

# forum forum

Newsletter of the Economic Research Forum

Vol. 17 No. 1 Winter 2010

## SHOCKS VULNERABILITY AND THERAPY ERF 16th ANNUAL CONFERENCE November 7-9, 2009 | Marriott Cairo Hotel, Cairo, Egypt

# 2009

### About this Issue

This edition of the *Forum* features the ERF 16<sup>th</sup> Annual Conference, held in Cairo, Egypt, November 7-9, 2009. The conference plenary sessions focused on the theme of "Shocks, Vulnerability and Therapy." This issue covers the conference with 3 articles written by ERF Fellows Rania Al-Mashat, Fatih Özatay and Ahmed Ghoneim. It also includes information about the papers presented in the parallel sessions as well as highlights of the winners of the "Best Paper Award."

Besides the conference, this issue welcomes new ERF affiliates, presents notable publications by our fellows, including two book reviews of recently published work by fellows, and covers recent ERF research activities, publications and events.

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Editor: Sherine El-Menshawey  
Layout and Finalization: Namees Nabeel  
Forum is produced two times a year. Editorial office is located at 7 Boulous Hanna Street, Dokki, Cairo,  
Egypt. Tel: (202) 33318600 Fax: (202) 33318604 Email: erf@erf.org.eg Website: www.erf.org.eg



## *A Word from the Managing Director...*

# ERF 16<sup>th</sup> Annual Conference

The focus of this edition of the Forum is on the ERF 16<sup>th</sup> Annual Conference, which was held in Cairo during the period November 7-9, 2009 under the theme of “Shocks, Vulnerability and Therapy”. As always, the conference provided a platform for over 200 economists from the region and abroad to discuss topical issues in economic development, to present close to 55 papers in 6 parallel sessions, and to interact with one another. In addition, the conference was preceded by two workshops: one on “Natural Resources and Economic Diversification”; the other on “Poverty, Growth and Inequality in the MENA Region”.

The choice of the theme of the conference was motivated by the recent financial and economic crisis, but the focus was on crises more broadly. And the orientation of the plenary sessions was on three dimensions of crises: their determinants, impacts especially on vulnerable countries and groups within these countries, and how crises may be avoided or their impact ameliorated.

The pre-conference workshop on “Natural Resources and Economic Diversification” was the beginning of a process aiming at defining the ERF research agenda in this area. As for the workshop on “Poverty, Growth and Inequality in the MENA region”, the objective was to share the preliminary findings of an ERF-GDN research project on this issue and to seek feedback from an expert audience.

Beside the coverage of the conference, this edition of the Forum provides a summary of ERF research activities, dissemination in the form of publications and events and network news. In addition, it includes a review of two books: one produced by ERF on the labor market in Egypt and another on the role of institutions in determining economic performance in the MENA region.

I do hope the reader will find the content of the *Forum* both relevant and informative.

Ahmed Galal

A handwritten signature in black ink, appearing to read 'AG Galal'.



**Rania Al-Mashat** is an ERF fellow and Head of Monetary Policy Department, Central Bank of Egypt

## Plenary Session 1:

# Shocks, Crises and Their Determinants

**U**nder the overarching theme of the ERF’s 16<sup>th</sup> Annual Conference “Shocks, Vulnerability and Therapy”, the first plenary session focused on “Shocks, Crises and their Determinates”.

The plenary featured three distinguished speakers, who provided very valuable insights and perspectives on the topic. The speakers were Justin Lin, World Bank, Mongi Boughazala, University of Tunis ElManar, and Tony Venables, Oxford Centre for the Analysis of Resource Rich Economies, Department of Economics, Oxford. This article provides a synthesis of the leading arguments made in the three presentations.

In categorizing the shocks, the speakers agreed that generally there are three sources of shocks. The first is related to climatic change which could lead to natural disasters; while the second emanates from above average rates of economic growth that could exert pres-

sure on the supply of productive resources, including food; and finally macroeconomic shocks linked to the financial sector was the third.

### *A Diagnosis of the Current Crisis*

Justin Lin provided a detailed discussion of how the present crisis emerged, spilled over to other countries (in particular developing ones; LDCs) and the lessons to be learned in dealing with potential future crises. Starting in the USA, the crisis found its deep roots in the (de)regulation of financial markets, the emergence and collapse of the bubble on the real estate market and the Federal Reserve monetary policy. While the (de)regulation of financial markets had its positive effects by fostering investment and boosting growth, it also induced side effects through the high leverage granted to the financial sector, which led to transforming individual risk into a systemic risk. The Federal Reserve’s accommo-

dating monetary policy, through low interest rates and credit facilities, allowed the bubble to develop further and, hence its collapse, to be more dramatic.



Justin Lin

Given the high level of globalization of the world economy, the development of the bubble was quickly accompanied by an increase in international flows of goods, services and capital. The commodity prices increased as well as other LDCs export and remittances flows. When the bubble reversed, the same transmission mechanisms started operating as quickly as before but in the other direction. The LDCs which suffered the most from this movement were the most open but the less diversified ones.

It follows that a number of actions should be taken to assist

in dealing with potential future crises. One action concerns the set up of a “warning mechanism” aimed at identifying and monitoring future bubbles. The other action consists of revisiting or reforming the financial regulation to make it less prone to accommodating and spreading individual risk into systemic risk. The third action concerns monetary policy and its role in limiting the impact and the development of such crises. Finally, LDCs should target a higher diversification of their production and exports, which would make them less vulnerable to the decline in demand for specific products.

### *Economic Shocks and Natural Resources*

In his presentation, Venables focused on “Economic Shocks & Natural Resources”. He highlighted that the negative effect of resources on growth is entirely due to the volatility mechanism, adding that while financial development reduces volatility and the effect of volatility on growth, capital account liberalization makes the effect of volatility on growth worse.



*Tony Venables*

He emphasized that in dealing with such shocks, there is need for long run mitigation as well as short run responses. He added that countries

are better off handling shocks through stabilizing prices over both the short- as well as long- run. However, he argued that stabilizing prices over the long-run requires that prices are anchored to long-run fundamentals, which has largely changed following the latest commodity shock in 2008 given the increased uncertainty surrounding underlying supply and demand forces. Moreover, conflicts of interest over division of rents could lead to unsuccessful price stabilization. Venables also suggested that the introduction of contracts with oil companies through the design of royalties could help countries risk share with oil companies, an important factor in mitigating shocks.

In his discussion, Venables underscored the importance of savings and investment strategies but distinguished between the long-run and medium-run in this context. Over the medium-run, he provided more than one idea, including (i) setting up a liquidity fund which could temporarily help in the absorption problem as the economy adjusts to the windfall; (ii) applying a smoothing rule which indicates that countries invest while the price of the resource is greater than some reference level; and (iii) countries need to decide on how much of a boom should be saved which could be helped by knowledge of the stochastic process driving commodity prices. With regards to the long-run strategies, countries also need to decide on how to save, and here

Venables shed light on the importance of ‘inter-generational’ foreign funds which could insulate the economy from the Dutch disease effects. He also introduced the concept of “residual volatility” which cannot be fully insulated, such as significant drops in foreign exchange reserves. Nonetheless, such volatility may be partially offset through market flexibility, including labor and capital markets, as well as diversifying the economy.

In the last section of his presentation, he introduced the Natural Resource Charter, which includes a set of standards and guidelines for best practice resource management. This charter aims to assist governments and societies of resource rich developing economies to harness their endowments for maximum social benefit. Venables presented the twelve principles around which the Charter is organized. He concluded by stressing that the technical group needs experts from the region and that to be effective, the time must be right to roll out and start implementation.

### *Frequency, Intensity and Determinants of Shocks and Crises*

In his presentation, Mongi Boughazala, shed light on the extent to which our current thinking about crises helps in predicting them, as well as the causes at the root of shocks and crises, with a particular focus on the most recent financial crisis.

In connection to shocks, vulnerability, economic policy and growth, Boughazala argued that too little or too much growth may lead to more vulnerability. The intensity of shocks depends on the vulnerability (or the resilience) of the country with poor countries generally being more vulnerable. Slow growth and poverty are usually linked to the lack of resources and often exert high pressure on natural resources, increasing the risks of natural disasters, which could eventually generate social tension and violence. In addition, poor countries are less able to cope with external shocks and crises since they are heavily dependent on exports, remittances, foreign investments and aid; which may rapidly decline in times of crisis, making them even more vulnerable. Likewise, fast growth may put enormous pressure on natural resources and lead to important environmental damage and consequently to natural and economic shocks. He added that climate change and depletion of raw materials, especially oil, are major threats. And that the absence of efficient and credible institutions exacerbates the intensity of shocks. Good governance and the rule of law are necessary for building resilience and reducing the risks of shocks. However, he emphasized that our current knowledge of the links between institutions and governance and the frequency and intensity of shocks and crisis remains empirical and descriptive, which is insufficient for predicting them.

In focusing on the most recent global financial crisis, he explained that it has revealed that economists did not know how the financial market operates. He confers that macroeconomics often gives an extremely simplified vision of the functioning of any economy. In particular, the link between the real economy and the financial market remains very weak and only a rudimentary description of the financial sector is given even in relatively sophisticated macro-models. Some concepts and pieces of theory are available but seldom used in policy design. For instance, incentive and information theory, all the market imperfections and coordination failures ideas, and institutional economics offer useful tools. While these tools are quite relevant for analyzing and improving the regulation of the financial sector and dealing with its various information and market imperfections, they are not yet well built in to macro models. Even in monetary theory models, the financial sector is usually introduced in an elementary manner.



*Mongi Boughazala*

He concluded by showing the missing links in macroeconomics, particularly the analytical tools required to predict major shocks. He suggested that economists can at least aim at building a model integrating things that are now known

such as market and information imperfections, institutions and incentives, greed, natural and environmental resources, likely natural hazards, and the financial sector. He also explained that there is particular need for a good regulation theory. Currently, while there is agreement that regulation and regulators are necessary, there is no set of good rules for this. Hence, governance and institution quality become crucial. Finally, he stressed that this is especially true for the MENA region which scores very poorly in this regard.



**Fatih Özatay** is an ERF Fellow and Professor at TOBB University of Economics and Technology and TEPAV, Turkey

## Plenary Session 2: Vulnerability to External Shocks

**E**conomic costs of financial crises are enormous. A recent study measured average GDP decline (from peak to recession) of 14 well known countries as 9.8 percent and the average rise in the unemployment rate as 7 percent. The average duration of this poor performance of economies is also striking: 1.9 years for GDP and 4.8 years for unemployment.<sup>1</sup>

One of the triggering factors of financial crises is external shocks. Obviously, external shocks affect various countries differently. Output and job losses in the recent global financial crises have widely differed among countries. According to the latest IMF World Economic Outlook, while the average 2009 GDP growth rate for the developing Asian countries forecasted to fall short of its 2003-2007 average by 3 percentage points, this discrepancy will be 11 percent for the Central and Eastern European countries and 14.6 percent for the Commonwealth and Independent States countries. While more than

one factor is at play behind this heterogeneity, no doubt, one of the most important factors is the country-specific vulnerabilities to external shocks.

A report published in mid 2009 by the IMF shows that the value of the countercyclical fiscal and financial measures that have already been taken or promised to be taken by developed countries far exceeded that of the developing countries in the G-20 group (IMF 2009). A similar policy response difference has been observed within the developed countries, even controlled for different levels of output and job losses. A closer look at the data reveals, at least for the developing countries in G20, that the higher the public debt, budget deficits and current account deficits relative to GDP, the lower the magnitude of fiscal stimulus given. That is to say levels of vulnerabilities perceived by economic policy makers in these countries played an important role in their policy responses.

The necessary questions that arise are the following: What factors render economies vulnerable to external shocks? Can we measure vulnerabilities and how? What are the economic policies that can be implemented to reduce such vulnerabilities?

The second plenary session of the ERF 16th Annual Conference was devoted to this important topic. Three prominent speakers were invited to deliver their views on these issues from different perspectives: Francois Bourguignon from the Paris School of Economics, Hasan Ersel from Sabanci University, and Martin Ravallion from the World Bank.

### *Differences in Impact Across Countries*

In the first part of his presentation, Francois Bourguignon questioned the underlying reasons behind the observed significant differences of the impact of crises on the countries. While different levels of integration to the global economy, weak domestic

policies, over or under reaction to initial impulse were among the mentioned possible reasons, the need for rigorous analysis was emphasized. The second part of the presentation focused on the impact of terms of trade shocks. The conclusion was that while terms of trade volatility explain little of total GDP volatility, it has an impact on growth. As expected, this effect is further pronounced for more open economies. Finally, Francois Bourguignon stressed the wealth of evidence on the huge impact of crises on poverty. He proposed trade diversification and development of internal markets to reduce vulnerability to crises and emphasized the need for new instruments for insurance against capital reversals.

### *Vulnerabilities to Shocks and Impact across Sectors*

The main focus of the Hasan Ersel's presentation was on vulnerabilities to external financial shocks. He highlighted that in order for a system to be vulnerable to a shock, that shock should temporarily or permanently damage some of the functions of that system. An external financial shock not only affects the financial sector of a country but also can easily spread to the real sector. Moreover, the financial sector can amplify the magnitude of cycles. Hasan Ersel emphasized three channels through which a financial sector affects an economy. The first one is the finance channel: the net foreign borrowing of domestic banking and corporate sectors declines. Second, foreign demand for domestically produced goods is reduced –the



*Francois Bourguignon*



*Hasan Ersel*



*Martin Ravallion*

trade channel. Third, expectations become negative and consequently banks curb credits, consumers reduce their demands and producers revise their production plans downward. He then analyzed the Turkish experience with crises, especially the 2001 and 2008-09 crises. He concluded by stressing the fact that in contrast to trade policies, macroeconomic, exchange rate and financial policies are not subject to multilateral disciplines. This necessitates fast progress towards multilateral cooperation in reforming the global economy.

### *Safety Nets*

Martin Ravallion's emphasis was on safety nets. He put forward three claims: First, he argued that large and covariate shocks can lead to the breakdown of traditional crises-coping mechanisms and have permanent negative effects. Looking from a positive perspective, second, he suggested that a crisis is an opportunity to put in place major pro-poor reforms. Third, he claimed that economists have developed enough expertise to cope with increasing poverty. He warned that an incomplete market economy could generate a considerable

amount of risk and inequality. Moreover, there is a wealth of literature spotting inequalities, and tilting the balance of power against the poor, that can impede reform attempts. This fact shows that there are important policy implications. In this regard, he pointed out the need for various workfare and conditional cash transfer programs. However, most of the safety nets in practice are neither counter-cyclical nor pro-poor; consequently, he called for permanent automatic safety net mechanisms.

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#### Notes

<sup>1</sup> Reinhart, C. R. and K. S. Rogoff, 2008, 'The aftermath of financial crisis', [http://www.economics.harvard.edu/files/faculty/51\\_Aftermath.pdf](http://www.economics.harvard.edu/files/faculty/51_Aftermath.pdf).



**Ahmed Ghoneim** is an ERF Fellow and Professor of Economics at Cairo University

## Plenary Session 3: Therapy

The third plenary session of the ERF 16th Annual Conference addressed the issue of therapy to the financial crisis. Three eminent speakers explained the causes of the crisis, its different dimensions and the therapy applied to cure it from different perspectives. Massood Ahmed, Director of the Middle East and Central Asia Department, of the International Monetary Fund, focused mainly on the global treatment of the crisis. Mahmoud El Gamal, focused on the regional perspective while linking his presentation to former crises and the role of oil prices in the different crises. Gerardo della Paolera, the Head of the Global Development Network focused on seeking the main lessons from the past crisis to be able to deal in better terms with the future ones.

### *A Global Perspective*

Ahmed's presentation focused on the therapy to the current crisis from a global perspective. His main message was that if the therapy to the current crisis is evaluated in terms of how it prevented a meltdown of the global

financial system or dealing with a recession, such as what happened in the 1920s and the 1930s, then definitely the therapy adopted was successful. However, if the therapy is evaluated in terms of its ability to prevent a similar crisis happening again or preventing the severity of a potential future crisis we are still far from being successful as there is still a lot to be done.

The reaction to the crisis has two main phases, namely the stabilization and the looking forward phases. Regarding the stabilization phase there are four main areas where the world has been relatively successful in terms of dealing with the crisis. The first area is related to the adoption of massive global fiscal and monetary stimulus to expand demand. This has taken place in the majority of countries, however with different abilities and costs associated with the stimulus package. The second area is the quick, early and massive actions that were undertaken to stabilize the financial sector in terms of volumes and instruments of liquidity provided. The challenge is that despite

such massive liquidity provided to banks, still they are not providing loans to clients as expected. The third area, although not as highly successful as the first two areas, is the greater recognition of the need to support and protect the vulnerable groups in the programs designed to overcome the crisis. Finally, the fourth area is the unprecedented global coordination among governments, international and domestic organizations and central banks in dealing with the crisis. This has been highly significant in terms of the timing and the amount of fiscal and monetary stimulus provided to overcome the crisis.

The looking forward phase also has a number of areas. The first area is the exit strategies from all the existing interventions that have taken place to accommodate the crisis. Such exit strategies suffer from a certain degree of tension where they need to be properly designed with a level of coordination among countries. The second area is the redesign of the financial sector. The task of exit strategies has seen some sort of initial design with promised

coordination among countries as has been revealed by the latest G20 meetings. In the case of redesign of the financial sector and despite the fact that the ills have been properly diagnosed, the implementation of such redesign is likely to be difficult, especially if it involves institutional and regulatory change. The third area is the need to have some sort of rebalancing global development where deficit countries need to contain consumption and make exports and investment drive the growth process, whereas surplus countries need to act in an opposite manner. However, bringing this structural change in demand and growth is difficult to implement. The fourth and final area of the looking forward phase involves the redesign of global governance where the coordination between the G20 and the rest of the non-G20 countries should take place and mechanisms to ensure that the non G20 countries' voice is heard need to be created. Also, the restructuring of IMF is difficult to implement when some member countries view that their "voting weight" is decreasing and may resist.

### *A Historical Perspective*

Paolera provided an economic historian point of view for the diagnosis of the crisis. He pointed out that this crisis is significantly different from the previous ones, and raised the question of whether we have a global therapy for it. He started by characterizing the current crisis and its global connections, and moved to the role of Central Banks in dealing with it. Finally, he differentiated between the global monetary co-

operation and the global financial cooperation. Also during his presentation he raised several interesting points as to the future of the US dollar as a key reserve currency, which will affect the global financial system.

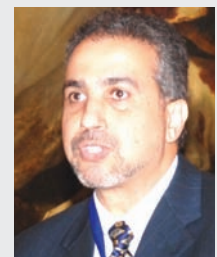
Paolera emphasized that the crisis differs from the past ones as the meltdown started from the developed world, and not from emerging countries as was the case with the crisis in the 1980s, and the 1990s. The global excess demand for safe assets, namely the US dollar, is at the genesis of the financial innovation, which was mainly driven by the relative limited available US dollars that resulted in the creation of many derivatives. Moreover, the Central Banks have a problem where the number of instruments available for dealing with their goals (price level stability and financial sector stability) is limited due to the fact that money and credit are blurred. All such aspects are adding to the complexity of analyzing the current crisis and coordinating the way out of it. He pointed out the former global financial systems such as the Bretton Woods system and Gold standard created some sort of formal global monetary cooperation. The current crisis does not have a similar device which could have helped the world to get out of the crisis. He proposed that there is a



Massood Ahmed



Gerardo della Paolera



Mahmoud El-Gamal

need for a formal system that can help to manage the global monetary scene. He emphasized that there is an urgent need for global monetary coordination, which is achievable, although he was doubtful about global financial coordination.

### *The MENA Region*

Mahmoud El Gamal focused on the therapy that can be adopted in the MENA region. He linked the current and past crisis to oil prices. The hiking oil prices have always been correlated with credit, banking, and debt crisis.

In his presentation El Gamal pointed out some of the pitfalls of the growth strategies adopted in the MENA countries which make them highly vulnerable to global cycles. He pointed out that the absence of regional industrial policy, weak intra-regional trade, and wrong patterns of investments for oil proceeds are the major culprits for the relative backwardness of the MENA region in terms of dealing with crisis.

From El Gamal's point of view there is a need to have regional industrial policy to overcome the small size of the national markets, and make use of the unbalanced distribution of savings and investments in the region. As he pointed out it is not only trade that

helped different countries get out of their past crises, but it is the industrialization which comes with trade that is what helps in getting out of a crisis. Moreover, industrial policy works as the growth success stories in different countries, as empirical evidence has pointed out, have always had an industrial policy.

El Gamal focused on how to have a regional industrial policy taking into consideration the new changes in the global economy. For example, the growth slowdown in the OECD countries will not allow the MENA countries to export their way out of the crisis by increasing their exports to those countries (which has been the method adopted by Mexico and emerging countries in Asia to get out of their national crises). He pointed out that the MENA region is weak in terms of intra-regional trade, which needs to be enhanced to help the region get out of the crisis, especially that the markets of OECD countries are not likely to absorb exports of emerging countries as has been the case in the past.

There is also a need to fix the pattern of investment adopted by the wealth sovereignty funds in Gulf countries, which have been pro-cyclical types of investments and not counter-cyclical as should be. El Gamal pointed out that most of the Gulf countries wealth sovereignty funds invested the savings from petrodollars in a pro-cyclical manner with a large concentration in oil-related investments, which had a negative impact on exacerbating the impact of the crisis.

### *Conclusions and Key Lessons Learned*

The three speakers pointed out that coordination on the global level is indeed needed to get out of the crisis, and despite the fact that coordination has taken place to some extent, there is still a lot that needs to be coordinated to ensure full recovery out of this crisis and lessen the negative impacts of future crises.

A sustainable therapy for getting out of the crisis is still not there. Despite the fact that the therapy adopted (in terms of the national, regional, and international policies applied) has been successful in stabilizing the world economy, still its effect on ensuring curing the world economy from any future crisis cannot be guaranteed.

The sustainable solutions for lessening the impact of any future crisis on the world economy have been identified from an intellectual point of view. The implementation of such solutions represents a major challenge in the coming period.

MENA region needs to design new devices to ensure that their ability to deal with future crises is well designed. Such devices should not only focus on the financial side, but should be extended to the real side of the economy. Moreover, the devices for coordination should tackle not only the financial and monetary policy, but should be extended to industrial and trade policies.

# Parallel Sessions

Over the 3-day conference 6 themed parallel sessions were held to provide an opportunity for scholars to interact with international experts and discuss new thinking in economics. In total 50 papers were presented in the parallel sessions which covered a wide range of economic issues. They were presented according to the following themes: macroeconomics, finance, institutional economics, microeconomics, international economics and labor and human development.

## *Macroeconomics*

The macroeconomics sessions focused on monetary unions, business cycles, monetary policy, liquidity, fiscal policy, choices and implications for investors, transmission mechanisms of external shocks and exchange rate, volatility and economic performance. The presented papers are listed below:

Is the Announced Monetary Union in GCC Countries Feasible? A Multivariate Structural VAR Approach

*Magda Kandil and Mohamed Trabelsi*

Business Cycle Synchronization: A Mediterranean Comparison

*Imed Medhioub*

Has Egypt's Monetary Policy Changed After the Float?

*Hoda Selim*

The Liquidity Effect in Algeria and Morocco: A Multivariate Threshold Autoregressive Investigation

*Mohamed Benbouziane, Abdelhak Benamar and Mustapha Djennas*

Determinants of Time Varying Sensitivity of MENA Countries to Global Shocks: A State Space Approach

*Bedri Kamil Onur Tas*



*A thematic parallel session at the ERF 16<sup>th</sup> Annual Conference*

The Macroeconomic Effects of Fiscal Policy Shocks in Algeria: An Empirical Study (in Arabic)

*Abderrahim Chibi, Mohamed Benbouziane, and Sidi Mohamed Shkoury*

Hedging Transaction Exposure Within The Context of a Basket Foreign Exchange Rate Arrangement

*Fathi Abid and Moncef Habibi*

On the Importance of External Financial Reform for Output Fluctuations? Evidence from Developed and Emerging Economies

*Afrah Larnaout Gouider and Mohamed Trabelsi*

Why is Fiscal Policy Procyclical in MENA Countries?

*Sarra Ben Slimane and Moez Ben Tahar*

L'impact des Congés Fiscaux sur le Coût D'usage Du Capital Dans les Pays Arabes: Cas Du Maroc

*Brahim El Morchid*

### Finance

The finance sessions addressed external shocks, foreign banks and stock markets, coping with crises, credit allocation and non-performing loans, and market power in the banking sector. The presented papers are listed below:

Have Foreign Banks Contributed to the Spread of the Global Financial Crisis to Saudi Arabia?

*Mahmoud Haddad and Sam Hakim*

On the Influence of Oil Prices on Stock Markets: Evidence from Panel Analysis in Gulf Corporation Countries

*Mohamed El Hedi Arouri and Christophe Rault*

Financial Crises' Prevention and Recovery

*Wajih Khallouli and Mahmoud Sami Nabi*

The Use of Accounting Data to Predict Bank Financial Distress in MENA Countries

*Isabelle Distinguin, Iftekhar Hasan and Amine Tarazi*

On the Implications of Market Power in Banking: Evidence from Developing Countries

*Rima Turk Ariss*

Do Islamic Banks Have Greater Market Power?

*Laurent Weill*

Non-Price Competition in Credit Card Markets Through Bank Level Benefits

*Gulsun Akin, Ahmet Faruk Aysan, Gazi Ishak Kara and Levent Yildiran*

Bank Specific, Business and Institutional Environment Determinants of Nonperforming Loans: Evidence from MENA Countries

*Abdelkader Boudriga, Neila Boulila Taktak and Sana Jellouli*

### Institutional Economics

The institutional economics sessions addressed topics such as institutions and the provision of public goods, effectiveness of formal and informal institutions, and the interaction between politics

and economic outcomes. The presented papers are listed below:

Impact of Healthcare Reforms on Out-of-Pocket Health Expenditures in Turkey for Public Insurees

*Burçay Erus and Nazlı Aktakke*

Adoption of Modern Irrigation Technologies in the Presence of Water Theft and Corruption

*Wided Mattoussi*

MENA Countries' Attractiveness to G-7 Investors

*Fathi Abid and Slah Bahloul*

How Social Distance Affects Trust and Cooperation: Experimental Evidence from a Slum

*Christine Binzel and Dietmar Fehr*

The Determinants and Policy Implications of Off-Balance Sheet Activities in the MENA Countries

*Ahmad Khasawneh and Kabir Hassan*

Inter-Party Vote Movements in Turkey: the Role of Economic Evaluations

*Ali Akarca and Cem Baslevent*

### Microeconomics

The microeconomics sessions focused on topics such as productivity in manufacturing and pharmaceuticals, firm's behavior and externalities, health insurance, agricultural policy and poverty, restructuring, cherry picking and firm performance, and liberalization, regulation and incentives. The presented papers are listed below:



*A thematic parallel session at the ERF 16<sup>th</sup> Annual Conference*

Restructuring and Efficiency in the Manufacturing Sector: A Firm Level Approach Applied to Morocco

*Lahcen Achy, Samy Ben Naceur, Adel Ben Youssef, and Samir Ghazouani*

Trends of Total Factor Productivity in Egypt's Pharmaceutical Industry: Evidence from the Nonparametric Malmquist Index Approach

*Azza El-Shinnawy*

Trade Openness and CO<sub>2</sub> Emissions in Tunisia

*Houssein-Eddine Chebbi, Marcelo Olarreaga, and Habib Zitouna*

Intra-firm Diffusion of Innovation: Evidence from Tunisian SME's in Matter of Information and Communication Technologies

*Adel Ben Youssef, Walid Hadhri, and Hatem M'henni*

On the Design of Total Water Use-based Incentive Schemes for Sustainable Groundwater Management

*Mohamed Salah Matoussi and Wided Mattoussi*

Is Regulation Better than Liberalization? Challenge Revisited

*Mahdi Majbouri*

Cherry Picking or Driving Out Bad Management: Foreign Acquisitions in Turkish Banking

*Canan Yildirim*

Retrospective Analysis of the Evolution of Tunisia's Total Factor Productivity Growth Potential Over the Period 1983-2001

*Sofiane Ghali and Pierre Mohnen*



*From left to right: Faika El-Refaie and Sam Hakim*



*A thematic parallel session at the ERF 16<sup>th</sup> Annual Conference*

Employer's Paid Mandatory Health Insurance and Household's Inequality in the UAE

*Rosalia Vazquez-Alvarez*

Poverty Effects from Reforming the Common Agriculture Policy in a Spatially Heterogeneous Agricultural Economy

*Mohamed Chemingui*

### *International Economics*

The international economics sessions addressed issues such as evaluation and trade liberalization, determinants of foreign exchange, trade, distribution and poverty, and trade openness and the demand for skills and technology. The presented papers are listed below:

Agricultural Trade Liberalization, Productivity Gain and Poverty Alleviation: A General Equilibrium Analysis

*Nadia Belhaj Hassine, Veronique Robichaud, and Bernard Décaluwé*

A Quiz on the Net Benefits of Trade Creation and Trade Diversion in the QIZs of Jordan and Egypt

*Jeffrey Nugent and Abla Abdel Latif*

Current Account Determinants for Oil-Exporting Countries

*Hanan Morsy*

Exchange Rate Undervaluation and Export Diversification: A Deliberate Strategy

*Ridha Nouira, Patrick Plane and Khalid Sekkat*

Towards An Explicit Modeling of Trade Facilitation in CGE Models: Evidence from Egypt  
*Chahir Zaki*

Trade Openness, Relative Demand of Skilled Workers and Skill Biased Technological Change in Tunisia, 1998-2002  
*Monia Ghazali*

Rethinking the Redistribution Effects of Trade Liberalization in Egypt: A Microsimulation Analysis  
*Rana Hendy and Chahir Zaki*

The Impact of Trade Liberalization on Regional Growth and Poverty in Tunisia  
*Rim Chatti and Faycel Zidi*

### *Labor and Human Development*

The labor and human development sessions focused on returns to education and gender poverty, multidimensional measures of poverty, equality of opportunity, migration, division of labor, polarization and earnings, and multidimensional measures of poverty. The presented papers are listed below:

Social Returns to Higher Education in Turkey: A Quantile Regression Approach  
*Ozan Bakis, Nurhan Davutyan, Haluk Levent, and Sezgin Polat*

Gender Poverty in Tunisia: Is There a Feminization Issue?  
*Sami Bibi and Rim Chatti*

Multidimensional Fuzzy Poverty and Pro-Poor Growth Measures in Non-Monetary Dimensions in Egypt between 1995 and 2005  
*Valérie Berenger*

Approche Multidimensionnelle De La Pauvreté: Présentation Théorique et Application Au Cas De La Ville De Marrakech  
*Touhami Abdelkhalek and Fouzia Ejjanou*



*A thematic parallel session at the ERF 16<sup>th</sup> Annual Conference*

Household Expenditure Polarization: Evidence from the Arab Region  
*Ines Bouassida and Abdel Rahmen El Lahga*

Rethinking the Division of Labor within Egyptian Households: Market Work Versus Domestic Production  
*Rana Hendy*

Inequality of Opportunity in Egypt  
*Nadia Belhaj Hassine*

Impact of International Migration and Remittances on Child Schooling and Child Work: The Case of Egypt  
*Asmaa Elbadawy and Rania Roushdy*

\*All conference papers are available for download from the ERF website: [www.erf.org.eg](http://www.erf.org.eg)

# New ERF Affiliates

## *New Research Fellows*

### **Najat El Mekkaoui, Morocco**

Najat El Mekkaoui de Freitas holds a Ph.D. in Economics and Finance from University Paris-Dauphine. She is currently Professor of Economics at University Paris-Dauphine, Associate Researcher at Oxford University (since September 2009) and Visiting Professor at Warwick University (since January 2010). Her fields of specialization are in the areas of ageing, pension systems governance, and households' saving in developing and developed countries. She coordinates projects about saving and development in Morocco, saving and ageing in OECD countries, and pension systems changes and informations pension systems around a panel of countries. She has worked as a Consultant for the World Bank and for governmental institutions on projects about pensions and social protection systems in MENA countries. She has published her work extensively in internationally refereed journals and books.



### **Nadia Belhaj Hassine, Tunisia**

Nadia Belhaj Hassine holds a Ph.D. in Economics from the University of Social Sciences of Toulouse (France), where she also taught as temporary Assistant Professor in 1997 and 1998. She is currently Senior Economist at the Economic Research Forum. She is on temporary leave from her position as Associate Professor at the Faculty of Economics and Management of Nabeul, Tunisia, where she taught since 2001. Her research interests focus on econometrics, agricultural economics, international trade, development economics, and poverty and inequality. She published many papers in international refereed journals.



## *New Research Associates*

### **Gaber Abugamea, Palestine**

Gaber Abugamea holds a Ph.D. in Economics from Middle East Technical University (METU), Ankara, Turkey. He is currently Assistant Professor at the University of Palestine-Gaza Strip and prior to this held various posts such as: Lecturer at the College of Development Abilities-Khan-younis (CDA), Assistant Professor at Al-Azhar University and Assistant Professor at the Islamic University of Gaza. His research interests are focused on economics, development, statistics, operation research, international trade economies, business studies, microeconomics, public finance, business finance and project analysis and evaluation. He has presented papers at many international conferences and published papers in refereed journals.

### **Mahmoud Sami Nabi, Tunisia**

Mahmoud Sami Nabi obtained his in Ph.D. in Economics University of Paris I- Pantheon Sorbonne in 2004. He is currently Assistant Professor of Economics at IHEC Sousse, Tunisia and a Research Fellow of the LEGI laboratory at TPS, He also occupies the function of Director of Studies and Internships at IHEC Sousse. His main areas of research focus on: the vulnerability of developing countries to banking and currency crises; financial imperfection and the economic development process; and the finance-development theme. He teaches several courses including: International Finance and International Economics, Monetary Economics and Advanced Microeconomics (Asymmetric Information in the Insurance Market); and research seminars on the "Economics of Banking Regulation" and "The Economic Modeling of Financial Crises". He has published three papers in refereed international journals (Economics Bulletin and The Developing Economies) and he has a forthcoming paper in Economic Modelling.



**Mehmet Bilgin, Turkey**

Mehmet Bilgin obtained his Ph.D. in 2000 from Abant Izzet Baysal University. He currently holds the position of Associate Professor of Economics at Kadir Has University and has been the Department Head of International Finance Department since 2009. Prior to this he held a Visiting Professor position at the University of Zagreb, Croatia and was a Visiting Scholar at Indiana University-Purdue University Indianapolis, U.S.A. His research interests include macroeconomics, the Turkish economy, labor economics, employment and unemployment, wages and productivity, new technologies, textile and apparel industry, and corruption. He teaches courses on macroeconomics, microeconomics and managerial economics. He is the founder of Eurasia Business Economics Society (EBES), an academic organization that was founded for the purpose of promoting academic research in the field of business and economics and encouraging the intellectual development of scholars. He is currently the Associate Editor of Eurasian Economic Review and has authored several books and published many articles in internationally refereed journals.



technological spillover and competitiveness of companies. Her research interests also include determinants of localization choice of foreign firms in developing countries, regional growth, and spatial disparities in multidimensional perspectives. She has presented many papers at international conferences and published several papers in internationally refereed journals.

**AbdelRahmen El Lahga, Tunisia**

AbdelRahmen El Lahga holds a Ph.D. in Economics from the Université Louis Pasteur, Strasbourg, France. He also holds a MSc. in Mathematical Economics and Econometrics from University of Tunis, Tunisia. He is currently Assistant Professor at Tunis Business School, Tunisia.



Prior to this he was Teaching Assistant of Statistics at the University of Sousse, Tunisia. His fields of specialization are in areas of development economics, labor economics and household economics. And is currently working on the determinants and levels of income inequality in the Arab region. He has publications in the Journal of Population Economics, Revue d'économie de Développement, and L'actualité économique.

**Zohour Karray, Tunisia**

Zohour Karray received her Ph.D. in Industrial Economics from the University of Toulouse I, France in 2001. Since then she has held various posts such as Assistant Professor, University of Nabeul; Teaching Assistant, University of Toulouse I; and Trainer, CNAM Auch, France. She is currently Associate Professor, Department of Economics at the University of Economics and Management of Nabeul, Tunisia, Associate Researcher at LEREPS, University of Toulouse I, and Researcher at the Unit of Applied Quantitative Analysis (UAQUAP), High Institute of Management (ISG), Tunis. She has taught graduate and undergraduate courses in microeconomics, public economic, market theory, statistics, econometrics and forecasting methods. Her fields of specialization are in the areas of innovation effort of firms with a particular emphasis on linkages between R&D expenditures, firm's capabilities,

*From Research Associate to Research Fellow*

**Ahmed Ghoneim** (Egypt), Professor of Economics, Cairo University

**Mehmet Tosun** (Turkey), Assistant Professor in Economics, University of Nevada

**Mohamed Chemingui** (Tunisia), Economic Affairs Officer, United Nations Economic Commission for Africa

**Bassam AbuAl-Foul** (Jordan), Associate Professor of Economics, American University of Sharjah

## Celebrating Excellence

# Best Paper Award

At the closing ceremony of the Annual Conference ERF presents the Best Paper Awards to scholars to encourage and celebrate those who made exceptional efforts in their research. The awards are given out to authors of the best papers presented at the conference in each theme. The papers are adjudicated by a committee of judges, comprising some of the most prominent scholars of the network and committee decisions are based on the following criteria: the value-added of the paper, that is, whether the paper offers something new in terms of subject and if it goes beyond what we already know on the subject; sound methodology, and how well the research is executed; and finally policy relevance. In recognition of their excellent research, the list of winners from the 16<sup>th</sup> Annual Conference is given below along with the abstracts of the winning papers.

### *Microeconomic and sectoral studies (shared)*

*“Intra-Firm Diffusion of Innovation: Evidence from Tunisian SME's in Matter of Information and Communication Technologies.”*

*Adel Ben Youssef, Walid Hadhri and Hatem M'henni*

The aim of this paper is twofold: First, we want to explore the intra-firm diffusion of information and communication technologies (ICT) within the Tunisian firms and to characterize its general trends and matter of adoption and usage. Second, we want to emphasize the rank and epidemic effects stressed by the disequilibrium models of intra-firm diffusion of innovation following the traditional view of Mansfeld (1963) and Antonelli (1985). Based on a face-to-face questionnaire of a random sample of 175 firms our paper shows that: (i) Three technological waves of ICT adoption are well characterized in the Tunisian manufacturing sector. This dynamic of adoption is linked to the age of the technologies. Time is the main explanatory variable for intra-firm diffusion of these



*From left to right: Azzeddine Azzam, Adel Ben Youssef, and Ahmed Galal*

technologies. (ii) A positive correlation between the size of the firm, seniority and the depth of adoption is found. These econometric estimates show that the rank effect is well characterized within the Tunisian firms. (iii) A positive correlation between technological absorptive capacity building and intensity of ICT usage is found. This correlation conforms to the epidemic effect. Our results show that disequilibrium model explanations of intra-firm diffusion of innovation are valid within the Tunisian manufacturing sector and seem more appropriate than the equilibrium theory for LDCs.

*“On the Design of Total Water Use-based Incentive Schemes for Sustainable Groundwater Management.”*

*Mohamed Salah Matoussi and Wided Mattoussi*

This paper sheds light on the design of various incentive schemes to face the unsustainable groundwater over-pumping by farmers. The response of the Water Authority, to tackle this over-exploitation will differ according to whether it uses an incentive scheme based on the individual farmer's water use,



From left to right: Azzeddine Azzam, Wided Mattoussi, and Ahmed Galal

which is his/her private information, or it resorts to total water use-based incentive schemes, where the total water use is publicly observable. Two schemes will be proposed. The first one corresponds to the framework of moral hazard in teams problems where the Water Authority administers incentive schemes that do not balance the budget, thereby restoring water use efficiency. In the second scheme, the WA promotes cooperative behavior. We show how cooperative management institutions can reduce water overuse, improving incentives for efficient water use, by inducing peer monitoring by cooperative members. We show that water overuse is more likely when punishments are weak and cooperatives are large. We extend the basic analysis to allow for collusion in monitoring between cooperative members and compare different monitoring structures.

### Finance

“On the Implications of Market Power in Banking: Evidence from Developing Countries”  
Rima Turk Ariss

This paper investigates how different degrees of market power across developing economies affect cost and profit efficiency levels and overall bank stability. It sheds light on the competition-stability nexus by documenting and analyzing the complex interactions between a tripod of variables that are central for regulators: the degree of market power, bank cost and profit efficiency, and overall bank stability. The results show that an increase in the degree of market power leads to greater bank stability and enhanced



From left to right: HasanErsel, Rima Turk Ariss, and Ahmed Galal

profit efficiency, despite significant cost efficiency losses. The findings lend empirical justification to the traditional view that increased competition may undermine bank stability, and may bear significant implications for stressed banking systems in developing economies.

### International Economics

“Towards an Explicit Modeling of Trade Facilitation in CGE Models: Evidence from Egypt”  
Chahir Zaki

This paper develops a dynamic computable general equilibrium (CGE) model incorporating trade facilitation aspects in Egypt. This paper’s contributions are both theoretical and empirical. First, this paper



From left to right: Bernard Hoekman, Chahir Zaki, and Ahmed Galal

attempts to model trade facilitation explicitly in a dynamic CGE model applied on the Egyptian economy. On the empirical side, I use the ad valorem tariff equivalents of time to import and to export that have been estimated in a companion paper and I take into account the cost of such a process. To do so, I modify the Exter model that is calibrated on the Egyptian social accounting matrix of 2000/2001. My main findings show that, when trade facilitation is modeled precisely, that is, by taking into account its cost as well as the tariff equivalents of its aspects, the impact of such a process is reduced. Meanwhile, its impact remains higher than trade liberalization. Moreover, some sectors witness a significant expansion more than others, especially for processed food, garments and high value added products.

### *Labor and Human Development*

“Impact of International Migration and Remittances on Child Schooling and Child Work: The Case of Egypt”

*Asmaa Elbadawy and Rania Roushdy*

In this paper, we examine the impact of international migration and remittances on children’s schooling and work in Egypt. Migration and remittances are an essential element of the Egyptian economy. Temporary international migration, especially to oil-rich Arab countries, has been used by many Egyptians as a survival and income-augmentation strategy. The number of Egyptian international migrants is estimated at 4% of the Egyptian population and 1.5% of world migrants (Nassar 2005). We examine the effects of migration, remittance-receipt, and remittances level on a multitude of education and child work indicators for boys and girls. We mainly focus on school-aged children 6-17.



*From left to right: Jackline Wahba, Asmaa Elbadawy and Ahmed Galal*

# Notable Publications by ERF Fellows in 2009

ERF fellows are actively publishing their work in books and refereed journals. Below is a list of published work by ERF affiliates in the second half of 2009, since the last edition of *Forum*.

## Books

Abbasi-Shavazi, Mohammad Jalal, Peter McDonald and Meimanat Hosseini-Chavoshi. 2009. *The Fertility Transition in Iran: Revolution and Reproduction*. Springer.

Ali, Abdel Gadir Ali and Ahmed Alkawaz (eds.). 2009. *The Effects of the International Financial Crisis on the Arab Countries* (Arabic). Kuwait: Arab Planning Institute.

Altug, Sumru. 2009. *Business Cycles: Fact, Fantasy and Fallacy*. New York and Singapore: World Scientific

El-Gamal, Mahmoud and Amy Myers Jaffe. 2010. *Oil, Dollars, Debt, and Crises: The Global Curse of Black Gold*. Cambridge University Press.

Gerald Epstein and Yeldan, Erinc (eds.) 2009. *Beyond Inflation Targeting: Assessing the Impacts and Policy Alternatives*. Massachusetts: Edward Elgar Publishing.

Moosa, I.A. and T. Gazos. 2010. *The Monetary View of Exchange Rate Determination under Hyperinflation, Hyderabad*: ICAFI University Press.

Moosa, I.A. and R.H. Bhatti. 2009. *The Theory and Empirics of Exchange Rates*. Singapore: World Scientific.

Onis, Ziya and F. Senses (eds.), 2009. *Turkey and the Global Economy: Neo-Liberal Restructuring and Integration in the Post-Crisis Era*. London: Routledge.

Sekkat, Khalid. 2010. *Market Dynamics and Productivity in Developing Countries. Economic Reforms in the Middle East and North Africa*. Springer and IDRC.

Sekkat, Khalid. 2009. *Industrial Policy in Europe, Japan and the USA: Amounts, Mechanisms and Effectiveness* (With P. Buigues). Palgrave-McMillan.

Yousef, Tarik and Navtj Dhillon. 2009. *Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East*. Brookings Institution Press.

## Chapters in Books

Achy, Lahcen and Khalid Sekkat. 2010. "Industrial Dynamics and Productivity in Morocco: A Quantitative Assessment". In *Market Dynamics and Productivity in Developing Countries. Economic Reforms in the Middle East and North Africa*, K. Sekkat (ed.). Springer and IDRC.

Al-Abduljader, S. and I.A. Moosa. 2009. "Exchange-Traded Funds in the Middle East: Opportunities and Challenges in the GCC Countries". In *Exchange-Traded Funds: Conceptual and Practical Investment Approaches*, A. Seddik Meziani (ed.). London: Risk Books.

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- Barakat, Nesreen and Ibrahim Saif. 2010. "Exit-Entry Dynamics: Case of the Manufacturing in Jordan." In *Market Dynamics and Productivity in Developing Countries. Economic Reforms in the Middle East and North Africa*, K. Sekkat (ed.). Springer and IDRC.
- Ben Jelili, Riadh and Mohamed Goaid. 2010. "Entry, Exit and Productivity in Tunisian Manufacturing Industries. In *Market Dynamics and Productivity in Developing Countries. Economic Reforms in the Middle East and North Africa*, K. Sekkat (ed.). Springer and IDRC.
- Chabe-Ferret S., J. Gourdon, M.A. Marouani and T. Voituriez. 2009. "Trade-Induced Changes in Economic Inequalities: Assessment Issues and Policy Implications for Developing Countries". In *Trade, Globalization and Sustainability Impact Assessment: A Critical Look at Methods and Outcomes*. Ekins Paul and Voituriez Tancrede (eds.). Londres : Earthscan Publications.
- Chaffai, Mohamed. 2009. "The Effect of the Environment on Profit Efficiency of Bank Branches". (with Michel Dietsch) In *Productivity in the Financial Sectors*, M. Balling, E. Gnan, F. Lierman and J. Schoder (eds.). Vienna: Larcier.
- El-Hamidi, Fatma. 2010. "Education-Occupation Mismatch and the Effect on Wages of Egyptian Workers". In *Handbook on International Studies in Education*, D. Sharpes (ed.). Information Age Publishing.
- Ghoneim, Ahmed F. 2009. "From EU Association Agreements to EU Neighbourhood Policy and Union for the Mediterranean: Does Egypt Need This Change in EU Regional Trade Policy?". In *The European Neighbourhood Policy and the Southern Mediterranean*, M. Comelli, A. Erlap and C. Ustin (eds.). Ankara: Middle East Technical University Press.
- Kabbani, Nader and Noura Kamel. 2009. "Tapping into the Economic Potential of Young Syrians During a Time of Transition". In *Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East*, T. Yousef and N. Dhillon (eds.). Brookings Institution Press.
- Kanaan, Taher and May Hanania. 2009. "The Disconnect Between Education, Job Growth and Employment in Jordan." In *Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East*, T. Yousef and N. Dhillon (eds.). Brookings Institution Press.
- Kandil, Magda. "On Inflation Targeting in MENA Countries". In *Central Banking and Globalization* (forthcoming), M. Cappello and C. Rizzo (eds.). Nova Science Publisher, Inc.
- Kandil, Magda. 2009. "Macroeconomic Policies and Inflation" (joint with Ida Aghdas Mirzaie). In *Inflation: Causes and Effects*, L. V. Schwartz (ed.). Nova Science Publishers, Inc.
- Pamuku, Teoman, Khalid Sekkat and Erol Taymaz. 2010. "Entry, Exit and Productivity in Turkish Manufacturing Industries." *Market Dynamics and Productivity in Developing Countries. Economic Reforms in the Middle East and North Africa*, K. Sekkat (ed.). Springer and IDRC.
- Salehi-Isfahani, Djavad and Daniel Egel. 2009. "Beyond Statism: Toward a New Social Contract for Iranian Youth". In *Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East*, T. Yousef and N. Dhillon (eds.). Brookings Institution Press.

**Refereed Journals**

Achy, Lahcen. 2009. "Corporate Capital Structure Choices in MENA: Empirical Evidence from Non-listed Firms in Morocco." *Middle East Development Journal* 1(2). Economic Research Forum.

Altug, Sumru, Fanny S. Demers and Michel Demers. 2009. "The Investment Tax Credit and Irreversible Investment." *Journal of Macroeconomics*, 31 (4), pp: 509-522.

Aly, Hassan Y., Fatima S. Alshamsi, and Yehia M. Al-Bassiony. 2009 "Measuring and Explaining the Efficiencies of the UAE Banking Sector." *Applied Economics*, 41 (27), December.

Aly, Hassan Y. and Michael P. Shields. 2010. "Gender and Agricultural Productivity in a Surplus Labor, Traditional Economy: Empirical Evidence from Nepal," *Journal of Developing Areas*, forthcoming, 43, pp: 111-24.

Amor, Thouraya Hadj and Amin U. Sarkar. 2009. "The Effect of Exchange Rate Disequilibrium and Financial Integration on Economic Growth," *International Journal of Economics and Finance*, 1 (2).

Amor, Thouraya Hadj. 2009. "Exchange Rate distortion and Economic Growth in the New Financial Architecture: Empirical Evidence from MENA Countries," *Middle East Business and Economic Review*, 21 (2).

Askari-Nodoushan, A., M.J. Abbasi-Shavazi, and R. Sadeghi. 2009. "Mothers, Daughters and Marriage: Intergenerational Attitudes Towards Marriage in Yazd (Persian), *Women's Strategic Studies*, 44, pp: 7-36.

Baslevant, Cem and Ali Akarca. 2009. "Inter-party vote movements in Turkey" *Journal of Economics, Business, and Finance* (Turkish), 24 (285), pp:32-47

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Cling J.P, M.A Marouani, M. Razafindrakoto, A.S. Robilliard and F. Roubaud. 2009, "The Distributive Impact of Vietnam's Accession to the WTO", *International Economics*, 118, pp: 43-71.

Dayogulu, Meltem, Murat G. Kirdar and Aysit Tansel. 2009. "Impact of Sibship Size, Birth Order and Sex Composition on School Enrolment in Urban Turkey." *Oxford Bulletin of Economics and Statistics*, 71(3): pp. 399-426

Farashahi, M and T. Hafsi. 2009. "Strategy of Firms in An Unstable Institutional Environment." *Asia-Pacific Journal of Management*, 26(4) :643-666.

Ghoneim, Ahmed F. and Nicolas Preidy. 2009. "Regional Integration, Imperfect Competition and Welfare: The Experience of the Greater Arab Free Trade Area", *Economie Appliquee*, LXII (4), pp: 131-156.

Hafsi, T. 2009. "Partenariat Public-Privé Et Management De La Complexité: Les Nouveaux Rôles De L'état." *Revue Française D'administration Publique*, 130 : 337-248.

Hammoudeh, S., Y. Yuan, and M. McAleer. 2009. "Shock and Volatility Spillovers among Equity Sectors of the Gulf Arab Stock Markets." *Quarterly Review of Economics and Finance*. 49 (3), pp: 829-842.

Hosseini, H., and M.J. Abbasi-Shavazi, 2009. "Ideational changes and its impact on ideal and actual fertility among Kurd and Turk Women," *Journal of Women Studies*, [Persian], 7(2), pp: 55-84.

Kandil, Magda. "Are Devaluations Contractionary in MENA Countries?" joint with Mohsen Bahmani, *Applied Economics*, (forthcoming).

Kandil, Magda. "The Effects of Exchange Rate Fluctuations on Exports: A Sectoral Analysis for Turkey," (joint with Nergiz Dincer), *Journal of International Trade and Economic Development*, (forthcoming).

- Kandil, Magda. 2010. "Exchange Rate Fluctuations and Output in Oil-Producing Countries: The Case of Iran" (joint with Mohsen Bahmani), *Emerging Markets Finance and Trade*.
- Kandil, Magda. 2009. "Public Spending and the Macroeconomy: Evidence from Developing and Developed Countries," *International Journal of Business and Economics*, 8 (2), pp: 133-158.
- Kandil, Magda. 2009. "Spill-over Effects of US Business Cycles on Latin America and the Caribbean," *Journal of Economic Issues*, XLIII (4), pp: 971-996.
- Kandil, Magda. 2009. "The Impact of Capital and Remittances Flows on Economic Performance in MENA Countries," (joint with Ida Mirzaie), *World Economics*, 10(3), pp: 159-192.
- Kandil, Magda. 2009. "Determinants of Institutional Quality and Their Impact on Economic Growth in the MENA Region," *International Journal of Development Issues*, 8 (2), pp: 134-167.
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- Kandil, Magda. 2009. "Demand-Side Stabilization Policies: What is the Evidence of Their Potential?," *Journal of Economics and Business*, 61, pp: 261-76.
- Kandil, Magda. 2009. "Trade Liberalization, Agricultural Productivity and Poverty in the Mediterranean Region," (joint with Nadia Belhaj Hassine), *European Review of Agricultural Economics*, 36(1), pp: 1-29.
- Kandil, Magda. 2009. "On Cyclicity in the Current and Financial Accounts: Evidence from Nine Industrial Countries," (joint with Jens R. Clausen), *Eastern Economic Journal*, 35(3), pp: 338-366.
- Kandil, Magda. 2009. "The Impact of Capital Requirements on Banks' Performance: The Case of Egypt," (joint with Samy Ben Naceur), *Journal of Economics and Business*, 61, pp: 70-89.
- Kandil, Magda. 2009. "Does Demand Variability Lower Growth and Raise Inflation? Evidence from the Caribbean," *Economica Mexicana*, XVIII (1), pp: 45-69.
- Kubursi, Atif. "The State versus the Market: A False Dichotomy," *Journal of Development and Economic Policies*, 11(2), pp: 5-57.
- Marouani, M.A. 2009, "Is the End of the MFA A Threat?," *Review of Development Economics*, 13(1), pp: 99-110.
- Moosa, I.A. "Stock Market Contagion in the Early Stages of the Global Financial Crisis: The Experience of the GCC Countries," *International Journal of Banking and Finance* (forthcoming).
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**Christopher A. Pissarides** is an ERF Senior Associate and Professor of Economics, Norman Sosnow Chair in Economics at the London School of Economics

## Book Review of “The Egyptian Labor Market Revisited” *edited by Ragui Assaad*

**Reviewed by Christopher A. Pissarides**

**T**his book has seven chapters devoted to different aspects of the Egyptian labor market, making use of a new data set collected by ERF in 2006. ERF collected a data set from a sample of about 5,000 households in 1998, and about 3,500 of these households were re-interviewed in 2006. An additional 2,000 households emerged from the original sample and were also interviewed and another 2,500 households were added to the sample. Thus the 2006 sample contains a panel component, which is extensively used in the published papers.

The book begins with an overview chapter on participation, employment and unemployment, written by the editor, and the chapters that follow are on earnings by Mona Said, small enterprises by Alia Mahdi and Ali Rashed, education by Asmaa Elbadawy, migration by Jackline

Wahba, young workers by Mona Amer, and female employment by Ragui Assaad and Fatma El Hamidi. The coverage is thus comprehensive and the book contains a wealth of information about the recent state of the Egyptian labor market. More interesting is the comparison with the results of the 1996 survey, which were also published by the ERF in 2002 (with the same editor), and which the panel component of the sample makes possible.

The book is well written and the arguments are illustrated with a plethora of data and graphs. It is a good reference point for anyone interested in the Egyptian labor market and in the changes that have been taking place in the last couple of decades. There have been efforts to reform the labor market, especially to encourage the growth of formal private employment in small and medium

sized enterprises, and the data collected and presented in this book make it possible to evaluate progress with these efforts. Unfortunately it has not been a complete success story, especially with the employment of educated women.

The Egyptian labor market is interesting for those outside Egypt as well, because of its state of economic development, size and public sector involvement. As Egypt is making the transition out of an agricultural economy it needs to find other employment opportunities for its workforce. This is a workforce that is highly educated but, at least un-



til recently, relied heavily on the public sector for employment. Substantial changes took place in the Egyptian labor market between the 1996 and 2002 surveys. Although the population growth rate has declined, the labor force has increased in size because of increased participation. Female education and participation have gone up but counteracting this trend, public employment, which was an important destination for women in the 1990s, has declined.

Many interesting questions arise from the interaction between the economic changes taking place and the changing role of the public sector as an employer. An interesting selection dealt with in this book is, how are more educated women being accommodated into a labor market that is contracting their traditional employment opportunities? How are family and work reconciled in a society that is going through a transformation to a “modern

era”? How are formal and informal work interacting, especially in the establishment of new enterprises? And, how are earnings in the four main job categories – state, formal private, informal private and agricultural – responding?

The book contains well-researched chapters on all of these issues. New job opportunities are being set up, especially in the small business sector, but informality is still high. Women in particular have not been fairing well. The decline of public sector employment has hit them hard and the private sector jobs that are replacing them are not in formal employment. Most are in informal employment and the holders are mainly unmarried women intending to quit when they get married. Married women were first classified as unemployed, when the hope of a public sector job was still alive, and subsequently moved to the inactivity state. This is obviously not a situ-

ation that is good for growth, and as the public sector is withdrawing jobs from the market, it ought to help those that are trained to find alternative formal employment. Indeed, reading this book convinces one of the urgent need for the public sector to find ways to regulate and legitimize informal work and make it a respected outlet for married women and other educated workers. The efforts that have been made to help the establishment of properly registered small enterprises are in the right direction, but it is clear that they have not been totally successful.

This book is a very welcome addition to the series of publications that ERF produces, and a must-read for anyone interested in the Egyptian labor market and in the lessons that can be drawn about the role of the public sector in the modernization of a large labor market.



**Mustapha Nabli** is an ERF Senior Associate and Senior Advisor for Development Economics at the World Bank

## Book Review of

# “Economic Performance in the Middle East and North Africa: Institutions, Corruption and Reform”

*edited by Serdar Sayan*

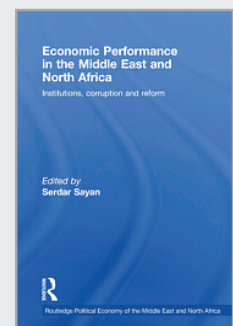
Reviewed by **Mustapha Nabli**

This is a welcome addition to the expanding literature on institutions, governance and development in the Middle East and North Africa region. In line with worldwide trends in the development literature, although with some lag, attention has been focused over the last decade on the role of institutions and governance in explaining the weak overall economic performance in the MENA region and the underlying lack of progress in reforms. The literature referred to in the book illustrates well this increased focus and the growth of this line of research in the region.

In addition to introductory and concluding chapters, the book includes eight empirical papers on the subject. A first set of papers

is concerned with understanding the determinants of corruption and its impact on some policies or intermediate outcomes. Goel and Nelson (Chapter 2) study the determinants of corruption, as measured by the Kaufmann, Kraay and Mastruzzi<sup>1</sup> indicators, using a number of institutional and non-institutional variables. From cross-country regressions they find that the level of perceived corruption is strongly and negatively associated with the level of GDP per capita and that larger country size is associated with higher corruption. On the other hand larger government size has a surprisingly negative effect on corruption while smaller government size has the opposite effect. The relationship between democracy and corruption is more mixed. Mocan (first part

of Chapter 4) uses an original micro-data set from surveys of the experience of citizens of corruption, which unfortunately does not include any MENA country. He explores and finds a strong relationship between observed measures of corruption and perceptions of corruption. But this relationship disappears when controlling for institutions, as measured by expropriation risk. Tosun (Chapter 8) and Boughrara (Chapter 8) study the impact of corruption on some structural and policy variables. Tosun studies the effect of



an indicator of governance (corruption) on tax revenue and tax structures, unfortunately using data which stop in 1997. He finds a stronger effect of governance on level of taxation, than on tax structure, and no relationship for MENA countries between governance and income tax share. Boughrara considers the effect of corruption on monetary policy and finds that more corruption affects negatively the credibility of monetary policy.

The second set of papers is devoted to understanding directly how institutions and corruption affect a number of development outcomes. Nugent and Glezakos (Chapter 5) consider an outcome at the micro-level: the efficiency of the judicial process at collecting a bad check. Using cross-section data and a number of institutional variables (legal formalism, democracy, legal origin, language, religion, and colonial past) they find that legal formalization has a positive impact on the duration of collecting a bad check. Their contribution is to show that a specific subset of dimensions of formalization is most important in determining the efficiency of the judicial process: extent of professionalism, use of written methods, need for justification, and number of procedural actions. They find also that colonial experience, ethnic heterogeneity and democracy matter. Kutan, Douglas and Judge (Chapter 3) study the effect of corruption on the level of income (GDP per capita), even though the discussion is sometimes unclear as to how it relates to growth. They find a

puzzling positive relationship between corruption and GDP per capita in MENA unlike the case in Latin America. They suggest that this may be linked to the oil sector in MENA. Mocan (second part of Chapter 4) looks also into the effect of corruption on economic growth, using a number of additional institutional variables such as federal structure, legal origin, religion, and expropriation risk. He uses instruments to deal with endogeneity, and finds that there is no direct and significant impact of corruption on growth when he controls for the quality of institutions, measured by expropriation risk. He also argues that there is no evidence that religion or cultural differences have an impact on the culture of corruption. The paper by Tekin-Koru (Chapter 7) tries to explain the underperformance of MENA countries in attracting foreign direct investment (FDI). She uses the level of FDI and Oaxaca decompositions of the difference in such flows between groups of countries into a component which is explained by different country characteristics and an “unexplained” component due to different marginal impact (or estimated coefficients) of the traditional determinants on FDI. The paper is beset by problems related to the type of data used, level of FDI, the absence of institutional content and some questions about the nature of the data used.

This quick review of seven papers (the eighth, Chapter 6, is referred to below) shows that the book covers a wide range of issues and explores a number of interesting

questions. However, with the exception of a couple of papers, specifically those by Nugent and Glezakos and Mocan, most of the papers suffer from methodological and empirical weaknesses.

One of the main features of the papers included in the volume is that they all use cross-country regressions. This has been a common approach in the literature, but its limitations have been increasingly recognized. Such limitations include the issues of identification and causality, and the inability to draw policy conclusions based on cross-country comparisons. None of the papers acknowledges the problems of cross-country regressions. Policy conclusions are often drawn without caution. The issue of endogeneity and simultaneity between the endogenous variables included and some of the explanatory variables is not always recognized, except Mohan who uses an instrumental variable. The only paper that considers explicitly the simultaneity between economic performance (private investment) and governance is by Aysan and Véganzonès-Varoudakis (Chapter 6). However, it is unfortunate that this paper is included in this book, as it reproduces the same content of an already published paper by Aysan, Nabli and Véganzonès-Varoudakis (2007).<sup>2</sup> Because of this problem this paper will not be discussed further in this review.

Except for the paper by Nugent and Glezakos who detail the concept of legal formalism and look

at specific dimensions, the institutional concepts and variables used remain at the most aggregate level. They include: corruption (as an institution or outcome?), democracy, legal origin, regulation (chapter 2); corruption and political risk (chapter 3); expropriation risk, federal structure, legal origin, culture and religion (chapter 4); legal formalism, democracy, legal origin, language, religion and colonial past (chapter 5); governance indicators of corruption, rule of law, and bureaucratic quality (Chapter 8); corruption and central bank independence (Chapter 9). In Chapter 7 Tekin-Koru, in the study of FDI, mentions one institutional variable (ICRG country risk) but uses none empirically. It is very difficult to pinpoint a result which is robust enough in the volume about any institution which is important. Even on corruption, which is probably the most pervasive theme, one of the papers finds, as mentioned above, that it may be good for development in MENA.

One of the recurrent themes in the papers is the attempt or idea that there may be something “specific” about MENA as a region that characterizes its experience and makes it different from the rest of the developing world. This is often pursued through the use of a dummy variable for MENA in the cross-country regressions. The findings, in that respect, are at best mixed if not contradictory. And one of the common weaknesses of the papers is that they do not account for some features of heterogeneity in MENA such as the major differences between

major oil producing countries and other countries. This issue is often mentioned but nowhere pursued to the extent needed given the centrality of this issue in the region. For instance, Tekin-Koru shows in Table 7.1 large variations in FDI stock (as a percentage of GDP) across MENA countries, with oil-producing countries having low FDI, but many others having large values of FDI stock, which warns against a MENA effect. But the author pursues the search for a regional effect, using the level of FDI as the variable to be explained.

Finally, there are technical and empirical weaknesses in many of the papers. This review is not the right place to provide a full and complete assessment of such problems. We just mention a few other examples. To follow on the example of Tekin-Koru in Chapter 7, the level of FDI in the regression analysis is very strange, especially that some of the mean values shown in Table 7.3 of FDI flows, stocks and GDP are very suspicious. As mentioned previously the central issue of endogeneity of the level of GDP per capita with respect to corruption, a well-documented result in the literature, is ignored by Goel and Nelson, leading to biased estimates of the effect of GDP on corruption. In Chapter 3, Kutan, Douglas and Judge peculiarly use (at least from what appears in the explanations) the levels of (log) gross capital formation and of the (log) labor force as determinants of the level of GDP per capita. In Chapter 4, Mocan, in the regression analysis of Table 4.3 as a measure of corruption by

any specific government agency uses weighted average of the proportion of individuals who indicated a bribe solicited from this agency (out of total solicitations), while a more appropriate indicator would be the frequency level of such solicitations from officials in the agency in the total number of individuals surveys. The latter variable would reflect more accurately the cross-country differences in the prevalence of corruption due to the specific agency (police department or customs for instance).

While this volume is a rich and welcome contribution, it is also a missed opportunity, as it is beset by problems and weaknesses, which limit its potential impact and the usefulness of most of the findings.

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#### Notes

<sup>1</sup> Using the 2003 data from D. Kaufmann, A. Kraay and M. Mastruzzi, 2003, “Governance Matters III: Governance Indicators for 1996-2002”, Washington D.C. The World Bank.

<sup>2</sup> Aysan, Ahmet, Mustapha K. Nabli and Marie-Ange Véganzonès-Varoudakis, 2007, “Governance, Institutions and Private Investment: An Application to the Middle East and North Africa” *The Developing Economies*, Volume XLV, Number 3, Blackwell, September.

# ERF Research Activities

In the second half of 2009, since the last edition of the Forum, ERF initiated a number of new research activities, covering the themes of equity and inequality, regional integration, environment, natural resources and diversification, and regulation of monopolies. Some of these initiatives were in the form of open calls for papers; others were solicited. In all cases, all new projects are subjected to a rigorous review process.

- ERF announced a second call for proposals under the theme of *Environmental Challenges in the MENA Region*. ERF and non-ERF affiliates from the region were invited to submit proposals under a variety of topics, including economic valuation of environmental degradation, policy assessments, political economy of natural resources and environmental issues, and climate change. Twelve proposals were received and the review process is still unfolding.
- ERF launched a call for proposals in the context of the 10th Round of the ERF- GDN competition, focusing on the theme of *"Utilities in the ERF Region: Regulation, Competition and Firm Competitiveness"*. Researchers are invited to submit proposals covering the performance of firms and utilities in the ERF region, the role of competition policy and regulatory regimes in determining this performance as well as the competitiveness of firms and economic growth. The deadline for submission is January 31st, 2010.
- ERF launched a new project on *Environmental Incentives in the MENA Region*. Led by Hala Abou-Ali, this project is intended to assess the impact of the incentives embodied in various environmental regulations on outcomes in a variety of situations. It is being carried out by various countries from the region and abroad. The end result will be an edited volume comprising 10 chapters. The main blocks are: economic evaluation of environmental damages, the application of the Two-Part Tariff Scheme to traffic regulation and solid waste, and an assessment of tradable permits to the cement industry, water and fisheries.
- ERF initiated a new project on *Equity and Inequality in the Arab Region: Data, Measurement and Evolution*. Led by Nadia Belhaj, this project is intended to expand access to and improve the quality of data on inequality in the region. In addition, it is meant to improve the state of our knowledge about different aspects of inequality.
- ERF launched a new project on *Trends, Profile and Determinants of Inequality in Selected Arab Countries*. This project, which is led by Sami Bibi, measures, decomposes and analyzes the determinants of inequality in selected Arab countries. It will further study how and why inequality varies within and between countries.
- ERF initiated a new project on *Inequality of Opportunity and Inequality of Outcomes in the Arab Region*. This project, which is led by Ragui Assaad, Djavad Esfahani and Nadia Belhaj, aims to develop a better understanding of the way in which inequality of opportunity translates into inequality of outcome through the working of the markets for the acquisition and deployment of human capital.
- ERF started a *Labor Market Survey in Jordan in 2010*. In this context, an agreement has been signed with the Jordanian authorities and data collection started in December 2009. The plan is to make the new dataset available to all researchers in the fall of 2011, which is what ERF has done with respect to the labor market surveys conducted in Egypt in the past.
- In the context of regional integration, ERF initiated a new project on *Arab Passenger Airlines'*

*Framework and Performance.* Led by Khalid Sekkat, this project aims at developing a better understanding of one particular service, namely the airline industry. It will assess the welfare impact of observed changes in the framework governing the airline industry on firms and consumers resulting, for example, from airline agreements, alliances etc. The analysis will cover Egypt, Morocco, the UAE and Jordan, along with a comparative analysis of the country cases.

- ERF launched a new project on *Economic and Non-economic Consequences of Intra and Extra Arab Migration.* This project is led by Michel Beine and Jackline Wahba. It will examine the economic and non economic consequences of intra-Arab and extra-Arab migration. On the non-economic front, it will analyze the influence of the Diasporas on the quality of institutions at home. On the economic front, it will study the effect of remittances and return migration in five countries, namely: Egypt, Jordan, Lebanon, Morocco and Syria.
- Another project was initiated on the *Efficiency and Redistributive Effects of International Labor Mobility: A Bilateral Approach with Special Focus on MENA Migration.* This project aims at constructing and extending databases on international migration by educational attainment. It will also quantify the macroeconomic implications of migration flows as a function of the characteristics of migrants, on the one hand, and of source and destination countries, on the other.
- Finally, ERF began a process of developing the research agenda for the theme of *Natural Resources and Economic Diversification* by requesting the preparation of two approach papers on the subject critically reviewing existing literature and proposing priority research questions. The two papers (one by Ibrahim El Badawi, and the second by Mustapha Nabli and Daniel Lederman) were presented in a special workshop in November 2009. The discussion led to the identification of a set of research priorities for ERF to be undertaken in the years to come.

## Latest ERF Publications

### The Middle East Development Journal (MEDJ)

The Economic Research Forum is proud to announce the publication of the second issue of the Middle East Development Journal (MEDJ).



Vol. 1, No. 2. Table of contents:

A Comparative Study of Returns to Education in Egypt, Iran, and Turkey  
*Djavad Salehi-Isfahani, Insan Tunali and Ragui Assaad*

Entry, Exit, Resource Reallocation and Productivity Growth in the Tunisian Private Manufacturing Industries  
*Riadh Ben Jelili and Mohamed Goaid*

Wife's Earnings, Child Nutrition, and Gender-Based Violence in Egypt  
*John Simister and Hassan Zaky*

Market Liquidity and Strategic Asset Allocation: Applications to GCC Stock Exchanges  
*Mazin Al Janabi*

Corporate Capital Structure Choices in MENA: Empirical Evidence from Non-listed Firms in Morocco  
*Lahcen Achy*

Income Inequality in the Arab Region: Data and Measurement, Patterns and Trends  
*Sami Bibi and Mustapha K. Nabli*

### Equity and Economic Development: Proceedings of the ERF 15<sup>th</sup> Annual Conference

This volume contains seven papers related to the theme of equity and economic development, which was the common thread of all plenary sessions in the 15th Annual Conference of the Economic Research Forum (ERF). The conference was held in Cairo, on November 23-25, 2008



and was attended by more than 200 participants. The selection of papers for inclusion in the volume was guided by the quality of the papers as well as their relevance to the theme of the conference. The topics range from the political economy of inequality in general and in the Arab region in particular, to the role of various drivers of inequality such as pro-poor growth, regional employment and the role of geography. Some of the papers were presented in the plenary sessions of the conference, while others were presented in the parallel sessions. The volume contains papers by distinguished scholars such as James Robinson, Galal Amin and Ali Abdel Gadir Ali.

## Latest ERF Publications

# ERF Working Papers Series

Since the last issue of Forum, 11 working papers have been published and disseminated electronically. All papers can be downloaded from the ERF website: [www.erf.org.eg](http://www.erf.org.eg). The recently published papers are listed below:

Optimization of Agricultural Water Use and Trade Patterns: The Case of Iran

*G.R. Soltani, M. Bakhshoodeh and M. Zibaei*

Working Paper 508

Sources of Structural Change and its Impact on Interdependence: An Input-Output Perspective for The Post-1980 Turkish Economy

*Ebru Voyvoda*

Working Paper 507

Impact of The Adoption of Information and Communication Technologies on Firm Efficiency in The Tunisian Manufacturing Sector

*Rim Ben Ayed Mouelhi*

Working Paper 506

Regional Pro-Poor Growth and Convergence in Tunisia

*Ghazi Boulila, Chaker Gabsi, and Mohamed Trabelsi*

Working Paper 505

Education and Earnings in The Middle East: A Comparative Study of Returns to Schooling In Egypt, Iran, and Turkey

*Djavad Salehi-Isfahani*

Working Paper 504

International Corporate Governance and Finance: Legal, Cultural and Political Explanations

*Hamadi Matoussi and Maha Khemakhem Jardak*

Working Paper 503

The Political Economy of Inequality in the Arab Region and Relevant Development Policies

*Ali Abdel Gadir Ali*

Working Paper 502

Regional Employment Growth and Spatial Dependencies in Algeria (1998-2005)

*Yacine Belarbi and Abdallah Zouache*

Working Paper 501

The Political Economy of Equality and Inequality: Income Distribution, Technological Change and Power

*Galal Amin*

Working Paper 500

What Drives the Efficiency of Selected MENA Banks? A Meta-Frontier Analysis

*Samy Ben Naceur, Hichem Ben-Khedhiri and Barbara Casu*

Working Paper 499

Exchange Rate Regime Choice and Currency Crises

*Ahmet Atıl Acı*

Working Paper 498

## Workshops

### Workshop on “Natural Resources and Economic Diversification”

November 6<sup>th</sup>, 2009, Cairo

The ERF organized a pre-conference workshop on 6 November 2009. It was on natural resources and economic diversification. The objectives of this workshop were to review and discuss papers and contributions prepared specifically for the workshop, exploring the implications of frontier research for the design of the ERF research agenda in the area under consideration, and proposing a set of priorities for the ERF research program. Two papers, one by Ibrahim El Badawi and Anthony Venables and the other by Daniel Lederman and Mustapha Nabli, and three contributions by Mongi Boughazala, Lant Pritchett and Nesrine Salti were all presented. The workshop was attended by some 30 experts.



*A thematic session at the workshop*

### Workshop on “Poverty, Growth and Inequality in the MENA Region”

November 6<sup>th</sup>, 2009, Cairo



*From left to right: Ragui Assaad, Alia El-Mahdi ad Nader Kabbani*

ERF also organized another pre-conference workshop, which focused on the relationship between poverty, growth and inequality in the MENA region. The content of the workshop was based on a research project sponsored by ERF and GDN. The project is being conducted by a team of ERF fellows, led by Mouna Cherkaoui. The analysis covers five country cases, namely: Morocco, Tunisia, Algeria, Egypt and Syria. The workshop assembled around 30 highly qualified researchers and policy makers from the region. The objectives were to share the preliminary findings of the project with the audience, gather feedback on the draft papers, and engage various stakeholders in a discussion about policy options based on evidence-based research. The papers provided preliminary analyses of the link between growth, inequality and poverty in the MENA region. They also profiled poverty and inequality in each of the five country cases, both individually and comparatively. Finally, they presented empirical results using primary data from Household Surveys.

# “Economic Incentives and Environmental Regulation in the MENA Region”

December 11-12, 2009, Cairo

On December 11-12, 2009 ERF organized a workshop on the “Economic Incentives and Environmental Regulation in Selected Countries in the MENA Region”, in Cairo. This event falls under a large research project on “Environmental Challenges in the MENA Region” managed by ERF and sponsored by the International Development Research Centre (IDRC).

The workshop served as a platform for giving feedback to the authors of different chapters in what will eventually be published in an edited volume. The following topics were covered: the Cost Assessment of Environmental Degradation in the MENA Region; Willingness to Pay for Improving Poor Land and Water Conditions for Agriculture in Damietta, Egypt; An Application of Contingent Valuation Technique to Estimate the Environmental and Resource Costs of Domestic Water Services in the Gaza Strip; Regulating Traffic as a Mean of Reducing Green House Gases Emissions: The Case of Greater Cairo, Egypt; Mitigating Solid Waste from Agro-food Industry; Environmental Regulation to Phase-out Sources of Persistent Organic Pollutants in Jordan; Regulating the Emissions of the Cement Industry; Curbing Water Scarcity/Pollution at the Local Level or Within a Given River Basin in Morocco; and Managing Fisheries in North Africa.

The workshop convened around 20 participants: the authors of the volume, the project’s advisors and a number of specialists in the field of environment



Day one of the workshop



Day two of the workshop

and microeconomics. The discussions emphasized the value added of the proposed research and the appropriateness of the approach and methodology adopted.

# FEMISE Annual Conference: Are the South Med Countries Converging?



November, 14-15, 2009, Brussels, Belgium

FEMISE organized its annual conference on the 14th and 15th of November 2009 in Brussels, Belgium. The theme of this year's conference was 'Are the South Med Countries Converging?'. The 2-day conference included 2 plenary sessions and eight parallel sessions and gathered around 100 participants including members' institutes, affiliates and other interested participants from the North and South of the Mediterranean. The event provided a welcome opportunity to address and exchange views on issues related to the EU-Med Partnership, Neighborhood policy and Union of the Mediterranean and more specifically on the issue of convergence.

The plenary sessions addressed the issue of convergence of the South Med countries towards Europe and highlighted the barriers/impediments to this convergence in two sessions: Convergence of the South Mediterranean Partners Countries and Impediments to Convergence in the South Med Countries.

The opening speech of Mr. Philippe Platteau (CRED) addressed the issue of institutional convergence and the role of convergence of values through those institutions. Amb Senen Florensa (Director of IEMED) addressed the issue of modernization in South Mediterranean countries and argued that in a dynamic context of growth all participants would be "winners" with some simply growing more than others. In the second plenary session, Pr. Reiffers (FEMISE) argued that the Barcelona process resulted in some convergence while the UpM opens-up a new multilateral phase and constitutes a great opportunity for co-ownership with partners of the South. This "new phase" would require important projects. Mr. Karlsson added that regional integration issues have become of extreme relevance and importance in the Mediterranean region. He underscored that investment in infrastructural integration is a priority for the World Bank (WB) and that energy initiatives could be creators of employment as in the case of solar energy.

The parallel sessions included presentations of FEMISE funded projects, which addressed the issue of convergence using a more detailed approach; The role of, the business environment, growth, liberalization of capital accounts, finance and banking, migration and remittances, social cohesion and poverty and inequality.