied natural gas, an increase in oil prices and an increase in the construction sector and private consumption drove this growth. In the future Egypt hopes to achieve a free trade deal with the United States, continue reduction of average tariffs and keep control of inflation to reasonable levels (7 percent in 2005).

B. Tunisia
Until the mid-1980s Tunisia followed a state-led model of development, when factors such as a poor crop year, financial imbalances and a drop in oil prices created a crisis.\textsuperscript{199} In 1987 the government initiated reform policies to stabilize the economy, gradually liberalizing prices, trade and investment controls, and decreasing the emphasis on the public sector to free resources for the private sector.\textsuperscript{200} Although years of low growth followed these reforms, the Tunisian economy sustained growth rates of over 5 percent throughout the 1990s.\textsuperscript{201}

Tunisia’s utilization of Free Trade Zones (FTZs) achieved the most success in the region. Trade represents about 92 percent of Tunisia’s GDP through exports of textile products, leather, mechanical and electrical parts and chemicals.\textsuperscript{202} FTZs are offshore manufacturing areas characterized by duty-free access of imported inputs for export manufacturing and a separate customs regime. A significant amount of the drive in Tunisia’s manufacturing sector comes from firms expanding in the FTZs, which export manufactured goods to Europe.\textsuperscript{203} Outside of the special customs zone, Tunisia decreased tariff protection to import-substituting industry throughout the 1990s although they still remain high relative to international standards.\textsuperscript{204} It also increased tourism, a fast growing services export, and liberalized account transactions and restrictions on long term capital flows.\textsuperscript{205} Tunisia is a member of the Maghreb Union, which is a nominal free trade area consisting of Tunisia, Morocco and Algeria.\textsuperscript{206} In 1995 it was the first MENA country to sign a partnership agreement with the European Union (EU) and currently is a member of the World Trade Organization (WTO).\textsuperscript{207}

In Tunisia, the privatization program began in 1986 as part of an effort to conduct macroeconomic and structural reform.\textsuperscript{208} Between 1986 and 1994 Tunisia privatized
about forty-five companies with most of these transactions consisting of private placements and liquidation of unprofitable firms. In 1994, Tunisia enacted legislation allowing the government to undertake privatizations by selling shares on the Tunis bourse, Tunisia’s stock exchange, and allowing strategic investors to participate in large sensitive transactions. By the end of 1996, Tunisia completed twenty-nine transactions from a list of forty-seven eligible transactions. In the late 1990s the government identified for sale sixty enterprises with total net assets of US$1.5 billion, which included banks, and cement plants. There are some factors that limited the pace of privatization in Tunisia, some of which hint at corruption. The government changed the institutional framework of their privatization several times since 1989. The process by which transactions are carried our are not well understood, are not transparent enough and the government can require new owners to maintain existing staffing levels to avoid partial or whole closures of enterprises. The state’s involvement in the economy is still evident in Tunisia through institutions, which implement economic policy decisions, through certain goods and services that are excluded from price liberalization, and the monopolies granted to some companies. However, Tunisia is continuing its pace of privatization and broadening of the program to more diverse sectors.

The World Economic Forum ranked Tunisia 117th in the field of emerging economies and 1st compared to African countries. Macroeconomic data shows a significant drop in poverty between 1980 and 2000, dropping from 12.9 percent to 4.2 percent along with low inflation and decreasing budget deficits. FDI inflows, while only 3 percent of GDP, are increasing and moving into sectors outside of the service sector such as communications and information technology. Tunisia is also improving
its competition policies with the enactment of the Competition and Prices Act, which liberalizes prices and prohibits anti-competitive and discriminatory practices. The act promotes consumer rights and creates institutions, which monitor the market, promote competition, and investigate anti-competitive practices. These policies are helping Tunisia’s rise as one of the most progressive MENA countries in terms of their economic reform agenda.

C. Jordan:

Falling oil prices in the late 1980s deeply affected the Jordanian economy because foreign capital inflows and worker remittances from oil-rich countries fell dramatically. In the period of financial crisis from 1988-1989 Jordan had a double digit inflation rate, negative real GDP growth and an increasing budget deficit. Jordan enacted many stabilization and adjustment policies since 1989, which led to a decrease in fiscal deficit and inflation. The deficit in 1990 was at 18 percent of GDP and by 1995 it lowered to 7.8 percent and throughout the 1990s Jordan maintained inflation between 3.0 and 3.5 percent. Between 1994 and 1996 a sense of growth renewed from inflows of savings from returnees from the Gulf War leading to a construction boom, but this ran its course by 1997 causing negative impacts to the economy. Jordan’s other challenges come from dealing with issues, which are outside of its control including the Israeli-Palestinian conflict and the conflict in Iraq.

In the 1990s Jordan reduced tariffs to reduce anti-export bias while its traditional exports of potash, phosphates and fertilizers continued to dominate. By 1999, it further reduced tariffs and efforts towards meeting requirements to join the World Trade Organization (WTO) improved Jordanian trade policy. In 2000, Jordan was admitted
to the WTO and reached a free trade agreement with the United States. In general, Jordan focused reforms on improving the legal and institutional framework such as customs reform, trade deregulation, facilitation of investment and improving product standards.

Like other MENA countries Jordan has a large public sector, which controls over 50 percent of employment, but government control over manufacturing and services is less than in other MENA countries. State-owned enterprises are concentrated in infrastructure, phosphate mining and cement manufacturing, and the state controlled Jordan Investment Company (JIC) holds minority shareholdings in sixty companies listed on the Amman Stock Exchange. In the mid 1990s, privatization efforts were highly decentralized among individual ministries, but in 1996 Jordan established a centralized privatization authority and efforts to privatize accelerated. By 2000, Jordan privatized 48 percent of its telecommunications company, sold 33 percent of the Jordan Cement Company and the JIC divested US$113 million in shares in forty-four companies. Through 2005, the total privatization proceeds exceeded US$1 billion and Jordan made the Jordanian Electric Company into a public shareholding company. In the future Jordan plans to continue privatization in the energy, air transportation, mining and postal services sectors. There are many other potential sales in the pipeline, but there is some difficulty in finding strategic investors and the right price.

The privatization program in Jordan is complemented by institutional and regulatory measures to counteract outcomes that monopolistic behavior can cause. Jordan established regulatory commissions, which protect service provision and consumer interests in sectors with large providers. It also enacted a competition law,
which seeks to prohibit entities with dominant market positions from price manipulation. Dominance in market share must pass a 40 percent market share test, and transactions creating such entities are subject to ministerial approval and ensuing oversight to prevent market manipulation.\textsuperscript{236} Thus with privatization Jordan is trying to keep competition high and creation of these institutions instills confidence in the business climate of the country.

Jordan is open to foreign investors, who are able to fully own enterprises in several sectors including banking and insurance, telecommunications, hotels, mining, manufacturing, hospitals and education.\textsuperscript{237} There are some sectors, which limit the percentage of foreign equity allowed to 50 percent such as trade and distribution, engineering and construction contracting, advertising, and most transport services, but there are very few activities, which are entirely closed to foreign investors.\textsuperscript{238} Jordan’s investment law requires a minimum US$70,000 capital requirement for foreign investments however foreign investors face no restrictions in regards to foreign exchange, capital movement and profit repatriation.\textsuperscript{239}

Jordan’s investment laws offer tax incentives to promote investment in hotels, conference centers, agriculture, and other sectors. The offered incentives include income and social service tax reductions for a ten year period, a zero sales tax rate for purchases by specified enterprises, and temporary customs duty exemptions on fixed assets and spare parts.\textsuperscript{240} Other incentives are also offered through free zones, which promote investments in export-oriented industries and offer zone operators various tax and custom duty exemptions.\textsuperscript{241} Jordan has a special economic zone, which covers its only port city of Aqaba where registered enterprises receive a flat corporate income tax rate of 5
percent (excluding banks and insurance companies), a 7 percent sales tax on specified goods and services, and exemptions from certain import duties and license fees on imports. However the Investment Promotion Law discussed above does not apply in this special zone, which has higher incentives that are not time restricted.

In recent years Jordan further improved its economy by increasing reforms and improving the business environment. Jordan simplified investment procedures by activating a one-stop shop for investors, which reduced the registration required period from ninety-eight working days to eleven working days. In the financial sector it liberalized the interest rates structure, strengthened the supervision and regulation of banks, enacted modern banking laws and activated competition among banks. The external sector continues to improve with improvements in the efficiency of customs administration, the gradual reduction of tariffs and the opening of the trade sector to the private sector.

From 1989-2004 Jordan made significant improvements including raising GDP growth from -13.4 percent to 7.0 percent and containing inflation, which in 1989 was at 25.7 percent and in 2004 was at 3.4 percent. More recently Jordan ranked 5th among MENA countries in the international report of Doing Business 2007 and ranked 78th out of 175 countries globally. In addition, in March of 2007 Jordan signed an agreement with the European Union under which the EU will award grants worth 265 million Euros for the period between 2007-2010 to strengthen political reforms, promote and develop trade and investment between Jordan and the EU, increase growth and sustainable development, and support financial reforms. As it continues on this pace to reform, Jordan’s GDP growth is estimated to be 6.0 percent in both 2007 and 2009.
D. Syria

When Syria’s President Bashar al-Assad took office in 2000, he became President of one of the poorest countries in the Middle East with one of the highest population growth rates in the region at 2.7 percent, negative economic growth at -1.7 percent in 1999, increasing unemployment, and diminishing oil reserves. This closed economy, bogged down by public sector control needed vast reform. Since assuming power the opening of the banking and insurance sectors for private investment are Assad’s most notable achievements in economic policy. Recently Syria announced positive economic data including the fact that real GDP levels are higher than previously indicated. However despite some recent gains the state continues to exert decisive influence over the economy, and the reforms now being undertaken are relatively modest by developing world’s standards, and long overdue.

In late 2006, the President of Syria signed seven decrees approving legislation on the exchange rate system, taxation, the budget, the management of the public sector, and the proposed Syrian stock market. All of these measures aim to enable Syria’s transition to a market economy and to give the country the ability to handle the impacts of their depleting oil reserves. Oil production decreased to 400,000 barrels per day as opposed to the 600,000 barrels per day Syria produced in the mid 1990s.

Decree Number 51, one of the more elaborate decrees, made twenty-nine amendments to Law 24 of 2003, which at that time brought the top marginal corporate tax rate down by 30 percent. The new decree further lowers the top tax rate by another 7 percent to bring it down to 28 percent on net profit exceeding US$58,000. Under the new decree, private companies that offer at least 50 percent of the share capital for public
subscription will only pay a 14 percent corporate tax and will be exempt from paying local taxes. The next two decrees also target lowering tax rates on the sale and rental of real estate in order to stimulate further investment. These and other tax incentives all took effect in January of 2007. Syria hopes that the benefits of this tax structure will increase investment, and the government points to increased investment in 2006 to show that the policy is working.

Syria recently approved a new basic finance law, which separates operations of the public enterprises from the state budget. From 2008 onwards state-owned firms will be autonomous from the Ministry of Finance and will be able to retain profits for reinvestment. These companies will still pay corporate tax, but will no longer have to submit all of their profits to the Treasury and rely on the state budget for their investment needs. This law replaces legislation in place since 1967. The government is also planning on establishing a value-added tax in 2008 and is reviewing its petroleum price subsidies system, which the IMF called unsustainable.

Syria’s pledge to intensify financial sector reform by establishing a stock market appears closer to being realized. Law 55, decreed in 2006, covers the creation, operation and regulation of the proposed Damascus Stock Exchange. The Syrian Securities and Exchange Commission, which the government established by a law passed in 2005, prepared the text. In 2006, Syria formed a Securities and Exchange Commission in order to draw up the regulations for the stock market. The stock market is likely to commence operations in 2007 and many Syrian companies including its leading mobile-phone operator and all of the private banks, raised equity through initial public offerings and will likely be the first to list on the new market. Moreover, Syria’s finance
minister stated in early 2007 that the market's board of directors is in the process of obtaining the necessary electronic exchange machinery and employees are being trained in cooperation with several Arab and foreign stock markets. When the stock market starts operations in late 2007, forty-six firms will be listed.

The next important step for Syria is to create legislation and give time to allow individual and family owned companies to be transformed into joint stock companies. This legislation will contain some tax break incentives as well. In an interview with BBC, Syria’s finance minister stated that he felt joint stock companies are the best types of companies and subject to the least amount of corruption. They also expand the base of ownership by attracting shareholders who use their savings to buy shares, which in turn keeps the family-owned business from fading away when the original proprietors die.

In addition, the Finance Ministry is working towards enacting regulations to govern these firms, which would ensure auditing of transactions and transparency through information accessible to citizens.

The latest decrees enacted by Syria also changed the investment environment. Syria allowed foreign investment for the first time in 2003, which changed Damascus with the appearance of foreign clothing stores and other brands that were not present before. Syria enacted Decrees 8 and 9 in January, with Decree 8 replacing Law 10, which was the foreign investment law prevailing in Syria since 1991. Decree 8 enables all investors to own or lease the land required for their projects, and provides for free repatriation of profits, dividends and invested capital, as long as all tax liabilities have been met. If a foreign investor encounters obstacles to setting up a project, and decides to withdraw within six months of receiving a license, all capital invested up to
that point may be freely repatriated. In regards to repatriation of income by foreign staff, foreign staff can repatriate up to 50% of their net income, and 100% of any end of service benefits. Under the new decrees, investors are exempt from paying customs duties on equipment imported to set up their projects, but they are liable to the standard corporation tax. Under Law 10, the previous law, the government accorded investment projects tax holidays. The decree applies most sectors of the economy, except tourism.

The other important new decree, Law 9, establishes a Syrian Investment Authority, which is designed to act as a facilitator for investments. It also reduces the lengthy screening process that projects encountered to obtain licenses under the previous system of Law 10. Law 9 states that a project is assumed to qualify for a license unless the Investment Authority states reasons a license should be denied within fifteen days. This new system allows the authority to act as a single window for investors to use to get approvals from other government agencies. The reasoning is to create an entire investment environment in Syria instead of having islands of investment, which are separated from the economic system.

Syria’s foreign exchange market is developing and the establishment of a private banking sector, which includes six private banks with Lebanese, Jordanian and Gulf Arab partners, is helping the process. During the first eight months of 2006 the total deposits in private banks reach US$960 million and aggregate loans constituted 12.2 percent of Syria’s entire loan market. Now Syria is in the process of raising the minimum capital required for a private bank from US$30 million to US$100 million and for Islamic banks from US$100 million to US$200 million. With the new legislation, a
foreign partner can own up to 60 percent of a private bank, compared to 49 percent in the original legislation. However the government has not stated when these new rules will take effect.

Small steps to liberalize Syria’s economy impacted the balance of payments according to statistics from 2004 and 2005. New numbers show that Syria had account surpluses in these two years of US$588 million and US$304 million respectively compared to losses of US$629 million and US$1.1 billion previously reflected. The breakdown of the numbers shows that the difference between the two sets is accounted for by private sector exports not previously recorded. The Syrian government maintains that the economy is growing, with revised estimates of 2004 reflecting a growth rate of 8.6 percent and the government estimates that in 2006 the economy grew by 5.1 percent and will grow by 5.6 percent in 2007.

Syria also has economic programs funded by the European Union. The Institutional and Sector Modernization Facility works to help implement an overall economic modernization targeting the industry, agriculture, transport, and communication sectors. The Small and Medium Enterprises Support Program supports the newly-founded private institution called "Syrian Enterprise and Business Centre," which aims to improve the efficiency and competitiveness of the Small and Medium Enterprises being carried out in different parts of the country. It demonstrated to be one of the most successful projects in the country, mostly serving enterprises carried out by the private sector. Another project, the Higher Institute for Business Administration, helps support the country's economic reform process through enhancing business and management education, and achieving excellence activities in various businesses.
There is also the Quality and Standard Program, which contributes to the increase of Syria's trade with the EU states through harmonizing technical legislation and alignment of quality infrastructures mainly in trade, industrial, business and economic sectors.\textsuperscript{295} Finally, the Banking Sector Support Program contributes to the country's economic growth by supporting the on-going reform of the Syrian banking sector.\textsuperscript{296}

Recently Syria benefited from the economic boom in the Gulf through increased foreign investment and remittances, and the situation in Iraq, which has led to the inflow of more than 500,000 Iraqis into Syria with substantial savings.\textsuperscript{297} However, the recent reforms truly reflect how Syria’s economy lags behind other regional economies in terms of sophistication and size. Projects in Syria still develop at a slow pace relative to other MENA states. Recently managing director for the Syrian Consulting Bureau for Development and Investment stated, “What takes six months in Qatar takes six years in Syria. There are a lot of hurdles for permits.”\textsuperscript{298} Thus, Syria has a long road ahead for the future of its reform process.

\textbf{E. Cooperation Council for the Arab States of the Gulf (GCC)}

Established in 1981, the GCC, comprised of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, is a regional organization, which seeks certain economic and social objectives. A few of the GCC’s stated economic objectives include formulating similar regulations in economics, finance, trade, customs, tourism, legislation and administration, and establishing a common currency by 2010.\textsuperscript{299} High oil prices are driving strong economic growth in this region of MENA and, which is predicted to continue into the near future.\textsuperscript{300} Increased confidence due to the recent boom resulted in projects worth over US$1 trillion in the region at various stages of implementation.\textsuperscript{301}
Structural reforms across the GCC helped economic performance as well as it is reported that in 2006, The United Arab Emirates will report the highest real GDP growth in 2006 at 10.2 percent, followed by Qatar at 7.5 percent, Kuwait at 6.5 percent, Saudi Arabia at 6.2 percent, Bahrain at 6 percent and Oman at 5 percent.\textsuperscript{302}

For the GCC, 2005 was one of the most positive years in the region's history. Reports indicate that the combined GDP of the six GCC states rose by more than 20 percent to almost US$550 billion, which is more than twice the rest of the Arab world combined.\textsuperscript{303} High oil prices lifted aggregate nominal GDP by almost 75 percent over the past three years in GCC states and further expansion is predicted for 2007.\textsuperscript{304} These enhancing oil revenues increased the GCC’s aggregate current account surplus to 28 percent of GDP in 2005 and increased GCC net foreign assets to over US$160 billion.\textsuperscript{305} This growth also enabled GCC governments to increase spending while paying down debt and achieving a combined fiscal surplus of almost 22 percent of GDP.\textsuperscript{306} The growth is expected to continue, especially in the non-hydrocarbon sector, in which there are numerous projects underway to sustain growth in the sector for several years.\textsuperscript{307} However, there are risks in these countries including vulnerability to market shifts in oil prices, potential falls in real estate markets, and regional instability from threats of potential terrorist attacks.\textsuperscript{308}

Positive economic developments powered growth in GCC countries over the previous four years. It is estimated that nominal GDP grew by 26.2 percent in 2005 and between 2002 and 2005 the size of the GCC economy grew by 74 percent to US$610 billion.\textsuperscript{309} Analysts of GCC countries prefer to use the nominal GDP over the real GDP because the latter understates the economic effects of the changes in hydrocarbon prices.
and nominal GDP provides the basis for government expenditure, which is a determinant of economic development. The non-hydrocarbon sector significantly improved even throughout the recent oil boom, as the average real non-hydrocarbon growth between 2003 and 2005 for each GCC state exceeded the growth between 1996 and 2002 by 3 percent. High oil prices supported this growth, which has encouraged an increase in government spending and increased domestic confidence. The non-hydrocarbon sector outpaced hydrocarbon sector growth in real terms in every GCC state except for Qatar in 2005. Some sectors of non-hydrocarbon growth include manufacturing, financial services, transportation, telecommunications and tourism. In addition, private sector spending exceeded government spending and provided the main thrust of growth in the GCC states.

The hydrocarbon sector in the GCC plays an imperative role in the global oil industry with production increasing by 4.1 percent in 2005, which amounted to 16.1 million barrels per day. Out of the six GCC countries, Saudi Arabia, Kuwait, Qatar and the UAE increased output while Bahrain and Oman production declined. In Oman the decline resulted from ageing fields with declining productivity while in Bahrain it resulted from a new arrangement with Saudi Arabia over shared field. Despite this, all GCC producers are taking measures to increase production capacity and by 2011 the projected production will near 19.6 million barrels per day. The futures market predicts the expectation that oil prices will hold above $50 into the next decade.

GCC governments are using these oil revenues to fund many projects throughout the GCC states to create jobs, diversify the economy, develop human resources and generate value from hydrocarbon resources. The current boom boasts greater private
sector involvement than in the past and controlled government spending, which suggests that many of the proposed projects will be viable. By April 2006, projects that were either proposed or began valued over US$1 trillion, up from US$277 billion eighteen months earlier and comprising one of the largest construction booms globally. Most of these projects focused on the sectors of construction, oil and gas, petrochemicals, power and water. In addition, GCC states are improving roads, railways, ports and airports to keep up with population growth and increased trade. The main risk evident from some of these investments is overcapacity. As an example, hotel rooms in the GCC, excluding Saudi Arabia, are projected to increase by 144 percent between the end of 2005 and 2010, which shows significant investment in tourism. However, it is questionable as to whether the GCC can attract enough tourists to justify this increase.

Regional economic integration is also a priority between the GCC states. Finance ministers from all of the states approved economic targets, which they hope will prepare the GCC for a regional currency by 2010. The established criteria consists of five goals: 1) Short-term interest rates should be no more than the average of the lowest three countries plus two percentage points 2) Inflation should be no higher than the maximum of the weighted average of the six member countries plus two percentage points 3) Foreign exchange reserves should cover at least four months of imports 4) The government budget should not be in deficit in excess of 3 percent of GDP in any year and 5) Government debt must not exceed 60 percent of GDP. By the end of 2005 only Kuwait and Oman met all five criteria as the other countries were below the necessary level of foreign exchange reserves and Bahrain, Qatar and the UAE missed the inflation benchmark. Nevertheless, these should not stop the venture from proceeding. Some
issues, which may delay the single currency however are transparency issues, policy coordination, regional central bank issues and public awareness. 329

In regards to trade, Saudi Arabia became the final GCC member to enter the WTO in 2005. 330 The process of joining the WTO is an important factor in the opening up of GCC economies. For example in Saudi Arabia, the process resulted in forty new laws being passed, a reduction in tariffs, and the establishment of nine regulatory bodies. 331 Bahrain became the first GCC member to sign a free trade agreement with the United States in 2004 (ratified by Congress in 2005), which was followed by an agreement between the U.S. and Oman that was ratified in 2006. 332 Besides the United States, trade deals with other countries are conducted on a GCC wide basis. 333 Discussions for trade agreements are currently under way with China, the EU, India, Pakistan, Japan, and Turkey. 334 Also, foreign assets of GCC states increased with estimates placing Saudi Arabian foreign assets at US$250 billion, Kuwait's foreign assets at well over US$200 billion, while the UAE's are estimated at more than US$500 billion. 335 Unlike previous economic booms, when oil profits were heavily invested into U.S. Treasuries and the West's banking system, there are signs that GCC governments and companies are investing in other Arab countries primarily in private equity, real estate and capital markets in Egypt, Jordan, Lebanon, Morocco and Tunisia, which underpins economic growth and job creation in these countries. 336

As for the near future, high oil prices are predicted to carry the economic boom in the GCC and will continue to fuel investments in major projects, which will in turn boost the non-hydrocarbon sector. 337 These sectors that benefited from investment such as construction, manufacturing and recent liberalizations in telecommunications (Qatar and
UAE) will lead in growth.\textsuperscript{338} External pressure from the U.S. and the WTO will spur further reform, which should lead to economic openness and greater private sector investment.\textsuperscript{339} The main risks in the coming years are high inflation particularly in project implementation costs, the volatility of oil prices and regional political instability, but in the short term high oil prices and growth in earnings from external assets should protect GCC economies from these risks.\textsuperscript{340} In 2007, it is expected that Qatar will lead the GCC states in terms of real GDP, growing by 8.6 percent, with the UAE will following with real growth of 7.2 percent, Oman of 5.9 percent, Bahrain of 5 percent, Saudi Arabia of 4.2 percent, and Kuwait of 4.1 percent.\textsuperscript{341}

F. Jordan and Egypt’s Qualified Industrial Zones with Israel

Jordan and Egypt are the only two Arab countries with full diplomatic relations with the State of Israel.\textsuperscript{342} It is interesting to analyze the economic advantages these two MENA states gain from this relationship and the possibility of future economic cooperation between Israel and Arab states. Israel maintains Qualified Industrial Zones (QIZs) with Jordan and Egypt, which generally operate under the United States Free Trade Agreement with Israel.\textsuperscript{343} The QIZs apply to products that are manufactured in specific industrial zones in Egypt and Jordan, incorporate components produced in Israel, and are exported to the United States.\textsuperscript{344} Creation of these QIZs significantly increased bilateral trade between these nations and created thousands of jobs in all three countries especially among the unskilled workforce.

The agreement between Israel and Egypt applies to products produced in specific industrial zones in Egypt. Currently there are five of these QIZs and 400 Egyptian companies, which are QIZ eligible.\textsuperscript{345} Egypt’s goal from this agreement is to improve the
competitiveness of Egypt’s exports to the United States relative to Asian exports. From 2004 to 2005 exports from Israel to Egypt tripled from US$29 million to US$90 million. The fields of activity in the Egyptian QIZs are highly diversified and include: textiles, food metal, apparel, chemicals, plastics and ceramics. In Jordan the numbers of QIZs grew from one in 1997 to ten in 2004 and employ 55,000 people. From 1998 to 2004 Israeli exports to Jordan increased from US$15 million to US$132 million and Jordanian exports to the United States increased from US$50 million to US$1 billion.

These agreements with Israel provide an interesting perspective on potential future economic and political reform in MENA countries. Economic cooperation as a basis for dialogue between Israel and Arab states could be an effective means to bringing regional stability. On their path to liberalization, Arab states can learn from the Israelis, who also reformed from a highly state controlled system. Moreover, the QIZs show that economic cooperation can increase inter-regional trade and create jobs for an increasing workforce.

VII. CONCLUSION

MENA faces significant challenges ahead, as it continues its path to economic reform to compete in the global economy. With increasing global competition and the regions future needs as the labor force increases, MENA countries must be effective and efficient in pushing the reform agenda. Throughout the process of reform MENA states should focus on the necessary conditions needed for economic growth and the actual
engines of economic growth. Examples of the former are: macroeconomic stability, deep financial markets, openness to trade, quality of government, new economy, education, infrastructure, rule of law, low red tape, and lack of corruption.\textsuperscript{350} For engines of growth it is important to have increased start-ups and entrepreneurship, low taxes, a smaller government, capital accumulation, innovation, and inward transfers of technologies and exports.\textsuperscript{351} The country studies described above outlined the challenges MENA states faced in embarking on reform. The studies also described recently enacted policies along with the creation of institutions that provide promise for the future of MENA economies. If these states can effectively create the conditions for growth and build the engines of growth MENA states will be able to cope with the changing dynamics of the world and their region in the decades ahead.

\textsuperscript{1} For this paper the terms MENA states and MENA countries are used synonymously.


\textsuperscript{3} The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates although Yemen is seeking to accede to the GCC as well.

\textsuperscript{4} Covering reform policies of every MENA country would be overly exhaustive and beyond the scope of this paper.

\textsuperscript{5} E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs, Department of State, Remarks During Panel Discussion at American Arab Anti-Discrimination Committee Convention (June 7, 2002). (Addressing private investment and economic development in the Arab World).
6 See Id.

7 Dr. Mustapha K. Nabli, Chief Economist and Director, Social and Economic Development MENA Region for the World Bank, Opening Remarks at the Roundtable on the Role of Women in the Development of the Private Sector in MENA (February 21, 2006).

8 See Id.

9 See Id.


12 See Id.

13 See Wayne, supra note 5.


15 See Id. at viii.

16 See Sufyan, supra note 11.


19 See Dr. Nabli supra note 7.

20 See Id.


23 See Nunnenkamp supra note 21 at 5.

24 See Id. at 5.

25 See Id. at 5.

26 See Id. at 5.
27 See Id. at 8.

28 See Yousef supra note 10 at 3.

29 See Id. at 3.

30 See Id. at 4.

31 See Id. at 4.

32 See Id. at 5.

33 See Id. at 5.

34 See Id. at 5.

35 See Id. at 7.

36 See Id. at 7.

37 See Id. at 7.

38 See Id. at 8.

39 See Id. at 8.

40 See Id. at 8.

41 See Id. at 8.

42 See Id. at 8.

43 See Id. at 9.

44 See Id. at 9.

45 See Id. at 10.

46 See Id. at 10.

47 See Id. at 19.

48 See Page supra note 2 at 64. Many MENA states offered guaranteed public employment to university graduates and public employment was often a first option for graduates of lower educational levels. See Id. at 64.

49 See Yousef supra note 10 at 19.

50 See Id. at 9.

51 See Id. at 10.

52 See Id. at 10.

53 See Id. at 11.
54 See Id. at 11.
55 See Id. at 12.
56 See Id. at 12.
57 See Id. at 13.
58 See Nunnenkamp supra note 21 at 9.
59 See Yousef supra note 10 at 13.
60 See Id. at 14.
61 See Id. at 20.
62 See Id. at 17.
63 See Id. at 17.
64 See Id. at 17.
65 See Id. at 20.
66 See Page supra note 2 at 71.
67 See Id. at 71.
68 See Id. at 74. In 2003, the estimated savings held abroad of Egyptian, Syrian, and Jordanian nationals exceeded GDP of their respective countries.
69 See Id. at 74.
71 See Id. at 25.
72 See Id. at 25.
73 See Id. at 25.
74 See Id. at 28.
75 See Id. at 28.
76 See Id. at 28.
77 See Id. at 28.
78 See Id. at 28.
79 See Id. at 28.
See Id. at 28.

See Id. at 29.

See Id. at 30.

See Id. at 30.

See Id. at 31.


See Page supra note 2 at 75.

See Zu’bi and Hanania supra note 85.

See Page supra note 2 at 75.

See Id. at 75.

See Id. at 75.

See Id. at 75.

See Id. at 76.


See Id. at 31.

See Id. at 32. Some suggestions from the 2005 Arab Business Council Annual Meeting in Bahrain included promoting learning by experience, vocational schooling, technical training, publishing manuals listing available internships and the introduction of accreditation standards to standardize the quality of education.

See Yousef supra note 10 at 20.

See Page supra note 2 at 63. Non-oil producing states benefited from high public investment as well. Public investment in Egypt, Jordan, and Syria closely correlated with aid from Arab and non-Arab countries. See Id. at 63.

See Yousef supra note 10 at 21.

See Id. at 21.

See Id. at 21.


Pan-Arabism is the notion of Arab unity exemplified through one Arab state. See Tawfik E. Farah and Elia Zureik, Pan-Arabism and Arab Nationalism: The Continuing Debate, 17 Contemporary Sociology 49.

102 See Cornelius supra note 100 at 13.

103 See Id. at 13.


105 See Id. at 23.

106 See Nunnenkamp supra note 21 at 12.

107 See Page supra note 2 at 68.

108 See Id. at 68.

109 See Cornelius and Warner supra note 100 at 13.

110 See Id. at 13. Countries with FTAs with the United States are convinced that they are not the solution for all of their problems, will not lead to any intra-regional agreements and often do not deliver the knowledge based industries as expected. See World Economic Forum, Arab Business Council Annual Meeting (Nov. 9-10, 2005), available at http://www.weforum.org/pdf/ABC/ABC_Report_2005.pdf.

111 See Page supra note 2 at 70.

112 Negative list approach is defined as: “The comprehensive inclusion of all service sectors, unless otherwise specified in the list of reservations, under the specific disciplines of the services chapter and the general disciplines of the trade agreement. A negative list approach requires that discriminatory measures affecting all included sectors be liberalized unless specific measures are set out in the list of reservations.” See INTER-AMERICAN DEVELOPMENT BANK DICTIONARY OF TRADE TERMS (April 10, 2007) available at: http://www.iadb.org/research/TradeDictionary/index.cfm?Language=English.

113 See Page supra note 2 at 70. Many executives believe that the private sector must lead the way to increase intra-regional trade.

114 See Id. at 70.


116 See Id. at 108.

117 See Id. at 108.


119 See Nunnenkamp supra note 21 at 10.

120 See Eid and Pana supra note 115 at 108.
See Cornelius and Warner supra note 100 at 14.

See Id. at 14.

See Eid and Pana supra note 115 at 109.

See Id. at 109.

See Id. at 109. There are several reasons for low FDI flows in the Middle East including: restrictions on FDI, the large public sectors, limited privatization, and political instability. See Krogstrup & Matar supra note 116 at 5.

See Id. at 109.

See Id. at 109. FDI has contributed very little to the gross fixed capital formation of Arab countries thus constitutes a small part of overall investment in the Arab World. See Krogstrup & Matar supra note 116 at 4.

See Id. at 109.

See Id. at 110.

See Id. at 110. In 2005, among the GCC countries, Bahrain received the most FDI inflows over the previous decade looking at FDI stock relative to GDP. See Krogstrup & Matar supra note 116 at 5.

See Id. at 110.

See Id. at 110.

See Id. at 110.

See Id. at 110.

See Id. at 111.

See Id. at 111. Between 1996 and 2000, seven out of sixteen Arab countries received FDI through privatizations, and thirteen Arab countries received FDI through mergers and acquisitions. See Id. at 112.

See Id. at 113.

See Id. at 113. For thirteen Arab countries, FDI stock makes up less than 20 percent of GDP. Only Bahrain and Tunisia have levels of FDI stock comparable to China and Singapore, who are successful at attracting FDI stock. See Id. at 113.

See Id. at 113.

See Id. at 113. As of the year 2000 Kuwait, Bahrain, Libya and Saudi Arabia had more than US$1 billion in outward FDI stock. See Id. at 113.

See Id. at 113.

See Id. at 116.

See Id. at 116.
144 See Id. at 116.
145 See Id. at 116.
146 See Id. at 116.
147 See Id. at 116.
148 See Id. at 116.
149 See Id. at 116.
150 See Id. at 116.
151 See Id. at 116. Arab young professionals who worked in the West spurred the creation of new financial instruments, which led to private equity initiatives in Jordan, Egypt, Lebanon, Saudi Arabia, the UAE, Tunisia and Morocco. See Id. at 114.
152 See Id. at 116.
154 See Id.
155 For this paper, the Levant refers to Syria, Jordan, the Palestinian territories.
156 See Id.
157 See Id.
158 See Eid and Pana supra note 115 at 117.
159 See Id. at 117
160 See Id. at 117
161 See Id. at 117
162 See Id. at 117
163 See Id. at 117
164 See Id. at 117
165 See Nunnenkamp supra note 21 at 13.
166 See SIGNE & MATAR supra note 118 at 2. FDI affects growth and development directly by contributing to gross fixed capital formation, and through indirect channels such as crowding, linkages and human capital. See KROGSTRUP & MATAR supra note 118 at 6-7.
167 See Id. at 2
See Id. at 9

See Page supra note 2 at 66.

See Id. at 66.

See Id. at 66.

See Id. at 66.

See Id. at 66.

See Id. at 66.

See Id. at 69.

See Id. at 69.

See Id. at 69.

See Id. at 69.

See Id. at 72.

See Id. at 72.

See Id. at 72.

See Id. at 72.

See Id. at 72.

See Id. at 2.

See Id. at 2.

See Page supra note 2 at 72.

See Id. at 72.


See Id. at 2.

See Id. at 2.

See Id. at 2.

See Id. at 2.

See Id. at 2.

Egypt’s 2005-06 GDP Growth Placed at 6.9%, Middle East and North Africa This Week, Dec. 4, 2006, available at FACTIVA Document MENATW0020061204e2c400004.

See Id.

See Id. at 23

See Srinivasan supra note 186 at 2.

See Middle East and North Africa This Week supra note 191.

See Id.


See Page supra note 2 at 66.

See Id. at 66.

See Id. at 66.


See Page supra note 2 at 69.

See Id. at 69.

See Id. at 69.

See Id. at 69.

See Id. at 69.

See Id. at 73.

See Id. at 73.

See Id. at 74.

See Id. at 74.

See Id. at 74.

See Id. at 74.

See Voluntary Peer Review of Competition Policy: Tunisia supra note 202 at 4.

See Id. at 3.

See Id. at 5.
218 See Id. at 5.

219 See Id. at 6.


221 See Id.

222 See Page supra note 2 at 66.

223 See Id. at 66.

224 See Id. at 69.

225 See Id. at 69.

226 See Id. at 69.

227 See Id. at 69.

228 See Id. at 72.

229 See Id. at 72.

230 See Id. at 72.

231 See Id. at 72.

232 See Dr. Abu-Hammour supra note 220.

233 See Id. Although the FTA with the United States increased two-way trade, it has not brought other value-added and knowledge based industries.

234 See Page supra note 2 at 73.


236 See Id.

237 See Id.

238 See Id.

239 See Id.

240 See Id.

241 See Id.

242 See Id.
See Id.  

See Dr. Abu-Hammour supra note 220.  

See Id.  

See Id.  

See Id.  

See Id.  


See Dr. Abu-Hammour supra note 220.  


The Economist, Modest Reforms, Jan. 31, 2007 available at http://www.economist.com.lp.hscel.ufl.edu/agenda/displaystory.cfm?story_id=E1_RGNQNTN. Syria’s recent push towards economic reform is also influenced by international pressure and isolation over its suspected role in the assassination of former Lebanese Prime Minister Rafiq al-Hariri.  

See Id.  

See Id.  

See Syria: Return of the Reformer supra note 252.  

See Id.  

See Id.  

See Id.  

See Id.  

See Id.  

See Id.  

See Id.  

See Id.  

See Modest Reforms supra note 253.  

See Id.
See Id.

See Id.

See Id.


See Id.

See Id.


See Modest Reforms supra note 253.

See Id.

See Id.

See Id.

See Id.

See Id.

See Id.

See Id.

See Id. In Syria, the tourism industry is governed by a separate legal and tax framework.

See Id.

See Id.

See Id.

See Id.

See Id.

See Id.

See Id.

See Id.
Syria Please with EU Funded Economic Projects, BBC Monitoring Middle East, Jan. 7, 2007, available at FACTIVA Document BBCMEP0020070107e3170040h. As Syria tries to remove itself from economic isolation, it is trying to boost economic cooperation with the European Union and states within the Union such as Germany.

See Id.

See Id.

See Id.

See Id.

See Cochrane supra note 273.

See Id.


See Id. at 1.


See The Institute of International Finance supra note 300 at 1.

See Id. at 1.

See Id. at 2. Assuming oil prices remain high, GCC exports could reach US$544 billion in 2007.

See Id. at 2.

See Id. at 2.

See Id. at 3.

See Id. at 3.

See Id. at 3.

See Id. at 3.

See Id. at 4.

See Id. at 4.

See Id. at 5.
Egypt signed a treaty with Israel in 1979 and Jordan signed a peace treaty with Israel in 1994.
Jordan entered into the QIZ agreement in 1997 while Egypt entered into the QIZ agreement in 2004.

344 See Id. The minimum Israeli contribution to products is different for Egypt and Jordan. For Egypt the minimum contribution is 11.7 percent and for Jordan the minimum contribution is 8 percent.


346 See Overview of the QIZ Agreements supra note 344.

347 See Id.

348 See Id.

349 See Id.

350 See Cornelius and Warner supra note 100 at 18-19.

351 See Id. at 19-20.