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Macroeconomic scenarios for the south Mediterranean countries: Evidence from general equilibrium model simulation results



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ABSTRACT

The “Arab spring” aftermath calls for a closer look at the developments in the south Mediterranean countries. This paper develops and assesses alternative scenarios for the region up to the year 2030 with the employment of GEM-E3, a computable general equilibrium model. The scenarios quantify three alternative visions of the regional future which assume: (i) south Mediterranean-EU cooperation, (ii) south Mediterranean global opening and (iii) escalation of regional conflicts and failure to cooperate. The scenarios are compared to the baseline scenario, which assumes a continuation of the regional policies observed in the recent past. Assumptions on trade integration, infrastructure, population and governance developments are adopted in each scenario. Infrastructure upgrades and governance improvements within an EU cooperation context are found to benefit the region most. The findings have important policy implications indicating alternatives to be implemented.

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1. Introduction

The social uprisings in the south Mediterranean countries and the so-called “Arab spring” of 2010–2011 have placed countries in the region at a turning point in their history with the beginning of

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transition from repressive autocratic rule to democracy. The political trajectories originating from similar grievances have led to significant changes in the region. For instance, the long-entrenched regimes in Egypt and Libya have collapsed, while in Morocco and Algeria reforms have been put forward with the aim to increase the representative nature of the political systems. These changes, although unprecedented, came as no surprise as the countries in the region have failed to grow fast enough and to provide strong and stable macroeconomic conditions. Following a period of rapid growth between 1960 and 1980, output growth stalled. Between 1980 and 2010, per capita income growth in the region averaged only 0.5% per year (African Development Bank Group, 2012).

This paper is motivated by the recent developments in the region and the questions to be addressed regarding the future of the south Mediterranean economies and how these could be affected by the cooperation and policy alternatives that can be pursued. The objective is to contribute to an understanding of the principal policy issues concerning the future of the south Mediterranean countries and to an advancement of knowledge and perceptions with respect to a longer-term outlook for the region. Towards this end, alternative macroeconomic scenarios for the south Mediterranean countries are simulated up to 2030 with the use of GEM-E3, a well-established general equilibrium model.

The design of the alternative scenarios is based on a large set of complementary studies on cooperation and policy alternatives for the south Mediterranean countries (Ayadi and Sessa, 2011; Tsani et al., 2013; Fragkos et al., 2013, etc.). In this way, the paper further complements the scholarly literature by bringing these different works together into one extensive and comprehensive study where the overall effects of cooperation alternatives and associated policies can be assessed and useful implications inferred. To the best of our knowledge, the present attempt is a first-time study and assessment attempt, to such an extent, of different cooperation options and policy paths that can be pursued in the south Mediterranean region.

The paper focuses on the following countries: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia and Turkey (hereafter the SMED countries). These countries have been receiving increasing interest in the context of EU neighbourhood policy. With the exception of Turkey, the rest of the SMED countries participate in the Barcelona Process and the European Neighbourhood Policy. Turkey, although not included in the Barcelona Process and the European Neighbourhood Policy, attracts special attention due to its involvement in the negotiation of EU membership. The study focuses on these countries and assesses different cooperation options for the region which extend beyond those of cooperation with the EU.

The SMED group covers countries with a total population of over 260 million. Only one country, Israel, belongs to the high-income group according to the World Bank classification (GNI per capita over 12,476 US\$ in 2011).¹ The pace of economic growth has lagged behind other emerging market and developing economies. Developments have been characterized by limited economic reforms, mediocre governance and trade liberalization. The SMED countries, excluding Israel, score relatively low in terms of infrastructure and human capital stock and quality. These characteristics are indicative of the economic and policy challenges that the SMED countries face. They also indicate the areas future policies should focus on, but also where possible cooperation and support from international partners could prove useful.

The simulated scenarios employ explicit assumptions regarding the policies the SMED countries adopt so as to address the economic challenges ahead. These are associated with the cooperation policies they are assumed to opt for, i.e.: (i) continuation of current trends and policies, (ii) cooperation with the EU, (iii) cooperation with other developing countries like the Middle Eastern countries, China and other emerging economies and (iv) failure to cooperate and escalation of regional conflicts. Cooperation alternatives are associated with a series of policy options including trade liberalization, governance, infrastructure and human capital upgrade. In each scenario, developments are assumed to affect the population and the labour force, which in turn are also taken into consideration in the alternative scenarios.

The design of the scenarios is based on recent discussions of regional and international cooperation alternatives that the SMED countries could opt for (see Ayadi and Sessa, 2011; Kamrava, 2012;

¹ See: http://data.worldbank.org/about/country-classifications/country-and-lending-groups#High_income.

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