مجلة التنمية والسياسات الاقتصادية

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المجلد التاسع - العدد الأول

يناير 2007

الأهداف:

- الاهتمام بقضايا التنمية والسياسات الاقتصادية في الأقطار العربية في ضوء المتغيرات المحلية والاقليمية والدولية.
- زيـادة مساحة الرؤية وتوسعة دائرة المعرفة لدى صانعي القرار والممارسين والباحثين في الأقطار العربية .
- خلق حوار علمي بناء بين الباحثين والمهتمين بالاقتصادات العربية وصانعي القرار بالمنطقة.

قواعد النشر:

1. ترســـل ثلاث نســخ من البحوث والدراســات ومراجعـــات الكتب والتقاريـــر إلى رئيس التحريـــر.
2. تنشر المجلة الأبحاث والدراسات الأصلية (باللغتين العربية والإنجليزية) والتي لم يتم نشرها سابقاً ولم تكن مقدمة لنيل درجة علمية أو مقدمة للنشر في مجلات أو دوريات أخرى.
3. تكون الأوراق والدراسات المقدمة بحجم لايتجاوز الثلاثين صفحة، بما فيها المصادر والجداول والرسوم التوضيحية، كما لا تزيد مراجعة الكتب والتقارير على العشر صفحات. ويشترط أن تكون البحوث والمراجعات مطبوعة على أوراق 8.5x11 بوصة (A4) مع تخطي سطر (Double Spaced) وعلى وجه واحد، وتترك هوامش من الجوانب الأربعة للورقة بحدود بوصة ونصف.
4. تكون المساهمات مختصرة بقدر الإمكان وسهلة القراءة والإستيعاب من قبل الممارسين وصانعي القرار.
5. يرفق الباحث ملخصاً عن البحث لايزيد عن 100 كلمة، بحيث يكون مكتوباً باللغتين العربية والانجليزية.
6. يكتب الباحث أسمه وجهة عمله ووظيفته على ورقة مستقلة مع ذكر عنوان المراسلة وأرقام الهاتف والفاكس والبريد الإلكتروني (إن توفر).
7. في حالة وجود أكثر من مؤلف يتم مراسلة الإسم الذي يرد أولاً في ترتيب الأسماء.
8. تخصص قائمة بالمراجع في آخر البحث ولا توضع فيها إلا تلك المراجع التي تم الإشارة إليها في متن الورقة أو البحث. وترتب على الشكل التالي:

.Krueger, A.O. (1992), Economic Policy Reform in Developing Countries, Blackwell, Oxford

سن، أ.ك.، (1984) الموارد والقيم والتنمية مطبعة جامعة هارفرد، كمبريدج.

9. توضع الهوامش في أسفل الصفحة المناسبة وترقم بالتسلسل حسب ظهورها.
10. توثق الجداول والرسوم التوضيحية المستعارة وغيرها بالمصادر الأصلية.
11. لا تُرد الأوراق المرسلة إلى المجلة سواء قبلت للنشر أو لم تقبل.
12. تُفضل المجلة استلام البحوث على البريد الإلكتروني للمجلة jodep@api.org.kw مكتوبة ببرنامـــج Microsoft Word أو أي معالج كلمات حديث.
13. يتم إشعار المؤلف بإستلام بحثه خلال إسبوعين من تاريخ إستلامه.
14. تخضع كل المساهمات في المجلة للتحكيم العلمي الموضوعي، ويبلغ الباحث بنتائج التحكيم والتعديلات المقترحة من قبل المحكمين إن وجدت، خلال إسبوعين من تاريخ إستلام ردود كل المحكمين.
15. يُصبح البحث المنشور ملكاً للمجلة، وتستوجب إعادة نشره في أماكن أخرى الحصول على موافقة كتابية من المجلة.
16. جميع الآراء الواردة في المجلة تعبر عن آراء كاتبيها، ولاتعبر بالضرورة عن وجهة نظر المجلة أو المعهد العربي للتخطيط.

مجلة التنمية
والسياسات الاقتصادية

تصدر عن المعهد العربي للتخطيط بالكويت

المجلد التاسع - العدد الأول - يناير2007

مجلة محكمة نصف سنوية تهتم بقضايا التنمية والسياسات الاقتصادية في الأقطار العربية

توجه المراسلات إلى :

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الاشتراكات :

داخل الوطن العربي :	سنة	سنتين	ثلاث سنوات
للأفـــراد	US$ 15	US$ 25	US$ 40
مؤسسات	US$ 25	US$ 45	US$ 70
خارج الوطن العربي :			
للأفـــراد	US$ 25	US$ 45	US$ 70
مؤسسات	US$ 40	US$ 75	US$ 115

ثمن النسخة في الكويت : 1.5 دينار كويتي.

عنوان المجلة :

مجلة التنمية والسياسات الاقتصادية

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محتويات العدد العربية

افتتاحية العدد

يأتي صدور هذا العدد وهو الأول من المجلد التاسع لمجلة التنمية والسياسات الاقتصادية مع تغيير في مواعيد الإصدار لتكون حسب السنة الميلادية بدلاً عن المواعيد التي اعتدنا على الإطلالة فيها على جمهور القراء حيث كانت تصدر حسب السنة العلمية للمعهد العربي للتخطيط. وعليه فإن صدور العدد الأول من كل عام سيكون في يناير/كانون ثاني وبالتالي سيكون إصدار العدد الثاني في يوليو / تموز. نأمل أن تكون هذه المواعيد مناسبة لقرائنا الأعزاء.

يتضمن هذا العدد أربعة أوراق بحثية وملخصاً لوقائع إجتماع إقليمي بالإضافة إلى عرض لكتاب.

في الورقة الأولى من هذا العدد، يناقش أحمد طلفاح بعض الحقائق النمطية المتعارف عليها في أدبيات الاقتصاد المالي، بتطبيقها على أسواق الأوراق المالية في دول مجلس التعاون لدول الخليج العربية، وذلك في سياق تقييم الدور المرتقب لهذه الأسواق في تعزيز التنمية الاقتصادية في المنطقة. ويخلص الكاتب إلى مجموعة من النتائج أهمها: تمتع الأسواق الخليجية بدرجة عالية من الترابط في ما بينها، وأن التقلبات في السوقين السعودي والكويتي تنتقل إلى باقي أسواق المنطقة. أما علي صعيد تقييم الدور المرتقب للأسواق المالية الخليجية في تعزيز التنمية الاقتصادية، فإن الباحث يشير إلى أن سوق الأوراق المالية السعودي وعلى نطاق أضيق السوق الكويتي هما السوقان القادران على المساهمة الإيجابية في التنمية الاقتصادية.

أما الورقة الثانية، فيتناول فيها علي بلبل بعض الدروس من تجربة الاقتصاد اللبناني خلال فترة ما بعد الحرب الأهلية 1992 – 2004، من أجل تسليط الضوء على توجهات السياسة الاقتصادية المستقبلية. بعرض الباحث المشاكل الاقتصادية التي واجهت برنامج إعادة الإعمار وسلبيات العجوزات المالية والدين المرتفع وسعر الصرف المغالى فيه، ويحلل دور الحكومة والقطاع المالي والمصرفي في الاقتصاد اللبناني، ويرى أن سياسات الإصلاح المستقبلية يجب أن تركز على القطاع الحقيقي وأن تستفيد من المزايا الأساسية للاقتصاد اللبناني المتمثلة بموقعه الجغرافي ورأس المال البشري.

وتناول بن علي محمد سامي في ورقة ثالثة تقييماً لسياسة سعر الصرف في تونس في إطار نظرية المباريات، فيرى الباحث أن سياسة سعر الصرف التونسي تعتبر منغلقة من حيث التنافسية الخارجية والتضخم المحلي، ويشير استناداً إلى نتائج المحاكاة إلى أن تحرير الحساب الجاري يتوافق مع النظام المرن لسعر الصرف، وأن مثل هذا النظام يترك هامشاً من الحركة للسلطات من أجل تصحيح ميزان المدفوعات غير المتوازن ومن أجل ترويج سياسة النمو الاقتصادي عن طريق التصدير.

وفي الورقة البحثية الرابعة يتناول ابراهيم منصوري سرعة وتتابع الإصلاحات الاقتصادية في المغرب في إطار السياق السياسي والمؤسساتي الذي تطبق فيه. فعرض الباحث نتائج تطبيقية لحالة المغرب بما في ذلك سرعة الإصلاحات في مجال التثبيت الاقتصادي والإصلاحات الهيكلية. وبين الباحث الحاجة إلى جيل جديد من الإصلاحات يركز على الجانب السياسي والمؤسسي.

وفي باب ملخص وقائع اللقاءات العلمية يعرض رياض بن جليلي ملخصاً لوقائع إجتماع إقليمي حول " السياسات الاقتصادية ، دخول وخروج المؤسسات الصناعية والأداء الاقتصادي في منطقة الشرق الأوسط وشمال أفريقيا " الذي عقد في المملكة الأردنية الهاشمية في الفترة 2-1 ديسمبر 2006.

وأخيراً يقوم علي عبدالقادر علي في باب عرض الكتاب بتلخيص لكتاب " إقتصادات التنمية : من فقر الدول إلى ثرائها " للمؤلفين يوجيرو هيامي ويوشيهيسا جودو يستعرض الكاتب محتويات الكتاب، حيث يبرز أهم ما ورد في الكتاب من تأييد قوي لما كان يقول به عدد كبير من إقتصادي التنمية في آسيا وأفريقيا وأمريكا اللاتينية وكذلك ما قدمه عدد من الاقتصاديين العرب من تحفظات نظرية وتطبيقية حول إمكانية أحداث التنمية من خلال آلية السوق.

نرجو أن ينال هذا التنوع في محتويات هذا العدد رضى قرائنا الأعزاء، آملين تواصلهم الدائم معنا من خلال ملاحظاتهم البناءة ومساهماتهم البحثية الأصلية، لما فيه خير التنمية في منطقتنا العربية.

رئيس التحرير

ملخص وقائع إجتماع إقليمي حول "السياسات الاقتصادية، دخول وخروج المؤسسات الصناعية والأداء الاقتصادي في منطقة الشرق الأوسط وشمال أفريقيا"

عرض : رياض بن جليلي

ملخص وقائع اجتماع إقليمي حول السياسات الاقتصادية، دخول وخروج المؤسسات الصناعية والأداء الاقتصادي في منطقة الشرق الأوسط وشمال أفريقيا

عرض: رياض بن جليلي*

مقدمة

عُقد خلال الفترة 1-2 ديسمبر 2006 اجتماع نظمه مركز الدراسات الاستراتيجية في الجامعة الأردنية للتداول حول المنهجية التي يمكن أن استخدامها لتنفيذ المشروع البحثي حول "السياسات الاقتصادية ودخول وخروج الوحدات الإنتاجية (المنشآت الإنتاجية) والأداء الاقتصادي في إقليم الشرق الأوسط وشمال أفريقيا"، حيث سوف يتم تنفيذ المشروع البحثي في كل من الأردن، وتونس، ومصر والمغرب. هذا ويتمثل الهدف الأساسي من هذا المشروع في استكشاف ما إذا ترتب على سياسات التحرير الاقتصادي التي طبقتها هذه الدول منذ منتصف ثمانينات القرن الماضي تحسناً في الإنتاجية من خلال دخول وخروج الوحدات الإنتاجية في قطاع الصناعة التحويلية. ولأغراض البحث فقد تم تعريف التحرير الاقتصادي على أنه يتمثل في الانفتاح التجاري على العالم وعلى دور الدولة في الاقتصاد.

وفي ما يتعلق بمحتوى الدراسات القطرية، فقد تم الاتفاق على أن تشتمل على تقييم تجربة دخول وخروج الوحدات الإنتاجية ومقارنتها بالتجارب الناجحة في الدول النامية؛ والتعرف على كيفية تأثير السياسات الاقتصادية والإصلاحات المؤسسية على عملية حراك الوحدات الإنتاجية؛ وتقييم وقع عملية حراك الوحدات الإنتاجية على إنتاجية قطاع الصناعة التحويلية؛ وتقييم مدى ارتباط هذا التأثير بوجود مظاهر لعدم الكفاءة الإنتاجية من بعض الأقطار.

تمثّل الحافز للقيام بصياغة المشروع البحثي في نتائج تم الحصول عليها من بحث سابق طبّق في نفس الأقطار تحت الدراسة. تتلخص هذه النتائج بما يلي:

1. يبدو أن هذه الأقطار تتميز بدرجة عالية من التخصص وأن قطاعات التخصص لم تتغير خلال السنوات العشرين السابقة، حيث تتركز 50 في المائة من القيمة المضافة والتشغيل في 3-5 قطاعات فرعية تتمحور حول قطاعات الملابس، والمواد الغذائية والكيماويات.
2. تتميز هذه القطاعات بدرجة ملحوظة من عدم الكفاءة وبقدر كبير من القوة السوقية، كما يعكس ذلك ارتفاع هامش الربحية وتدني معدل نمو الإنتاجية.

هذا وقد اعتبرت هذه النتائج، بعد مرور أكثر من عشرين عاماً من الإصلاحات الاقتصادية، معبّرة عن حالة تحتاج إلى مزيد من الاستقصاء، خصوصاً في ما يتعلق بعدم الكفاءة والقوة السوقية.

* خبير مشارك في المعهد العربي للتخطيط بالكويت.

المنهجية المقترحة لدراسة محددات الدخول والخروج

وكما درجت العادة استعرض الأستاذ الدكتور/ خالد سقات منسق المشروع البحثي من الجامعة الحرّة ببروكسيل، المنهجية المقترحة والأدبيات المتخصصة في هذا المجال، وناقش الحضور هذه المنهجية لدراسة محددات دخول وخروج المنشآت الصناعية. وتوطئة لهذا النقاش، فقد تم الاتفاق على تصنيف المنشأة الإنتاجية من وجهة نظر الدخول إلى، والخروج من، القطاع الإنتاجي الفرعي وذلك على النحو التالي:

1. إذا ما تواجدت المنشأة في السنة السابقة لسنة معينة ولكنها لم تتواجد في السنة اللاحقة لها تعتبر المنشأة قد خرجت.
2. إذا لم تتواجد المنشأة في سنة سابقة ولكنها تواجدت في السنة اللاحقة فإنها تعتبر المنشأة قد دخلت.
3. إذا لم تتواجد المنشأة في السنة السابقة سنة معينة وكذلك السنة اللاحقة، فإنها توضع في مجموعة الإنتاج لمدة سنة.
4. إذا لم تندرج المنشأة تحت أي من التصنيفات أعلاه، فإنها تعتبر مستمرة أو باقية في الإنتاج.

على أساس من هذا التصنيف، فقد تم تعريف معدل الدخول بأنه نسبة عدد المنشآت الجديدة بين السنة الحالية والسنة اللاحقة إلى صافي عدد المنشآت في السنة الحالية؛ كما تم تعريف معدل الخروج بأنه نسبة عدد المنشآت التي خرجت بين السنة الحالية والسنة اللاحقة إلى صافي عدد المنشآت في السنة الحالية.

إستناداً إلى التصنيف الوارد أعلاه، وإلى تعريف معدلات للدخول والخروج، فإن تنفيذ الدراسات القطرية يتطلب توفير تحليل وصفي لكل قطر (للفترة منذ عام 1995) يشتمل على: (1) إجمالي عدد المنشآت مصنفة حسب الحالة؛ (2) عدد المنشآت التي خرجت من الإنتاج حسب عدد سنوات البقاء في الإنتاج؛ (3) متوسط حجم المنشآت حسب الحالة؛ (4) معامل الارتباط بين معدلات الدخول والخروج لكل سنة ولكل صناعة.

ولاستكشاف العوامل المحددة لمعدلات الدخول والخروج، فقد أقترح تقدير نموذج إقتصادي قياسي يكوّن كل من معدل الدخول ومعدل الخروج متغيراته التابعة، لكل صناعة وكل سنة. ولتفسير معدل الدخول، فقد تم اختيار متغيرات مفسّرة اشتملت على متوسط حجم المنشآت الداخلة، خصائص الصناعة، متوسط الأجر، كثافة رأس المال، البيئة المؤسسية (العوائق التجارية، سعر الصرف، قوانين العمل والاستثمار، الاستقرار السياسي، الفساد الإداري، المحاسبة الديموقراطية، ونوعية الإدارة الحكومية).

وفي ما يتعلق بالمتغيرات المفسّرة لمعدل الخروج (لكل صناعة ولكل سنة)، فقد أقترح أن تشتمل على متوسط حجم المنشآت الخارجة، متوسط عمرها، خصائص الصناعة كما تم تفصيلها لمعدل الدخول)، البيئة المؤسسية (كما تم تفصيلها)، ومعدل الدخول للصناعة.

وقد أقترح لكل من النموذجين أعلاه، ونسبة لاحتمال تفاعل المتغيرات المفسّرة مع بعضها البعض، أن تتضمن صياغة المتغيرات المفسّرة تعبيرات لمثل هذا التداخل بحيث توضح طبيعة التفاعل تحت الدراسة.

المنهجية المقترحة لدراسة تأثير الدخول والخروج على الإنتاجية

أخذ الاجتماع علماً بأكثر المفاهيم استخداماً لقياس الإنتاجية، وهما مفهوم الإنتاجية الكلية لعوامل الإنتاج وإنتاجية العمل. وعلى الرغم من احتواء مفهوم الإنتاجية الكلية لعوامل الإنتاج على معلومات أكثر مقارنة بإنتاجية العمل، إلا أنه ينطوي على عدد كبير من الافتراضات للتمكن من تقدير رصيد رأس المال، بما يجعله عرضة لهامش كبير نسبياً من الخطأ في القياس. وعلى هذا الأساس، فقد أقترح التركيز على استخدام مفهوم إنتاجية العمل.

إستناداً إلى هذا الاتفاق، فإن تنفيذ الدراسات القطرية يتطلب توفير تحليل وصفي لكل قطر (للفترة منذ عام 1995) يشتمل على تغير الإنتاجية لكل المنشآت حسب تصنيفها للسنوات تحت الدراسة ولمختلف الصناعات وكذلك للتغير في الإنتاجية للمنشآت الداخلة وتلك الخارجة لفترات زمنية لاحقة.

وللتعمق في دراسة الإنتاجية فقد أقترح تطبيق منهجية محاسبية ترمي إلى تفكيك إنتاجية العامل على مستوى الصناعة (التي تساوي المتوسط المرجح لإنتاجية العامل في كل منشأة، حيث تمثل الأوزان نصيب المنشأة في التشغيل على مستوى الصناعة) لعدد من المكونات هي:

1. إعادة الهيكلة الداخلية (بمعنى تغير الإنتاجية للمنشآت المستمرة داخل الصناعة)؛
2. الحصة السوقية (بمعنى تغير حصة المنشآت المستمرة من السوق)؛
3. المنشآت الداخلة (يتمثل في إضافة المساهمة النسبية لإنتاجية هذه المنشآت)؛
4. المنشآت الخارجة (يتمثل في طرح المساهمة النسبية لإنتاجية هذه المنشآت)؛

ولاستكشاف العوامل المؤثرة في تغير الإنتاجية فقد أقترح تقدير نموذج إقتصادي قياسي، بحيث يكون التغير في لوغاريتم إنتاج المنشأة المستمرة في سنة معينة هو المتغير التابع. وفي ما يتعلق بالمتغيرات المفسّرة، أقترح أن تشتمل على: التغير في لوغاريتم كل من رصيد رأس مال المنشأة، عدد العمال، حالتها التنافسية (مقاسة بالانفتاح التجاري على مستوى القطاع وبنسبة التركز بين المنشآت المستمرة)، معدل الدخول، ومعدل الخروج. أما بالنسبة لتفسير العلاقة السببية فقد أقترح التركيز على معاملات تقدير لوغاريتم الدخول والخروج.

مراجعة كتاب

إقتصاديات التنمية: من فقر الدول إلى ثرائها

مراجعة : علي عبد القادر علي

مراجعة كتاب
اقتصاديات التنمية : من فقر الدول إلى ثرائها

Development Economics: From the Poverty to the Wealth of Nations

Yujir Hayami and Yoshihisa Godo

Oxford University Press (2005), Oxford

مراجعة : علي عبد القادر علي*

مقدمة

مؤلفا هذا الكتاب هما بروفسور يوجيرو هيامي، رئيس كلية الدراسات العليا بمؤسسة الدراسات العليا حول التنمية الدولية، وأستاذ الاقتصاد بالمعهد الوطني للدراسات العليا حول دراسات السياسات بطوكيو، ويوشيهيسا جودو، أستاذ الاقتصاد المشارك بجامعة ميجي جاكوين، والأستاذ المشارك الزائر بالمعهد الوطني للدراسات العُليا حول دراسات السياسات، بطوكيو.

يشمل الكتاب، الذي يقع في 430 صفحة من القطع الصغير (باستثناء الصفات بالأرقام اليونانية)، على مقدمة، وعشرة فصول وثلاثة ملاحق فنية، وقائمة للمراجع. تضم 596 مرجعاً.

في مقدمته يبين الكتاب التفاوت الكبير في توزيع الدخل على مستوى العالم، حيث يحظى 16% من سكان العالم (حوالي 950 مليون نسمة) بأكثر من 80 في المائة من الدخل، بينما يحصل أفقر 40% في المائة من سكان العالم (حوالي 2.5 بليون نسمة) على 3 في المائة فقط من الدخل. كذلك يبين الكتاب أن متوسط دخل الفرد في أوساط فقراء العالم كان قد نمى بمعدلات سنوية تقل عن تلك التي سجلت لمتوسط دخل الفرد في أوساط أثرياء العالم، مما يعني تفاقماً لحالة التفاوت في توزيع الدخل العالمي. بالإضافة إلى الفقر الذي يعكسه مقياس الدخل، فإن المقدمة تشير إلى التفاوت في مجال الاحتياجات الأساسية كما تعكسها مؤشرات التغذية ومعدل وفيات الرضع. على أساس من هذه المقارنات، فإنه لا بد أن يكون "الانعتاق من أسر هذا الشقاء من خلال إحداث التنمية الاقتصادية هدفاً وطنياً مشتركاً لكل الدول ذات الدخل المتدني" (ص 1).

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* وكيل المعهد العربي للتخطيط بالكويت.

حددت المقدمة الهدف النهائي لاقتصاديات التنمية في الحصول على إجابة للسؤال "كيف يمكن وضع الاقتصاديات ذات الدخل المتدني في عالم اليوم في مسار التنمية الاقتصادية القابلة للاستمرار، وذلك بهدف الإقلال من الفقر على المدى الزمني القصير، وبهدف اللحاق بمستويات المعيشة المتحققة في الدول المتقدمة على المدى الزمني الطويل؟" (ص 2).

تفرق المقدمة ، كما جرت العادة، بين "النمو الاقتصادي"، الذي يعنى بالتوسع الكمي في المتغيرات الاقتصادية التجميعية، و "التنمية الاقتصادية"، بمعنى العملية التي تُعنى ليس فقط بالتوسع الاقتصادي الكمي وإنما أيضاً بالتغيرات في العوامل غير الكمية كالمؤسسات والمنظمات والثقافة التي تعمل في إطارها الاقتصاديات. ويعني هذا التوضيح أن هناك علاقات سببية متداخلة بين المفهومين لابد للتحليل المتقن من أخذها في الاعتبار.

توضح المقدمة أن أحد نقاط تركيز الكتاب تتمثل في المقترح المتعلق بدور عملية نقل التكنولوجيا، كأحد أهم الوسائل المتاحة للدول النامية للحاق بركب الدول المتقدمة على المدى الزمني الطويل. وتتطلب عملية نقل التكنولوجيا تطور مؤسسات ملائمة في الدول المستقبلة شريطة أن تكون هذه المؤسسات متسقة مع قيم الناس في هذه الدول. كما توضح المقدمة أن الكتاب يولي اهتماماً خاصاً بقضية إختيار النظام الاقتصادي الأمثل الذي من شأنه تحقيق التنمية، بمعنى التوليفة المثلى بين مؤسسات السوق والدولة والمجتمع، وهي مؤسسات تعمل في مجال تنسيق تقسيم العمل بين الناس ، من خلال المنافسة، والقهر، والتعاون على التوالي .

تشتمل بقية هذه المراجعة على ستة أجزاء، هي على التوالي ، إطار نظري للتنمية الاقتصادية، والدول النامية: منظور مقارن ، و النمو السكاني وقيد الموارد الطبيعية، وتراكم رأس المال والتقدم التقني والتنمية الاقتصادية ، وتوزيع الدخل ، والفقر ومشاكل البيئة، والسوق والدولة والمجتمع .

إطار نظري للتنمية الاقتصادية

في الفصل الأول، تم تطوير إطار نظري ليحكم محتوى بقية الفصول، حيث نظر إلى تنمية المجتمع على أنها عملية تفاعل بين النظام الفرعي للاقتصاد (الذي ينطوي على النشاطات الإنتاجية للسلع والخدمات) والنظام الفرعي الثقافي والمؤسساتي (الذي ينسق ويتحكم في النشاطات الاقتصادية من خلال القوانين والأعراف كمؤسسات ومن خلال قيم المجتمع). ولتوضيح عملية التفاعل، فإنه يمكن تصور حالة ازدياد الندرة النسبية للموارد الطبيعية (كالأرض الزراعية) مقارنة بالعمال وذلك بسبب نمو السكان، وهي حالة ربما تطلبت تغير تقنيات الإنتاج للإقلال من نسبة الأرض للعاملة. وليتمكن المجتمع من تطوير واستخدام التقنيات الجديدة للإنتاج، فإنه ربما احتاج لمؤسسات (بمعنى القوانين والأعراف) جديدة، كتلك المتعلقة بملكية الأرض الزراعية، على سبيل المثال. وللتأسيس النظري لمثل هذا التفاعل بين الأنظمة الفرعية للمجتمع، يستعرض الفصل باقتدار فني ملحوظ نظريتي "الابتكار التقني المحفز" و "الابتكار المؤسسي المحفز"، ونموذج السوق السياسي الذي يحدد عرض السلع العامة من خلال تفاعل السياسيين مع الناخبين، واعتماد الأداء الاقتصادي المشاهد على المسار التاريخي للدول، الذي يتحدد بواسطة القيم الثقافية.

وبهدف تبرير محتوى بقية فصول الكتاب في تناولها لمختلف الموضوعات، يقدم الفصل الأول استعراضاً مكثفاً، وشيقاً، لتطبيق الإطار النظري في الدول النامية. ويلاحظ في هذا الصدد، أن أحد أهم المعضلات التي تواجه الدول النامية هو معدل السرعة التي تتغير بها الهبات الطبيعية من الموارد وتقنيات الإنتاج، خصوصاً في ظل المعدلات المرتفعة لنمو السكان. يتطلب التأقلم مع هذه التغيرات المتسارعة تطوير أطر مؤسسية ملائمة لنقل التقنيات التي تم تطويرها في دول حققت التحول الهيكلي، بحيث يتم إحلال العمالة ورأس المال محل الموارد الطبيعية. وتكمن المفارقة هنا في أن الأطر المؤسسية، على عكس تقنيات الإنتاج وهبات الموارد الطبيعية، تتغير عبر الزمن بمعدلات بطيئة للغاية، الأمر الذي يترتب عليه إعادة إنتاج مظاهر تقنيات الإنتاج القديمة من عمالة فائضة، وبطالة مقنعة، وإنتاجية متدنية. وهكذا تتأكد عملية التفاعل بين النظام الاقتصادي الفرعي والنظام الفرعي الثقافي والمؤسساتي، التي يمكن أن تترتب عليها كوارث تنموية لاختلاف معدلات التغير مع الزمن للنظامين الفرعيين.

الدول النامية : منظور مقارن

قبيل الانتقال لتحليل مختلف جوانب التنمية تناول الفصل الثاني الحالة الاقتصادية الراهنة للدول النامية، مقارنة بالدول المتقدمة، وذلك بالتركيز على النمو الاقتصادي والتحول الهيكلي، وتراكم رأس المال، وتراكم رأس المال البشري، والسكان والموارد الطبيعية والغذاء. وقد استخدم الفصل المعلومات التي يوفرها تقرير البنك الدولي حول "مؤشرات التنمية في العالم"، مدعمة بمعلومات من قواعد بيانات برنامج الأمم المتحدة الإنمائي، ومنظمة الأغذية والزراعة التابعة للأمم المتحدة. وعلى الرغم من أن معلومات هذه المصادر تغطي أكثر من 200 دولة وتتوفر لأكثر من 500 متغير، إلا أن المقارنة بين الدول قد اقتصرت على 17 دولة مختارة: 3 من أفريقيا (أثيوبيا ونيجيريا وكينيا)، و 3 من جنوب آسيا (بنغلادش، والباكستان والهند)، و4 من شرق آسيا (إندونيسيا، والصين، وتايلاند، وكوريا)، و 3 من أمريكا اللاتينية (بيرو ، والبرازيل ، والأرجنتين)، و4 من الدول المتقدمة الأعضاء في منظمة التعاون الاقتصادي والتنمية (فرنسا، والمملكة المتحدة، والولايات المتحدة، واليابان). وقد تم تلخيص المعلومات المتوفرة في ستة جداول اشتملت على 18 متغيراً تنموياً شملت كلاً من: متوسط دخل الفرد بالدولار الجاري وبالمكافئ الشرائي للدولار، ومعدل النمو الاقتصادي، ومؤشر التنمية البشرية (جدول رقم 1)، ومساهمة كل من قطاعات الزراعة والصناعة والخدمات في الناتج المحلي الإجمالي (جدول رقم 2)، وحصة الصادرات المصنعة في إجمالي الصادرات، ومؤشر منظمة اليونيدو لتنافسية الأداء الصناعي (جدول رقم 3)، والاستثمار والادخار ، كل كنسبة من الناتج المحلي الإجمالي، ونسبة إجمالي الدين الخارجي للصادرات ، ومعدل التضخم (جدول رقم 4)، ومتوسط سنوات الدراسة للسكان 25 سنة فما فوق، ومتوسط توقع الحياة عند الولادة (جدول رقم 5)، والكثافة السكانية في الكيلومتر المربع ، ومعدل نمو السكان ، ومعدل نمو الأراضي الزراعية ، ومعدل نمو إنتاج الغذاء للفرد (جدول رقم 6). ولأغراض المقارنة، فقد تم تقدير علاقات سببية بين المرحلة التنموية، كما يعكسها متوسط دخل الفرد ، ومعدل نمو دخل الفرد (كمتغيرات مفسرة)، ومختلف مؤشرات التنمية الأخرى، وتم عرض هذه المعادلات المقدرة في أشكال بيانية، حددت مواقع مختلف الدول المختارة بالنسبة للعلاقة المتوسطة التي تم تقديرها.

النمو السكاني وقيد الموارد الطبيعية

في الفصلين الثالث والرابع تم تناول قضية نمو السكان وتفاعلها مع ندرة الموارد الطبيعية . في مقدمة هذا الفصل، تمت ملاحظة أن الدول ذات الدخل المتدني في سعيها للإفلات من حالة الركود الاقتصادي والانطلاق في مسار التنمية الحديثة، تواجه مشكلة النمو السكاني المتسارع وما يترتب على ذلك من تسارع نسبي في إنهاك هبات الموارد الطبيعية. ولتناول القضايا التي تثيرها هذه العلاقة الهيكلية، يقدم الفصل الثالث منظوراً تاريخياً ونظرياً لمستقبل الدول النامية التي تعاني حالياً من انفجار سكاني. ويتناول الفصل العلاقة بين النمو السكاني والتنمية الاقتصادية بالنظر إلى التغيرات التي حدثت في حجم ، وتوزيع، سكان العالم خلال الفترة منذ عام 1000 وحتى عام 2050 (جدول رقم 1)، حيث تم التوزيع على المناطق المأهولة بالأوروبيين ، وآسيا وأفريقيا، ينتقل الفصل بعد ذلك لمناقشة "نظرية الانتقال الديموغرافي" ، وهي نظرية تقول بأنه خلال فترة النمو الاقتصادي الحديث مرّت الدول بثلاث مراحل : الأولى هي مرحلة النمو السكاني المتسارع بفعل انخفاض معدل الوفيات، وثبات معدل المواليد، والثانية هي مرحلة ثبات كل من المعدلين والحفاظ على معدل مرتفع للنمو السكاني ، والثالثة هي مرحلة انخفاض معدل المواليد بمعدل أكبر من انخفاض معدل الوفيات مما يترتب عليه من انخفاض في معدل النمو السكاني . وبعد مناقشة الشواهد التاريخية، يستعرض الفصل تجربة الهند كمثال للدول النامية في هذا المجال، وذلك لتوفر المعلومات. وينتقل الفصل بعد ذلك لمناقشة " نظرية الانتقال الديموغرافي " من وجهة نظر أهم النماذج الاقتصادية : نموذج مالثوس الشهير، والنموذج النيوكلاسيكي الذي يعتمد على تفضيلات الآباء حول عدد الأبناء الذين يرغبون في إنجابهم حسبما تعبر عن ذلك دوال رفاهيتهم. ويتناول الفصل بعد ذلك، قضية كيفية إعاقة الهبات الطبيعية الثابتة لعملية التنمية الاقتصادية في ظل النمو السكاني، من خلال إستعراض نتائج نموذج "نادي روما"، الذي يمثل تطبيقاً لنموذج مالثوس ونموذج ريكاردو، ونموذج لويس للاقتصاديات الثنائية (وكلها نماذج ذاع صيتها في الأدبيات المتخصصة). وبعد، كيف يمكن تحقيق زيادة في إنتاج الغذاء بمعدلات تفوق معدلات نمو السكان؟ حتى يتسنى للدول ذات الدخل المتدني تحقيق معدلات نمو إقتصادية قابلة للاستمرار تتم الإجابة على هذا السؤال في الفصل الرابع من خلال استعراض مكثف للشواهد التاريخية، حول ما توفره التقنيات الزراعية التي تم تطويرها عن طريق البحث العلمي (البذور المحسنة، والري) من إمكانيات هائلة لزيادة إنتاجية الأراضي الزراعية (الغلة الفدانية أو الهكتارية) . واشتمل استعراض التجارب التاريخية الناجحة في هذا المجال على أمثلة الولايات المتحدة الأمريكية، واليابان، وكوريا، وإندونيسيا، وتايوان، والفلبين، بما في ذلك نقاش عملية انتشار تقنيات الإنتاج الزراعي في شرق آسيا، كما تمت مقارنة إتساق هذه التجارب مع نموذج الابتكارات التقنية المحفزة بغية استنباط العوائق التي تكتنف هذه العملية، خصوصاً في أفريقيا (نيجيريا وتنزانيا). وبالإضافة إلى الأراضي الزراعية، كمثال للموارد الطبيعية، فقد تطرق الفصل إلى إمكانية تحقيق التنمية من خلال استغلال الفائض في مثل هذه الموارد، كما حدث في كل من أوستراليا والولايات المتحدة الأمريكية ونيوزلندة، في المراحل الأولية لتطورها الاقتصادي. وفي هذا الصدد، تناول الفصل نظرية "منفذ الفائض" وأطروحة "المرض الهولندي". ويذكر في هذا الصدد، أن أطروحة المرض الهولندي تُعنى بمشاهدة

حالة إكتشاف، واستغلال ، موارد طبيعية هائلة تؤدي إلى فائض في ميزان المدفوعات، يترتب عليها مغالاة في سعر الصرف، مما يؤدي إلى فقدان القطاعات الإنتاجية السابقة للاكتشاف ، والتي كانت سائدة في الهيكل الإنتاجي، لفقدان تنافسيتها مما يترتب عليه زيادة في معدلات البطالة .

تراكم رأس المال والتقدم التقني والتنمية الاقتصادية

تناول الفصل الخامس محاولة الإجابة على السؤال حول ما هو المستوى ، والتخصيص الأمثل للاستثمار بحيث تتمكن الدول النامية من الانطلاق في مسار التنمية الصناعية القابلة للاستمرار؟ قدم الفصل تأسيساً نظرياً لقضايا أهمية تراكم رأس المال في عملية التنمية، باستعراضه لمساهمات الكتاب الكلاسيكيين كآدم سميث وديفيد ريكاردو كارل ماركس، ثم انتقل بعد ذلك لاستعراض النظريات الراقية للتنمية كنظرية النمو المتوازن لكل من روزنستين – رودان ورانجر نيركسة، ونموذج هارود–ودومار، ونموذج فخ التوازن على مستويات دنيا للدخل كما جاء به لبنستين. بالإضافة إلى ذلك، إستعرض الفصل نظرية النمو الاقتصادي النيوكلاسيكية، التي مؤداها أن نمو دخل الفرد في حالة التوازن المستقر في المدى الزمني الطويل يعتمد على معدل التقدم التقني، وذلك حسبما توضحه تجربة قرن من النمو في الدول المتقدمة. وفي هذا الصدد، يستعرض الفصل نتائج منهجية محاسبية النمو الهادفة إلى التعرف على مصادر النمو الاقتصادي، إستناداً على تجارب الدول المتقدمة، وهي نتائج تؤيد اعتماد النمو طويل المدى على معدل التقدم التقني. وقارن الفصل نتائج محاسبية النمو للاقتصاديات المصنعة حديثاً (كوريا، وتايوان، وهونج كونج، وسنغافورة) مع تلك للدول المتقدمة، حيث وجد أن مساهمة التقدم التقني في نمو إنتاجية العامل للدول النامية (التي قدرت في المتوسط بحوالي 34 %) تقل عن تلك التي قدرت للدول المتقدمة (التي بلغت في المتوسط حوالي 66 %). وتعنى هذه النتائج أن الاعتماد على تراكم رأس المال في زيادة إنتاجية العامل يعدّ نمطاً متوقعاً في حالة الدول التي بدأت عملية التصنيع متأخرة عن الدول المتقدمة، وذلك لاعتمادها على تقنيات الإنتاج التي تم تطويرها في الدول السباقة في عملية التصنيع. وتثير هذه النتائج التساؤل حول ما إذا كانت الدول النامية ستستمر في الاعتماد على تراكم رأس المال للارتفاع بإنتاجية العامل، أم أنها ستنتقل إلى عملية النمو طويل المدى اعتماداً على التقدم التقني؟

يتصدى الفصل السادس للإجابة على هذا السؤال، من خلال تحديد مختلف العوامل المؤثرة في الانتقال من نمط الاعتماد على التراكم إلى نمط الاعتماد على التقدم التقني. وتتمثل أهم النتائج التي توصل إليها التحليل، في أن الاستثمار الحكومي في مجال البحث العلمي والتعليم، وتنظيم الأسواق التنافسية لتشجيع الابتكارات بواسطة منظمي الأعمال والمبادرين، تمثل شروطاً ضرورية للتنمية الصناعية القابلة للاستمرار. وللتوصل لهذه النتيجة يقدم تحليلاً إحصائياً مشوقاً للنمطين، ويلاحظ أن الانتقال من نمط التراكم إلى النمط التقني ربما حدث بفعل انتقال تقنيات الإنتاج الصناعي من الاعتماد على الآلات والمعدات والتطور فيها إلى الاعتماد على الأفكار والبحث والمعرفة، من جانب، وانتقال الطلب من طلب على السلع المنمطة إلى طلب على السلع المختلفة. وللإجابة على السؤال المتعلق بالإطار المؤسسي الملائم للتخصيص الأمثل للاستثمار بغرض حفز التقدم التقني، يستعرض الفصل نتائج النظر إلى مكونات معدل التقدم التقني في الدول المتقدمة. وتشتمل المكونات المعنية على الهيكل العمري والنوعي للسكان، والتعليم ، والتحسن في تخصيص

الموارد، وعوائد الحجم، والتطورات المعرفية. وبمقارنة مساهمة التعليم زائدا مساهمة التطورات المعرفية مع مساهمة رأس المال العيني في الولايات المتحدة الأمريكية للفترة 1948 – 1969، وجد أن مساهمة التطورات في مكونات المعرفة تبلغ ثلاثة أضعاف تلك لرأس المال المعني.

بالإضافة إلى الشواهد التطبيقية، استعرض الفصل نموذج النمو الجواني الذي يُمكن من تحليل حالات مع تقنيات الإنتاج ذات العوائد المتزايدة للحجم، من خلال التركيز على تكاملية رأس المال العيني ورأس المال المعرفي في دالة الإنتاج. وتؤكد نتائج هذا النموذج أهمية ابتداع مؤسسات ملائمة لتعظيم النمو الاقتصادي الذي يترتب على مثل هذا التكامل.

توزيع الدخل، والفقر، ومشاكل البيئة

خُصص الفصل السابع لمناقشة قضايا توزيع الدخل والفقر والمشاكل البيئية. وتم تبرير أهمية تناول هذه القضايا على أساس المقترح القائل بأنه خلال المراحل الأولية للتنمية يتوقع زيادة درجة عدم العدالة في توزيع الدخل قبل أن تنزع نحو الانخفاض في المراحل التنموية المتقدمة. أما في ما يتعلق بمشاكل البيئة، فقد لوحظ أن المراحل الأولى لعملية التصنيع عادةً ما لا تولي إهتماماً بقضايا التحكم في التلوث والاقتصاد في الطاقة، مما يترتب عليه خطر تفاقم تلوث الهواء والماء إلى مستويات غير مقبولة. ولمناقشة هذه القضايا، إستعرض الفصل مفاهيم، وقياس عدالة توزيع الدخل (بالتركيز على منحنى لورنز، الذي يلخص حالة توزيع الدخل، ومعامل جيني الذي يعتمد على منحنى لورنز، والذي تتراوح قيمته من صفر في حالة العدالة الكاملة إلى واحد في حالة عدم المساواة الكاملة). كذلك إستعرض الفصل مفاهيم وقياس الفقر، بما في ذلك مفهوم مستوى المعيشة وخط الفقر الذي يعتمد عليه بالإضافة إلى مؤشرات تعداد الرؤوس، فجوة الفقر، الفجوة التربيعية للفقر، وهي أشهر المؤشرات المستخدمة في الأدبيات المتخصصة. وقدم الفصل تقديرات للعلاقة بين مستوى التنمية (كما يعكسه متوسط دخل الفرد) ودرجة عدم عدالة التوزيع (كما يعكسها معامل جيني) وذلك لعينة دولية من 45 دولة توفرت لها المعلومات من مصادر البنك الدولي.

هذا وقد أيدت النتائج وجود العلاقة كما قال بها كوزنتز من أنه في المراحل الأولية للتنمية تنزع درجة عدم العدالة في توزيع الدخل إلى الارتفاع قبل النزوع نحو الانخفاض كلما تطور البلد المعني. كذلك أورد الفصل نتائج تطبيقية حول العلاقة بين مؤشري تعداد الرؤوس وفجوة الفقر، من جانب، ومتوسط دخل الفرد من جانب آخر، وحيث وجد أن ارتفاع دخل الفرد يؤدي إلى الإقلال من الفقر حسب التوقعات النظرية. وبعد ذلك، عدد الفصل أسباب عدم المساواة في توزيع الدخل التي اشتملت على التغير في أنصبة عوامل الإنتاج في الناتج المحلي الإجمالي، والهيكل الثنائي لاقتصاديات الدول النامية، والتفاوت في متوسط الدخل بين القطاع الزراعي والقطاع غير الزراعي، كما ناقش السياسات التوزيعية الملائمة للدول النامية. وفي هذا الصدد، تطرق الفصل إلى الظروف التاريخية والموضوعية التي أدت إلى نجاح برامج الإصلاح الزراعي في شرق آسيا في أعقاب الحرب العالمية الثانية والتي اشتملت على فرض مثل هذه البرامج بواسطة القوى المحتلة لليابان، وبواسطة القوى المهاجرة من الصين إلى تايوان، وتحت تهديد الخطر الشيوعي القادم من الشمال في حالة كوريا. بالإضافة إلى هذه، فقد ساعد في نجاح هذه البرامج وجود أجهزة بيروقراطية منضبطة،

ومعلومات دقيقة حول ملكية الأرض، ومزارعين منظمين على شكل تعاونيات واتحادات ونقابات. وبسبب من عدم إمكانية توفر شروط النجاح هذه في عدد كبير من الدول النامية، فشلت جهود الإصلاح الزراعي السابقة، ويقترح الفصل أن البديل التوزيعي الأمثل لهذه الدول يتمثل في تطوير ضريبة على الأرض تفرض على قيمة الأصل وتثبت لفترة زمنية معقولة، حتى لا تخلّ بجانب الحوافز والتخصيص الأمثل للموارد. ويعتمد فرض مثل هذه الضريبة على توفر المعلومات الدقيقة حول ملكية الأرض، مما يستدعي القيام بمسح عقاري شامل (ربما استغرق زمناً طويلاً كما حدث في اليابان في قديم الزمان، واستمر تسع سنوات 1873 – 1881). يوضح الفصل السابع خصائص التقدم التقني في قطاع الزراعة. الذي من شأنه الانتقال بهذا القطاع من حالة الركود والفقر إلى مستوى أفضل من خلال تحليل معلومات مسح أجرى في قريتين إندونيسيتين، إحداهما طبقت تقنيات بذور محسنة للأرز والثانية لم تطبق هذه التقنية. وأوضحت النتائج أنه في حين ارتفع نصيب العمل في إجمالي الناتج ، وانخفض نصيب الملاك الزراعيين في القرية المطبقة للتقنيات، فقد حدث العكس في القرية الثانية. وتعني هذه التجربة أنه ينبغي للابتكارات التقنية أن تتصف بالاقتصاد في استخدام الأرض وبالكثافة في استخدام الأيدي العاملة.

يعرف الفصل المشكلة البيئية بأنها "مشكلة إستنفاذ الموارد الطبيعية، المترتب على استغلالها بمعدلات تفوق معدلات تجددها، بطريقة تهدد مقومات الحياة". وعلى أساس هذا التعريف، يوضح الفصل أنه عادةً ما يصعب تحديد وحماية ملكية الموارد الطبيعية، مما يعني أنه بإمكان الناس إستخدامها دون مقابلة تكاليف هذا الاستخدام، ويعني ذلك أن الموارد الطبيعية تتصف بخاصية صعوبة منع إستخدامها بواسطة الذين لا يقابلون تكلفة مثل هذا الاستخدام، وهي خاصية تؤدي إلى إختلاف التكلفة الخاصة عن التكلفة العامة، ومن ثم إلى الاستغلال غير الأمثل للموارد. ويوضح الفصل كيفية تأثير النمو السكاني على البيئة الطبيعية من خلال آلية الإفقار، وما يترتب على ذلك من تدهور للبيئة. ويورد الفصل في هذا الصدد، نتائج مسح قام به برنامج الأمم المتحدة للبيئة للعقود الخمسة التي أعقبت عام 1945 حول إنهاك التربة. أوضحت النتائج أن حوالي 17 % من إجمالي الأراضي الزراعية في العالم قد تعرضت للإنهاك : 35 % من هذا الإنهاك قد كان بسبب الرعي الجائر، و30 % بسبب قطع الغابات، و 28 % بسبب النشاطات الزراعية، و7 % بسبب الاستغلال الجائر ، و1 % بسبب التصنيع. هذا ما كان من أمر تدهور البيئة في القطاع الريفي في الدول النامية. وفي ما يتعلق بتدهور البيئة في القطاع الحضري، الذي يأخذ شكل تلوث البيئة من جراء التنمية الصناعية وعملية انتقال السكان من القطاع الريفي للقطاع الحضري، فقد قام الفصل باختبار أطروحة منحنى كوزنتز للبيئة، التي تتوقع زيادة كمية إنبعاثات ثاني أكسيد الكربون (بالكيلو جرام لكل دولار من الناتج المحلي الإجمالي) خلال المراحل الأولى للتنمية (كما يعبر عنها الناتج المحلي الإجمالي للفرد) قبل أن تأخذ في الانخفاض. هذا وقد أيّدت نتائج التحليل (لعينة من 46 دولة) وجود علاقة تربيعية على شكل منحنى كوزنتز.

السوق والدولة والمجتمع

ما هو النظام الاقتصادي الأكثر ملاءمة لدعم مسيرة التنمية الاقتصادية؟ يتصدى للإجابة على هذا السؤال الفصلان الثامن والتاسع. يعرف الفصل الثامن النظام الاقتصادي على أنه "إطار مؤسسي

يقوم بتنسيق المنافسة بين الناس في استخدامهم للموارد"، ويركز على العلاقة بين السوق والدولة كمنظمات تحدد خصائص النظام الاقتصادي، حيث عُرّف تعبير منظمة على أنها "هيئة وظيفية تنظمها مجموعة من القوانين"، وتعبير مؤسسة على أنها "مجموعة من القوانين لتنظيم الناس في هيئات وظيفية". واختار الفصل إطلاق صفة "المنظمة" على كل من السوق والدولة، بغرض التركيز على دور كل منهما، إلا أنه لاحظ أنه ليس هناك ما يمنع من إطلاق صفة "المؤسسة" على أي منهما. ويقدم الفصل إطاراً شاملاً ومتماسكاً للمواضيع التنموية ذات الصلة يُمكن من اختيار النظام الاقتصادي الملائم لمختلف الموروثات الثقافية والاجتماعية في مختلف مراحل التنمية. واشتملت المواضيع التي تناولها الفصل على "الوظائف الاقتصادية للسوق وللدولة"، بما في ذلك كفاءة الأسواق التنافسية، وإخفاق آلية السوق، وإخفاق الدولة، واختيار النظام الاقتصادي؛ و "حول حجة حماية الصناعة الناشئة": بما في ذلك إخفاق آلية السوق في إقتصاد ديناميكي؛ وسياسة التصنيع لإحلال الواردات؛ و "نشأة وانحطاط النماذج التنموية": بما في ذلك حدود المعلومات ودور الأيديولوجيا، وهزيمة إقتصادات السوق التنموية القديمة، وانهيار الاقتصادات المخططة مركزياً، وشرك الشعبوية؛ و "نجاح وفشل إقتصادات السوق التنموية الجديدة": بما في ذلك نظام هذه الاقتصادات، ومصادر النجاح، وما بعد تحقيق هدف اللحاق بالدول المتقدمة؛ و "انتعاش ليبرالية السوق وتبعاتها": بما في ذلك سياسة التكيف الهيكلي لصندوق النقد الدولي والبنك الدولي، وتعاقب الأزمات في أمريكا اللاتينية (المكسيك والأرجنتين)، والأزمة المالية في شرق آسيا؛ و "من وفاق واشنطن إلى ما بعد وفاق واشنطن": بما في ذلك نقد وفاق واشنطن، والإقلال من الفقر كهدف آني، ومآلات ما بعد وفاق واشنطن.

وتناول الفصل التاسع السؤال، حول كيفية إدماج العلاقات المجتمعية في النظام الاقتصادي. وكما سبقت ملاحظته، تمت مقارنة السوق كمنظمة، أو مؤسسة، تعمل على التنسيق بين المتنافسين عن طريق الأسعار، والدولة، كمنظمة، أو مؤسسة، تتدخل في تخصيص الموارد الاقتصادية عن طريق إحتكارها لسلطة القهر، والمجتمع كمنظمة، أو مؤسسة، تنظم الأعمال الجماعية إستناداً على الثقة المتبادلة بين مجموعات صغيرة من الأفراد تتمتع بعلاقات شخصية متينة. ويلاحظ في هذا الصدد، أنه من الناحية النظرية تتصف آلية السوق بالكفاءة في إنتاج السلع الخاصة، بينما تتمتع المجتمعات بميزة نسبية في إنتاج السلع العامة المحلية لمنفعة أفراد المجتمع المحلي المعني، وتختص الدولة بتوفير السلع العامة بتعريفها العريض، كالبحوث العلمية الأساسية وأنظمة القضاء. ويلاحظ في هذا الصدد أنه في إطار الدول النامية حيث تفتقد الأسواق للتنظيم المحكم، وحيث تتصف بقدر كبير من المعلومات غير الكاملة، عادة ما تعجز آلية السوق عن التخصيص الأمثل للموارد حتى في حالة السلع الخاصة. كذلك الحال، تعجز المجتمعات المحلية في الدول النامية عن تطوير آليات ومؤسسات ملائمة لتوفير السلعة العامة المتعلقة بإدارة الموارد الطبيعية القابلة للاستغلال بواسطة كل الأفراد. توفر مثل هذه الحالات تبريراً لتدخل الدولة في النشاطات الهادفة لتوفير السلع الخاصة والسلع العامة المحلية. هذا، وقد اشتملت مواضيع الفصل التاسع على "الوظائف الاقتصادية للمجتمع": بما في ذلك صياغة مشكلة التعاون بين أفراد المجتمع على شكل "معضلة السجين"، و "الثقة كرأس مال إجتماعي"، "توفير السلع العامة المحلية"، و "المنظمات الريفية في الدول النامية": بما في ذلك "هيمنة المزارعين"، و "إدارة الموارد الطبيعية المشتركة"، و "علاقات ملاك الأراضي الزراعية والفلاحين"، ومثال حول "الرشاد الاقتصادي في المجتمعات المحلية" من قريتين من الفلبين، و "دور المجتمع المحلي في تطور الأسواق"، و "نحو توليفة مثلى للمجتمع والسوق والدولة".

يقترح الفصل التاسع أن قضية التوليفة المناسبة لمنظمات السوق والمجتمع و الدولة لأغراض تحقيق نمو اقتصادي قابل للاستمرار في الدول النامية "تمثل أحد أهم أولويات البحوث في إقتصاديات التنمية". ويخلص الفصل العاشر إلى أنه يتوجب على الدول النامية، إذا ما أرادت اللحاق بركب الدول المتقدمة ، تطوير أنظمة إقتصادية فاعلة تتلاءم مع الموروثات الثقافية والاجتماعية المتفردة لكل دولة ومع الاستراتيجيات التنموية التي يتم تبنيها بواسطة كل دولة .

ملاحظات ختامية

يضم هذا الكتاب في صفحاته كماً هائلاً من العلم النظري، والنتائج التطبيقية، في "إقتصاديات التنمية". وهو كتاب تمت صياغة فصوله بلغة واضحة وسلسة على الرغم من بعض التعقيدات النظرية المتعلقة بعدد من المواضيع التي تناولها . ويصلح الكتاب، في ظننا، كمرجع لعدد كبير من الذين يتصدون لقضايا التنمية في مختلف الجهات، بما في ذلك العاملين في وكالات العون الإنمائي في الدول المانحة للعون الإنمائي والعاملين في مؤسسات التمويل الدولية، دون علم يؤهلهم لمثل هذا التصدي وربما لقصور في تدريبهم.

يقف الكتاب، بمحتواه المتقن، شاهداً على استمرار أهمية علم "إقتصاديات التنمية" لتناول قضايا، وسياسات، إحداث التنمية في الدول النامية، وذلك على الرغم من هيمنة الفكر الاقتصادي النيوكلاسيكي على مثل هذا التناول على مدى ربع القرن الماضي، بتأثير من الثلاثي الذي أفرز "وفاق واشنطن": صندوق النقد الدولي، والبنك الدولي، ووزارة الخزانة الأمريكية. ونُسارع لنلاحظ في هذا الصدد، تراجع هذا الثلاثي عن محتوى سياسات "وفاق واشنطن" ، وعن التبشير بالخير الوفير الذي يمكن أن يترتب على اتباعها، وهو تراجع عُبر عنه باعتماد هدف الإقلال من الفقر كهدف محوري للتنمية في الدول النامية على مستوى كل من صندوق النقد الدولي والبنك الدولي. هذا، وقد أعلن البنك الدولي في أغسطس من عام 2004، أنه قد استبدل أداة "الإقراض لأجل التكيف"، وهي الأداة التي كانت قد استحدثت عام 1980، بأداة "الإقراض لسياسة التنمية" !!

كذلك الحال، فإنه يلاحظ أن الكتاب، من دون أن يكون ذلك هدفاً لمؤلفيه، قد أورد في فصله الثامن (من خلال مناقشته المعمقة لأدوار السوق والدولة وتجارب تطبيق سياسات وفاق واشنطن) تأييداً قوياً لما كان يقول به عدد كبير من اقتصادي التنمية في آسيا، وأفريقيا وأمريكا اللاتينية، بما في ذلك عدد كبير من الاقتصاديين العرب ، من تحفظات نظرية وتطبيقية حول إمكانية إحداث التنمية من خلال آلية السوق!! ويقترح في هذا الصدد إستعانة صناع القرار التنموي في مختلف الدول النامية بهذا الكتاب، لفهم طبيعة التحديات التي تواجه بلدانهم في ما يتعلق بتحقيق الهدف المحوري للتنمية .

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- Broadening vision and knowledge among decision-makers, practitioners and researchers in the Arab countries about major development and economic policy issues in the region , in light of recent developments at the domestic, regional, and international levels.
- Provide a forum for intellectual interaction among all parties concerned with Arab economies and societies.

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English Content

The GCC Financial Markets: Stylized Facts and Potential Roles in Regional Development

Ahmad Telfah

The GCC Financial Markets: Stylized Facts and Potential Roles in Regional Development

Ahmad Telfah*

Abstract

The paper discusses some stylized facts in financial literature in application to seven GCC capital markets. The analysis comes in the context of evaluating the potential roles of these markets in enhancing economic development. Analyzing the technical and statistical aspects of these markets using parametric and non-parametric techniques leads to some interesting results to wit: (a) All the GCC financial markets are weak form inefficient; (b) Volatility in the markets has long memory and shocks to volatility persists for long periods in most of the GCC capital markets; (c) Risk is internally priced and investors get compensated for holding more risk; (d) The GCC markets are highly integrated and consequently, investing across the region has very little impact on risk diversification; and (e) The dynamics in the Saudi and Kuwait stock markets spill over to other markets. On assessing the potential roles of the GCC financial markets in enhancing regional economic development, the author utilizes Levine's (1996 and 1997a) two measures for identifying capital markets that act as spur to growth. Findings reveal that the Saudi Stock Market, and to a lesser extent, the Kuwait Stock Exchange, are the only markets that can contribute to long-run economic development in the area.

أسواق الأوراق المالية في دول مجلس التعاون الخليجي : حقائق نمطية والدور المرتقب في التنمية الإقليمية

أحمد طلفاح

ملخص

تناقش الورقة بعض الحقائق النمطية المتعارف عليها في أدبيات الاقتصاد المالي بتطبيقها على أسواق الأوراق المالية في دول مجلس التعاون الخليجي في سياق تقييم الدور المرتقب لهذه الأسواق في تعزيز التنمية الاقتصادية في المنطقة. إن التحليل الفني والقياسي لهذه الأسواق يقود إلى عدد من النتائج أهمها: 1- أن جميع أسواق الأوراق المالية في دول مجلس التعاون الخليجي لا تتمتع بالكفاءة بمفهومها الضعيف. 2- أن التقلبات (الذبذبة) في العوائد في هذه الأسواق تتميز بطول الذاكرة، بمعنى أن أي هزة تؤثر في ذبذبة العوائد سوف تستمر في التأثير في هذه الأسواق لفترات طويلة. 3- أن الأسواق المالية الخليجية تعوض المستثمرين عن المخاطر التي يتحملونها، وأسعار هذه المخاطر متضمنة في العوائد. 4- أن الأسواق الخليجية تتمتع بدرجة عالية من الترابط في ما بينها، فتنويع المحفظة في هذه الأسواق لا يترتب عليه التقليل من درجة المخاطرة التي يتحملها المستثمر. 5- أن التقلبات في السوقين السعودي والكويتي تنتقل إلى باقي أسواق المنطقة. أما على صعيد تقييم الدور المرتقب لأسواق الأوراق المالية الخليجية في تعزيز التنمية الاقتصادية فإن تطبيق معايير ليفين (1996، 1997) في تمييز الأسواق المالية القادرة على تحفيز النمو الاقتصادي تشير إلى أن سوق الأوراق المالية السعودي وعلى نطاق أضيق السوق الكويتي هما السوقان الوحيدان القادران على المساهمة الإيجابية في التنمية الاقتصادية.

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Introduction

The Millennium Development Goals (MDGs) of halving poverty by 2015 seems to be difficult to achieve depending upon "growth alone"-enhancing policies. According to Besley and Burgess (2003), this task requires Developing Countries to more than double its current GDP per capita growth rates. However, the results of Besley and Burgess (op. cit.) and many others including Ravallion (2001) and Wolfenson and Bourguignon (2004) imply that the MDGs may also be achieved by reducing inequality within the so-called the poverty-growth-inequality triangle.

Empirical research on growth of GDP per capita indicates that growth-enhancing policies can also affect income inequality as well. Some policies enhance everybody's income; others raise the income of wealthy groups; and a third spectrum of growth-enhancing policies increases the income of the poor. In this regard, the MDGs may be best achieved by the pro-growth, pro-poor policies. Including many others, Clarke, Xu and Zou (2003), Beck, Demigüç-Kunt, and Levine (2004), and Honohan (2004) argue that a well-functioning financial sector can play this role.

A well-functioning financial market enhances growth by mitigating economic risk, mobilizing savings, reducing frictional costs and increasing specialization. This, in turn, would result in an increase in operational efficiency, and allocative efficiency. Theoretical and empirical research discussing the impact of financial development on growth is overwhelming for anyone to comprehend. It goes back to Gurley and Shaw (1955), Goldsmith (1969), McKinnon (1973) and Shaw (1973) who emphasize that developed financial markets boost economic growth by mobilizing savings and reducing transaction and information costs. A new wave of literature led by the World Bank researchers including Levine (1997b) and Demigüç-Kunt, Laeven and Levine (2004) stress the same finding of the positive impact of financial markets on economic growth.(1)

Unlike the relationship between financial development and economic growth, the theoretical link between financial development and income inequality and alleviation of poverty is less clear-cut. The research on this front started recently and led by the World Bank researchers in relation with the MDGs. Clarke, Xu and Zou (2003) evaluate the relationship between financial intermediary development and the levels of income inequality. Honohan (2004) on the other hand, assesses the impact of financial development on the absolute poverty levels.

Beck, Demigüç-Kunt, and Levine (2004) investigate the relationship between financial intermediaries and changes in income inequality, attempting to test directly for the impact of intermediaries on the growth of the income of the poor and poverty alleviation.

Beck et al. (2004) use a broad sample of 52 developed and developing countries with data averaged over a period of 40 years. Their results were very robust in indicating that financial sector development is pro-poor, in that financial development significantly improves income distribution by disproportionately enhancing the income of the poor. According to their results, Gini coefficient and the standard deviation of income inequality falls more rapidly in countries with higher levels of financial development.

On the social impact of financial intermediation, Beck et al. (op. cit.) find that countries with a better-developed financial sector, have larger decreases in infant mortality. Additionally, they report a strong positive relationship between school enrollment in the primary schools and financial intermediary development. Their results seem to be consistent with Jacoby's (2004) results that financial repression reduces primary schools attendance.

The conclusion of the above studies is consistent with Kuzents'(1955) hypothesis that there is a non-linear relation between financial development and economic development. The relation is close to be humped shape. When financial development is in its initial stages, rich people benefit the most, and income inequality increases. However, after certain levels of financial deepening, financial development becomes pro-poor, and more financial development would reduce income inequality and alleviate poverty.

Finance research on the Gulf Cooperation Council (GCC) markets as a region, is very limited in general and much less on the impact of development of financial sector on economic development. Some of these markets - Saudi, Bahrain, Kuwait, and Oman - are usually included individually in the studies conducted in the Middle East and North Africa (MENA) countries on the financial sector, which is also very limited in number.

Generally speaking, research on the relationship between financial development and economic development in the Arab countries focusing primarily on the impact of financial sector on economic growth, inadequate attention is

given to other institutional or social aspects of development. General results of this type of research indicate that there seems to be no significant impact of the financial sector on economic growth. As a matter of fact, Ben Naceur and Ghazouani (2003 and 2006) report negative impact of the banking system on growth. Ersel and Kandil (2000), Boulila and Trabelsi (2004), Al-Awad and Harb (2005), and Abu Bader and Abu-Qarn (2006) report that economic development affects financial sector development but not the opposite.

Researchers attribute this weak link between the financial sector and growth to a number of factors including: (a) long period of financial repression and the delay of reforms in the Arab countries; (b) high information and transactional costs; (c) ownership structure of large companies and listed companies (large portions of government ownership); (d) sizes of companies listed compared to those unlisted; and (e) weak integration with global markets.

In a related paper, Darrat and Haj (2002) find that financial markets development reduces long-term macroeconomic volatility in some MENA countries including Saudi Arabia. They also observe that financial deepening has different impacts on different sectors. Their results are robust only if financial development persists over a prolonged period of time.

This paper contributes to current literature by analyzing and evaluating the potential roles for the GCC capital markets in enhancing regional economic developments through the services that it provides for investors. It also tests for a number of stylized facts in finance literature in application on the GCC capital markets including market efficiency, volatility dynamics, risk and returns relationship, inter-regional integration and diversification potentials, and the spillover among those markets. The study pertains exclusively to the GCC markets that include:

- Abu Dhabi Securities Market (ADSM)
- Bahrain Stock Exchange (BSE)
- Doha Securities Market (DSM)
- Dubai Financial Market (DFM)
- Kuwait Stock Exchange (KSE)
- Muscat Securities Market (MSM), and
- Saudi Stock Market (SSM).

The Structure of the GCC Securities Markets

All GCC capital markets are considered relatively new by international standards. ADSM was established in 2000; BSE in 1987; DSM in 1995; and DFM in 1990. KSE is the oldest in the GCC region established in 1977, MSM in 1989, and the SSM in 1984. In fact, the GCC Securities Markets are relatively new compared to some Arab Stock Markets, e.g. Egypt (1888, 1903), Lebanon (1920) and Amman Stock Exchange (1976).

GCC markets are basically equity markets, but some of these markets provide other investment instruments like bonds and Islamic Sukuk (Islamic Bonds), mutual funds, options and forwards. Among the seven GCC markets, three markets (BSE, DFM and MSM) have bonds and Islamic Sukuk listed beside stocks. ADMS is under the process of listing bonds and Sukuk. Except for ADSM and DSM, all the GCC markets have mutual funds listed. For derivative securities, the KSE is the only GCC capital market offering call option and forwards trading in the regular market. Previously, KSE had futures contact listed in the regular market, but it has been temporarily stopped. KSE also offers an odd lots market to increase the liquidity of the market and to make a market for investors with small holdings. SSM is in the process of starting an odd lots market.

For comparison purposes, Appendix 1 lists comprehensive statistical and technical information on 23 non-Arab emerging markets. Information includes the number of listed companies, market capitalization, average monthly trading value, turnover ratios, as well as the risk and return measures and other financial ratios for each listed emerging market. In addition, the mean, median, standard deviation, maximum and minimum for each indicator are also provided.

Apart from the SSM, the GCC securities markets are considered small in terms of number of listed companies, market capitalization and trading volume. All of them have less than 200 listed companies. Five markets list less than 100 and three have 50 or less companies listed. The total number of listed companies in the seven markets reached 560 companies by the end of September 2006. Nevertheless, this number is still less than the number of companies listed in the Egyptian Stock Market alone which contains almost 632 listed companies as of September 2006. Also, it is less than the average number of listed companies in emerging markets that is around 600 companies. The number of listed companies in the DFM and DSM is less than 47 companies which is the minimum number

of listed companies in the sample of emerging markets in Appendix 1.

Concerning market capitalization, the total value of market capitalization for the seven GCC markets reached $1150 billion in December 2005 but then fell to $854 billion by September 2006. As a matter of fact, the SSM, ADSM, KSE, DFM and DSM, respectively, were listed as the largest five stock markets (in terms of market capitalization) among the 15 Arab stock markets at the end of 2005. Except for the Saudi market, all GCC markets have market capitalization less than the average of the emerging market sample presented in Appendix 1. However, this is still higher than the minimum market capitalization akin to the stock market in Sri Lanka.

For value traded, the GCC markets ranked among the most active financial markets in the Arab countries. SSM, KSE and DFM ranked as the three most active markets, in this order respectively, in the Arab Countries as of September 2006. The monthly value traded for the seven GCC markets reached around $190 billion in December 2005, then dropped to around $158 billion in September 2006. Excluding the Saudi Market, the monthly value traded in any of the GCC markets is much less than the average value traded in the set of emerging markets presented in Appendix 1.

Table 1 summarizes the general aspects of the GCC stock exchanges in terms of number of listed companies, market capitalization and trading volume for the month of September 2006 and year 2005. Among the GCC stock markets, KSE contains the highest total number of listed companies reaching 175 at the end of September 2006, followed by MSM with 119 companies.

For market capitalization, Table 1 shows that the Saudi market is the largest in terms of market capitalization and the MSM is the smallest despite of it emerging second in terms of listed companies. The market capitalization for the SSM accounts for more than 53.5% of the total market capitalization of the seven markets, whereas the MSM accounts for 1.5% of the total market capitalization of these markets. The size of SSM in 2005 measured by market capitalization is bigger than any emerging market listed in Appendix 1.

Compared to the size of the economy measured by total market capitalization as a percentage of the GDP, the DSM is the largest among the GCC

markets. The total market capitalization for the DSM is over 250% of the GDP at the end of 2005. DSM comes second among the 15 Arab capital markets. The Amman Stock Exchange comes first with a total market capitalization to GDP reaching 296% at end of 2005.(2)

If the number of listed companies is used in conjunction with market capitalization to calculate the market capitalization per listed company, it may be seen that the SSM has the highest market value per listed company among all the GCC stock markets with about $5.65 billion as of September 2006. It may be noted that this number is higher than the per market capitalization of any of the 23 emerging markets listed in Appendix 1. On the other hand, the MSM is the lowest with around $110 million.

In terms of market activity measured by value traded that serves also as a measure of market liquidity, SSM is the most active market with a monthly trading value reaching to more than $136 billion in September 2006, falling from almost $221 billion in February 2006. The trading value in the Saudi market accounts for more than 86% of the total trading value in the seven GCC markets in September 2006. On the other hand, the BSE is the least active among the seven GCC markets, accounting for less than 1% in the total value traded of the markets. Actually, SSM is one of the most active emerging markets ─ the value traded in the Saudi Market is larger than any trading value registered in any emerging market listed in Appendix 1. The Chinese Market is the closest with $62 billion.

For turnover ratio, the ratio of trading value to market capitalization at the end of the trading period, the SSM remains to be the most active market measured by both monthly and yearly turnover ratio. The monthly turnover ratio for the month of September 2006 was 29.83. BSE is the least active market among the seven GCC markets with a monthly turnover ratio equals 0.57. The market capitalization weighted average turnover ratio for the GCC markets in September 2006 was around 18.5. Looking at yearly turnover ratios, SSM is the most active, followed by DFM.

Table 1. The GCC Stock Markets: Some Indicators

Market	No. of Listed Companies		Market Capitalization*** (US$ bil)			Trading Value*** (US$ bil)		Turnover Ratio** (%)	
	Sep 2006	2005	Sep 2006	2005	% of GDP 2005	Sep 2006	2005	Sep 2006	2005
Abu Dhabi	59	59	93.98	132.41	108	2.14	28.51	2.28	21.53
Bahrain	50	47	21.23	17.36	139	0.12	0.71	0.57	4.08
Doha	36	32	65.78	87.14	251	1.10	28.26	1.67	32.45
Dubai	40	30	95.93	111.99	91	13.02	110.30	13.57	98.49
Kuwait	175	158	106.83	142.10	190	4.62	97.58	4.32	68.67
Muscat*	119	139	13.09	12.06	42	0.25	3.20	1.91	25.20
Saudi Arabia	81	77	457.38	646.12	210	136.42	1103.65	29.83	170.84
Total	560	542	854.22	1149.18	150	157.93	1372.21	18.49	119.41

Sources: Arab Monetary Fund available at www.amf.org.ae and Global Investment House, GCC Market Review January 2006, available at www.globalinv.net.
* For Muscat Securities Market, the source is www.msm.gov.om, Reports Section. N.B. Bonds and the investment funds are excluded.
** Market capitalization weighted average turnover ratio.
*** Numbers of market capitalization and value traded are corrected to 4 digits exchange rate.

Regarding future investment opportunities in the GCC, Table 2 shows that high financial ratios were dominant in December 2005 but in the first quarter of 2006, went down gradually to its global averages in September 2006. In the first quarter of the 2006, the Saudi market had the highest Price-Earning Ratio (P/E) and Price to Book Value Ratio (P/BV) among the set of emerging markets when these ratios skyrocketed in March 2006 to 75 times and 13.93 times respectively. ADSM, DSM and DFM had same higher ratios as well, but all returned to the emerging market averages after the large expansion in the Initial Public Offerings (IPOs) and the dramatic correction in the GCC markets that took place in the first half of the year 2006.(3)

Table 2. The GCC Stock Markets: Main Financial Ratios

Market	December 2005			September 2006		
	P/E Ratio	P/BV Ratio	Dividend Yield %	P/E Ratio	P/BV Ratio	Dividend Yield %
Abu Dhabi	20.87	4.33	1.16	11.80	2.79	1.59
Bahrain	16.26	2.09	3.19	13.74	1.96	3.56
Doha	30.61	4.57	1.31	18.96	3.53	2.13
Dubai	19.19	4.42	1.19	12.64	2.94	1.70
Kuwait	13.13	3.29	2.00	12.13	2.70	3.82
Muscat	12.79	2.51	4.03	12.81	2.32	4.17
Saudi Arabia	63.77	10.11	1.33	23.47	5.69	1.93

Depth and Breadth of the GCC Markets with Respect to Economic Structure

A closer look at the companies listed in the GCC markets shows that almost two thirds of the firms listed in the GCC markets are in the services sectors. Services sectors include financial services (banks, investment companies, real estate and insurance), general services, telecommunications and hotels and tourism. The services sectors also account for more than 70% of the market capitalization of the firms listed. The services sectors are the most active sectors in the GCC markets. Around 45% of the value traded in September 2006 in the seven markets is attributed to the services sectors. Within the services sectors, financial service is the dominant sub-sector with a total number of companies listed reaching close to 200 firms. These companies account for more than 42% of the seven GCC market capitalization. However, their contribution to market activity is modest and does not exceed 10% of the total trading value of the seven GCC markets. The detailed classification in each sub-sector is not quite obvious, because of the differences in classification among the GCC markets in reporting.

Although the industrial sector (mining and manufacturing) is dominant in the GCC economies because of the oil industry, it accounts for a smaller portion especially in terms of number of listed companies. The main reason for this disproportion is that most of the oil companies in the GCC countries are not listed in the financial markets. The largest oil companies are totally owned by governments. The total number of industrial companies listed in the GCC capital markets (including the Saudi cement companies and non-Kuwaiti companies listed in the KSE, while excluding the Kuwaiti food companies) are around 30% of the total number as of September 2006. However, industrial companies seem to be very large and active companies, since in total, they account for around 30% of the total market capitalization and 42% of value traded of the seven GCC Markets.

The agriculture and food sectors do not seem to be shown as separate sectors in the GCC markets except in the Saudi market (for agriculture) and KSE (for the food companies). The total number of companies working in agriculture and food industries is around 2.5% of the total number of companies listed in the seven GCC markets with a total market capitalization of less than 1% of the total market capitalization. The small number and size of agriculture companies listed

in the GCC markets is consistent with the small contribution of this sector in the GCC economies. Agriculture sector contributes for less than 1% of the GDP in Bahrain, Kuwait and Qatar and less than 5% for Oman, Saudi Arabia and UAE. Food companies, on the other hand, are listed in most of the GCC markets under the "industrial sector" but not as a separate sector. Food companies are identified in an isolated sector only in the KSE. Generally speaking, the agribusinesses in the GCC countries is usually small and family-owned, Saudi Arabia is the only GCC country that has large agribusiness firms.

As noted earlier, specifying the exact activity of each company in each market is difficult because of the differences in classification among the markets. However, looking at each market individually, does give a better idea. Generally, services sectors (banks, investment companies, real estate, insurance, general services, telecommunications, and hotels and tourism) are the dominant sectors in each individual market led by financial services (mainly banks).

The services sectors account for more than 90% of the total market capitalization of ADSM, and about 83% of value traded. The non-financial services companies seem to include the largest and the most active companies (in terms of trading value). However, measuring market activity via the turnover ratio indicates that the industrial companies are the most active in the ADSM, although its market capitalization is relatively low (less than 10% of the total market capitalization).

For BSE, banking and investment sectors contain the largest and most active companies (measured by trading value) in the market. Banking and investment companies account for more than 75% and 93% of the market capitalization and trading value, respectively. BSE, as a whole, seems not to be very active by the turnover ratio measure. Its companies have the lowest turnover ratios among the companies listed in the GCC capital markets.

Regarding DSM, the banking sector registers the largest companies in terms of market capitalization, and it includes the most active companies in the DSM. The non-financial services sector contains the second largest and second most active companies in the market in terms of trading value and it is ranked first when measuring market activity via turnover ratios.

For DFM, the non-financial services sector is the most dominant considering market capitalization, value traded, and turnover ratio.

For KSE, the financial services companies have the largest listed companies, the largest market capitalization, and the most active companies in terms of value traded and turnover ratios.

The case is the same for MSM where the banking and investment companies are the largest but not the most active in terms of trading value and turnover ratios.

For SSM, the story is totally different. The industrial sector contains the largest number of listed companies with the largest market capitalization and value traded (even without including the cement and electricity companies). The banking sector has the second largest market capitalization but relatively low value traded. However, the agriculture companies seem to be the most active companies in the Saudi Market, if activity is defined in terms of turnover ratios.

Statistical and Economic Aspects of the GCC Stock Returns and Markets

The analysis below depends on the daily price indices for the seven GCC markets as reported by the Arab Monetary Fund (AMF). The indices have different starting dates. ADSM and DFM stock price indices start from May 2, 2004. The DSM stock price index starts from August 22, 2004. For other markets, the indices start from May 29, 2002. The series ends on June 28, 2006.

Appendix 2 shows the pace of the stock prices in the seven GCC markets. The boom in the GCC markets started in 2003 and intensified in early 2005. As also indicated by the figures, this boom continued until the end of the year when market sentiment started to be modified and selling pressures started to appear in November 2005. Since then, there have been dramatic corrections in several markets in early 2006. The corrections started first in the UAE and Qatari markets, where stock price increases were tremendous. In early 2006 and when most markets started to recover, pessimism spread among investors. By then, margin calls increased dramatically leading to panic selling on "Black Tuesday," on March 14, 2006. Governments, in that time, adopted a number of measures in efforts to help calm investors. However, markets remain very sensitive, and this

sensitivity is translated into a further sharp fall in the Saudi Market in mid-April, 2006. The impact of the collapse was asymmetric among the markets. The major effect appears in the Saudi, UAE and Qatari markets.

The boom in the GCC markets in its early stages (2003-2004) may be largely explained by improved earnings related to the increase in oil prices and strong macroeconomic performance. However, the massive increase started at the beginning of 2005 was mostly attributed to: (a) unreasonable expectations of corporate profit growth (after the exceptionally high profits reported at the beginning of 2005); (b) large oversubscriptions on the under-priced initial public offerings (IPOs) especially for newly privatized state-owned companies; and (c) rapid growth in household credit, (see IMF 2006a, b, c and d).

IMF studies (IMF 2006b and c) report that the correction in the GCC markets begun in late 2005, was prompted by several factors: (a) Earning reports for the fourth quarter of 2005 released in early 2006, were lower than the exceptionally high expectations - this is correct especially for the Saudi and Kuwaiti markets; (b) There was a growing belief among investors that high profits reported by some listed companies were a result of equity trading rather than operations; and (c) The huge amounts of money raised through large numbers of IPOs across the GCC countries and delays in refunding oversubscribed amounts contributed in drying up liquidity - as in the cases in Qatar and UAE.

Additionally, as a fourth reason, some regulatory measures and actions taken by authorities to limit speculation at a time when market confidence was already shaky, boosted the downturn in sentiment. For example, Saudi Arabia introduced a regulatory action of further limiting daily fluctuations in individual stocks from 10% to 5%. Such action was interpreted by investors as a lack of confidence in market valuations. As prices began to fall, margin calls intensified selling pressures. Selling contagion spread from Saudi Arabia to other GCC and Arab equity markets since the Saudi market is highly integrated with most of the stock exchanges in the area (see IMF, 2006e).

The GCC authorities reacted to the sharp reduction in stock markets by adopting policy measures aimed at enhancing market liquidity, broadening the investor base, and improving transparency. The Saudi authorities, for example, reversed their earlier procedure limiting daily price fluctuations of individual stocks and allowed stock splits to lower the face value of shares and encourage

broader retail ownership, and also lowering the minimum face value of traded stocks in an effort to make smaller shares attractive. The authorities also allowed foreign residents to trade directly with local exchanges (previously they were restricted to trade only in mutual funds). To improve the quality of information available to investors, the Saudi authorities started to license research institutions to analyze new companies and have introduced harsh new penalties against using insider information, (see IMF, 2006b and d).

In the UAE, in order to enhance the liquidity of the market, authorities reduced the time limit for companies to refund IPO oversubscription. Authorities now require companies to refund IPO oversubscriptions within two weeks. They also raised the ceiling on bank lending against equity holdings and ceased margin requirements from 30% to 20% to lower the risk of forced stock sales that were adding to market pressures. The Central Bank in the UAE has also strengthened monitoring of the banking sector with expanded reporting requirements by local banks to include indirect stock market exposures. This is beside the announcements of potential share purchases by state investment funds operating in the major regional markets lifted market sentiment, (see IMF, 2006b and d).

Appendices 2 and 3 show that the GCC markets faced very volatile periods (especially for ADSM and DFM) during the above mentioned trend that is usually associated with large drops in returns. This is what Black (1976) refers to as leverage effect. By visualizing Appendix 2, it may be concluded easily that all indices are non-stationary, due to the pronounced trend and the changing variance in some markets, e.g. ADSM and DFM.

Appendix 3 plots the daily returns on the seven GCC stock markets. Returns are defined as continuously compounded returns (the natural logarithm first difference). DSM is shown to be the most volatile among the seven markets. ADSM also faces a period of high volatility. BSE and MSM seem to be the most stable markets in the GCC. From the figures in Appendix 3, it may be concluded that the daily returns on the GCC markets are all stationary. A more formal unit root tests including Augmented Dickey-Fuller (ADF) and the Phillips-Parron (PP) are presented below.

As for the unconditional distribution statistics for daily returns of the GCC capital markets, Table 3 shows the mean of daily returns is significantly different than zero for only the BSE, KSE and the Saudi, with the highest for the Saudi

market. However, an ANOVA-F (6, 4145) test for the differences in the means of returns shows that these differences are statistically insignificant.(4)

With respect to volatility measured by the standard deviation, Table 3 shows that UAE stock markets have the highest standard deviation and thus the ADSM and DFM are the most volatile among the GCC capital markets. On the other hand, MSM has the lowest volatility. Using Barlett (6), Levene (6, 4145) and Brown-Forsythe (6, 4145) techniques to test for the differences in variances resulted in a strong rejection of the null hypotheses that the variances of returns in the seven GCC markets are equal.(5)

The coefficient of variation (CV) measured as a standard deviation per unit of returns shows that the UAE has the highest CVs. For ADSM, each unit of return is associated with 141.2 units of risk. For DFM, results show that each unit of return is associated with 53.4 unit of risk. DSM also shows high CV in spite of its relatively low standard deviation, which means that realizing one unit of return in the DSM tolerates investors to very high risk. The lowest CV is found in the MSM market.

Table 3 shows also that BSE, DSM, DFM, and MSM are all positively skewed. This is expected since the means of returns in these markets are higher than the median. This result implies that there are many long periods in these markets with small negative returns, while there are very few periods with high positive returns. Thus, investors in these markets are willing to bear small losses for big positive rewards. On the other hand, the distribution of daily returns in the Saudi market seems to be negatively skewed. This implies that there are many periods of positive returns in the market, but there are few periods of high negative returns.

Since the size of kurtosis of the normal distribution equals 3, all the GCC markets seem to have significant excess kurtosis, which means that there is a higher probability to see outliers in market returns than normal. With these results for skewness and kurtosis, the unconditional distribution of the daily returns in the GCC markets is expected to be far from normality. This result is documented by Jarque-Bera test for normality of Jarque and Bera, (1987). The test statistics of strongly rejects the null hypothesis of normality of the daily returns in the seven GCC markets.

To test for the efficiency of the GCC stock markets, two tests are used - the AR(1) model and the Q-Stats up to 36 lags of Box and Pierce (1970) and Ljung and Box (1979), respectively. The results of the tests indicate that current returns depend on previous returns. For DFM and MSM, current returns are affected by far lagged returns, but not with the directly previous returns. This result indicates that all of the GCC financial markets are weak form inefficient, and of course not semi-strong or strong form efficient. This result of inefficient GCC markets is reported also in Simpson (2004).

To test for volatility dynamics in the GCC markets, Bollerslev's (1986) Generalized Autoregressive Conditional Heteroskedaticity (GARCH) model is used. BSE is found to adhere to a GARCH (0, 1) process, indicating that current conditional volatility in the BSE is affected by the previous level of conditional volatility. Other markets seem to follow GARCH (1, 1) processes. Actually, DSM, KSE, and MSM are found to follow an IGARCH (1, 1) process, since the summation of the parameters of the GARCH process does not statistically differ from 1.

According to Chou (1988), summation of αs and βs represents the change in the response function of shocks to volatility per period. A value greater than unity implies that the response function of volatility increases with time, a value less than one implies that the impact of the shock decays over time.

Estimations for GARCH parameters and applying the necessary associated test statistics on these parameters indicate that the summation of αs and βs are significantly greater than 1 for ADSM, DFM and SSM. This means that any shock to volatility will persist and increase over time. For BSE, the summation of α and β is significantly less than one. This means that any shock to volatility will decay at the end. For other GCC markets, the summations of αs and βs do not significantly differ from one. This means that the process that generates volatility for these markets implies a forecastable conditional volatility with infinite unconditional volatility.(6)

To test for the relationship between risk and returns, Engle, Lilien and Robins (1987) GARCH in mean, (GARCH-M) specification that relates risk to expected returns, is used. The model assumes expected returns to be time varying with conditional volatility. The author uses the square root of GARCH as a measure of conditional volatility.

Results show that all the GCC markets (except DSM) indicate a positive relationship between risk and returns. These results indicate that internal risk is priced in these markets and investors are compensated for holding more risk.

Table 3. Summary Statistics of the Daily Returns of the GCC Markets (May 29, 2002 - June 28, 2006)

	Abu Dhabi	Bahrain	Doha	Dubai	Kuwait	Muscat	Saudi
Mean (%) z-stats	0.078 0.146	0.102** 2.331	0.082 0.576	0.116 0.385	0.102** 2.357	0.12 3.105	0.172** 2.060
Median (%)	0.073	0.032	0.00	0. 175	0.095	0.026	0. 120
Maximum	0.679	0.159	0.116	0.800	0.065	0.123	0.121
Minimum	-0.669	-0.087	-0.099	-0.741	-0.062	-0.056	-0.156
Std Dev (%)	11.024	1.196	2.661	6.184	1.172	1.072	2.266
CV	141.163	11.661	32.408	53.406	11.531	8.756	13.191
Skewness1 t-stats	0.019 1.597	3.126* 34.963	0.257*** 1.957	0.829* 6.969	-0.116 -1.287	2.004* 22.240	-1.270* -14.094
Kurtosis2 t-stats	33.088* 126.465	55.639* 292.095	6.428* 13.053	116.997* 479.149	7.263* 23.655	32.356* 162.897	15.963* 71.932
AR(1)	-0.389*	0.079**	0.209*	0.001	0.175*	0.025	0.090**
Q-Stats (36 lags)	Significant	Insignificant	Significant	Significant3	Significant	Significant4	Significant
PP unit root test5	-34.598	-25.246	-15.054	-26.630	-22.992	-26.824	-29.408
ADF unit root test5	-7.277	-25.277	-15.174	-14.164	-22.956	-27.075	-24.911
Volatility Process GARCH(p,q)-M Parameter αs+βs6	GARCH(1,1) 0.118* 1.370*	GARCH(0,1) 0.076*** 0.923**	GARCH(1,1) 0.002 1.005	GARCH(1,1) 0.088* 1.33*	GARCH(1,1) 0.099** 1.001	GARCH(1,1) 0.117*** 0.994	GARCH(1,1) 0.136* 1.039*
Jarque-Bera7	15993.880	86522.940	174.210	229634.50	561.131	27029.510	5372.847
Observations	424	739	348	424	739	739	739

[1] t=(S'-0)/SE (S') where SE (S')= square root (6/n)
[2] t=(K'-3)/SE (K') where SE (K')= square root (24/n)
[3] lags 2-36 are all significant.
[4] lags 4-36 are all significant.
[5] All test values for the Phillips –Parron (PP) and Augmented Dickey-Fuller (ADF) strongly reject the null hypothesis of non-stationarity (presence of a unit root) at standard significance levels.
[6] The Sum of $\alpha+\beta$ represents the change in the response function of shocks to volatility per period. If $\alpha+\beta=1$, a current shock persists indefinitely in conditioning future variance. If $\alpha_1+\beta_1>1$ then the response function of volatility increases with time. If $\alpha+\beta<1$ this means that shocks decay with time. t-stats for the summation of $\alpha+\beta=1$ is $\frac{\alpha+\beta-1}{\sqrt{se(\alpha)^2+se(\beta)^2+\mathrm{cov}(\alpha+\beta)}}$

[7] H_o of normality assumption is rejected for the seven markets at 99% confidence level.
* Significant at 1%
** Significant at 5%
*** Significant at 10%

Interdependence among the GCC Financial Markets and Inter-Regional Integration

To test for the short term interdependence among the seven GCC markets, the correlation matrix among the daily price indices in the seven markets was calculated. Generally speaking, the GCC markets are found to be highly correlated. The correlation coefficient ranges between 0.52 and 0.95. Results show that the least correlated markets are KSE and ADSM, SSM and ADSM, and then the MSM and DSM. The most correlated markets are MSM and BSE, followed by SSM and KSE and MSM and KSE. Results generally indicate that DSM is the least interdependent. This result differs slightly from that of Simpson and Evans (2004) who reports that the BSE is the least interdependent.

Table 4. Correlation Structure between Daily Indices of the GCC Markets (May 2, 2003 - June 25, 2006).

	ADSM	BSE	DSM	DFM	KSE	MSM	SSM
ADSM	1.00	0.75	0.62	0.77	0.52	0.63	0.54
BSE		1.00	0.81	0.84	0.91	0.95	0.90
DSM			1.00	0.72	0.65	0.59	0.62
DFM				1.00	0.81	0.82	0.79
KSE					1.00	0.92	0.93
MSM						1.00	0.91
SSM							1.00

Correlation among monthly returns (Table 5) shows the same high correlation among the seven GCC Markets. The correlation coefficients range between 72% and 98%. The highest correlation is between the monthly returns in ADSM and DFM, and the lowest between the monthly returns of DSM and BSE.

Table 5. Correlation Structure among Monthly Returns in the GCC Markets
(December 2001 - May 2006)

	ADSM	BSE	DSM	DFM	KSE	MSM	SSM
ADSM	1.00	0.88	0.88	0.98	0.91	0.85	0.96
BSE		1.00	0.72	0.88	0.85	0.96	0.94
DSM			1.00	0.91	0.94	0.78	0.83
DFM				1.00	0.93	0.88	0.96
KSE					1.00	0.89	0.92
MSM						1.00	0.94
SSM							1.00

To investigate whether the strong short-run correlation holds for long-term periods, cointegration techniques of Johansen's (1991, 1995) maximum likelihood estimator is used to test for the integration among the seven GCC financial markets with five lags (a week of trading). As an initial step, formal unit root tests of Augmented Dickey-Fuller (ADF) and the Phillips-Parron (PP) show that the stock price indices in the seven GCC markets are all integrated with order 1, i.e. they all have the unit root or I(1). Collective and bilateral cointegration tests among the GCC stock price indices show that the seven GCC markets are cointegrated. This means that the interdependence among the markets holds also in the long run. The results indicate that diversification among the GCC markets is not beneficial for international investors, i.e. investing in one market is mimicking investing in other markets.

Moreover, Granger (1969) causality tests for 5 lags (a week of trading) show that the Saudi Market Granger causes DSM, DFM, KSE and MSM. On the other hand, the KSE Granger causes DFM, MSM and BSE. The obvious result drawn from the Granger causality test is that DFM is caused by all of the GCC markets except DSM, whereas ADSM is not Granger-caused by any of the markets but Granger causes DFM.[7] This result indicates that there is a spillover in mean from the Saudi and the Kuwaiti markets to most of other GCC markets.

Economic Growth and Development Services of the GCC Capital Markets

Capital markets serves as a source of funding for large projects. Initial public offerings (IPOs) and seasoned equity offerings (SEOs) are the main tools for that. In 2005, around $138.5 billion were raised through 1268 IPOs worldwide compared with $112.2 billion raised though 1352 IPOs in 2004.

For the MENA region, almost $8.1 billion were raised in the Arab Countries through 35 IPOs activities in 2005, more than double of the $3.5 billion raised in 2004. The GCC countries participated with $5.74 billion by 23 IPOs. UAE was the leader through 20 IPOs raising around $1.7 billion. Saudi Arabia was the second. UAE and Saudi Arabia both raised around 40% of the total. Oman, on the other hand, raised $800 million.

This increase in the amount of funds raised through IPOs resulted from improvements in the capital market conditions in the region. As a matter of fact, increasing the liquidity of the main GCC capital markets in the last few years attracted investors to approach the financial markets in the region to obtain funds. In the past few years, the GCC markets witnessed increased depth through new firms' listing and an overall increase in market capitalization.

The GCC governments contributed positively to the liquidity of the markets by listing some of previously public companies in the stock exchanges. Examples are numerous including the ASE Baraka Power Company in Saudi Arabia; Al-Qurain Petrochemical Industries in Kuwait, Qatar Gas Transport Co., Omantel in Oman, Dana Gas and Abu Dhabi National Energy companies.

Around 40 non-listed companies in Saudi Arabia have announced plans to go public in 2006. Nearly 130 companies are waiting approval from authorities in the whole GCC countries to go public. For the period 2006 to 2008, investment bankers expect around $33 billion though IPOs. Such a large number of new listing companies would have different impacts on capital markets. The first impact is raising volatility of the market, as large number of companies gets listed. However, such increase of the number of listed companies and increase in volatility would force the capital markets to show more normal trading pattern, leading to more reasonable P/E ratios and makes it close to the emerging markets average (that is 15.5).

Increasing the number of listed companies increases the activity in the market and gives investors new investment opportunities. Consequently, this leads to an improvement in the liquidity and depth of the market which are the main links to economic development. However, there is still a lot to be done to attract new companies from the region, the Arab Countries or from outside the region. Basically, the GCC needs to open its companies to foreigner investors.

Ability of the GCC Stock Markets to Enhance Economic Developments

Levine (1996 and 1997a) establishes numerical milestones to differentiate among financial markets that enhance economic development and those that do not enhance economic development. According to Levine, the size of the stock market does not matter. What matters is liquidity, i.e. the ability to buy and sell.

The first measure of Levine is the value traded to GDP. High ratios imply high liquidity. Levine differentiates between different levels. The "very illiquid" market cannot promote economic development and this has a percentage of value traded to GDP 1.4 times or less. The "illiquid" market cannot promote economic growth either. In this kind of market, the ratio of traded value to GDP stands around 2.2 times. The "liquid market" has traded value to GDP equals to 2.6 times and more. This amount of liquidity can enhance partially economic development. The "very liquid" market is the market with a ratio of traded value to GDP of 3.4 times or more.

According to Levine's liquidity classifications and based on the information reported in Table 6, the Saudi Market is considered "very liquid" and it can spur economic development in the long run. Other GCC markets are classified as "very illiquid" markets implying that none of them under the current conditions, is expected to contribute to economic development.

The second measure used by Levine (op. cit.) is volatility. Levine classifies markets with annual volatility of 1.0 as "very stable" market, while markets with annual volatility of 1.7 as "stable markets". At the other end of the spectrum, he classifies markets with annual volatility of 1.8 as "volatile", and those with annual 2.8 as "very volatile" markets. Volatility, by itself, is not a measure of market liquidity and it does not hinder growth. The necessary measure here is the turnover ratio to volatility. The higher the turnover ratio to volatility is, the more liquid the market. More liquid markets should be able to handle high volumes of trading without large price swings. This measure, according to Levine, shows that countries with higher turnover ratios to volatility tend to grow faster.

Table 6. GCC Stock Market Measures to Enhance Economic Development.

	(Traded Value/GDP(X	(%)Mkt. Cap/GDP	Annual Volatility	/Turnover Volatility
Abu Dhabi	0.23	108	1.70	0.13
Bahrain	0.06	139	0.19	0.21
Doha	0.81	251	0.41	0.79
Dubai	0.90	91	0.95	1.03
Kuwait	1.46	190	0.19	3.61
Muscat	0.11	42	0.17	1.48
Saudi	3.59	210	0.35	4.89

Based on Levine's classification of stability of financial markets, all the GCC markets are in the "very stable" zone except for ADSM that would be described as "stable". Based on the turnover ratio to volatility, the SSM is the most liquid. Thus, it has the ability to absorb large swings in the trading volume without large swings in volatility. The KSE has the same aspects. According to this measure, both KSE and SSM are liquid and eligible to contribute to the long-run economic development.

According to the aforementioned two measures, SSM and KSE (to a lesser extent) are the only GCC markets eligible to participate in the long-run economic development in the region. Additionally, these two markets are highly integrated with some other Arab Markets and affect them significantly as indicated earlier and as a recent study of the IMF suggests.(8)

Factors Hindering the Growth of the GCC Capital Markets

All GCC markets suffer from the small number of listed companies. This problem accounts for the disproportionately high proportion of the total trading volume in the secondary market. This illiquidity has very important aspects on the efficiency of the market and economic development. Accordingly, the GCC countries are required to attract family companies for listing. Except for BSE, some 20 very large companies or so in each country of the GCC, are not listed on the capital markets. A very small number (less than three in each market) of the largest companies are listed. This is attributable to the fact that the most of the largest companies in the GCC are state-owned.

The biggest problem faced by the GCC capital markets and all the Arab markets is the lack of corporate governance, transparency, financial disclosure, and adoption of international standards. Companies may be listed on the stock markets but still have poor corporate governance. This usually discourages investors, especially foreign ones, from participating since they do not receive full information or do not trust the integrity of the information provided. This was part of the problem of the collapse of the GCC financial markets in early 2006.

Ownership structure of companies listed is another problem. Governments have more than 50% of the equity of most of the listed large companies. The involvement of Governments in these companies always limits foreigners' ownership in these companies. The GCC capital markets are still not totally open in practice to foreign or non-GCC investors. The major investors in the GCC capital markets are citizens of GCC countries. Companies are almost close to non-GCC nationals. Governments have started to ease such controls, but the majority of companies remain closed to non-GCC nationals.

Bahrain lately lifted the restrictions on foreign ownership and allowed other GCC citizens to own up to100% of the shares of listed Bahraini companies. Non-GCC nationals are allowed to own up to 49% (24% previously). In spite of this lifting of controls, the participation of foreigners is still very limited. Generally, the percentage of trading by non-GCC nationals is less than 10%. GCC nationals on the other hand, accounts for more than 30 % of the value traded.

The same issue applies to the UAE Markets. In ADSM, foreigners are allowed to invest in 32 companies with percentages ranging from 20% to 49%. However, actual ownership by foreigners is still very low, and most of the non-UAE investors are of GCC nationality. For DFM, only 18 UAE companies are open to foreign investors with ownership percentages ranging from 15% to 49%. However, for bonds, foreigners are allowed to own up to 100%, and for some bonds, actual ownership structure by foreigners has reached 50%.

In Oman, foreigners are allowed to own up to 70% in some of the companies. However, actual ownership in Omani companies for foreigners is still less than 10% for non-Arabs, less than 1% for the non-GCC Arabs and around 15% for GCC nationals. In DSE, the rules limit maximum ownership for non-

Qatari to 25%. Such controls also exist in Kuwait. Saudi Arabia recently started to allow non-Saudis to trade in the capital market directly rather than through mutual funds, as previously stated.

A promising issue for the GCC markets is that most of them allow for listing foreign companies and allow foreigners to invest up to 100% in these foreign companies. Opening the GCC markets to foreign companies has attracted new companies to be listed or cross listed to benefit from the excess financial liquidity available in the GCC, especially after the dramatic increase in oil prices.

Another factor hindering the GCC market development is that the GCC markets suffer from delays in transactions' execution. This was very obvious in the recent collapse of the GCC markets. Investors were not sure that they were getting their orders transacted immediately at the right prices.

Conclusion and Recommendations

Highly liquid financial markets spur growth and economic development. This result has been documented in many academic works. Although research in this topic has a long history, its application on the GCC region is very limited.

This paper contributes to existing literature by investigating whether the GCC financial markets act as spur to economic growth and development. While pursuing this objective, the paper tested for some theories and stylized facts in financial literature.

Results indicate the following:

- All the GCC financial markets are weak form inefficient, a result consistent with Simpson (2004).
- Volatility in the markets has long memory and shocks to volatility persists for long periods in most of the GCC capital markets, except for BSE.
- Risk is internally priced and investors get compensated for holding more risk (with the exclusion of DSM)
- The GCC markets are highly integrated. As such, investing across the region has very little impact on risk diversification.
- The dynamics in the Saudi Stock Market and the Kuwaiti Stock Exchange

spillover to other markets is noted. Abu Dhabi Securities Market and the Saudi Market seem to be least affected by other markets and Dubai Financial Market appears to be affected the most by other markets.

To evaluate the potential roles of the GCC financial markets in enhancing regional economic development, the paper employs Levine's (1996, 1997a) two milestones for identifying capital markets that serve as spur to growth. Levine's measures focus on liquidity as the link between financial market development and economic development. According to Levine, only liquid financial markets boost economic growth regardless of its sizes. Results indicate that the SSM, and to a lesser extent, the KSE, are the only markets that can lead the economic development process. The Saudi Market is one of the largest and most active and liquid markets among all emerging markets. With its high liquidity, it has the potential to lead the growth and development in the region, especially with its high integration with other Arab Markets.

GCC markets suffer certain problems including the low number of companies listed, the lack of good governance, transparency, financial disclosure and adoption of international standards and the need for these markets to be more open to foreign investors. This scenario requires authorities of the GCC markets to adopt certain measures and procedures including:

- Improving corporate governance, disclosures and adopting international accounting standards;
- Establishing an independent securities market regulatory to regulate markets in some GCC countries like Kuwait;
- Increasing the depth of the market by increasing the securities available to investors;
- The unit of measurement and the price bands of the changes in the stock prices changed from currency units to percentages (namely for KSE).
- Improving the followed rules and practices of the IPO processes. Subscription prices for IPOs should be set through professional underwriters (and not through government agencies) based on appropriate company valuation;
- Replacing the current system that sets multiple margin rates for the same publicly traded security based on the nature of the loan by a single rate for each class of securities;

- Increasing the size of the public float of securities to promote deeper and more liquid markets;
- Increasing the size of institutional investors markets;
- Improving the collection and dissemination of statistical information; and
- Authorities in the region should start a comprehensive assessment of the capital markets regime against the International Organization of Securities Commissions standards.

In short, despite the fact that GCC capital markets are among the most active financial markets in the Arab Region, they are still incapable of actively participating in the regional development and poverty alleviation, as the noble economic theories suggest. It may be generalized that among the 15 Arab capital markets, only one market - the Saudi Market - has the potential to foster economic development in the region. Nevertheless, even the Saudi market still has to adopt many reforming acts to play this role efficiently. Other Arab markets still have a marathon menu of structural and socio-economical changes to be able to catch up.

Footnotes

(1) For a detailed survey of economic literature on the impact of financial development on economic growth, see Boulila and Trabelsi (2004).

(2) These numbers are very high compared with the percentages in emerging economies. According to the World Economic Outlook, in April 2006, the average market capitalization for emerging countries in Asia as a percentage of the 2005 GDP was 39.8%; emerging markets in Europe 54.7% and Latin America Emerging Markets was 49.5%.

(3) Price-Earning ratio (P/E), also known as price multiple, represents the amount the investor will have to pay for each dollar of profits. It is calculated as the ratio of current closing price of the share to the earning per share. P/E ratio changes dramatically, so financial analysts use the price to book value ratio, which is the ratio of the market capitalization to book value (net assets – net liabilities) per share. High P/E ratios reflect high demand on the stock, but very high P/E ratios indicate miss pricing or disequilibrium since the market price does not reflect the fundamentals of the firm. Thus, high P/E ratios imply that the stock prices will eventually decline to reach it is equilibrium levels.

(4) The numbers in brackets for ANOVA-F (6, 4145) refer to the degrees of freedom of the numerator and denominator of the F-test respectively. The first number (6) is the number of series (S) minus 1, whereas the second number is the total number of the observations in the 7 series (T) minus the number of series (S). More about ANOVA-F test for mean differences is presented in the Appendix 4, (see also Judge et al., 1985).

(5) The degrees of freedom for Levene and Brown-Forsythe are the same as ANOVA F test. The degrees of freedom for Barlett is the number of series minus 1(S-1). More about the variances differences tests is presented in the Appendix 4, see also Brown and Forsythe (1974a, 1974b), Levene, (1960) and Neter et al., (1996).

(6) Summation of α and βs as a short hand for $\sum_{Min(\alpha,\beta j)}^{Max(p,q)}(\alpha_i + \beta_j)$ is used to simplify notations.

(7) Results of Cointegration and Granger Causality Tests are available upon request.

(8) See IMF (2006e) draft working paper for comments.

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Appendices

Appendix 1. Major Market Indicators of Some Emerging Non-Arab Markets, 2004

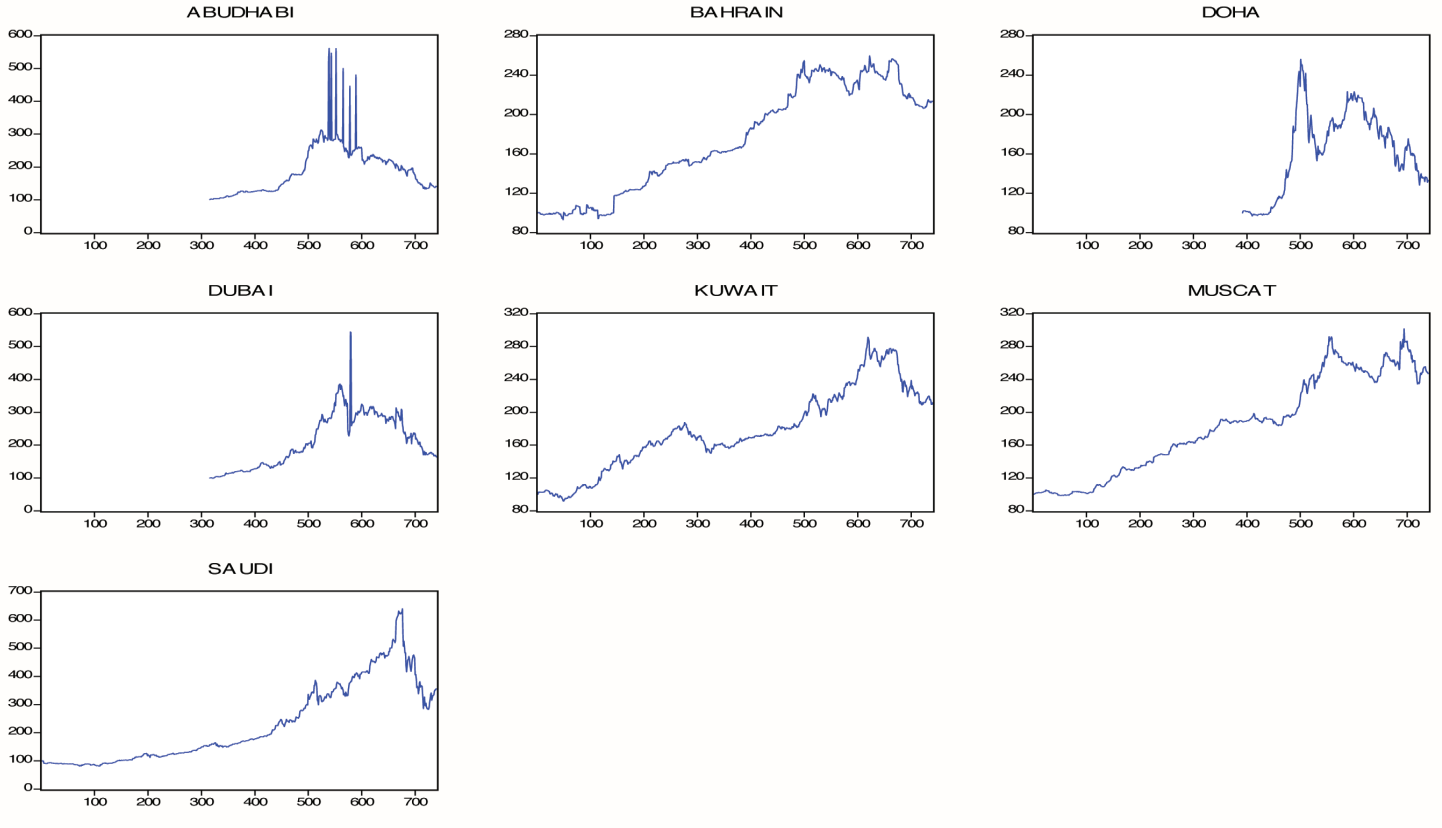
	Number of Listed Companies	.Mkt. Cap mil$	.Avg. Mkt. Cap mil$	Avg. Mthly Trading Value $mil	Turnover ratio (%)	(%) Return	(%) Risk	CV	P/E	P/BV	Dividend Yield (%)
Argentina	104	46,432	446	637	1.37	10.90	47.80	4.39	**47.24**	**2.24**	1.00
Brazil	357	330,347	925	7,798	2.36	21.50	39.70	1.85	**10.80**	**1.84**	4.43
Chile	239	117,065	490	966	0.83	17.70	22.20	1.25	**23.06**	**1.78**	3.01
China	1,384	639,765	462	62,356	9.75	8.20	26.20	3.20	**13.83**	**1.98**	2.26
Colombia	114	25,223	221	122	0.48	71.30	30.50	0.43	**17.67**	**1.92**	2.52
Czech Republic	54	30,863	572	1,472	4.77	45.10	23.10	0.51	**26.64**	**1.34**	4.29
Hungary	47	28,711	611	1,084	3.78	29.10	26.90	0.92	**11.26**	**2.62**	1.95
India	4,730	387,851	82	31,590	8.14	20.60	25.40	1.23	**17.65**	**3.63**	1.53
Indonesia	331	73,251	221	2,297	3.14	32.60	36.00	1.10	**12.91**	**3.10**	3.23
Malaysia	962	190,011	198	4,990	2.63	9.20	18.10	1.97	**16.05**	**1.95**	2.22
Mexico	152	171,940	1,131	3,570	2.08	24.70	22.70	0.92	**15.02**	**2.58**	1.87
Pakistan	661	29,002	44	6,156	21.23	40.30	35.40	0.88	**9.45**	**2.39**	7.04
Peru	194	20,115	104	94	0.47	33.50	24.30	0.73	**11.88**	**2.28**	3.28
Philippines	233	28,948	124	305	1.05	5.10	25.50	5.00	**14.87**	**1.61**	1.65
Poland	225	71,102	316	1,381	1.94	15.00	31.00	2.07	**13.27**	**2.11**	1.28
Russia	215	276,957	1,288	10,903	3.94	42.30	31.50	0.74	**8.19**	**1.11**	3.12
South Africa	402	455,536	1,133	13,569	2.98	23.50	24.70	1.05	**14.97**	**2.43**	2.63
South Korea	1,573	428,649	273	53,241	12.42	33.60	31.90	0.95	**8.24**	**1.36**	2.40
Sri Lanka	245	3,657	15	49	1.34	33.50	41.10	1.23	**11.03**	**1.43**	2.63
Taiwan	697	441,436	633	59,885	13.57	7.00	30.20	4.31	**12.40**	**1.88**	2.95
Thailand	465	115,400	248	9,162	7.94	28.90	31.80	1.10	**11.49**	**2.41**	3.03
Turkey	296	98,299	332	12,286	12.50	16.90	58.50	3.46	**13.61**	**1.92**	1.93
Venezuela	59	6,117	104	38	0.62	5.90	44.40	7.53	**12.44**	**1.63**	5.75
(Mean(1	597	174,638	292	12,346	5.19	25.06	31.69	2.04	**15.39**	**2.07**	2.87
Median	245	98,299	316	3,570	2.98	23.50	30.50	1.23	13.27	1.95	2.63
Standard Deviation	988	١٨٤,٥٩٩	371	19,642	5.43	١٥,٧٥	9.52	1.80	8.17	0.58	1.41
Maximum	4,730	639765	1,288	62,356	21.23	71.30	58.50	7.53	47.24	3.63	7.04
Minimum	47	3657	15	38	0.47	5.10	18.10	0.43	8.19	1.11	1.00

Source: S&P Global Stock Market Fact Book (2005).

N.B.

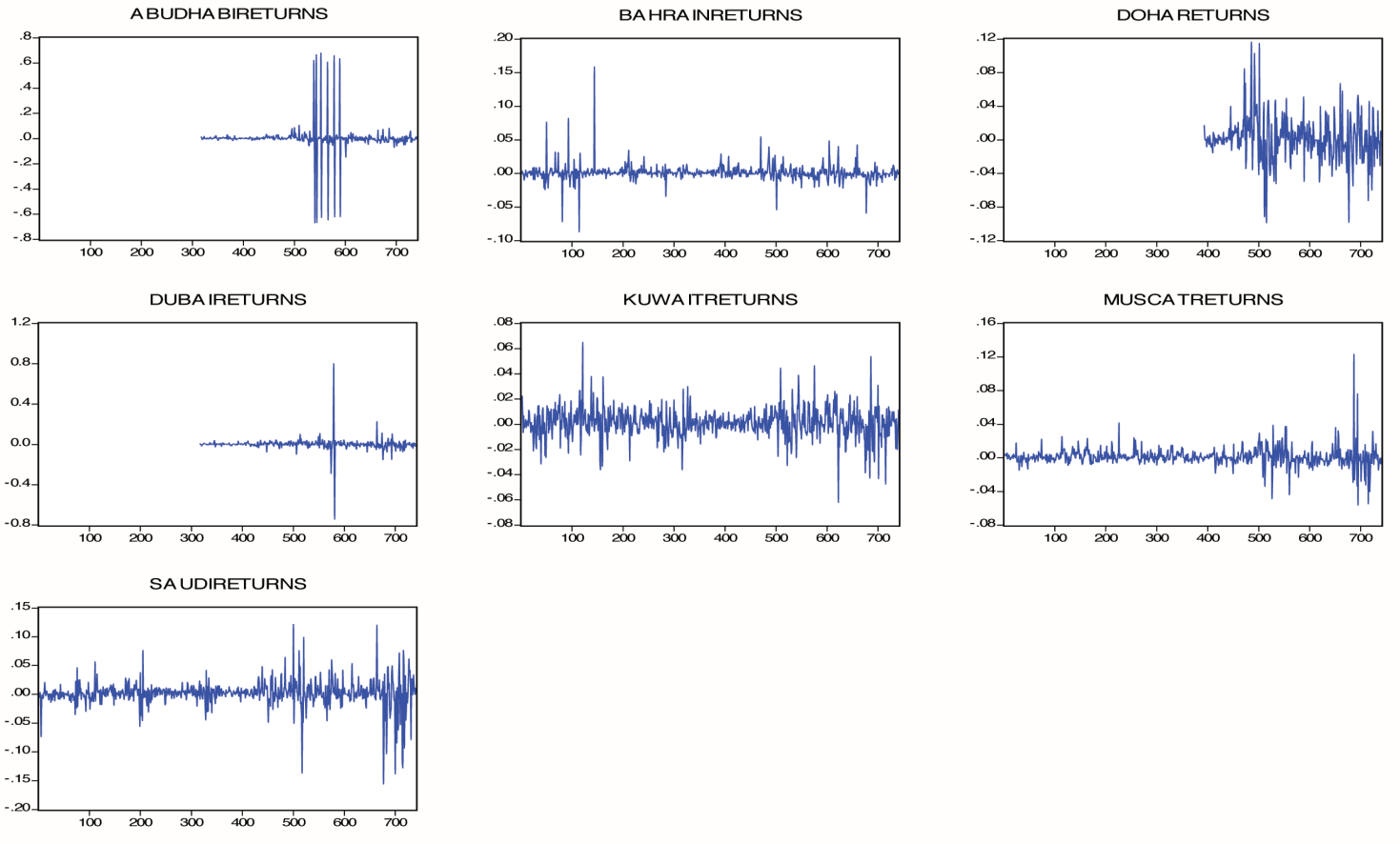
- Average of return is a simple average, the market capitalization weighted average return equals 20.78%.
- The average risk is a simple average also.
- Risk as measured by standard deviation of returns on a US dollar basis over the five-year period ended December 31, 2005.
- The P/E, P/BV and Dividend Yield pertain to the 4th quarter of 2004 and the average represents the average for the total emerging markets, not only the listed markets.

Appendix 2: GCC Markets Daily Indices
(May 29th, 2002-June 28th, 2006)



Source: Arab Monetary Fund, Arab Capital Markets Data Base. Various issues.

Appendix 3. GCC Markets Daily Returns (May 29, 2002 - June 28, 2006)



Source: Arab Monetary Fund, Arab Capital Markets Data Base.

Appendix 4. Means and Variances Equality Tests

ANOVA-F Means Equality Test

This test is based on a single-factor analysis of variance (ANOVA). The basic idea of this test is that if the data sub-samples have the same mean, then the variability between means of the overall samples should be the same as the variability within any sub-samples (within the overall sample).

If $x_{s,i}$ is the i-th observation in series s, where i=1, 2, …, n_s for sub-samples s = 1, 2, …S the between and within sums of squares are identified as :

$$SS_B = \sum_{s=1}^{S} n_s (\bar{x}_s - \bar{x})^2 \qquad \text{(A-4-1)}$$

$$SS_W = \sum_{s=1}^{S} \sum_{i=1}^{n_s} n_s (\bar{x}_{is} - \bar{x}_s)^2 \qquad \text{(A-4-2)}$$

Where the $\bar{x}_s$ is the sample mean within sub-series s, and $\bar{x}$ is the overall sample mean. The F-statistic for the equality of the mean is computed as

$$F = \frac{SS_B / (S-1)}{SS_W / (T-S)} \qquad \text{(A-4-3)}$$

Where T is the total number of observation. The F-statistic has an F-distribution with S-1 numerator degrees of freedom and T-S denominator degrees of freedom with respect to the null hypothesis of IID distribution, with equal means and variances in each sub-sample. In this case, S equal 7, and T equals 4152, thus the test is ANOVA (6,4145).

Variance Equality Tests

Variance equality tests assesses the null hypothesis that the variances in all S sub-samples are equal against the alternative that at least one sub-sample has a different variance.

Bartlett Test

This basically compares the logarithm of the weighted average variance with the weighted sum of the logarithms of the variances. Under the joint null hypothesis that the sub-sample variances are equal and that the samples are normally distributed, the test statistic is approximately distributed as a x^2 with S =1 degrees of freedom. However, the joint hypothesis implies that this test is sensitive to departures from normality. For details, see Judge, et al. (1985).

Levene Test

This test is based on an analysis of variance (ANOVA) of the absolute difference from the mean. The F-statistic for the Levene test has an approximate F-distribution with numerator degrees of freedom and denominator degrees of freedom under the null hypothesis of equal variances in each sub-sample. For more, see Levene (1960) and Neter et al. (1996).

Brown-Forsythe

This test is a modification of the Levene test in which the absolute mean difference is replaced by the absolute median difference. The Brown-Forsythe test appears to be superior in terms of robustness and power. For more, see Brown and Forsythe (1974a and 1974b) and Neter, et al. (1996).

The Lebanese Economy: Issues in its Post-War Development, 1992-2004

Ali A. Bolbol

The Lebanese Economy: Issues in its Post-War Development, 1992-2004

Ali A. Bolbol*

Abstract

The purpose of this paper is to draw a few lessons from the post-war experience of 1992-2004, in the hope that it can shed useful light on the future direction of economic policy. The paper outlines the travails of economic reconstruction, and discusses the drawbacks of high deficits, debt and overvalued exchange rates. This is followed by an analysis of the political economy analysis on the role of the government and financial sectors and some policy implications. The main thesis implied in the paper is that reform policies should focus more on the real sector of the economy, and should take advantage of the country's two fundamental assets, namely, its geography and its human capital.

الاقتصاد اللبناني: قضايا في التنمية خلال فترة ما بعد الحرب، 1992 - 2004

علي بلبل

ملخص

تهدف الورقة إلى استخلاص بعض الدروس من تجربة الاقتصاد اللبناني خلال فترة ما بعد الحرب الأهلية، 1992 – 2004، لإضفاء الضوء على توجهات السياسة الاقتصادية في المستقبل. تعرض الورقة المشاكل الاقتصادية التي واجهت عملية إعادة الإعمار، وتناقش سلبيات العجوزات المالية والدين المرتفع وسعر الصرف المغالى فيه التي عاشها الاقتصاد اللبناني خلال الفترة. تحلل الورقة أيضاً من مفهوم الاقتصاد السياسي دور الحكومة والقطاع المالي والمصرفي في الاقتصاد اللبناني، إضافة إلى تحليل بعض مضامين السياسة. والفكرة الرئيسة التي تتضمنها الورقة أن سياسات الإصلاح في المستقبل يجب أن تركز على القطاع الحقيقي وأن تستفيد من المزايا الأساسية التي يتمتع بها الاقتصاد، وهي موقعه الجغرافي المناسب ورأس المال البشري المتطور.

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Introduction

In its recent history, the Lebanese economy represents a case of missed opportunities. Its first opportunity for industrial take-off, centered around a budding silk industry in Mount Lebanon, was defeated in the 1880s by international economics through steep reductions in the price of silk (due to larger supplies from East Asia). What followed was a period of economic slowdown and intense emigration that saw more than 250,000 people leave the country in the period 1890-1914(1).

Not to be outlasted, a second opportunity later emerged. Mainly between 1926-1944, it was driven by infrastructure developments (by the French mandatory power), tariff protection, and expenditures by the Allied Forces. It also had a diversified structure with some political leeway as an industrial interest group. However, strong local politics overruled nascent economic possibilities implicit in this second opportunity, in that the political elite opted in 1948 to turn Lebanon instead into a center of commerce and finance(2). Although this model did not fare badly – real GDP growth averaged 6.2% during 1948-1974 and even industry increased its share of GDP from 9% to 17% – economic prosperity was not deep and wide enough to ease social cleavages and override political tensions(3). As a result, domestic (and regional) politics ditched economic potential, and a bloody civil war ensued.

When the civil war breathlessly finished, the country had lost by then, almost half of its national income. The imperatives of reconstruction and recovery gave economics a chance to tame politics; and the economic model that was put forth for that purpose was an improved version of the model that the country's short memory knew best: "Singapore of the Middle East"(4). The aim was to refashion Lebanon as a center of finance in the Middle East – in as much as Singapore is that for South-East Asia. The comparison missed on two glaring dissimilarities: (a) Singapore emerged as an industrial and manufacturing base in the 1960s and 1970s before it graduated to become a mighty financial center, and (b) It also had strong national institutions and central government that glued society and its population together.

What the model also missed is that the country's civil war had its toll on this presumed comparative advantage, and any head-start or unique features that the economy had enjoyed in the pre-war period was dissipated. This was clearly reflected in the inability of the economy to sustain the recovery mid-way

through the post-war period, despite considerable infusion of public expenditures. Naturally, the combination of ensuing budget deficits and low growth led to high debt, the management of which still dominates the political economy of Lebanon to this day. Politics also poked its ugly head, clashing with economics and depriving the economy of needed reforms to deal with the debt crisis and with bringing back momentum to the recovery. Surely, a third opportunity was also missed.

After the events of 2005 (discussed in more details below), Lebanon has turned a new page on its politics, which should better accommodate sound economics and proper governance. The purpose of this paper is to elicit a few economic lessons from the post-war experience of 1992-2004, in the hope that it can shed useful light on the direction of economic policy in Lebanon's "Third Republic".

Economic Reconstruction and Recovery

After more than 16 years, the Lebanese Civil War ended in 1991 with all the characteristic stylized facts: destruction of much capital stock, disruption of the social and economic order, and substitution of financial and human capital away from the domestic economy(5). Having been fought entirely on Lebanese territory, the war had also undermined the state and its capability. A weak state would naturally imply that the tasks of economic reconstruction must rely more on market mechanisms. But this is something that would not have been new to Lebanon since its economy had always been a model of laissez faire – however misguided – in the region and beyond(6).

What should have been new and essential is a strong state, needed to develop proper governing institutions and secure political cohesion in a country that is liable to rampant corruption and to fractious confessionalism(7). But that was not meant to be, for at least three reasons. Firstly, the Taif Accord that ended the war and ushered in the "Second Republic" stripped executive authority from the Maronite presidency. As a result, this left the elites of that community dissatisfied and in nascent, but bitter, struggle with those of the other two major communities (the Sunnis and the Shias) for the spoils of office(8). Secondly, the Accord granted Syria a temporary stay in the country to secure the peace, but Syria understood this to mean an extended mandate over the country and the control of its internal affairs. Thirdly, external threat to security by Israel continued to be ever-present – although its intensity was curtailed after the liberation of the

South in 2000. In short, political rehabilitation was compromised by internal discord and external concerns. And this proved deleterious, since it is political rehabilitation that should have underpinned economic reconstruction and helped to transform it into meaningful recovery and sustained development.

But what was the program of economic reconstruction? The program with the most currency initially was Horizon 2000. It was a blue-print for infrastructure development lasting for 10 years (1993-2003) and costing $12.9 billion (with $7 billion projected to be financed externally, 17% from grants and 83% from borrowing)[9]. It aimed at laying the ground for the country to regain and advance its position as a bridge between Europe and Arabia, with renewed emphasis on the role of the service sector, namely tourism, finance, and information technology[10]. But it was also a plan that was devised by two construction companies, the local Dar-Al-Handasah and the International Bechtel, and not surprisingly short on the crucial matters of institutional development and national governance, considered to furnish the necessary, if not sufficient conditions for sustained growth[11]. At any rate, Horizon 2000 was adopted by the post-war government headed by the late Prime Minister Harriri in 1992. However, soon, its priorities began to fade as deficits started to cripple government finances from 1997-1998 onwards [12].

What derailed the financing of the program was a combination of factors. The Civil War did not bring any fiscal peace dividends. In fact, it added to the fiscal burden by the cost of rebuilding the army and the police. In addition, few of the promised grants came the country's way – no more than $300 million. More importantly, the country elected initially not to resort to official concessional financing (bilateral and multilateral), partly because it did not want the reconstruction program to be hostage to foreign conditionality. As a result, deficits were financed by internal and external (private) borrowing at increasing rates, and with revenue not catching up, they ended saddling the economy with spiraling debt and its burdens. Even with the scaling down of the program, total public investments were close to $9 billion by 2004[13]. But what is curious is that, given that the jewel of reconstruction – downtown Beirut – was financed through the private company Solidere, there was not much to show off in actual infrastructure developments for those sum of expenditures!

Perhaps more importantly, the program was characterized by a dearth of economic policy initiatives. The economic policy that really defined the post-war agenda was the use of the exchange rate as the nominal anchor for monetary policy, and the curtailment of deficit monetization. And here, the

exchange rate was deliberately (and rightly) undervalued at first so as to entice capital back into the country by the prospect of future appreciation. However, it has since appreciated to reach overvalued real levels(14). Though this policy achieved monetary stability, there were other crucial policy choices that should have deserved greater attention by the government and aimed directly at the real sector and its operating environment – be it industrial, commercial, tax, public sector, or employment policies(15). Of course, it is true that one can not ask too much from a beleaguered post-war government and clutter its policy agenda with increasing demands. But it is also true that the government dug itself in a deep hole by its deficit financing and exchange rate policies and in the process, was paralyzed to act on vital policy fronts. However, a belated recognition of this trap was acknowledged by the government, and in consequence it convened in 2002 the Paris II Conference to address the debt problem.

The Paris II Conference perhaps represents the second major economic program of the post-war period. It was largely a product of Harriri's efforts and reputation, and it gathered the Heads of State of Lebanon's friends from Europe and the Gulf. Its upshot was a pledge to provide $4.4 billion in concessional funds (by the end of 2004, almost $2.9 billion was provided), in addition to an agreement with the local commercial banks to forego interest on government debt equal to $4 billion(16). Paris II stipulated, however, that Lebanon should start to act seriously on economic reform. And primary among these reforms is privatization, especially Electricite du Liban (EDL) which has insatiably swallowed an average of $400 million in annual subsidies(17). Paris II succeeded in easing the financing costs of the government since interest rates on the debt fell by more than 4%. However, political bickering among the country's power brokers froze action on economic reforms and consequently, the benefits from Paris II could not be locked in to start the debt on a sustainable path. The only bright spot that marked any reform efforts was instating in 2002 a system of value-added taxation (VAT) that nudged up the tax revenues to GDP ratio by at least 3%.

But this could change. The death of Prime Minister Harriri in 2005 has led to a spring of changes in the country, most notably the withdrawal of the Syrian Armed Forces. As a result, Lebanon is now embarking on its "Third Republic", with presumably more independence in its decision making, so any new economic course should heed the obvious lessons from Paris II and before. These may be broadly encapsulated by the need to have a new political consensus that would underlie economic reforms and, more importantly, institutional reforms. Also, economic reforms should go beyond the mere objectives of debt reduction and

privatization – after all there are only two public utilities available for privatization, EDL and telecommunications[18] – to encompass aspects that upgrade the quality of the investment and business environment in the country[19].

Given the outline of the post-war story discussed above, what do the numbers say about the country's economic performance during that period? Table 1 shows that reconstruction created an initial spurt of growth, averaging 5.3% between 1992–1998. However, this did not manage to translate it to robust recovery as growth afterwards averaged 2% only, with a noticeable increase in 2003-2004. The drag on the economy's resources caused by the high budget deficits, especially between 1994-2002 as may be seen in Table 2, plus the overvalued exchange and interest rates, were no doubt contributing factors in the slowdown.

However, on the positive side, anchoring monetary stability to the exchange rate subdued inflation and brought it down to low single digits. Overall, growth rates in the post-war period averaged less than those of the 1948–1974 period, i.e. 3.8% against 6.2%. This is possibly due to a lower long-run desired capital stock in the post-war period because of higher country risk relative to that of the pre-war situation[20]. Although it took the post-war economy only up to 1998 to recoup its 1974 real per-capita income at close to $1300, this level nevertheless stagnated between 1999–2002 and so did Lebanon's Human Development Index[21]. Not surprisingly, unemployment increased by 1%, if not more[22]. If deficits and debt were a big part of the explanation behind the post-war performance, then how did they exactly behave?

Table 1. Macroeconomic and Social Indicator (%)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Real GDP Growth	4.5	7.0	8.0	6.5	4.0	4.0	3.0	1.0	-0.5	2.0	2.0	3.0	5.0
Inflation	99.8	24.7	8.2	10.3	8.9	7.7	4.5	0.2	-0.4	-0.4	1.8	1.3	3.0
Exchange Rate (LL per$)	1713.0	1741.0	1679.0	1621.0	1571.1	1540.0	1516.0	1508.0	1508.0	1508.0	1508.0	1508.0	1508.0
GDP($Million)	5544.7	7536.2	9165.0	11122.2	12996.2	14862.0	16166.9	16490.9	16494.2	16708.5	17377.1	18124.0	19754.0
GDP(LL Billion)	9498.0	13124.0	15388.0	18028.0	20417.0	22880.0	24509.0	24865.0	24865.0	25188.0	26196.0	27322.0	29780.0
GFP per capita ($)	1772.0	2312.0	2710.0	3178.0	3640.0	4082.0	4370.0	4386.0	4380.0	4408.0	4552.0	4715.0	5104.0
Yield on 2-year	26.00	23.99	15.84	23.39	20.54	16.73	16.66	14.64	14.64	14.64	9.41	7.99	7.89
Treasury Bills													
				1990			1995			2000			2003
Human Development Index				0.673			0.732			0.752			0.758
			1990--1996				1995		1996--2001				
Average Unemployment				8.40						8.40			

Source : IMF, World Economic Outlook (Various Issues); Central Bank of Lebanon, Annual Report (Various Issues); AMF, Arab Unified Economic Report (Various Issues); ESCWA, Survey of Economic and Social Developments in the ESCWA Region (2005); UNDP, Human Development Report (Various Issues).

Table 2. Budget Deficit Types, Current Account Deficit, and Investment (% of GDP)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Conventional Deficit	14.76	8.84	19.26	15.64	18.08	20.23	14.15	14.39	21.35	16.78	16.39	14.41	10.17
Primary Deficit	9.93	2.87	9.35	5.32	5.08	5.49	0.47	-0.18	4.49	-0.34	-1.26	-3.40	-3.30
Operational Deficit	-33.19	-1.94	16.16	10.30	12.97	14.63	10.51	14.22	21.77	17.21	13.50	12.20	5.50
Current Account Deficit	49.80	49.00	44.30	42.90	35.30	38.90	37.10	29.70	27.80	32.20	25.10	24.40	27.90
Private Investment	27.56	26.11	19.84	19.66	20.63	20.50	24.77	24.69	25.48	24.48	26.77	25.82	26.90
Government Investment	1.54	2.99	9.26	9.44	8.47	8.60	4.33	4.41	3.62	4.62	2.33	2.58	2.59

Source : AMF, Arab Unified Economic Report (Various Issues); and authors' calculations.

Deficits and Public Debt

Budget deficits represent net borrowing requirements by the government, and as ratio of GDP, their behavior is depicted in Table 2. Deficit ratios were mostly on an upward trend up to 2000 when they exceeded 20%, but since then, have fallen to reach about 10% in 2004 – a behavior negatively correlated with GDP growth as noted earlier. There are two adjustments to conventional deficits reported in Table 2[23]. The first adjustment is the primary deficit, which is equal to conventional deficits minus interest payments on the debt, and thus, represents a better indicator of discretionary fiscal policy. As a result, fiscal policy was relatively expansionary till 2000, when the primary balance remained in deficit and the expenditure (to GDP) ratio reached more than 40%. However, from 2001 onwards, the primary balance turned into a surplus buoyed by lower expenditure ratios and higher tax revenues driven by the VAT (which now contributes close to 25% of revenues)[24]. What is interesting is the negative correlation between the resulting fiscal stance and GDP growth rates. This may be readily explained, however, by the fact that deficits crowded out public investments and coincided with higher interest rates till 2001-02, but later lower interest rates not only eased public finances, but also caused a pick up in private investments.

The second adjustment relates to operational deficits, which subtracts from conventional deficits the inflation component implicit in nominal interest rates. If actual inflation exceeds nominal interest rates (negative real interest rates), then operational deficits are smaller than primary deficits and the real value of the debt is reduced, as had been the case in Lebanon in 1992-1993 only. However, since then, it appears that actual inflation has become increasingly aligned with expected inflation, and as a result, surprise inflation has a chance of creating a wedge between the two and rendering a reduction in the real value of the debt

quite possible. This is of course something that does not recommend itself for economic stability's sake. Nevertheless, it is noteworthy that operational deficits have remained very close to conventional deficits with inflationary expectations not registering a significant component in nominal interest rates.

Given the state of escalating deficits throughout most of the post-war period, could benign monetization have been possible to slow down the rise in deficit ratios? The answer to this question depends on the fact that the amount of seigniorage revenue that the government can obtain from non-inflationary monetization, is determined by: the demand for monetary base, the rate of real GDP growth, and the income elasticity of real money demand. Assuming that the income elasticity of real money demand is unity, and keeping in mind that in 1992 the ratio of base money to GDP was 0.16 and the rate of GDP growth 4.5%, then the government could have generated 0.72 of GDP in seigniorage without igniting inflation or flight from the currency. In fact, during most of the 1992–1999 period as Table 3 shows, desired monetization was above actual monetization and the government lost an opportunity – however modest – to control the rise in deficits. But when the government started to monetize heavily especially in 2000-2001, it was too late by then because the economy had run out of steam, and the resulting decline in real money demand meant that the high actual monetization ratios translated to loss of international reserves.

Table 3. Desired vs. Actual Monetization and International Reserves Offsets

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Money Base / GDP	0.160	0.164	0.248	0.256	0.274	0.367	0.324	0.336	0.359	0.486	0.515	1.095	1.037
Real GDP Growth (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.00
Desired Monetization (% of GDP)	0.72	1.15	1.98	1.67	1.10	1.47	0.97	0.34	-0.18	0.97	1.03	3.28	5.18
Actual Monetization (% of GDP)	-0.17	1.46	-2.57	0.14	0.03	1.27	-0.99	0.14	7.69	18.96	-11.48*	30.14	5.30
International Reserves ($ Million)	1496	2260	3884	4533	5932	5976	6556	7776	5944	5014	7244	12519	11735
International Reserves Offsets (% of GDP)	4.0	10.1	17.7	5.8	10.8	0.3	3.6	7.4	-11.1	-5.6	12.8	29.1	-3.1

* This is due to the write-off of around $ 2 billion of treasury bills held by the Central Bank, nominally financed though the revaluation of government gold reserves at the bank.
Source : AMF, Money and Credit in the Arab Countries (Various Issues); and author's calculations.

Rising deficits would naturally lead to increasing debt which, if not checked, could render debt dynamics inherently unstable. This may be seen by analyzing the debt dynamics equation, which may be derived as follows. The excess of expenditures over tax revenues has to be financed from either borrowing

or money creation:

$$dB + dM = G - T + iB \quad (1)$$

where B is net debt, G is government expenditures net of interest payments iB, T is tax revenue, and M is money stock. Since $d(B/Y)/(B/Y) = dB/B - dY/Y$, where Y is nominal GDP, Equation 1 becomes:

$$d(B/Y) = P/Y + (i-dY/Y)\ B/Y - dM/Y \quad (2)$$

where G – T is the primary deficit P. Since $i = r + \pi$ and $dY/Y = g + \pi$, where π and g are inflation and real GDP growth rates respectively, Equation 2 will be expressed as:

$$d(B/Y) = P/Y + (r-g)\ B/Y - dM/Y \quad (3)$$

Equation 3 traces the time path of the debt ratio B/Y, and the sufficient condition for its stability is $g>r$[25]. In other words, the debt ratio will grow indefinitely as long as primary deficits are not covered by seigniorage and interest paid on the debt is larger than the growth rate of GDP. Alternatively, the debt ratio will converge to a steady-state level if interest is smaller than the growth rate. It will do so sooner and at a lower level if higher growth generates enough tax revenues to quickly erase the primary deficit.

Table 4 shows that the debt ratio kept increasing between 1993-2003, driven by primary deficits and, more importantly, violation of the stability condition. Only in 2004 did the ratio fall, when lower interest rates due to Paris II helped satisfy the stability condition. Hence, debt sustainability means that Lebanon could not pursue indefinitely its set of budgetary policies. Both tax policies – the VAT and financing schemes – had to be altered to bring the debt ratio on a more sustainable path.

Table 4. Ratio of Debt to GDP and Debt Dynamics (%)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Domestic Debt	51.4	44.4	60.7	66.5	84.4	86.5	88.5	102.1	109.2	112.0	96.6	98.2	88.5
Foreign Debt	5.4	4.3	8.4	11.2	14.7	16.3	25.7	33.5	42.1	57.6	84.0	85.6	93.1
Total Debt	56.8	48.7	69.2	77.7	99.0	102.7	114.2	135.6	151.4	169.6	180.5	183.8	181.6
P/Y	9.93	2.87	9.35	5.32	5.08	5.49	0.47	-0.18	4.49	-0.34	-1.26	-3.40	-3.30
(r-g)*(B/Y)	-92.71	-9.76	3.73	0.48	4.91	5.10	6.94	13.42	18.10	14.92	11.91	10.85	-1.08
Δ M / Y	-0.17	1.46	-2.57	0.14	0.03	1.27	-0.99	0.14	7.69	18.96	-11.48*	30.14	5.3

* This is due to the write-off of around $ 2 billion of treasury bills held by the Central Bank, nominally financed though the revaluation of government gold reserves at the bank.
Source : AMF, Arab Unified Economic Report (Various Issues) ; and author's calculations .

The increase in total debt masked a differentiation in the trends of its

components. The domestic debt ratio peaked in 2001 at 112% to fall afterwards to 89% in 2004, whereas the foreign debt ratio rose consistently to reach 93%. The simple reason for the switch in debt composition is clear from Table 5, i.e. lower interest rates on foreign debt. The government tried as part of its better debt management to issue T-bills with longer-term maturities (one- to three-year issues), so as to avoid the risk of debt rollover. However, this has proven not to be cheap – costing 100 basis points for each additional year(26).

Even interest on foreign debt began exhibiting a larger risk premium, since between 1997 and 2002 interest rates on Eurobonds increased from 6.2% to 9.3%. And it is this of course that was behind the Paris II Conference, in the aim of increasing the share of official sources in foreign debt (currently at 11% only) and, as a result, reducing the cost of servicing it. However, foreign debt is a double-edged sword, requiring in counterpart the availability of foreign exchange and claiming a part of the latter for its servicing needs. Although Lebanon stands a remote chance of experiencing an episode of illiquidity with a foreign reserves to short-term debt ratio of more than 200%, one can not rule out, however, an episode of insolvency (in the medium term), given the high ratios of debt to GDP and debt to exports that are in excess of 90% and 1000% respectively (27).

Table 5. Budget Deficit, Debt and Interest Payments (LL Billion)

	Budget Deficit	Debt			Interest Payments			Interest Rates (%)		
		Domestic	Foreign	Total	On Domestic Debt	On Foreign Debt	On Total Debt	On Domestic Debt	On Foreign Debt	On Total Debt
1992	1402	4882	515	5396	394	65	459	10.4	20.9	11.2
1993	1161	5823	569	6391	754	30	784	15.4	5.8	14.5
1994	2964	9348	1297	10644	1472	53	1525	25.3	9.3	23.9
1995	2820	11997	2014	14011	1745	117	1862	18.7	9.0	17.5
1996	3692	17229	2994	20223	2508	185	2693	20.9	9.2	19.2
1997	4629	19787	3721	23508	3222	186	3408	18.7	6.2	16.9
1998	3467	21686	6306	27991	3051	301	3352	15.4	8.1	14.3
1999	3579	25383	8332	33715	3214	410	3624	14.8	6.5	12.9
2000	5311	27161	10476	37637	3572	625	4197	14.1	7.5	12.4
2001	4229	28214	14509	42723	3470	842	4312	12.8	8.0	11.5
2002	4293	25294	21992	47286	3278	1345	4622	11.6	9.3	10.8
2003	3938	26834	23396	50230	3108	1767	4874	12.3	8.0	10.3
2004	3260	26373	27710	54083	2246	1776	4022	8.5	6.4	7.4

And no doubt, political instability and tight monetary conditions in

international financial markets could only aggravate both problems – illiquidity and insolvency – especially now that the benefits from Paris II seem to be exhausted. The effects of these problems could potentially be huge, reverberating throughout the domestic banking system and creating havoc in the economy, since commercial banks hold more than 50% of the outstanding foreign debt.

What emerges from the above analysis are three facts. Firstly, budget deficits crowded out mostly public investments, but the high interest rates that the economy witnessed slowed down private investments as well. Benign monetization could have retarded the rise in budget deficits initially, but conservative central banking practice precluded that. Secondly, not resorting to more official, concessional financing early on – for reasons that presumably have to do with an inflated image and reputation of Lebanon – contributed to a viscous cycle of higher interest payments, rising deficits, and unsustainable debt. Finally, excess liquidity in commercial banks coupled with attractive yields on Lebanese Eurobonds have "localized" most of the foreign debt. Any possible default on the debt will have, as a result, a more damaging effect on the economy than if the debt had been owned by outside investors. Overall, the casualty of these developments has been economic growth, since economic management in Lebanon has turned into debt management, in course and in objective.

Interest and Exchange Rates

It is evident that high interest payments were feeding the deficit and the rising debt, reaching close to 49% of expenditures in 2001 before dropping to 38% in 2004. It is inevitable, though, that debt ratios rise after wars. But is this also true of interest rates? Interest rates (on two-year T-bills) averaged 14.9% during the 1994-04 period of high deficit ratios, whereas inflation and GDP growth (as a proxy for real interest) rates averaged 4.1% and 3.8% respectively. As a result, it is difficult to justify the domestic currency risk premium of more than 6% that was priced into domestic interest rates, for two reasons. Firstly, the Central Bank's hard commitment to fixed exchange rates, with a decent chest of international reserves at its disposal to support it, helped prevent possible devaluations and any consequent loss in the real value of domestic debt. Secondly, the much lower interest paid on foreign debt, since the average difference between real interest rates on domestic and foreign debt exceeded 7%[28]. As important, it is also argued that the high interest rates on domestic debt instruments – which act as a benchmark for other rates – were a product of imperfect competitive bidding in the auctioning of T-bills that kept interest rates artificially high[29]. At any rate,

not allowing interest rates to be fully determined by market forces has magnified unnecessarily the debt problem and put a brake on domestic investments.

But this is not the end of the story. Focusing on foreign debt, even a spread of 4-5% could be considered excessive, especially in the light of its contribution to GDP growth(30). To investigate this concern, there is the need to look at the economics of resource flows. For given domestic savings, these flows – net debt, FDI, equity, and other flows – cover excess investment and thereby close the resource gap. Accordingly, from the GDP identity, investment I is financed from domestic savings S_d and resource flows identical to the trade balance (deficit) TB in goods and services:

$$I = S_d + TB \quad (4)$$

Multiplying both sides of Equation 4 by dY/Y and rearranging the resulting terms, this leads to:

$$dY/Y = (S_d/Y + TB/Y)\, dY/I. \quad (5)$$

Equation 5 breaks down the growth in GDP into that financed by domestic and foreign sources, each multiplied by the marginal productivity of capital (MPK) dY/I. Table 6 shows that Lebanon depends exclusively on resource flows as contributors to its GDP growth. The onus then, is to increase in the long run the source of domestic savings and obviate the need to rely on what could be unreliable or hard-to-attain external sources(31).

Table 6. Resource Gap, Investment and Domestic Savings (% of GDP)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Resource Gap	38.1	38.1	38.2	38.5	38.2	38.2	38.2	38.2	38.2	38.2	38.2	34.3	38.8
Investment	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	28.4	29.4
Domestic Savings	-9.0	-9.0	-9.1	-9.4	-9.1	-9.1	-9.1	-9.1	-9.1	-9.1	-9.1	-5.9	-9.4
Net Flow of Long-Term Debt	-0.6	0.1	4.2	7.2	5.9	6.4	9.6	7.7	8.7	15.4	26.1	3.4	6.60
Foreign Direct Investment	0.1	0.1	0.1	0.3	0.6	1.0	1.2	1.5	1.8	1.5	1.5	2.0	6.5
Portfolio Equity Flows	0.0	0.0	0.0	0.3	0.9	0.5	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Δ International Reserves*	-4.0	-10.1	-17.7	-5.8	-10.8	-0.3	-3.6	-7.4	11.1	5.6	-12.8	-29.1	3.9

* Negative changes in International Reserves are equivalent to accumulation of reserves, whereas positive changes are equivalent to depletion of reserves.
Source : AMF, Arab Unified Economic Report (Various Issues)

More importantly, does the increase in GDP due to debt flows outweigh the interest paid on its service such that the resulting net effect is an increase in

national income? Table 7 shows that the average contribution of foreign debt to GDP is smaller than the interest paid on it: 0.72% against 2.54%. Hence, Lebanon is not getting its "money's worth" from foreign debt. This also means that foreign debt imposes a double burden – a general burden that relates to servicing ability, and a more taxing burden that arises from the fact that the "price" of this ability is larger than its "reward". One possible explanation for this result is that, being mostly public, the foreign debt is used to finance budget expenditures that are mostly current and of limited growth mileage. Another explanation could be that which relates to the productivity of investment: even if a decent part of foreign debt is devoted to capital budgetary expenditures, the growth potential of these expenditures is not going to be all that high given an MPK of no more than 13%[32].

The question of interest rates, of course, ties closely to that of exchange rates. The system of pegged exchange rates to the $US that the country has adopted since 1996-97 left very little maneuver to activate monetary policy. This is because of the infamous "impossible trinity": with free capital mobility and fixed exchange rates, Central Bank monetary independence is sacrificed. In effect, interest rates in Lebanon are set at world levels plus a risk premium. However, these rates have shown to be overvalued and, in all likelihood, so have exchange rates[33]. Although it is not easy to ascertain the equilibrium real exchange rate, a simple check for its overvaluation is whether external and/or internal balance is maintained. In this respect, and as seen in Tables 1 and 2, both unemployment and current account deficits have been hallmarks of the post-war period – a preliminary indication that exchange rates are indeed overvalued.

Table 7. Contribution to GDP Growth (%)

	GDP Growth	ΔY / I	Contribution to GDP of			Interest Rate on
			Resource Gap	Domestic Savings	Net Debt Flows	Foreign Debt as % of GDP
1992	4.50	0.15	5.70	-1.35	-0.09	0.45
1993	7.00	0.24	9.10	-2.10	0.02	0.31
1994	8.00	0.27	10.30	-2.40	1.13	0.28
1995	6.50	0.22	8.40	-2.00	1.58	0.49
1996	4.00	0.14	5.30	-1.30	0.82	1.15
1997	4.00	0.14	5.30	-1.30	0.90	1.35
1998	3.00	0.10	3.80	-0.90	0.96	1.63
1999	1.00	0.03	1.10	-0.30	0.23	2.19
2000	-0.50	-0.01	-0.38	0.09	-0.08	2.80
2001	2.00	0.06	2.30	-0.60	0.92	3.86
2002	2.00	0.06	2.30	-0.60	1.56	5.54
2003	3.00	0.10	3.40	-0.03	0.34	7.04
2004	5.00	0.17	6.60	-1.60	1.12	5.96
Average	3.81	0.13	4.86	-1.11	0.72	2.54

Source : AMF, Arab Unified Economic Report (Various Issues); and author's calculations.

There are at least three potential drawbacks to overvalued exchange rates

for the Lebanese economy. Firstly, loss of competitiveness and export capability, as high real effective exchange rates during 1992-02 reduced the exports to GDP ratio from 10.5% to 5.3%, only to recover to 8% when real exchange rates fell in 2003-04, as may be seen from Table 8[34]. Secondly, quasi-fiscal costs incurred in sterilization activities that aim at maintaining the exchange rate peg. These quasi-fiscal costs could be very important, especially in the context of foreign debt where the difference on what the Central Bank pays as interest on government bonds because of sterilization and what it earns on investing the reserves arising from foreign debt could exceed the interest savings reaped from resorting to foreign instead of domestic debt – on average equal to at least 3.5% in quasi-cost[35]. Thirdly, reserve offsets caused by excessive monetization – at given income and prices, the excess money is exchanged for foreign currency at the fixed rate, such that the added government bonds on the asset side of the Central Bank's balance sheet are offset by reserves loss – as was intensely the case in 2000-2001 and 2004 (see Table 3). And as is commonly known, fixed exchange rates deny the economy the flexibility to adjust to external shocks – economic not politic – and to help in diversifying exports and their markets.

If more exchange rate flexibility is then desirable, what determines the magnitude of its adjustment?[36] To study the extent of flexibility, the question may be posed as one involving a trade-off. On one hand, a depreciation in the exchange rate increases the domestic currency value of foreign debt and reduces the government's ability to service it[37]. On the other hand, the lack of needed depreciation denies the economy the capacity to attain external balance and contributes to further foreign debt.

Table 8. Real Effective Exchange Rates, Exports and Tariffs

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Real Effective Exchange Rates	72.3	86.5	92.4	100.0	107.1	112.6	121.7	123.9	149.7	153.0	153.8	133.0	123.7
Real Exports ($ Million)	619.1	663.8	653.7	716.1	1131.7	624.6	687.2	651.3	645.1	799.3	900.0	1254.5	1360.1
Exports (% of GDP)	10.45	8.43	6.98	6.43	8.87	4.36	4.47	4.21	4.24	5.26	5.13	7.96	8.09
Average Tariff (%) *	4.56	8.13	8.47	12.03	13.69	16.08	18.53	23.05	18.69	14.86	16.32	15.22	11.46

* Tariff revenue divided by value of goods imports.
Source : AMF, Arab Unified Economic Report (Various Issues); and author's calculations

To resolve this bind, a government loss function may be constructed to balance the government's choice between these two options and to minimize its losses. Let f = F/Y, where F is foreign debt; hence, df/f = dF/F– dY/Y. Since changes in foreign debt are equal to current account imbalances, then:

$$dF = -TB + i_f F \quad (6)$$

where i_f is interest rate on foreign debt. As a result:

$$df/f = - TB/F + i_f - dY/Y \quad (7)$$

Let e be the exchange rate, or the domestic currency price of one unit of foreign currency, and ?? be its rate of change (positive ė signifies a depreciation in e). The effect of depreciation on the government's worsening ability to repay its foreign debt may be expressed by interpreting interest paid as: $i_f + \dot{e} - \pi$. This translates Equation 7 into:

$$df = (i_f + \dot{e} - \pi - TB/F - dY/Y)f \quad (8)$$

To indicate increasing marginal cost, the loss function L will be quadratic in df and the departure of ė from the desired change in the exchange rate ė* that maintains external balance:

$$L = \alpha [(i_f + \dot{e} - \pi - TB/F - dY/Y)f]^2 + \beta [\dot{e}^* - \dot{e}]^2 \quad (9)$$

where α and β are positive, reflecting the cost coefficients or degree of risk aversion to foreign debt accumulation and external imbalance respectively. The optimum change in the exchange rate ė° that minimizes L is:

$$\dot{e}^\circ = \dot{e}^* - (i_f + \dot{e} - \pi - TB/F - dY/Y)\, f\alpha/\beta \quad (10)$$

Assuming a perfect pass-through effect such that $\pi = \dot{e}$, then Equation 10 becomes:

$$\dot{e}^o = \dot{e}^* - (i_f - TB/F - dY/Y)\, f\alpha/\beta` \quad (11)$$

Equation 11 indicates that optimal changes in the exchange rate will be less than ė* the higher the public aversion to foreign debt (α) and the interest (i_f) paid on the latter, in addition to larger trade deficits (negative TB) that require the contracting of more foreign debt. In this context, one primary reason why optimal exchange rate adjustments have been absent from economic decision making is the foreign currency exposure of commercial banks and their borrowers. Notwithstanding the validity of this concern, its probable damage to the balance sheets of banks is exaggerated(38). This is because, while the ratios of deposit and

private credit dollarizations are 70% and 83% respectively, the ratio of private credit to deposits is only 35%. In other words, the bulk of dollarized deposits is in foreign assets, reserves, and foreign currency sovereigns, and any ensuing currency and maturity mismatches are not substantial(39).

The discussion so far, has established two essential observations. Firstly, interest rates were higher than warranted by market essentials, and setting them at reasonable rates could have eased the country's escalating debt through lower interest payments and higher growth. Resorting to foreign debt did slow down the rise in debt ratios, but that proved to be doubly burdensome. Secondly, exchange rates were kept at what appears as overvalued levels, and their downward adjustment could have benefited the economy by more than any presumed harm to the balance sheets of the banking system and its ripple down effects.

Conclusion: Political Economy and Policy Implications

It is congenial to close the paper with a discussion on some aspects of political economy that have helped engender the post-war economic performance. Any discussion of the political economy of Lebanon has to wrestle with issues of governance and the institutional capability of the state. Lebanon is a difficult country to govern, and badly governed countries rarely produce sound economies. Its segmented politics, largely a product of its confessional system, ultimately breeds corruption and government failure. The extent of government failure and corruption caused by confessionalism can not be underestimated(40).

Corruption administered in small doses in a confessional system could, of course, be acceptable, since it could play a functional role in redistributing resources to those groups failed or not favored by the market (or history). Thus, in the process a semblance of needed social balance is created. However, Lebanese corruption does not come in small doses and is not economically costless, especially in the post-war period.

There are two main reasons for this rampant corruption. Firstly, the rivalry and lack of sufficient trust among confessional groups make it difficult to establish independent oversight authorities that could hold confessional elites accountable for their actions. The result is that elites find little inhibition and have no qualms at appropriating part of public resources to their private purse. Not surprisingly, this turns contagious because it trickles down to corruption at the lower echelons of public officialdom. And it also proves costly. For instance,

it is estimated that the cost of corruption in disbursing non-recurrent expenditures during 1992-2002 was close to $7 billion[41]. Secondly, the patronage system that confessionalism entails and which aims at cementing allegiance ties between elites and their followers. This has spawned sizeable crony employments in an overstaffed public payroll of about 220,000 (more than 20,000 employed in the post-war period alone) at a cost of more than 10% of GDP[42].

Although imperfect and perhaps an unfair analogy, what is seen then, is a government sector that somehow resembles its EDL: living beyond its means, mired in inefficiencies, and lacking in proper governance.

Failure, however, is not confined to the government sector only. It has spilled over to economic sectors as well, perhaps most crucially, the banking sector. It is not inaccurate to argue that the post-war economy decided to "lead by finance", banking on its reputable commercial banks to deliver recovery and more. However, commercial banks have contributed mildly to the country's development, but have lived opulently off its hardships. Historically, banks financed one third of investment only, which is too low for a bank-based financial system[43]. In 1987, they started the monetary crisis by speculating heavily against the Lebanese pound.

Zeroing in on the post-war period, the situation remains the same. The share of banks' credit in investment dropped to 15% by 2004, exchanged for the comfort of investments in lucrative government bonds. Given the case of overvalued interest rates discussed earlier, these investments netted banks more than $9 billion in excess interest payments. Incidentally, if added to the aforementioned $7 billion in corruption cost, this becomes almost identical to the country's current foreign debt and makes the latter a possible case of odious debt[44]. What is ironic is that banks are not particularly profitable, while their return on equity is an average 10%, their return on assets is less than 1% – at 0.65% only. It is unfortunate, then, that the rentierism involved in finance capital, diverted banks away from their true and needed mission, i.e., to complement internal finance in funding worthwhile investments.

The above has highlighted the dilemma of balancing political constraints and government failure with economic and social objectives. But if these constraints can somehow be minimized or side-stepped, then consensual economic reforms on selected yet essential policies can benefit from two general recommendations that are implied by the paper – governance and institutional

reforms – bearing in mind the necessity of parallel, though difficult.

Firstly, in the short term, strategies to reduce the public debt should rely on concessional, official sources for its foreign borrowings. It should set interest rates at lower, market-determined levels for its domestic borrowings. The resulting slide in debt ratios should release more bank deposits to be borrowed by the private sector, and should involve finding the right incentives and commitments by commercial banks to lend to this sector. And in due time, more flexibility in exchange rates will be desired, especially when foreign debt becomes reasonably reduced.

Secondly, in the medium term, the prime focus of economic policy should be on the real sector – not the financial sector. There are too many more sophisticated centers emerging in the region. This should translate to reducing the cost of doing and attracting business in the economy, and to assisting business in increasing its productivity. In this respect, and although not discussed in the paper, the economy can fall back onto its proximate fundamentals; i.e., it can try to "forget its history" and "rediscover its geography" – at the center of trade routes between Asia, Europe, and North Africa – and to rely on the literacy and acumen of its people.

Footnotes

(1) See Owens (1981).

(2) See Gaspard (2004).

(3) See Picard (1996).

(4) See Denoeux and Springborg (1998).

(5) See Collier (1999) for more on the stylized facts. By 1991, the cost of damage to the physical capital stock had reached close to $25 billion, in addition to the emigration of 200,000 skilled persons and flight of financial capital of more than $10 billion; see Eken et. al (1995).

(6) On the travails of Lebanon's laissez faire model, see the excellent analysis by Gaspard (2004).

(7) On a scale from –2.5 (most corrupt) to 2.5 (least corrupt), The World Bank estimates that between 1996-2004, Lebanon's index averaged –0.4; see Kaufmann et. al (2005). Also, on a score from 0 (most corrupt) to 10 (least corrupt), Transparency International gave Lebanon a score of 3.1 in 2005; see Transparency International (2005).

(8) See Picard (1996) and Salem (1991).

(9) The cost was later increased to $17.7 billion; see Republic of Lebanon (1992).

(10) See International Bechtel (1992) and Kisirwani (1998).

(11) See Rodrik and Subramanian (2003) and Rodrik (2000) for the primacy and workings of institutions.

(12) Harriri himself was a major contractor; and the program was criticized early on that it centered on "building stones, not people" (binaa alhajar ma albashar).

(13) The most salient expenditures were on a new airport, an extension of the fixed telephone system and a network of new roads especially to the South.

(14) See Bolbol (1999) and the more cautious conclusion in Bhattacharya (2003).

(15) See Haughton (1998) for more on the pace and sequencing of these policy measures. One essential feature of these measures is that they require patience, which calls for caution not to inflate expectations in the immediate post-war period.

(16) See Economist Intelligence Unit (2004).

(17) The losses at EDL are a product of low tariffs relative to operating costs, theft and non collection, and bad governance. It is also estimated that a $10 increase in the international price of oil would worsen the fiscal deficit by 1.1% of GDP – roughly one half would come from higher transfers to EDL while the other half from lower excise tax revenue due to the cap on gasoline prices; see IMF (2004a).

(18) Not counting Middle East Airlines, Intra Bank, and Casino du Liban, which are all actually owned by the Central Bank (Banque du Liban).

(19) For more on these aspects, see The World Bank (2005) where a Survey on Doing Business ranked Lebanon 95th among 155 countries.

(20) Collier (1998) refers to this as "war overhang".

(21) In 1991, real per-capita income in 1974 prices was $560.

(22) Tabbarah (2002) argues that unemployment increased by more than 5%.

(23) There are two other adjustments: (a) the structural deficit, and (b) the full-employment deficit. The first measures deficits independent of the business cycle because of the swings in welfare and unemployment payments that these cycles generate. The second measures deficit at the long-run potential level of output. Both adjustments do not yet apply to Lebanon because of the absence of a welfare system in the country and the difficulty in ascertaining long-run GDP in the limited post-war period.

(24) The second notable source of revenue is income from the two mobile telephone operators, which bring in close to 20% of government income at more than $900 million a year. See Ministry of Finance (Various Issues).

(25) The sufficient condition for stability is: d (d(B/Y)) / d(B/Y) = r-g < o = r < g. T he solvency condition – the ex-ante requirement that future primary surpluses be equal in present – value terms to the outstanding stock of net debt – is only a necessary condition for stability since it can be met ex-post through debt restructuring, monetization, or repudiation.

(26) Currently, T-bills with maturities of one year and more constitute 75% of all T-bills issues. See IMF (2004a).

(27) On the threshold conditions for episodes of illiquidty and insolvency, see Manasse and Roubini.

(28) Real interest rates on foreign debt is calculated as nominal interest rates plus exchange rate depreciations minus domestic inflation rates. The reason real interest rates on foreign debt are less than those on domestic debt is because the interest parity condition does not hold, an outcome of three possible asymmetries. The first asymmetry arises when domestic investors expect or fear a larger devaluation on domestic currency debt than that forecast by the government – and the government may decide it is to its advantage to take on the foreign exchange risk itself. The second asymmetry arises when domestic investors, whose portfolios consist mainly of domestic claims, demand a higher return on holding more government debt than foreign investors. The third asymmetry may occur when the government is viewed as less likely to default on a foreign bond issue than on a domestic one; see Gray and Woo (2000).

(29) See Hakim and Andari (1997) and Gaspard (2004), where the latter estimates that a reasonable market interest rate is about 8-9%. In addition, how could one otherwise explain the huge drop in interest rates (by 4%) from Paris II as a result of debt transactions involving 11% only of total debt! In fairness, though, interest rates seem also to have been set so as to allow banks a margin to attract capital from the region and enable them to rebuild their reserves and capital base.

(30) The spread is the average difference between interest on two-year Lebanese Eurobonds and US T-bills of the same maturity.

(31) The difference between resource gaps and the lower current account deficits reported in Table 2 is private unrequited transfers, mainly emigrants' income.

(32) This compares to an MPK of 20% for developing countries. See IMF (2005).

(33) See Kubrusi (2001).

(34) Competitiveness, of course, was not helped by high average tariffs which up to 2002 constituted 35% of tax revenues.

(35) This is equal to the difference between, on one hand, the difference between 14.9% paid on government bonds because of sterilization and 4.2% in London inter-Bank Offer Rate (LIBOR) earned on foreign reserves and, on the other hand, the difference of 7% in interest saved from contracting foreign instead of domestic debt.

(36) This paper does not go into a discussion of which system of adjustable flexibility is best, but suffice it to say that it is recommended that flexibility targets a level of real exchange rates that helps maintain external/internal balance and be tied to a currency (or a basket of currencies) that reflect trading potential and foreign debt composition. See IMF (2003).

(37) In other words, the government incurs a short foreign exchange position by assuming foreign currency debt, and a depreciation will increase its servicing cost due to declining foreign currency value of its revenues.

(38) For more on this concerned view, see IMF (2004b).

(39) See Central Bank of Lebanon (Various Issues). In 2004, the composition of banks' assets was as follows (in LL trillion): 29.8 reserves; 20.4 foreign assets; 24.1 credit to the government (14 in foreign currency sovereigns); and 24 credit to the private sector. As to the composition of deposits: 1.4 demand deposits; 66.9 time and foreign currency deposits; 18.3 foreign liabilities; and 1.5 government deposits.

(40) It is true that confessionalism is not the germ of all ills in Lebanon, but unfortunately, it is the one that is hardest to eradicate.

(41) At a corruption or waste rate of 20%; see Gaspard (2004).

(42) It is interesting that a relatively large public sector still implies a weak state, and this in a country that has always prided itself of its laissez faire. See Kisirwani (1998).

(43) A market-based financial system is yet to develop. The stock exchange has only 16 listings with a market capitalization to GDP ratio of about 10%, and the active bond markets are those of T-bills.

(44) For more on these issues, see Gaspard (2004).

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Capital Account Liberalization and Exchange Regime Choice - What is the Scope of Flexibility for Tunisia?

Ben Ali Mohamed Sami

Capital Account Liberalization and Exchange Regime Choice - What is the Scope of Flexibility for Tunisia?

Ben Ali Mohamed Sami *

Abstract

The structural reforms that has been adopted by Tunisia for its economy since 1986, have allowed the establishment of the convertibility of its current account in January 1993. The capital account liberalization remains a top priority in the immediate future. In this respect, the exchange regime that will be Tunisia's choice is vital. This study evaluates the exchange rate regime from a welfare perspective within a game-theoretic framework. In a tradable/non-tradable goods model framework, Tunisia's exchange rate regime choice is cast in terms of external competitiveness and domestic inflation. Based on the Tunisian economic parameters, the simulation outcomes reveal that capital account liberalization is compatible with a flexible exchange regime. Simulation exercises also show that such a regime leaves the authorities a margin of manœuvre to correct the balance of payment disequilibrium and to promote a policy of economic growth by exportations.

تحرير حساب رأس المال وخيار سياسة سعر الصرف: ما مدى المرونة لتونس؟

بن علي محمد سامي

الملخص

لقد مكنت الاصلاحات الهيكلية التي تبنتها تونس لاقتصادها منذ عام 1986، من السماح بعملية التحول في حساب رأس مالها في يناير من عام 1993. حيث تبقى عملية التحرير في قمة أولوياتها في المستقبل المنظور. وفي هذا الصدد فإن سياسة سعر الصرف سوف تحظى باهتمام أكبر. تقيم هذه الدراسة سياسة سعر الصرف من وجهة نظر الرفاه وفي إطار نظرية الألعاب. ففي إطار نموذج للسلع القابلة للاتجار / وغير القابلة للاتجار، فإن خيار سياسة سعر الصرف التونسي تعتبر منغلقة من حيث التنافسية الخارجية والتضخم المحلي. واستناداً إلى الشركاء الاقتصاديين لتونس، فإن نتائج المحاكاة تشير إلى أن تحرير الحساب الجاري يتوافق مع النظام المرن لسعر الصرف . كما تبين تمارين المحاكاة أيضاً إن مثل هكذا النظام يترك للسلطات هامشاً من الحركة لتصحيح ميزان المدفوعات غير المتوازن، ومن أجل ترويج سياسة النمو الاقتصادي عن طريق التصدير.

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Introduction

The choice of an optimal exchange rate regime has been the subject of an old debate in international economics since the precursory and seminal papers of Mundell (1961), McKinnon (1963) and Kenen (1969), and the contributions of Crockett and Nsouli (1977), Dreyer (1978), Heller (1977, 1978), Holden et al. (1979), Melvin (1985) and Wickham (1985), among others.

As Schor (1997) shows, this debate has never been closed.(1) In the last few years, the question has received renewed interest for the emerging market economies, particularly with Bailliu and Murray (2003), Chang and Velasco (2000), Edwards (1993, 1996, 2001), Edwards and Savastano (1999) and Williamson (2000), to name a few.

Although this question arises for all economies, it is of particular relevance for emerging economies. These economies face a very unstable monetary and financial international environment. This environment is characterized by a strong integration of the financial markets and high volatility of capital flows. In search of a certain economic stability, what choice of exchange rate regime will these economies make?

This question is of particular importance as it conditions the whole economic policy of these countries; safeguard their competitiveness, their stability and consequently, their economic growth. Reflecting the differences in the levels of economic and financial development, no exchange rate regime may be prescribed in a uniform way for all these countries (Frankel, 1999). Needless to say, choosing the optimal degree of flexibility compatible with the economic conditions of the country is not an easy task.

The objective of this paper is to study the choice of an optimal exchange regime for Tunisia. Its purpose is to evaluate the impact of this choice on the welfare of the monetary authorities, in particular, the external competitiveness and inflation.

Exchange Regime Choice: A Brief Survey of the Literature

Traditionally, two types of exchange rate regimes may be distinguished: (a) the fixed exchange; and (b) the floating exchange regimes. The fixed or pegged exchange rate system is a regime in which the Central Bank intervenes without limit to buy and sell its currency against other currencies to a predefined rate.(2)

Drawing a clear demarcation line between fixed and flexible exchange regimes is not an easy task. In fact, as the official rates of intervention of the Central Bank on the exchange rate market, as the purchase and sale of the national currency against other currencies widen, the regime approaches a free float. In a floating regime, the nominal exchange rate is an endogenous variable determined by market forces according to the demand and supply. In the framework of this regime, the monetary authorities have no commitment to a desired trajectory of the exchange rate. Consequently, they do not practice any intervention to guide this trajectory, hence the autonomy of the monetary policy.

Beyond the traditional fixed-flexible dichotomy, recent literature treats a variety of exchange regimes falling between these two polar cases of pure float and absolute fixity. These regimes are classified by a decreasing flexibility order: the independent float, the lightly managed float(3), the managed float, the crawling broad band regimes, the crawling narrow band regimes, the crawling pegs, the pegged within bands regimes, the conventional systems of fixed parities(4), currency boards and currency union/dollarization, and the regimes of countries that have no distinct official legal tender(5).

The choice set of criteria of an exchange rate regime traditionally suggested in the literature, which are usually related to the economic characteristics of a given country, originate in most of the theory of the optimum currency area. Other factors, rarely tested in literature, can also interfere in the decision process. Thus, the choice of an optimal exchange rate regime will depend on: the size of the country, its level of economic and financial development, its degree of openness to trade and to financial flows, the structure of its production and exportations, its inflation history, the inflationary temptations of the government, the nature and the source of the shocks, the position of its terms of trade and current account balance, the level of its exchange reserves and the mobility of the capital account, the flexibility of its fiscal policy, as well as the preferences of the political decision-makers in the arbitrage between different economic policy objectives.

As Frankel (1999) asserts: No single currency regime is right for all countries and at all times. The choice will depend on the relative weight assigned to each of these factors. In this respect, the exchange regime choice in theoretical literature is abundant. This literature, globally distinguishes between three principal approaches to explain the why and the how of the choice between fixed and flexible exchange regimes.

A first approach, which is based on the theory of optimum currency areas, developed during the 1960's following the original works of Mundell (1961), McKinnon (1963) and Kenen (1969) emphasizes the superiority of fixed exchange rate regimes within the framework of a monetary integration. The principal choice criteria of this regime are: the production factors mobility, the economic openness and the production diversification. Other choice criteria have emerged ever since, in particular: the degree of financial integration, the similarity of the rate of inflation and the homogeneity of the preferences. An extension of the original approach suggests the superiority of fixed exchange rate regimes but adopts a different logic. It privileges an arbitrage between the benefits and the costs of the integration of a currency area.

A second approach in line with the works of Fisher (1977), Turnovsky (1976), Flood (1979), Aizenman and Frenkel (1982, 1985), considers the optimality of the choice between fixity and flexibility with reference to the stabilization capacities of different regimes in an environment exposed to different types of shocks. The highlight of the conclusions of this literature is - if the economy is affected by monetary shocks, the fixed exchange regimes would be preferable. However, if these shocks are of real nature, flexibility would be more attractive.

A third approach considers the role of credibility in the choice process. The credibility of the monetary policy and the rationality of the economic agents are explicitly advanced after the seminal works of Kydland and Prescott (1977), Calvo (1978) and those of Barro and Gordon (1983). This approach was revived towards the end of the 1980s and adopted by Horn and Persson (1988) in the exchange regime choice decisions. It has been also enriched through the contributions of Aghevli, Mohsin and Montiel (1991), Collins (1996), Edwards (1996), and Persson and Tabellini (2000). According to this approach, adopting pegged exchange rate regime to a stable currency can generate gains in terms of a less inflation and therefore of a higher credibility of the monetary authorities. This credibility gain is generally arbitrated against the flexibility loss that causes the renunciation to the shocks adjustment mechanism.

If these different approaches can provide important knowledge to determine the choice of a particular exchange regime, the characteristics of an economy are also crucial for this choice. It is interesting at this stage to consider the choice of the exchange regime within the framework of the Tunisian economy.

Which Exchange Regime for Tunisia?

Since its independence, Tunisia has embarked on several economic development plans in a strategy for the establishment of a production structure and of a sector of public enterprises. Following the demise of the Bretton Woods system of fixed exchange system in 1973, major industrial countries moved to a system of floating exchange rates. Until the end of the Bretton Woods system, Tunisia had pegged its currency to the French Franc, given the importance of France as its principal trading partner. The managed floating that Tunisia officially adopted until the early 1980s actually maintained its nominal exchange rate within a stable band relative to the French Franc.

In 1986, Tunisia embarked on Structural Adjustment Policies aimed to establish a market-based and private-sector driven economy. As a result, Tunisia initially let its currency depreciate by about 40% over the next few years, before adopting a policy of a stable real effective exchange rate (REER). This exchange rate policy, aimed at maintaining the real exchange rate at a constant level to a composite basket of currencies of its main trading partners. The composition as well as the weights of the currencies of the basket underwent some modifications by widening them to introduce the commercial partner countries and the weak European currencies, since the objective of the Tunisian authorities was to enhance the external competitiveness.[6] Within the framework of this exchange rate policy, the objective was to guarantee, through regular adjustments in the value of the nominal exchange rate, the consistency of the effective real exchange rate.

Unlike other emerging economies, Tunisia was more prudent in its capital account liberalization policy in the 1990s. Its real effective exchange rate targeting policy, combined with sound monetary and fiscal policies, helped Tunisia to preserve external competitiveness and bring some discipline in macroeconomic policies. Nevertheless, the limitations specific to this exchange rate regime are beginning to emerge as the process of economic and financial liberalization, since the establishment of the convertibility of its current account in January 1993[7], is pursued.[8] In fact, the Tunisian authorities have decided to gradually liberalize the

capital account of the balance of payments to accompany the country's increased integration into the world economy.

To minimize the risks of increased international financial integration and to maintain monetary policy independence in an open capital account environment, the Central Bank of Tunisia is gradually moving from real effective exchange rate targeting framework to a floating exchange regime. A more flexible exchange regime could provide a solution to this dilemma (Fanizza et al., 2002; Fanizza et al., 2004). This study examines this hypothesis empirically. In particular, it aims to provide an answer to the following question: Would the choice of the flexibility option be an optimal choice in the case of the Tunisian economy?

The Model

This study follows the recent literature relating to the evaluation of the different exchange regimes with reference to the welfare criteria. The welfare approach defined in terms of costs/profits in the the exchange rate regime choice, has been notably adopted by Aizenman (1994), Chin and Miller (1998), Devereux and Engel (1999), Eaton (1985), Helpman and Razin (1982), Lapan and Enders (1980) and Neumeyer (1988). These authors consider the maximization of an objective function defined with respect to real and nominal variables. Such maximization determines the different costs and advantages of the adoption of a particular exchange rate system. The current accounts, the production, the growth rate, are usually the most important real variables considered. The nominal variables are primarily the general price level or the rate of inflation. These models are usually defined, as a Nash non-cooperative game between the government and the private sector agents.

Based on Agénor (1994), Asikoglu and Uctum (1990), Devarajan and Rodrik (1992), and Zhang (2001), a model is proposed that adopts this approach to the case of the Tunisian economy. The choice of an exchange rate system within the framework of this model is defined in terms of strategic interaction between the domestic firms and the monetary authorities. In a tradable/non-tradable goods model, the authorities are supposed to choose an optimal exchange regime that maximizes their welfare. The latter is obtained by the minimization of a loss function defined in terms of external competitiveness and domestic inflation.[9]

The approach of the choice of an exchange regime with respect to the welfare criteria considers the model of a small open economy producing tradable and non-tradable goods. The economic agents are, on the one hand, represented

by the monetary authorities, and by the agents of the private sector on the other. These agents interact in an optimization game where each tries to maximize his welfare. To attain this objective, the monetary authorities have access to the exchange rate as instrument of the economic policy, while the enterprises act on the non-tradable goods prices. This optimization game allows each of the agents to determine his objective function while minimizing a loss function.

The monetary authorities loss-function, such as defined in the literature, is determined by the deviation of the real exchange rate and the inflation rates from their respective targets. Analytically, this function is defined by the following equation:

$$Z^g = -\alpha\,[(1n\,E + 1n\,P_E - 1n\,P_N) - 1n\ ] + \tfrac{1}{2}\lambda\,(1n\,P - 1n\,\Theta)^2\,;\ \alpha,\lambda > 0 \quad (1)$$

Z^g: the monetary authorities loss-function expressed in logarithm level.
E: the nominal exchange rate.
α,λ : coefficients that represent the weights assigned by the monetary authorities to the external competitiveness and the domestic inflation respectively.
P, P_E and P_N : the general price level, the tradable goods' prices and the non-tradable goods' prices respectively.
, Θ: the targeted levels of the real exchange rate (equilibrium exchange rate) and the general price level, respectively.

The authorities' loss-function as defined in Equation 1, is captured through the sum of two factors:

- The deviation of the real exchange rate from its equilibrium level, or its misalignment (first term). The negative sign of this term indicates that the appreciation of the real effective exchange rate affects negatively the authorities' welfare. In fact, the deviation of the real exchange rate from its equilibrium trajectory (appreciation) causes the monetary authorities a loss in terms of external competitiveness.
- The deviation of the general price level from its targeted level (second term of the equation) causes a loss to the monetary authorities in terms of a higher inflation.

Following the literature, the general price level may be expressed by the following equation:

$$1n\ P = \delta\ 1n\ P_N + (1-\delta)\ (1n\ E + 1n\ P_E]; \qquad 0<\delta<1 \qquad (2)$$

$(1-\delta)$: measures the degree of economic openness.

A small economy is usually a "price taker". The tradable goods' prices are consequently determined on world markets. According to Adams and Gros (1986), the prices of the non-tradable goods are determined by:

$$1n\ P_N = \varepsilon[(1n\ E + 1n\ P_E - 1n\ P_N) - 1n\ ] + \phi 1n\ \psi; \quad \varepsilon, \phi > 0 \qquad (3)$$

ε: elasticity of non-tradable goods' prices with respect to real exchange rate disequilibrium (overvaluation or undervaluation).

ϕ : elasticity of non-tradable goods' prices with respect to the domestic money growth.(10)

ψ : measures the domestic money growth.

The non-tradable goods' prices as defined in this equation, are determined by two terms: (a) the domestic money growth, and (b) the deviation of the real exchange rate from its equilibrium level (misalignment).

The first term indicates that an undervaluation of the real exchange rate implies an increase (proportionally to the elasticity ε) in the non-tradable goods' prices. In fact, an undervaluation induces an increase in exportation and a consequent transfer of the resources from the non-tradable goods sector to the tradable goods one. The consequent decrease of the production and supply of the non-tradable goods induces an increase in their prices. Conversely, an overvaluation of the real exchange rate has downwards effects on the non-tradable goods' prices.

The second term represents the effect of an increase or a decrease in the domestic money growth on the non-tradable goods' prices (proportionally to elasticity ϕ).

Within the framework of this model, the choice of the exchange rate system is determined by a game between the monetary authorities and the private sector economic agents represented by the enterprises. While setting up their prices, these enterprises minimize their losses to protect their positions. Following Agénor (1994), their behavior is given by a loss-function of the following form:

$$Z^e = \tfrac{1}{2}\{1n\ P_N - \varepsilon[(1n\ E + 1n\ P_E - 1n\ P_N) - 1n\ \ ] - \phi 1n\ \psi\}^2 \qquad (4)$$

The enterprises loss-function as defined in Equation 4, is determined by the difference of two terms. The first term (P_N), is the price of non tradable goods. The second represents the sum of two components. The first component focuses on the deviation of the actual real exchange rate from its long-run equilibrium while the second focuses on the forces of money supply.

Equations 1 and 4 define the behavior of the monetary authorities and the enterprises, respectively.

In order to derive the appropriate exchange regime, the model defined in the previous section is considered:

$$Z^g = \alpha[(1n\ E + 1n\ P_E - 1n\ P_N) - 1n\ \ ] + \tfrac{1}{2}\lambda\ (1n\ P - 1n\ \Theta)^2$$

The next step is changing the variables and expressing them in proportional rates of change, rather than in level form:

$$e = 1n\ E,\ \varphi = 1n\ \psi,\ \omega = 1n\ \ ,\ P_N = 1n\ P_N,\ P_E = 1n\ P_E,\ \theta = 1n\ \Theta$$

Hence, the general price level will be determined by:

$$1n\ P = \delta P_N + (1 - \delta)\ e \qquad (5)$$

To simplify, it is supposed that the international prices remain unchanged ($P_E = 0$) and the monetary authorities' loss function is derived within the framework of a flexible exchange regime:

$$Z_f^g = -\alpha\ (e - P_N - \omega) + \tfrac{1}{2}\ \lambda[\delta P_N + (1 - \delta)\ e - \theta]^2 \qquad (6)$$

The enterprises loss-function in the framework of a flexible exchange rate system becomes:

$$Z_f^g = \tfrac{1}{2}[P_N - \varepsilon\ (e - P_N - \omega) - \phi\varphi]^2 \qquad (7)$$

The roots of this second order equation yield the monetary authorities' reaction function (Equation 8) and the domestic enterprises one (Equation 9), respectively:

$$R_g:\bar{e}= \frac{(\alpha-\lambda\delta p_N + \lambda\delta^2 p_N + \lambda\theta - \lambda\theta\delta)}{(\lambda - 2\lambda\delta + \lambda\delta^2)} \quad (8)$$

$$R_e: \bar{P}_N = \frac{(\varepsilon e - \varepsilon\omega + \phi\varphi)}{(1 + \varepsilon)} \quad (9)$$

Solving Equations 8 and 9 simultaneously yields the Nash equilibrium values of the devaluation rate and of the inflation rate:

$$\tilde{e}= \frac{\alpha + \alpha\varepsilon + \lambda\varepsilon - \lambda\omega\delta^2 - \lambda\varphi + \lambda\delta^2 + \lambda\theta + \lambda\theta\varepsilon - \lambda\delta - \lambda\delta\varepsilon}{\lambda(\delta\varepsilon + 1 + \varepsilon - 2\delta + \delta^2)} \quad (10)$$

$$\tilde{P}_N = \frac{\alpha\varepsilon + \lambda\theta\varepsilon - \lambda\theta\delta\varepsilon - \lambda\varepsilon\omega + 2\lambda\delta\varepsilon\omega - \lambda\delta^2\varepsilon\omega + \lambda\phi\varphi - 2\lambda\delta\phi\varphi + \lambda\delta^2\phi\varphi}{\lambda(1 - 2\delta + \delta^2 - \delta\varepsilon + \varepsilon)} \quad (11)$$

By substituting these values in Equation 6, the authorities' loss-function under a flexible exchange rate system is determined:

$$\tilde{z}^g_f = -\alpha \left[\frac{\alpha + \lambda\delta\phi\varphi + \lambda\theta - \lambda\theta\delta - \omega\lambda + 2\omega\lambda\delta - \omega\lambda\delta^2}{\lambda(1 - 2\delta + \delta^2 - \delta\varepsilon + \varepsilon)} \right] + \tfrac{1}{2}\lambda \left[\frac{\alpha}{\lambda(1 - \delta)} \right] \quad (12)$$

To determine the monetary authorities' welfare function in the framework of a fixed exchange rate system, a comparative methodology is proposed. Under a fixed exchange regime, the authorities announce and maintain a fixed exchange rate (therefore e=0, no adjustment in the exchange rate). In this case, and according to Equation 9, the behavior of the enterprises within the framework of a fixed exchange rate system will be defined as:

$$\hat{P_N} = \frac{(-\varepsilon\omega + \phi\varphi)}{(1+\varepsilon)} \qquad (13)$$

Accordingly, the monetary authorities' loss function under a fixed exchange rate system will be defined as:

$$\tilde{z}_x^g = -\alpha\left[\frac{(\varepsilon\omega - \phi\varphi)}{(1+\varepsilon)} - \omega\right] + \tfrac{1}{2}\lambda\left[\delta\frac{(-\varepsilon\omega + \phi\varphi)}{(1+\varepsilon)} - \theta\right]^2 \qquad (14)$$

Simulation Outcomes [11]

To simulate the model, it is necessary to determine the relative weight assigned by the Tunisian monetary authorities to the competitiveness objective and to the inflation one.

The export promotion policy in Tunisia sustained by a real exchange rate targeting strategy permits the supposition that the authorities assign a rather important weight to the competitiveness objective. The weak rates of inflation recorded during the last three decades clearly show that the authorities are highly concerned with the inflation objective too. Hence, it may be presumed that the authorities assign equal importance to the competitiveness and to the inflation objectives (α=0.5).

It must be admitted that the simulation parameters are difficult to estimate with precision. Approximations will be set primarily on the basis of the available statistics as well as on the basis of assessment of the reform of the Tunisian economy. These estimates do not impair the conclusions of this study but rather, give satisfactory results.

Also considered in this simulation basis is an economic openness rate of the Tunisian economy (1-δ) of 30%. Consequently, the coefficient (δ) is estimated at 70%. [12]

Since about ten years ago, the inflation annual rate - measured by the consumer price index - has fluctuated around 3% in Tunisia due to a broad money

growth rate targeting between 8 and 10%. The Tunisian Central Bank's domestic broad money growth rate projection for the year 2006 is estimated to be about 8%.(13) Therefore, a growth rate (φ) of 9.5% for the domestic money growth rate and an inflation target (θ) of 3% may be considered. (14)

Non-tradable goods' prices reveal a certain rigidity. In fact, they are in most of the cases, state-managed. It is supposed that the non-tradable goods' inflation elasticity with respect to the money growth (ϕ) is of 0.7. In this case, an increase of 10% in the money supply will induce an increase of 7% in the prices of the non-tradable goods. The elasticity of the prices of non-tradable goods with respect to the real exchange rate disequilibrium (ε) is estimated at 0.2.

Another required variable for the simulation is the equilibrium real exchange rate growth rate. According to Fanizza et al. (2002), between 1990 and 2001, the real effective exchange rate based on GDP deflator in Tunisia has appreciated by about 7%. In average, the exchange rate has appreciated therefore by about 0.7% per year during this period. Furthermore, according to the estimations of equilibrium real exchange rate on the basis of the Tunisian economic fundamentals, these authors indicate that Tunisia's effective real exchange rate has been near its equilibrium trajectory.

In this simulation, a similar trend of the equilibrium exchange rate may therefore be considered. The annual equilibrium real exchange growth rate is then set to 1%. To resolve the indeterminacy problem related to the estimation of the value of λ, it is assumed that monetary authorities' preferences follow a Cobb-Douglas function. This allows to write $\lambda = 2(1 - \alpha)$.

On the basis of the above specified parameters, the simulation outcomes reported in Table 1, it may be deduced that a flexible exchange regime causes lower loss to the monetary authorities compared to the fixed exchange rate regime. Consequently, it would be more favorable.

Table 1.

Simulation parameters : α= 0.5, ϕ= 0.7, ε= 0.2, ω= 0.01, λ= 2(1 - α), φ= 0.1, δ= 0.7, θ= 0.03	
Z^G_X	Z^G_F
0.0334	-0.2348

According to the evolution of economic conditions, the authorities may change their preferences of competitiveness by increasing the weight assigned to this variable. Which exchange regime would be optimum in this case from the authorities' standpoint? To investigate this issue, the value of (α) in the loss function on the basis of the same simulation parameter values may vary. The results are reported in Table 2.

Table 2.

Simulation Parameters: α=0.5, ϕ=0.7, ε=0.2, ω=0.01, λ=2(1−α), φ=0.1, δ=0.7, θ= 0.03		
	Z^g_x	Z^g_f
α = 0.02	0.0014	0.0015
α = 0.03	0.0021	0.0021
α = 0.04	0.0028	0.0025
α = 0.05	0.0034	0.0028
α = 0.1	0.0068	0.0024
α = 0.15	0.0101	-0.0018
α = 0.50	0.0334	-0.2348
α = 0.80	0.0534	-1.7090
α = 0.90	0.0600	-4.4226
α = 0.99	0.0660	-54.3649

From Table 2, it may be noted that when the value of α is changed, a flexible exchange system causes, from a certain threshold, a less heavy loss than a fixed exchange rate regime. Consequently, this regime would be more optimal. Indeed, if authorities assign a weight superior to 3 % to the competitiveness objective, a flexible system would be more favorable for the authorities since it causes a lower loss than a fixed exchange regime (0.0025 < 0.0028). For a preference weight inferior to this threshold, a fixed exchange rate would be more optimal.

As far as Tunisia is concerned, the sustained effort of the Tunisian authorities to promote the exportations and the competitiveness of the domestic products on the foreign markets, it may be presumed that the preferences of Tunisian monetary authorities are superior to this threshold. They can even surpass the chosen coefficient in this simulation basis (the value of α=0.5). From this perspective, it may be asserted that a flexible exchange regime would be

more optimal in the Tunisian context.

The exchange rate flexibility in the perspective of the economic openness and the capital account liberalization would allow the Tunisian monetary authorities to draw benefits from this choice. The principal conclusion that emerges from these results is that an eventual change in the preferences of the monetary authorities regarding the arbitrages between competitiveness and inflation to promote growth by exportations or for balance of payments, adjustments purposes will be compatible with a flexible exchange regime. Based on Table 3, an increase in the value of α, results in a lower loss to the authorities in the presence of a flexible exchange regime.

Table 3.

Simulation Parameters: α= 0.5, ϕ= 0.7, ε= 0.2, ω= 0.01, λ= 2(1 – α), φ= 0.1, δ= 0.7, θ= 0.03		
	Z^g_x	Z^g_f
ω = -2.6	-1.0048	-1.0178
ω = 0	0.0292	-0.2378
ω = 0.01	0.0334	-0.2348
ω = 0.04	0.0459	-0.2258
ω = 1.5	0.6676	0.2122
ω = 5	2.2764	1.2622
ω = 10	4.8638	2.7622
ω = 50	37.8133	14.7622

From Tables 3 and 4, it may be deduced that the equilibrium real exchange rate growth (ω) and the inflation target (θ) affect the magnitude, but not the direction of the choice of a particular exchange regime. In fact, whatever the value taken by these parameters, the flexible exchange system will always be chosen by the monetary authorities because it consistently attains a lower loss than the fixed regime.

Table 4.

Simulation Base : α = 0.5, ϕ = 0.7, ε = 0.2, ω = 0.01, λ = 2(1 – α), φ = 0.1, δ = 0.7, θ = 0.03		
	Z^g_x	Z^g_f
θ = 0	0.0341	-0.2048
θ = 0.01	0.0338	-0.2148
θ = 0.02	0.0335	-0.2248
θ = 0.03	0.0334	-0.2348
θ = 0.1	0.0352	-0.3048
θ = 0.3	0.0672	-0.5048

$\theta = 0.4$	0.0983	-0.6048
$\theta = 0.5$	0.1393	-0.7048

In contrast to these two variables, the effect of the economic openness rate on the choice of the exchange regime is more pronounced. The simulation outcomes for different openness parameter values (1-δ), show that from an openness threshold of 25% (δ=0.75), a flexible exchange system gives the authorities a more important welfare than a fixed system. Consequently, this is more optimal. For a degree of economic openness inferior to this threshold (75%), a flexible system causes an important loss in terms of welfare to the authorities. Consequently, a fixed regime will be preferred (0.0525 > 0.0335). In the polar case of an autarky economy (δ≥98), a fixed exchange system represents the only practical choice.

These results are in line with the conventional theory of the optimal exchange regime choice according to which the openness increases the need for flexibility. The principal knowledge that emerges for the Tunisian case is that the openness of the Tunisian economy and the capital account liberalization would be more compatible with a flexible exchange regime.

Table 5.

Simulation Parameters: α=0.5, ϕ=0.7, ε= 0.2, ω=0.01, $\lambda=2(1-\alpha)$, φ=0.1, δ=0.7, θ=0.03		
	Z^g_x	Z^g_f
$\delta = 0.5$	0.0333	-0.1821
$\delta = 0.55$	0.0333	-0.2032
$\delta = 0.6$	0.0333	-0.2237
$\delta = 0.7$	0.0334	-0.2348
$\delta = 0.75$	0.0334	-0.1750
$\delta = 0.8$	0.0335	0.0525
$\delta = 0.9$	0.0336	4.2350
$\delta = 0.98$	0.0337	255.7732

With regards to the domestic money growth variable, the simulation results (Table 6) show that a flexible exchange system, even with a negative money supply (cases of disinflation), will be optimal for the case of the Tunisian economy. This result holds up to money growth level of about 80%. Beyond this threshold, the trend reverses and a fixed exchange system will be more optimal for the authorities (0.3232 < 0.3252).

These results can be explained by reference to the credibility theory. The discretionary economic policies that generally accompany a flexible exchange rate system, and the lack of discipline that they generate by the excessive money supply, can induce an important inflationary bias. This one can be corrected by resorting to the exchange rate fixity. The adoption of an exchange rate system as a rule of anchorage of the exchange rate to a stable currency, allows a higher credibility of the monetary authorities and gains in terms of a less inflation. The adoption of the rigid fixed exchange regimes, within the framework of a Currency Board or Dollarization regimes, represent an extreme case of exchange rate fixity the finality of which is the quest for higher credibility.

When the domestic money supply becomes excessively high (superior to 350%), the tendency in favor of a flexible exchange system reverses again. In this case, and beyond a certain threshold of the money supply, even the adoption of a fixed exchange system cannot be a remedy to the credibility problems if it is not accompanied by anti-inflationary measures.

Table 6.

Simulation Parameters : α=0.5, ϕ=0.7, ε=0.2, ω=0.01, λ=2(1 – α), φ=0.1, δ=0.7, θ= 0.03		
	Z^g_x	Z^g_f
φ = -0.5	-0.1140	-0.6548
φ = -0.1	-0.0224	-0.3748
φ = 0	0.0047	-0.3048
φ = 0.2	0.0638	-0.1648
φ = 0.4	0.1296	-0.0248
φ = 0.8	0.2812	0.2552
φ = 0.9	0.3232	0.3252
φ = 3.5	2.0022	2.1452
φ = 6.5	5.3401	4.2452
φ = 9.5	10.1786	6.3452

According to the results recorded in Table 7, the effect of the non-tradable goods inflation elasticity with respect to the domestic money supply (ϕ) on the authorities welfare, is very weak. It has effects on the magnitude rather than on the direction for the choice of the exchange regime. On the contrary, the effect of the domestic inflation elasticity with respect to the equilibrium real exchange rate (ε) on exchange rate systems' performance is pronounced.

As it may be easily seen from the results reported in Table 8, from a 0.25 value threshold of this parameter, a fixed exchange rate system gives the

authorities a higher welfare than a flexible system (0.0308 < 0.0358). Choosing the appropriate exchange regime depends therefore, and to a certain extent, on the sensitivity of the domestic inflation to the equilibrium exchange rate misalignment.

Table 7.

Simulation Parameters : α=0.5, ϕ=0.7, ε= 0.2, ω=0.01, λ=2(1 – α), φ=0.1, δ=0.7, θ= 0.03		
	Z^g_x	Z^g_f
ϕ = 0	0.0047	-0.3048
ϕ = 0.1	0.0087	-0.2948
ϕ = 0.2	0.0127	-0.2848
ϕ = 0.5	0.0250	-0.2548
ϕ = 1.5	0.0683	-0.1548
ϕ = 2.5	0.1149	-0.0548
ϕ = 3.5	0.1650	0.0452
ϕ = 4.5	0.2184	0.1452
ϕ = 5.5	0.2753	0.2452

In Tunisia, the price structure is relatively rigid and it is unlikely that this elasticity surpasses this threshold. The growing Tunisian economic openness and capital account liberalization could bring an additional flexibility to the domestic price structure but it remains unlikely that such a threshold can be surpassed. Thus, it may be concluded, from an openness perspective, a flexible exchange regime will be an optimal choice for the Tunisian economy.

Table 8.

Simulation Parameters: α=0.5, ϕ=0.7, ε=0.2, ω=0.01, λ=2(1 – α), φ=0.1, δ= 0.7, θ=0.03		
	Z^g_x	Z^g_f
ε = 0	0.0402	-1.3172
ε = 0.1	0.0365	-0.6407
ε = 0.2	0.0334	-0.2348
ε = 0.25	0.0320	-0.0872
ε = 0.3	0.0308	0.0358
ε = 0.35	0.0296	0.1399
ε = 0.45	0.0276	0.3064
ε = 0.65	0.0242	0.5343
ε = 0.85	0.0216	0.6829

To derive the optimal exchange rate system choice in the context of

the Tunisian economic openness, proceeding from the exchange liberalization measures and suppression of the tariffs and non-tariffs barriers, all the parameters values in this simulation basis are further varied simultaneously to see their effects on the monetary authorities' welfare performance. A weight of 50 % for the competitiveness is considered, a 25% domestic money growth, an economic openness rate of 65%, an 8% inflation target, a 5% annual equilibrium real exchange growth rate, a unitary domestic inflation elasticity with respect to the money supply and of 0.5 with respect to real exchange rate misalignment. The simulation results are reported in Table 9. They indicate a lower loss under a flexible exchange regime.

Table 9.

Simulation Parameters: α= 0.5, ϕ=1, ε=0.5, ω= 0.05, λ=2(1 – α), φ=0.25, δ= 0.35, θ= 0.08	
Z^g_x	Z^g_f
0.1004	0.0495

Now to be considered are the monetary authorities' preferences changes effect on welfare performance. These new parameters give positive results for a flexible system (Table 10).

Table 10.

Simulation Parameters: α=0.5, ϕ=1, ε=0.5, ω=0.07, λ=2(1 – α), φ=0.25, δ= 0.35, θ=0.08		
	Z^g_x	Z^g_f
α = 0.5	0.1004	0.0495
α = 0.6	0.1203	0.0362
α = 0.7	0.1402	-0.0028
α = 0.8	0.1602	-0.1061
α = 0.9	0.1801	-0.4667
α = 0.95	0.1900	-1.2258

Conclusion

In this paper, a model is considered that puts in interaction the monetary authorities on one hand, and the private sector agents represented by the domestic enterprises on the other. The choice of an exchange regime by the monetary authorities, results from the minimization of a loss-function defined in a Nash non-cooperative game with these enterprises. Based on certain parameters of the Tunisian economy, the simulation exercises reveal that the opening of the

Tunisian economy and the liberalization of its capital account is compatible with a flexible exchange regime since it causes a less heavy loss than a fixed system does. Such a system can assure the competitiveness objective and mitigate the inflationary bias, generally associated with the capital account openness. It can therefore bring the required credibility for such a transition period. This is particularly important as long as this transition phase is accompanied by new risk elements that necessitate a high credibility of the policies and the institutions.

In a capital account liberalization perspective, the simulation outcomes show that a change in the preferences of the monetary authorities in the framework of the arbitrage between competitiveness and inflation, is compatible with a flexible exchange regime. Such a regime allows the authorities to have a margin of manœuvre to eventually correct the balance of payment disequilibrium and to promote a policy of economic growth by exportations.

Footnotes

(1) Schor (1997): Changes fixes ou changes flexibles : Un débat jamais clos.

(2) In the Bretton Woods system, the exchange rate of the Dollar has a margin of fluctuation of + /- 1% around a central parity. Before August 1993, the European Monetary System has a fixed bilateral exchange rates with a margin of fluctuation of + /- 2.25% around a central parity.

(3) Contrary to an independent float regime, within the framework of a managed float, the authorities can intervene on the exchange market with the objective to lessen the excessive fluctuations of the exchange rate and not to defend a zone or a given level of the exchange rate.

(4) The country pegs (officially or de facto) its exchange rate, at a fixed rate, to a stable currency or to a basket of currencies.

(5) In this case, another monetary unit is the legal tender in the country, or the country is a member of a monetary union or of a cooperative monetary mechanism having adopted a common currency that has legal course in each of the member nations.

(6) It is safe to assume that the French Franc (and now the Euro) and the US Dollar still carry an important weight in this basket, given their continued importance for Tunisia.

(7) The current account convertibility of the Tunisian Dinar was announced by the President of the Republic in December 27, 1992. It entered into effect with Law No. 93-48 on May 3, 1993. From 1993, exchange control has been lifted on the current operations, the resident's current accounts, Tunisians' investments abroad as well as some external loans. Also, the establishment of interbank foreign exchange market in Tunisia in 1994 marked an important step toward decentralizing the management of foreign exchange and allowing market forces to play a greater role in exchange rate determination. Moreover, the Central Bank of Tunisia gradually reduced its market presence giving financial institutions bigger role in managing foreign exchange flows. Forward and swap markets have also been created.

(8) As Calvo et al. (1995) show, monetary authorities can follow a constant real exchange rate targeting policy only for a limited period.

(9) Within the framework of the Tunisian growing economic openness, the authorities have privileged an export promotion strategy attended by a real constant exchange rate strategy. Consequently, they are very concerned with the preservation of the external competitiveness and the price stability as well. Their policies are consequently defined in terms of competitiveness and inflation. The choice of this modelling in the Tunisian case is therefore particularly suitable. Within the framework of this model, the authorities' welfare is measured by the external competitiveness. This does not exclude the economic growth objective that is captured by the competitiveness effect.

(10) Non-tradable goods are goods that are not traded because of material impossibility (infrastructures, transportations.) or because of the domestic (protection measures) or world-

wide regulations (embargo), or for reasons of transportation costs. Non-tradable goods can become tradable when the regulations impeding their free circulation are eliminated or when the transportation costs lower or disappear. Tradable goods are often assimilated to the manufactured products while non-tradable goods are assimilated to the services (electricity, water, transportation, constructions, telecommunications, etc).

(11) The simulation is carried out using the Matlab computer program (version 7.0.1).

(12) According to preliminary simulations, this economic openness rate is satisfactory. The openness rate generally used in the literature (X+M/GDP) accounts only for the degree of the current account openness and cannot, consequently, be a reliable measure of the degree of effective economic openness of a country. An openness rate is approximated that accounts for the current account liberalization degree as well as the capital account. It will be noted that Tunisia's trade openness rate remains rather low. Indeed, with the different tariffs and non-tariffs barriers, Tunisia holds the index of 8 out of 10 of the Trade Restrictiveness Index of the International Monetary Fund (IMF, 2005). At the capital account level, the degree of openness is much weaker.

(13) Central Bank of Tunisia (2005).

(14) Despite the liberalization process of the Tunisian economy, many prices remain regulated. Indeed, oil, water, basic products, electricity, telephone and public transportations' prices still remain state regulated. At the same time, salaries remain comparatively rigid since wage negotiations in Tunisia generally intervene every three years.

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Speed of Adjustment, Sequencing and Outcomes of Macroeconomic Stabilization and Structural Reforms in Morocco: A Political Economy Analysis

Brahim Mansouri

Speed of Adjustment, Sequencing and Outcomes of Macroeconomic Stabilization and Structural Reforms in Morocco: A Political Economy Analysis*

Brahim Mansouri**

Abstract

Using political economy and statistical tools, this paper examines the speed of adjustment, sequencing and outcomes of macroeconomic stabilization and structural reforms in the Moroccan case. It argues that inefficiency of reforms in these areas is largely due to speed and sequencing issues as well as to interest group pressures and credibility of decisionmakers.

سرعة التكيف وتتابع السياسات ونتائج التثبيت الاقتصادي والكلي والإصلاحات الهيكلية في المغرب: تحليل اقتصادي سياسي

ابراهيم منصوري

ملخص

تناولت الورقة قضية سرعة وتتابع الإصلاحات الاقتصادية في المغرب من وجهة نظر الأطروحة القائلة بأن مثل هذه الإصلاحات لا بدّ من تناولها في إطار السياق السياسي والمؤسساتي الذي تطبق فيه. قدمت الورقة نتائج تطبيقية لحالة المغرب بما في ذلك قياس سرعة الإصلاحات في مجال التثبيت الاقتصادي والإصلاحات الهيكلية كل على حدة ، وكذلك حول تجربة تتابع الإصلاحات بما في ذلك الإجابة على السؤال لماذا ينبغي تطبيق إجراءات التثبيت الكلي في وقت مبكر؟ بالإضافة إلى اقتراح أن هنالك حاجة لجيل جديد من الإصلاحات يركز على الإصلاحات السياسية والمؤسسية.

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Introduction

Presently, existing researches in this area seem "to criticize to criticize", arguing that structural adjustment and other accompanying reforms are bad news for the Moroccan economy and society. The problem is that these criticisms do not propose any alternatives to the existing Moroccan multifaceted crisis. An endogenous criticism of the multidimensional reform process unique to Morocco is therefore proposed.

In particular, the main hypothesis of this research is that economic reforms themselves should be related to the political and institutional context in which they are designed and implemented. This means that economic reforms do not form pure technical machinery where demand must be adjusted to supply at the macroeconomic level and auto-regulatory mechanisms of the market should be restored at the microeconomic level to achieve development and wellbeing. The reform process is a very complex phenomenon wherein economic, political, social and cultural aspects are interrelated. In general, to better understand objectives, means, outcomes and results of policies in the Arab World, interdisciplinary, transdisciplinary and multidisciplinary research approaches are needed.

Reforms in the Arab world constitute a non-dissociable part of development strategies. The reason is that their design and implementation strategies determine their outcomes and results. How such reforms are timed and sequenced depends on the political and institutional context of a given country. This is the main hypothesis of this paper. It does not aspire to give definitive answers to complex questions. The main objective is for it to be a springboard for exchange of ideas and experiences at the International Conference on New Approaches to the Design of Development Policies held in March 2006 at Beirut, Lebanon.

Speed of Adjustment in the Moroccan Reform Efforts

As in many developing and transitional countries, Moroccan decision makers have to make the choice between two competing approaches to implement macroeconomic and structural reforms. The first approach is commonly termed the shock, cold-turkey or big bang therapy approach. The second one is the gradual or the incremental approach. Whereas the shock approach agrees on programs of rapid and surprising reforms, the gradual approach is based on a package of incremental and multistage reforms.

A Relative Big Bang Approach to Macroeconomic Stabilization

In a political economy perspective, Morocco, to restore the budget balance, has relied heavily on cutting public investment expenditures in accordance with the big bang approach. However, some public subsidies and transfers have been readjusted only gradually and current public expenditures have been cut only slightly and even maintained constant in some cases. For instance, even before the beginning of the structural adjustment program, public investment spending was cut by about 4.7 percentage points of GDP in 1980 within the framework of the triennial plan 1978-1980 against only 2.95 percentage points of GDP for current public consumption and an increase of 0.85 percentage point of GDP for subsidies. In 1983, when the Structural Adjustment Program was launched, the shock therapy in cutting public investment spending resulted in about 5 percentage points of GDP decrease in this kind of public expenditures against 1.5 and 0.75 percentage points of GDP for current public consumption and subsidies respectively.

This approach to transforming the structure of public expenditures has certainly something to do with the fact that the shock therapy adopted in Morocco is aimed at restoring the budget balance without exacerbating popular and political displeasures, especially among labor unions in the public sector, less favored private consumers who benefited from subsidies, as well as among bureaucrats considered as a powerful interest group in the Moroccan case (Mansouri, 2003c, 2003f). Indeed, as empirical studies clearly show, public investment has been seen to be an important catalyst for capital accumulation in the private sector as well as for overall real economic growth.(1) Among the community of researchers, only those who have not paid any attention to political economy considerations have pretended that Moroccan decision makers succeeded in reforming the public finance of the country. Doing so, they have often forgotten that the Moroccan government perhaps knows that cutting public investment is bad for the development opportunities of the country as well as for the long-run social welfare of the population. However, politically speaking, the government was obliged to resort to center the shock therapy on capital expenditures. Mansouri (2003c) emphasizes that the fiscal policy reform in Morocco has been inefficient because of political economy factors. The efficiency of fiscal policy matters more than the accounting equilibrium of the public budget.

It is probable that in the face of a sharp fiscal, financial and monetary crisis, Moroccan decision makers have been obliged to resort to a shock approach, at least on the macroeconomic stabilization front, especially during the first years

of adjustment from 1983 until the end of 1980s. However, fearing popular and political dissatisfaction, the government limited its big bang therapy to what is politically feasible, that is without cutting public expenditures which may exacerbate popular and political displeasure. In the field of public consumption and subsidies for example, Moroccan decision makers appear to have preferred a gradual and multistage approach rather than a shock therapy.

Another component of macroeconomic stabilization is the so-called monetary restriction. While Morocco is known as a country characterized by fiscal expansion and higher public debt stocks, it is important to stress that Moroccan decision makers did not historically resort to the monetization of public deficits. For instance, over the period 1960-1997, the base money is estimated to be only 14% of GDP in annual average, against 22% in Egypt for example. Base money creation, defined as the ratio of the absolute change in money base divided by GDP, amounts to a value of only 1.7, against 2.70 in Egypt.

Perhaps, Moroccan decision makers agree on the fact that there is a big trade-off between inflation and money creation and decided accordingly to not resort to money creation to finance fiscal deficits. Indeed, following Mansouri (2001, 2003a), relationship between money creation and inflation may be analyzed as a typical Laffer curve of seigniorage, where money creation (as a ratio to GDP) increases in a first period in relationship to inflation, and, as inflation increases, money creation begins to fall down because money holders are very sensitive to the eroding value of their money balances.

To curb inflation, Moroccan decision makers resorted to control not only the money base creation but also the monetary aggregates in general. The rule of money control consists simply on adjusting the total nominal money stock to the nominal GDP. In other words, the rule of money control in Morocco is that the rate of growth of nominal money stock should be fixed around the sum of the rate of real GDP growth and the rate of inflation.

This is only a part of the story. Money creation may also deteriorate external accounts either through increasing aggregate demand or through eroding external competitiveness, especially by exacerbating inflation and, therefore, by appreciating real exchange rates. Another important point concerns impact on prices of an expansionary fiscal policy. Mansouri (2003e) has shown that since the Moroccan public sector has a propensity to consume non-tradable goods, higher than that of the private sector, fiscal expansion has to increase inflation, and, through this channel, to appreciate the real exchange rate. Thus, even fiscal

adjustment aims at curbing inflation. In sum, fiscal austerity and monetary restriction were both conducted in conformity with a relative shock approach.

Measuring the Speed of Adjustment in Macroeconomic Stabilization

It is now well known that the most important variable that determines fiscal adjustment efforts of the government of a given country is the fiscal surplus(2). Within the framework of the Structural Adjustment Program(3), Morocco centered macroeconomic stabilization efforts on reducing fiscal deficits to render them sustainable(4). In an adjustment speed perspective, it is important to know what is approximately the time elapsed between the move from an unsustainable level of fiscal surpluses, at the time corresponding to the launching of fiscal adjustment in 1983, to a targeted sustainable level of such surpluses.

As shown in Figure 1, representing values of budget surpluses over time, there is no doubt that fiscal deficits were decreasing, especially since the early 1980s. The smoothed values of fiscal surpluses in Figure 2 show more accurately how the fiscal stance in Morocco dramatically deteriorated until the early 1980s, and how fiscal surpluses began to improve henceforth. To approximate the speed of fiscal adjustment, using the budget surplus as a first relevant variable, an examination of the evolution of such surpluses from 1983 through a period where surpluses became stabilized, is in order.

Data investigations reveal that the fiscal surplus was stabilized only in the end of 1980. Indeed, the fiscal surplus was estimated to be around 11.5% of GDP in 1982. While it improved during the subsequent year, it experienced some deterioration after 1984, reaching 7.3 and 7.7% of GDP in 1985 and 1986 respectively, and amounted to about 5.2% of GDP in 1989. Over the period 1982-1989, the fiscal surplus annual average is estimated to be around 6.6% of GDP. In 1990, the budget deficit was stabilized at a level of less than 3% of GDP, and continued thereby to decrease, reaching only 2.2 and 1.5% of GDP in 1992 and 1993 respectively. The budget surplus annual average over the period 1990-1997 is estimated to be only 2.6% of GDP. However, as shown in Figure 1, fiscal surplus experienced an annual average deterioration of about 3.52% of GDP over the period 1998-2000.

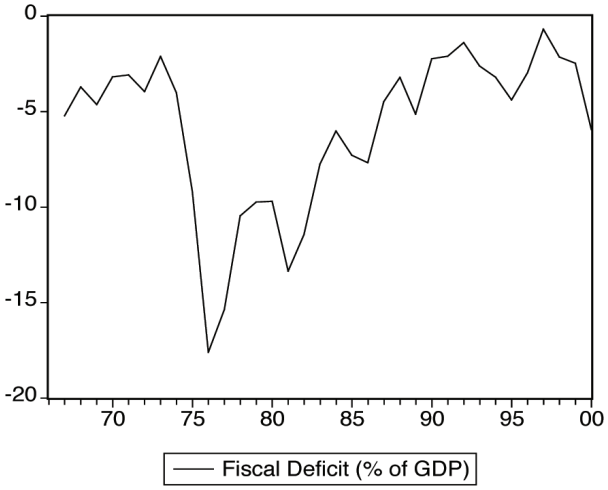

Figure 1. Evolution of fiscal surpluses in Morocco, 1967-2000 (% of GDP)

Nevertheless, it is important to note that fiscal deficits in Morocco have experienced a tendency to decrease during the whole period, as highlighted in Figure 2.

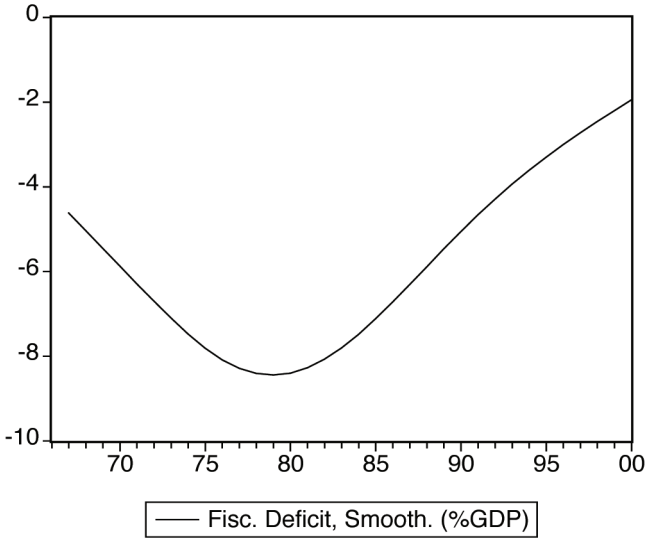

Figure 2. Evolution of fiscal deficits, 1967-2000 (HP smoothed, % of GDP)

What is more important is to find out why budget deficits in Morocco became stable and sustainable only after a period of a fiscal adjustment speed of about seven years even though Moroccan decision makers conducted a relative shock approach to fiscal adjustment. It is probable that the reason behind this relatively long speed of adjustment, is that the big bang approach to fiscal austerity relied heavily on cutting public investment expenditures. By contrast, other components of public expenditures were cut only slightly or even maintained over time. In addition to subsidies (gradually cut) and current public consumption (slightly reduced or even maintained in some cases), interest payments have an incompressible nature, and, therefore, remained a constant burden for the government budget and even, accumulated as a consequence of previous deficits.

As shown in Figure 3, fiscal deficits and public investment expenditures evolved following a same pattern over time. The smoothed values of the two variables, using Hodrick-Prescott Filter, reveal more precisely how fiscal deficits and public investment expenditures moved in the same direction. While effective and smoothed values of current public consumption were also decreasing following fiscal adjustment in the early 1980s, the decrease is weaker than in the case of public investment. As already pointed out, this means that Moroccan decision makers relied heavily, in their big bang approach to fiscal adjustment, on cutting public investment.

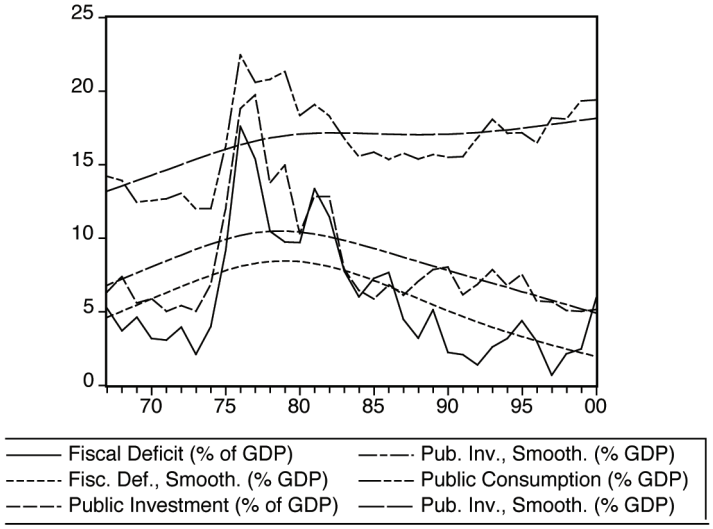

Figure 3. Parallel evolution of effective and smoothed values of fiscal deficits, public investment, and current public consumption 1967-2000 (% of GDP).

On the speed of adjustment in the case of inflation, Figure 4 shows the effective and smoothed values of the inflation rate revealing that the stabilization of inflation started in the early 1980s. However, inflation became "European"(5) only at the end of 1987, with a value estimated to be around 3%. From that year through 1997, the annual average inflation rate is estimated to be about 4%, against an annual average inflation rate of about 8% over the period 1969-1986 when inflationary pressures were particularly destabilizing. Over the period 1974-1986 when inflationary tensions were more destabilizing and more detrimental for the economy of the country, inflation reached even an annual average rate of about 10%(6).

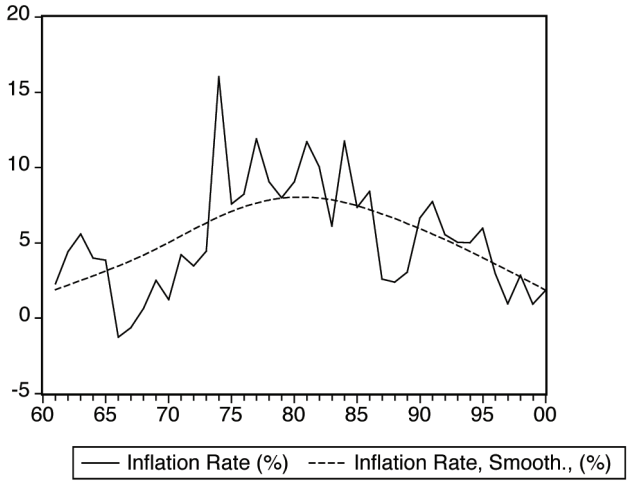

Figure 4. Inflation in Morocco, 1969-2000 (First difference of the natural logarithm of the Consumer Price Index, %)

Concerning external surpluses, it is important to emphasize that they also improved following macroeconomic stabilization of the early 1980s. As shown in Figure 5, effective and smoothed values of current surpluses, as well as surpluses on goods and services, continued to improve during the 1980s and beyond. It is probable that decreases in external deficits would have some links with fiscal adjustment in line with the budgetary approach to the balance of payments.

From values of about -12.3 and -15% of GDP for current account and goods and services surpluses in 1982, they improved in 1983 to be only about -6.5 and -10.7% of GDP respectively. In spite of some deteriorations in 1984 and 1985, they began to improve henceforth, reaching even a positive current

surplus of about 2% of GDP in 1988. From that year and beyond, external deficits became relatively sustainable. What is surprising is that budget and external sector surpluses were stabilized following similar speeds of adjustment. This would probably give support to proponents of the Keynesian twin-deficit proposition in which fiscal and external deficits are linked (Mansouri, 2003d; 2003g has confirmed this relationship).

Another important issue is on why the big bang approach to fiscal adjustment did not induce a big bang improvement in external surpluses. The reason is that current public consumption is empirically seen to more significantly drive external deficits (Mansouri, 2003d). Therefore, there is no doubt that a shock cut of public investment is insufficient to reduce external deficits. Over time, with continuous cuts of public investment and gradual decreases in other kinds of public expenditures, external deficits began to fall and to become relatively sustainable, especially at the end of the 1980s, exactly as in the case of fiscal deficits.

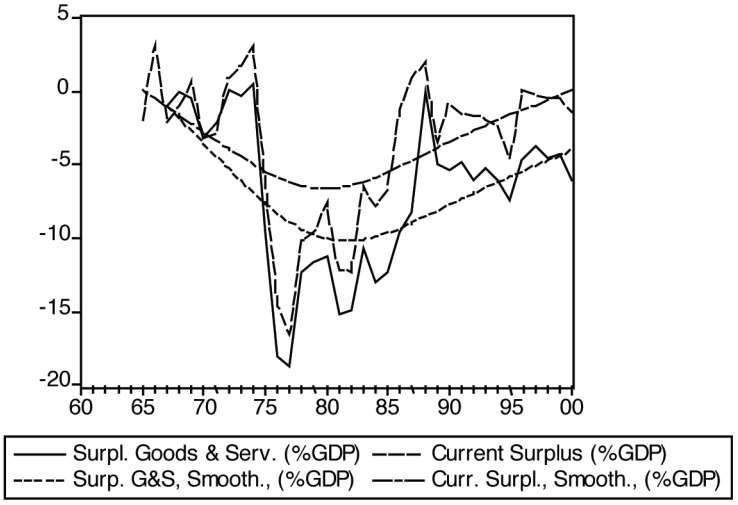

Figure 5. Evolution of effective and smoothed values of external current and surpluses on goods and services, 1967-2000 (% of GDP).

A Gradual Approach to Structural Reforms in Morocco

In contrast to the relative shock approach to macroeconomic adjustment, structural reforms in Morocco may be described as a gradual, incremental or multistage process.

Structural reforms in Morocco may be classified here as price liberalization, exchange rate policy and devaluation, trade liberalization, tax reforms, privatization, financial liberalization and reforms, and industrial restructuring. As Liew and Bruszt (2003) argue: "Price reform is often one of the first institutional changes introduced by reforming governments because in relative terms, it is the easiest to implement, compared for example to ownership and legal reform. Being easy in relative terms does not mean it is easy in absolute terms because popular protests against price rises are not unknown and a social security system to cushion the effects of price rises on the poor is often absent or inadequate or requires fundamental reform in developing and transitional countries".

This is exactly the case of Morocco where decision makers started to implement price liberalization even before the launching of the Structural Adjustment Program in 1983.

Regarding exchange policy, it should be noted that Moroccan decision makers undertook three successive devaluations of the dirham in 1984, 1985 and 1990. The objective was to encourage exports and limit imports. Even though such devaluations were undertaken over a period of three years, the adopted policy may be considered as a shock approach to devaluation, especially because of the relative steady devaluation over time and also because of the magnitude of the nominal devaluation itself. If the devaluation of the dirham has to boost exports, it may also contribute to increasing prices of imported investment and intermediate goods as well as to increasing debt service.

In a reform sequencing perspective, it seems that Moroccan policy-makers had the willingness to accelerate devaluation in line with a big bang approach before undertaking gradual trade liberalization. To limit the negative impact of devaluation on imports of investment and intermediate goods, import liberalization was undertaken in conformity with an incremental approach. A gradual approach was also followed to remove exchange controls, through incremental easings of exchange regulations.

The law on tax reforms was adopted in 1984, but implementation of reforms in this area started only in 1986 with the institution of a value added tax. In 1987 and 1990, the Corporate Tax (Impôt sur les Sociétés) and the General Tax on Income (Impôt Général sur le Revenu) were instituted. Hence, tax reforms in Morocco may be considered as a gradual and incremental reform process. The reason of gradualism in tax reforms would likely be that such reforms require more administrative state capacity on the design as well as implementation fronts

(Akesbi, 1993). Another reason would be that tax reforms often take time to be implemented because of the resistance of interest groups.

While financial reforms began to be implemented in the early 1980s, mainly since 1984/85, particularly with a process of partial interest rate liberalization, true financial reforms started in the early 1990s. Reforms in this area reflected what may be termed a gradual approach to structural reforms. It appears that Moroccan decision makers have learned much from the failure of shock approaches to financial reforms in Latin America, and, henceforth, resorted to incremental decision-making in financial reforms and liberalization.

Interest rate liberalization was conducted very slowly until 1996. Since that year until the present, interest rates have been not completely liberalized [(7)]. While bank reforms were implemented relatively rapidly, there is currently a bank reform project to reinforce reforms in this area. Stock market, monetary market and exchange market reforms were generally reformed gradually (Mansouri, 1997a; 1997b).

The law on privatization had been adopted earlier in 1989. Nevertheless, implementation of the process was conducted only in 1993. Privatization was implemented later, especially because of the necessity to prepare legal and juridical regulations as well as to permit the operations of privatization to transit through financial markets, which began to be reformed and restructured only in 1993.

The privatization process was started through privatizing the most profitable public sector enterprises. While privatization cannot be considered as a simple transfer of enterprises from the public to the private sector, but rather as an operation aimed at improving productive and allocative efficiency, it appears that the objective of the Moroccan government was to address fiscal issues rather than to improve efficiency.

In conformity with the conclusion of the partnership agreement with the European Union in 1995, Morocco was forced to conduct a process of industrial restructuring within the framework of cooperation between the Moroccan private and public sectors on one hand, and the European Union on the other hand. In accordance with the Euro-Mediterranean Free Trade Agreement zone rescheduled to be set up in 2010, a program of industrial restructuring was designed and has to be implemented gradually. This has to be hand in hand with the gradual removal of import duties

Measuring the Speed of Adjustment in Structural Reforms

Apart from prices of some basic consumer goods which are still subjected to public subsidies, the absolute majority of goods and services became totally liberalized in the early 1990s. This confirms what has already said about the gradual approach to price liberalization in the Moroccan reform process. Indeed, beginning in 1980, price liberalization was almost achieved during nearly a decade.

As to the exchange rate policy and devaluation, it may be stressed that nominal devaluations undertaken in 1984 and 1985 resulted in a depreciating real effective exchange rate. In 1984, the rate of real devaluation, computed on the basis of the effective real exchange rate, was estimated to be around 5.8%, against 6.7, 4.4 and 3.4% in 1985, 1986 and 1987 respectively.

After 1987, the real effective exchange rate became relatively stable until 1992 when the real effective exchange rate began to experience some appreciation in spite of the stability of domestic inflation in comparison with main trade partners (Figure 6). This explains why Moroccan policy-makers have decided a devaluation of the dirham in 2000.

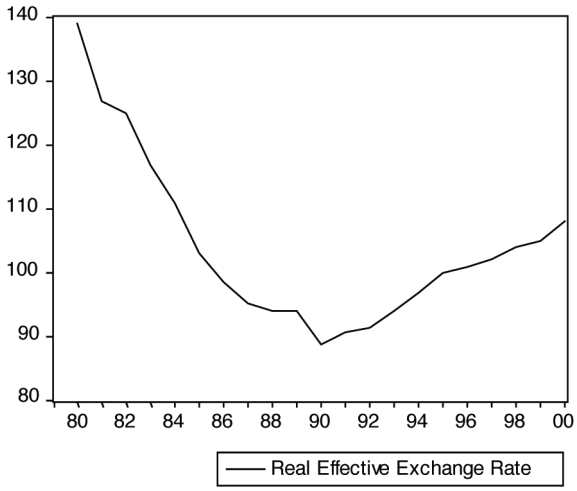

Figure 6. Evolution of the real effective exchange rate (Index, 1995 = 100)

Concerning the gradual trade policy liberalization, Moroccan policy-makers made some success in eradicating barriers to international transactions, especially through reducing export taxes and, less vigorously, through decreasing import taxes and duties.

As early as 1983, Moroccan policy-makers began to steadily and gradually cut import taxes and duties. However, as shown in Figure 7, especially with the institution of a special tax on import, public revenues from imports began to increase before experiencing a net decrease since 1994.

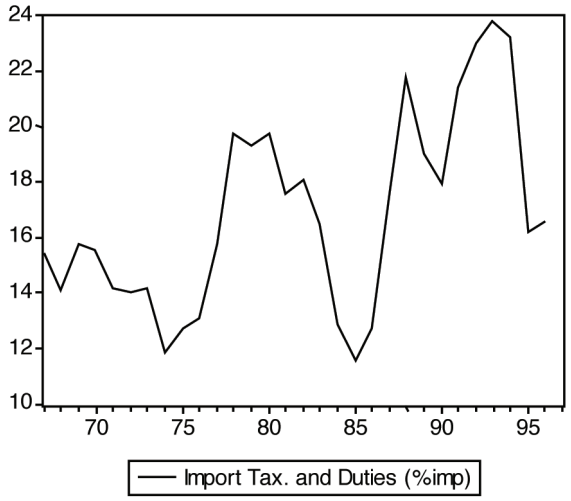

Figure 7. Evolution of import taxes and duties (% of imports).

The institution of a special tax on imports in 1987 may be considered as a government attempt to improve public revenues in the context of fiscal adjustment. As for decreases in government revenues on imports since 1994/95, these may be viewed as an expression of the government willingness to gradually reduce the tax burden on imports within the framework of the concluded partnership agreement with the European Union and the scheduled set up of the Euro-Mediterranean Free Trade Zone in 2010.

More vigorous are the willingness and the effectiveness of Moroccan policy-makers to reduce the tax burden on exports, especially taxes on phosphate exports. As shown in Figure 8, Export taxes were dramatically declining over the decade of the 1980s to become almost nil at the end of the 1990s.

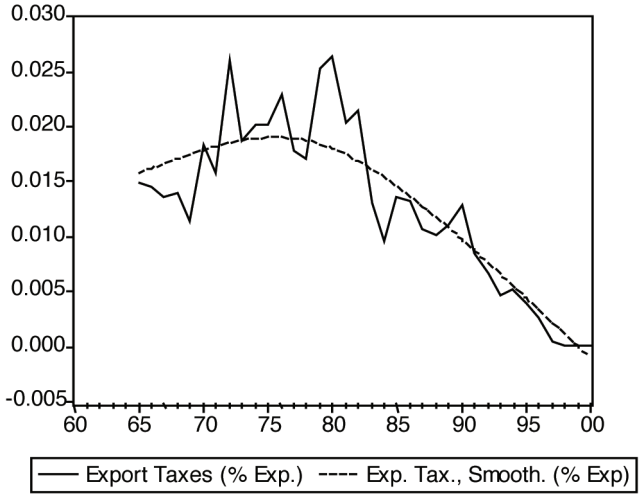

Figure 8. Evolution of export taxes (% of exports)

Concerning tax reforms, it is important to underscore that following reform measures beginning in 1986, tax revenues did not improve well until 1991. Over this period, tax revenues were generally stationary, with an annual average of about 21% of GDP. However, tax revenues slightly improved since 1992, corresponding to the end of the debt rescheduling, with an annual average of about 25% of GDP over the period 1992-2000 as shown in Figure 9.

It seems that tax reforms, as other structural reforms, generate better outcomes only in the medium and long run. In particular, institutional and administrative reforms are urgently needed in this area, especially through struggling against tax evasion and fraud as well as through improving and strengthening administrative capacity in tax studies and tax levying (Mansouri, 1999b). Moreover, a large agricultural sector is exonerated, preventing the government from substantial amounts of taxes needed to reduce fiscal deficits without resorting to cutting public capital expenditures dramatically.

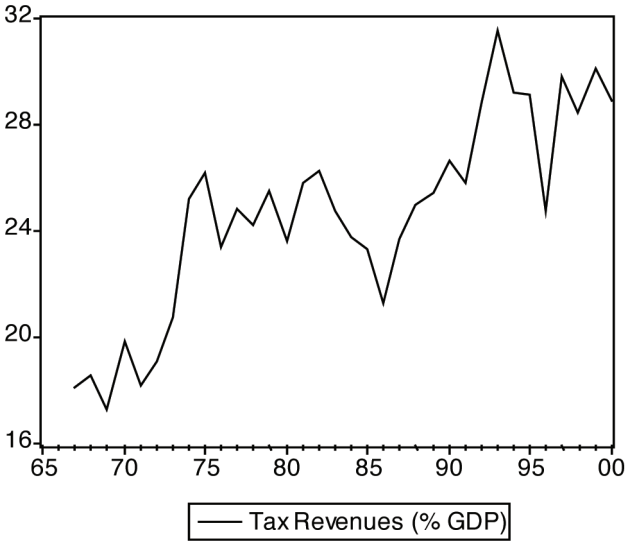

Figure 9. Evolution of tax revenues (% of GDP).

It is also interesting to note that without the petroleum levying instituted in 1986, tax revenues would have fallen dramatically since the second part of the 1980s. Indeed, following estimates of Faini (1994), this tax levying represented 2.44, 2.78, 3.26 and 2.71% of GDP in 1986, 1987, 1988 and 1989, respectively.

The speed of adjustment in the field of privatization is the slowest one in the realm of structural reforms undertaken in Morocco. A small number of public sector enterprises has been privatized from 1993 until the present. As Mansouri (1992) argues, in the case of Morocco: "Constraints of structural and institutional weaknesses still exist: embryonic situation of financial markets, insufficiency of financial resources, weakness of the local public sector, lacking of institutional capacities, etc. Consequently, structural and regulatory reforms are needed, especially the elimination of inefficient public monopolies and introduction of new competitive powers. In this framework, the competitive environment is still less developed, and, therefore, efficiency which is the main purpose of privatization, cannot improve. Privatization, in these conditions, can only reinforce refractory rent-seeking mentalities, away from creating and promoting a new entrepreneurship culture."

The speed of adjustment in this reform area is also relatively slow. A useful indicator to measure the speed of adjustment in financial sector reforms would be the real interest rate, measured here as the annualized monthly real interest rate on time deposits with maturities less than eighteen months[8].

As shown in Figure 10, in spite of a partial liberalization of interest rates since 1974, real interest rates became steadily positive only since 1985, corresponding to sounder, albeit partial, interest rate liberalization. The policy of positive real interest rates reflects the willingness and the effectiveness of policy-makers to boost domestic savings, especially through promoting time bank deposits; which are the main channel through which the domestic economy can be financed in the long-run.

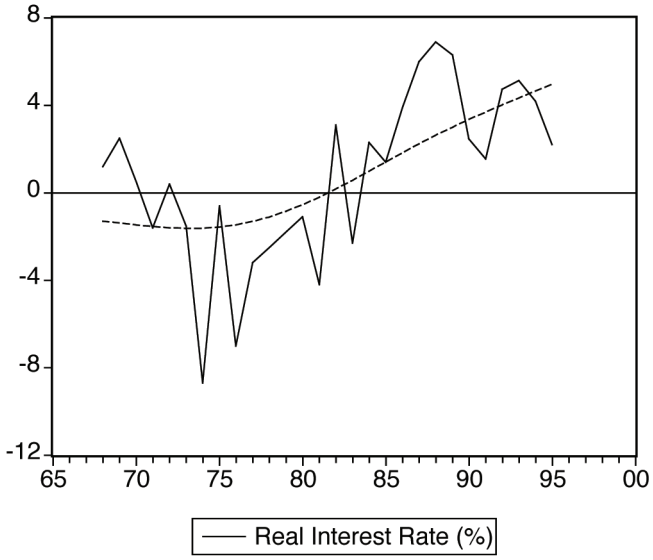

Figure 10. Evolution of the real interest rate (%).

Another channel through which long-run economic growth can be financed more efficiently is the stock market. In a reform sequencing perspective, simultaneous launching of privatization and stock market reforms in 1993 induced an increasing stock market capitalization, passing from 5% of GDP in annual average over the period 1986-1993 to more than 10% of GDP following the privatization process of 1993 (see Mansouri, 1997a, 1997b), and jumping to more than 25% of GDP in 2003. However, with the lacking of substantial further privatizations transiting through the stock market and given the refractory mentalities of the Moroccan people, stock market capitalization and the number of listed companies remain particularly stationary.

The Debate on Relevant Approaches to Reforms in Morocco: Some Main Issues

The debate between proponents of the shock therapy and those of the gradual approach, centers on the following major issues: (a) the costs of adjustment; (b) the credibility of the reform program; and (c) the feasibility of the approach. What follows is a focus on the issues of adjustment costs and credibility, with reference to the Moroccan case. The objective is to better apprehend the process of reform timing.

Timing of Reforms and Adjustment Costs in Morocco

In an unreal world where immediate adjustments of prices and non-costly reallocation of resources are possible, the optimal policy would be necessarily a simultaneous removal of all existing distortions. Unfortunately, this is not the case in the real world because reallocation of resources generates adjustment costs among different sectors of the economy. Moreover, different markets cannot adjust at the same speed to policy changes and price signals (Nsouli et al., 2002).

The debate between the proponents of the shock approach and those supporting the gradual therapy may be described as a "dialogue of hollows". They all base their arguments on lower adjustment costs. Two main hypotheses are necessary for the supporters of the idea that a shock approach to reforms is associated with lower adjustment costs through increasing reallocation of resources: the presence of rational expectations and absence of distortions. On the other hand, proponents of gradualism in the field of reforms emphasize that the big bang approach is costly in terms of adjustment costs to the extent that fast reforms may generate short-term losses, especially those associated with unemployment and income distribution effects. Consequently, this accentuates political opposition to the reform process[(9)].

In the case of Morocco, it is difficult for the two hypotheses of rational expectations and absence of distortions to completely hold on the macroeconomic as well as structural fronts. In conformity with the Moroccan economic, social, cultural and political reality of Morocco, the existence of rational expectations cannot be entirely admitted. Firstly, individualism is lacking especially because of the resistance of old economic and social formations. Indeed, one can observe that collective styles of life inherited from pre-colonial eras still remain predominant in the bosom of the Moroccan society. Moreover, the weakness of

a modern civil society may be considered as a serious obstacle to the emergence of individualism. The latter is also hindered through the lack of an efficient educational system, generating analphabetism and ignorance.

The unsuitability of the hypothesis of rational expectations to the reality of Morocco is a support for a gradual approach to implement macroeconomic and structural reforms in the Moroccan context. This partially explains why the big bang approach to macroeconomic stabilization contains a grain of gradualism and incrementalism In spite of a certain dose of gradualism within the big bang therapy, short-term adjustment costs have occurred and even so accentuated that the hypothesis of rational expectations was lacking. For instance, in 1984, a popular and generalized unrest emerged in Morocco following a generalized increase in prices. This can be considered, in contrast with the neoclassical theory, as a reaction of the population against self-regulator mechanisms of the market. Contrary to this theory, this also means that people did not refer to the principle of equilibrating supply and demand to prices which can emerge from this balance.

The second hypothesis concerning absence of distortions cannot hold in the Moroccan case either. In an unachieved liberal economy, multiple distortions destabilize the system. From the administration of prices of goods and services, salaries and interest rates to that of exchange rates, distortions are detrimental to an optimal reallocation of resources, generating higher costs for the Moroccan economy.

The problem is that the Moroccan government multiplied distortions within the economy and economic agents have been already used to such distortions in so far as the existing distorted system would be the real world for them. Any abrupt attempt to abolish prevailing distortions would automatically lead to displeasures among economic and social operators who have benefited from advantages-based distortions. For instance, when Moroccan decision makers decided to reduce fiscal deficits through cutting public investment expenditures, corporations with powerful relationships with the government would necessarily support losses. Consequently, they would lay off a fraction of their labor force, thereby intensifying dissatisfaction and destabilizing the economic and political system. Another example concerns the removal of distortions through the elimination of public subsidies in line with a shock therapy approach. Such strategy would likely induce the deterioration of people's standards of life.

On fiscal deficit reduction, the Moroccan government, facing political dissatisfaction from public sector labor unions and other interest groups, has been finally forced to resort to an increase of wages in the public sector, beginning in 1989, generating therefore an explosion of current public consumption.

In the economic, social, political, cultural and historical context of Morocco, people are more concerned with the short term rather than with the long-run effects of macroeconomic stabilization and structural reforms. This may explain why short-term adjustment costs due to the removal of persistent distortions, often lead to oppositions from economic and social actors. A more expressive example is the fact that limitations of hiring in the Moroccan public sector are viewed by Moroccans as an interference on basic rights of citizens. A traveler to Morocco may easily observe political demonstrations at the Parliament Palace in Rabat, of recently unemployed graduates proclaiming their rights to be hired in the public sector. What is surprising is that many of demonstrators refuse even well-remunerated positions in the private sector and continue to proclaim their political preference to work for the central government, public enterprises or local governments.

Timing of Reforms in Morocco : The Role of Credibility

As Nsouli et al. (2002) point out, the credibility of government policy and that of the reform process is particularly crucial for the success of reforms as well as for the control of adjustment costs(10). Feasibility is also essential for the reform process.

Edwards (1989) opines that: "One of the most important developments of the last decade in the theory of economic policy refers to the formal incorporation of the credibility effects into its analytical framework. A key implication of this literature is that the absence of credibility is equivalent to distortion; thus, we have to contemplate the possibility that the "incredibility" distortion will interact with the other distortion prevailing in the economy at the moment when a structural reform takes place". One may agree with Edward's proposition that credibility may be viewed as a distortion. However, a more operational and accurate definition of credibility consists of considering it as a situation where "private expectations about future policies do not deviate from the authorities' explicit or implicit announcements" (Nsouli et al., 2002).

It is interesting that the degree of credibility crucially determines the magnitude of adjustment costs. The problem of such adjustment costs arise

when economic agents do not align their behavior with explicit or implicit announcement of policy makers, i.e., when they consider the state as incredible. The more credible the reforms, the more rapid will be the reallocation of resources, and therefore, the faster will be the speed of adjustment. In contrast, when credibility is lacking, there will be a reluctance of agents to announced reforms, and, consequently, the longer will be the process of adjustment, more specifically in highly distorted economies.

The issue relating to the credibility as a situation where the public's behavior is aligned with the decision makers, is a crucial question for the Moroccan case. When Moroccan decision makers have engaged in wider and broad-based reforms beginning with the implementation of the Structural Adjustment Program, perhaps with good intentions, agents still consider the process as incredible. The problem is not only that of past policy mistakes but also that of falsified electoral operations, widely criticized by opposition socialist political parties.

In allusion to Aesop's fable, the Moroccan government may be compared to the "boy who cried wolf too many times when there was no wolf, and was not believed when he finally told the truth" (Tanzi, 1994). The Moroccan government would have probably learned from past mistakes; but, because it is a slow learner, by the time it has learned, it has lost much of its credibility (Mansouri et al., forthcoming). In the past, before launching the Structural Adjustment Program, because Moroccan decision makers know that policies requiring credibility have less chance to be effective, they have finally resorted to policies that need less credibility to get effectiveness. With wide programs of credibility-based macroeconomic stabilization and structural reforms within the framework of the Structural Adjustment Program, the inherited incredibility induced some adjustment costs, independently of the timing approach to reforms.

In a macroeconomic stabilization perspective, Moroccan decision makers, on the basis of a relative shock approach, have resorted to limitation of hiring additional graduates and postgraduates. The objective is to gradually eradicate excessive numbers of staff overrunning the central government, public enterprises and local governments, and describing a dramatic experience of public over-hiring in the Arab World. Because people are historically used to such an over-hiring, and such a practice generally rendered possible through nepotism, clientelism and corruption, decision makers and their announced adjustment have lost credibility, and, therefore, adjustment costs, especially in terms of unemployment, have intensified rapidly.

Another example concerns proclamation of wage increases among labor unions in the Moroccan public sector. When decision makers negatively reacted to such labor demands, arguing that Morocco is in a phase of adjustment, labor unions ironically retorted that "the government has money just to make wasting expenditures as well as to pay big salaries for highly-placed bureaucrats". In such a situation, there is no doubt that decision makers and their announced adjustment lack credibility. This explains, in the example of labor unions' demands, why public employees do not align their behavior with the authorities' explicit or implicit announcements in the reform process. This also explains the magnitude of adjustment costs in terms of strikes, diminishing production and blocking administrative activities (Mansouri et al., forthcoming).

Another issue related to credibility problems concerns tax reforms. Schumpeter (1972), a pioneering researcher in sociology of taxation, points out the fact that "the tax history of a country constitutes an essential part of its history: economic puncture operated by the state to cover its needs and the way by which the product of this puncture is used exert a considerable influence on the destiny of a nation".

In tax reforms, many of the bottlenecks are created because of the lack of credibility of policy makers and their announced tax reforms. instance, in the case of Morocco, little has been done in struggling against tax fraud and evasion. Some powerful and pro-political economic operators evade tax payments or, in better conditions, are advantaged through awarded delays in paying taxes. This often gives incentives to other operators to evade tax payments or to delay payment of taxes. This not only prevents the treasury from optimizing public revenues, but also aggravates distortions within the economy. When tax reforms are not credible, owners of factors of production also reorient their activities toward the informal sector of the economy, implicitly refusing tax compliance. Informal activities become an apparatus to evade tax payments. Because tax reforms are viewed as incredible, especially because taxation strikes randomly and make discriminations between more and less powerful socioeconomic operators, owners of factors of production often dissimulate their activities within the informal sector where it is possible not to pay taxes.

Sequencing of Macroeconomic Stabilization and Structural Reforms in Morocco

In line with existing recent literature on reform sequencing, it would be interesting to see why fiscal and monetary stabilization should occur, and was effectively occurred, early in the reform process. This issue is addressed before focusing on the most controversial question of sequencing of reforms on the structural front.

Why Should Macroeconomic Stabilization Occur Early in the Moroccan Reform Process?

To address this issue, it is important to analyze how fiscal adjustment and monetary restriction may affect the efficiency of subsequent reforms, especially reforms on the structural front. In this framework, a distinction is made between domestic sector-based reforms and external sector-based ones.

(a) Macroeconomic Stabilization First: Impact on the Efficiency of Subsequent Domestic Sector-Based Reforms. To analyze why macroeconomic stabilization should occur early in the Moroccan reform process through apprehending its possible impact on subsequent domestic sector-based reforms, it is proposed to conduct a reductio and absurdum methodology. This means simply that it is assumed that Moroccan policy makers have followed structural reforms simultaneously with macroeconomic adjustment or they have implemented structural reforms before embarking on macroeconomic stabilization efforts. Assuming that this absurdity holds, it is observed how this situation would have affected the efficiency of subsequent domestic sector-based reforms, especially in structural areas. Impact on the efficiency of structural reforms of the assumed absence or simultaneous implementation of macroeconomic stabilization is analyzed taking into account four main structural reform areas: (a) price liberalization; (b) tax reforms; (c) privatization; and (d) financial sector reforms.

As highlighted in several recent analytical and empirical works, it is now well known that fiscal and monetary expansion may result in increasing inflationary pressures (Easterly, Rodrigùez and Schmidt-Hebbel, 1994). It is now commonly admitted that price stability is an imperious necessity for the economy. When nothing is done to stabilize inflation, especially in a newly liberalized market price system, prices will certainly experience general increases and, with increasing uncertainty about future prices, they will seriously destabilize

decisional plans of savers and investors (Mansouri, 2001; 2003a). Since the relative shock approach to macroeconomic stabilization in Morocco took finally much time to bring about significantly stable inflation, gradually liberalized prices experienced some increases during the 1980s, resulting in eroding real values of wages and worsening standards of life of the population.

In conformity with the reductio and absurdum approach, if Moroccan policy makers have done nothing to stabilize the price system in the early 1980s, increasing inflation would have necessarily resulted in a bad economic and social situation, especially through heating the newly liberalized prices. The reason is that monetization of fiscal deficits and even their financing through borrowing would have resulted in more dramatically increasing prices.

Unlike previous studies on determinants of inflation (see for example, Easterly, Rodrigùez and Schmidt-Hebbel, 1994; Morandé and Schmidt-Hebbel, 1991, 1994), inflation is not considered here, at least in the Moroccan case, as a simple result of fiscal deficit monetization, but may also be driven by indebtedness-based financing of fiscal deficits. As Mansouri (2003g) argues, fiscal expansion in Morocco, independent of the means of financing public imbalances, may result in increasing inflation, simply because the Moroccan public sector is empirically seen to have a propensity to consume nontradable goods, higher than that of the private sector. Thus, since public spending is a puncture on available resources which would be used by the private sector, fiscal expansion would result in increasing prices even when policy makers resort to means of financing other than fiscal monetization.

Another reform area that may require early macroeconomic stabilization is privatization. At least four reasons may be behind the sequencing of macroeconomic stabilization and privatization in the Moroccan case: (a) Price instability may destabilize economic plans of potential domestic and foreign buyers of privatizable public sector enterprises; (b) Fiscal adjustment may be considered as a rationality signal from policy makers to current and/or potential managers of public sector enterprises; (c) Privatization can enhance the readjustment of public finance in the extent that it can improve public revenues and, therefore, may sustain the already undertaken fiscal adjustment measures; and (d) Privatization can act on the structure of public spending and, consequently, it can improve the efficiency of fiscal policy reforms.

An important reason which may justify early macroeconomic stabilization before embarking on tax reforms concerns the fact that early tax reforms

preceding fiscal austerity may lead policy makers to increase the tax burden on households and firms to reduce accumulating and persistent fiscal deficits. Even in the case of simultaneous implementation of macroeconomic stabilization and tax reforms, Moroccan policy-makers would have probably resorted to tax rate increases, consequently endangering the tax burden. This would have amplified the phenomenon of tax-based crowding-out of private investment in line with the paradigm of supply-side economics. Indeed, for instance, as Mansouri (2001; 2003a) argues, corporate taxes are empirically seen to negatively affect capital accumulation in the private sector. More important is that relying on increasing tax burden to restore fiscal equilibria would have heated and intensified tax dissatisfactions and revolts, and tax reforms would have failed.

(b) Sequencing of macroeconomic stabilization with respect to financial sector reforms. Within this framework, it is argued that inflation should be lowered before implementing financial sector reforms. For instance, reforms in the financial sector area aim, among other purposes, at struggling against financial repression, especially through liberalization of interest rates and efforts to render positive the previously repressed real rates. In an environment of higher inflation, it would be difficult to maintain positive real interest rates. In such conditions, investment and savings would be negatively affected dramatically. Assuming that Moroccan policy makers have not devoted sufficient efforts to stabilize inflation before embarking on financial reforms, expectations about future inflation rates would have depressed savings and investment within the bank system and the stock market.

In a context where external financing was declining following the international indebtedness crisis of the early 1980s, Moroccan policy makers aspired to attract domestic and foreign savings and investment through banks and the stock market along a new strategy of development financing. For instance, the setting up of collective investment funds aimed at facilitating attraction of investment in transferable securities with fewer risks. Had Moroccan decision makers not resorted to stabilize inflation, uncertainty about future inflation would have resulted in the reluctance of domestic and foreign investors of buying stocks and shares through such investment funds.

Another important idea concerns the prerequisite necessity of reducing fiscal deficits before implementing financial sector reforms. Indeed, fiscal deficits may be considered as the manifestation that the public sector 'levies' financial resources which may be more efficiently used by the private sector.

For example, had Moroccan policy makers not resorted to reduce fiscal deficits before conducting financial sector reforms, issuing of government bonds and their transition through financial markets would have competed with the private sector-issued stocks and shares. Since private economic agents in Morocco view government assets as relatively risk-free, such competition would have resulted in a direct crowding-out of long-run financing of private firms through the financial market. Even with decreasing fiscal deficits, one can observe that increasing domestic public debt stocks in Morocco has recently resulted in the crowding-out of private economic activity either through competition with private stocks and shares in the financial market or indirectly through increasing interest rates (financial crowding-out of private investment).

(c) Impact of Early Macroeconomic Stabilization on the Efficiency of Subsequent External Sector-Based Reforms. Obviously, since fiscal and balance of payments deficits may be seen as twin imbalances, equilibrium in these two areas should be restored simultaneously. Effectively, as Mansouri (2001a, 2003a, 2003d) maintains: trade as well as current account surpluses in Morocco, are positively and significantly linked to fiscal surpluses, in line with the Keynesian absorption (financial or budgetary) approach to the balance of payments. However, unlike certain previous simplistic statistical/descriptive studies in this area, Mansouri continues to point out that fiscal and external deficits in the Moroccan case are seen to be bidirectionally linked. This empirical finding confirms that fiscal and external deficits should be tackled simultaneously as highlighted in the Moroccan macroeconomic stabilization process.

(d) Sequencing of macroeconomic stabilization, exchange rate devaluation and trade reforms. It is now well known that what matters more is not nominal devaluation but depreciation of the currency in real terms. Therefore, if fiscal and monetary measures devoted to stabilize inflation have not been taken early in the 1980s, the real exchange rate would have appreciated. As data on the real exchange rate in Morocco show, substantial nominal devaluations unambiguously result in weaker real devaluations when domestic prices rise more rapidly in comparison with inflation in main trade partners of Morocco.

For instance, in 1984, in spite of a substantial nominal devaluation of more than 40%, the real effective exchange rate experienced a devaluation of only 5.7%, especially because the rate of inflation - measured as the rate of growth of the consumer price index - reached a value of more than 12%. Similarly, inflation was about 8% in 1985, increasing more rapidly than in Morocco's main trade

partners, and, even with a second substantial nominal devaluation in that year, the real effective exchange rate experienced a devaluation of only about 6.7%. When inflation became relatively stable in the early 1990s, the real effective exchange rate started to become more stable. Paradoxically, from 1994 and onwards, in spite of a continuing stable inflation, the real effective exchange rate began to experience some appreciation, especially because of lacking nominal devaluation.

In a trade reform perspective, it is obvious that an appreciating real exchange rate is detrimental for exports. Simple data investigations show that real exports, measured as the nominal value of exports divided by the index of the mean value of exports, are negatively and strongly correlated with the real effective exchange rate. Indeed, the estimated correlation is about –0.80. Regressing real exports on the real effective exchange rate and real GDPs of Morocco's main trade partners, yields results confirming the fact that real devaluation boosts exports and increasing real incomes abroad boost them as well. All these empirical results demonstrate that trade reforms should go hand in hand with real devaluations albeit such real devaluations lead to increasing prices of imports and looking-up debt service. Since what matters more is not nominal but real devaluation, a macroeconomic stabilization aimed at stabilizing inflation is needed well before embarking on exchange rate devaluations.

Another issue confirming the robustness of the sequencing of macroeconomic stabilization and trade reforms concerns the fact that simultaneous implementation of exchange rate devaluations and trade liberalization without fiscal adjustment, may fail to boost exports. The reason is that accumulating and persistent fiscal deficits would appreciate the real exchange rate. Since deteriorating balance of payments current surpluses are the expression of the fact that domestic absorption is exploding and the Moroccan public sector propensity to consume non-tradables has been empirically seen to be more than that of the private sector, increasing public sector absorption results in appreciating real exchange rates[11]. The problem is that Moroccan policy-makers undertook real devaluations successively in 1984 and 1985 (and later in 1990) before sufficiently stabilizing inflation. The product of such misleading sequencing was that substantial nominal devaluations were neutralized through increasing inflation. This resulted in insufficiently increasing exports, and real devaluation - considered as an implicit tariff on imports - was insufficient to stop imports, especially after their gradual liberalization.

Another sequencing problem concerns the fact that Moroccan policy makers conducted trade liberalization, even gradually, before undertaking sufficient macroeconomic stabilization. In the literature on reforms, there is a strong support for initiating stabilization before embarking on trade reforms(12) Insofar as inflation was not sufficiently stabilized during the eighties, trade reform in Morocco was taking place under relatively wrong market signals. Resources were directed less efficiently. For instance, relatively high and variable inflation rates during the 1980s would have confounded changes in relative prices with the general price movements, generating therefore some distortions through sending inappropriate signals to the market. Moreover, since trade reform in Morocco necessitated large nominal devaluations, inflation would have been relatively increased in an environment where fiscal and monetary policy had been insufficiently tightened. For instance, following the substantial nominal devaluation of the dirham, decided in1984, inflation jumped from 6.16% in 1983 to 12.2% in 1984. Over the period 1982-1986, the annual average inflation rate was about 9.2% before experiencing a net stability afterward with an annual average inflation rate of only about 4% over the period 1987-2000 even though inflation jumped in early nineties following the nominal devaluation of 1990.

Early trade reform undertaken before sufficiently stabilizing macroeconomic indicators would also result in decreasing efficiency and thus hindering the build-up of political support to sustain the reform effort. Even currently, many Moroccan private firms, such as textile corporations, disappeared and others would probably disappear from the exporting industrial sector because of some mistakes in the sequencing of reforms.

Sequencing of Structural Reforms in Morocco

In previous developments, the focus was on the necessity for macroeconomic stabilization to occur early before conducting structural reforms. While such sequencing had been generally respected in the Moroccan reform process, nothing had been analytically and empirically done among the community of researchers to appreciate how well the macroeconomic-structural sequencing has been conducted to yield successful reform outcomes. This paper now addresses the question related to the sequencing of various structural reforms in Morocco, to wit: (a) The sequencing issues of price liberalization, privatization, tax reforms as well as financial sector reforms and (b) Issues related to trade reforms, exchange rate policy and industrial restructuring.

(i) Sequencing of Price Liberalization, Privatization, Tax Reforms and Financial Sector Liberalization. There are many arguments supporting the hypothesis that price liberalization, privatization and financial sector reforms are closely linked. In this sense, in an environment where prices are distorted, markets are not functioning correctly, private and/or public corporations are inefficient and financial markets are repressed, price liberalization alone will not create the appropriate incentives for removing distortions and improving productive and allocative efficiency.

While price liberalization is crucial for improving efficiency within and across sectors, it should be completed by privatization and financial sector reforms which are major keys for a properly functioning market-oriented economy. Without a true market price system, performances of firms in terms of profits and their counter-performances in terms of losses are unable to transmit signals about what industries should expand and which of them should shrink. However, without completing such price liberalization by privatization and financial sector reforms, reform outcomes in terms of removal of distortions and improvement of efficiency would be less successful.

While initial conditions differ across countries, many analytical and empirical works emphasize the necessity that price liberalization should precede or be implemented simultaneously with privatization. However, at least in the Moroccan case, it may be argued that it was almost impossible to implement privatization in the early 1980s and in conjunction with price liberalization in an environment where the entire preconditions for a true market-oriented economy were still lacking. In particular, the following preconditions for efficient privatization were then lacking: (a) A well-functioning institutional environment encompassing modern legal and regulatory frameworks; (b) An institutional framework advantaging efficient information systems (like accounting and auditing); (c) The full right to unrestricted acquisition of private ownership; and (d) The full protection of the freedom to carry out economic activity by an efficient and credible legal system involving sanctions and redress. The interviews of policy makers indicated clearly that true reforms in Morocco began in the early 1990s after ensuring the necessary macroeconomic adjustment.

In addition to the above cited preconditions, early privatization in conjunction with price liberalization would have needed deeper financial sector reforms. Financial sector reforms need lasting preparatory work and stronger state capacity to be implemented in due time. Perhaps, such a state capacity

would have been needed to resist powerful interest groups like the Groupement Professionnel des Banques au Maroc (Professional Group of Banks in Morocco). Refusing market-based determination of interest rates and preferring agreement-based fixation of interest rates, such an influential banking lobby would have continued to maintain a bank system functioning like a quasi-cartel as well as to contribute to slow adjustment in the financial sector area, especially through imposing partial and gradual interest rate liberalization. When bank and stock market reforms began to be implemented in 1993, the privatization process started to be conducted as well. In such timing conditions, privatization was implemented gradually in conjunction with reforms of the stock market through which major operations of privatization transited.

(ii) Analysis of the sequencing of privatization and financial sector reforms within the two sectors (in-house sequencing). As recent literature on this research area points out (Dornbusch, 1991; Mckinnon, 1991), it is often unfeasible to simultaneously privatize all state-owned enterprises. It is therefore crucial to design and implement an optimal sequence of reforms. Formally, it may be argued that the medium and long-run relationship between the number of privatized pubic sector enterprises and privatization outcomes in terms of productive and allocative efficiency may be analyzed as a typical Laffer curve. In this sense, with increasing number (N) of privatized public sector enterprises, efficiency starts to increase in a first period, and, over time, starts to fall after reaching its maximum. The reason behind this inverted U-curve is that a simultaneous privatization of greater number of public sector enterprises finishes over time to fail to improve efficiency, especially because of the lacking of legal and regulatory frameworks and prerequisite restructuring of public sector privatizable enterprises (Mansouri et al., forthcoming).

In the Moroccan case, decision makers began the process of privatization by privatizing large and profitable enterprises. While the reason behind this choice was that larger and more profitable enterprises may be privatized with less efforts of restructuring and bring about significant exceptional revenue for the government, such sequencing within the public sector enterprises was done with some political opposition, at least within the Parliament and among trade unions. This may partially explain why the process of early privatizations took much time to be implemented as well as why the process was delayed in early 1990s until the early 2000s.

On the sequencing of financial sector reforms, it is interesting to note that many recent studies have argued that financial development may actively contribute to promote investment and long-run economic growth (Levine and Zervos, 1996; Mansouri, 1997b; Khan and Senhadji, 2000). However, empirical studies in this research area often forget the fact that financial development and long-run economic growth may be bidirectionally linked. In this sense, financial development may be needed to foster economic development, but financial development itself needs a reasonable level of economic development to occur in terms of changes in the financial structure (transition from direct to indirect finance).

Financial sector reforms include reform efforts not only in areas such as money, exchange and stock markets, but also regulatory and structural reforms. The following elements may constitute the essential of reforms in this area (Nsouli et al., 2002): (a) Reform of the interest regime and monetary operations; (b) Development of the banking system; (c) Strengthening of money and interbank markets; (d) Enhancing of competition among financial markets; (e) Fostering of long-term capital markets; and (f) Development of foreign exchange markets.

Even tax reforms should be implemented early in the reform process and in conjunction with macroeconomic stabilization, price liberalization, privatization and financial sector reforms. The reason behind this sequencing path is that inefficient tax system is itself a source of distortions. For instance, a tax system which randomly strikes economic agents is detrimental to economic activity because it distorts economic plans and perturbs expectations of owners of factors of production. Since the unreformed tax system is distortionary, it may penalize specific activities or assets "without a clear public-externality justification" (Loayza and Soto, 2003) The distortionary unreformed tax system may create uncertainty for a variety of economic activities, discourage high levels of effort and investment and generate incentives to undertake wasteful activities devoted to tax evasion and avoidance. Thus, embarking directly on structural reforms, especially price liberalization, privatization, trade liberalization and financial sector reforms, without reforming the distortionary tax system, would lead to unsuccessful reform outcomes.

The relative success of partial privatizations and financial sector reforms in Morocco has certainly something to do with early implementation of tax reforms. The reason behind this idea is that the removal of tax distortions through tax reforms would have helped to provide economic operators with incentives to be involved in the privatization process as well as in financial sector liberalization.

However, as already noted, early implementation of trade liberalization before deeper tax reforms in Morocco resulted in losses of revenue for the Moroccan government. Such revenue losses were simply due to deep cuts in import and export taxes. Without instituting a 'special tax on imports' and 'oil levying', tax revenue would have dramatically fallen. This confirms the proposition that the speed with which the Moroccan government might restructure the tax system and broaden its base, should be a major determinant of the optimal speed of trade reforms.

(iii) Sequencing of Trade Reforms, Exchange Rate Policy and Industrial Restructuring. Trade reform is perhaps the most controversial topic in terms of timing and sequencing. Although it has been extensively debated in the recent literature, no full agreement on speed and sequencing has occurred. Nevertheless, numerous theoretical and empirical studies have agreed on the benefits of dismantling trade barriers, especially quantitative restrictions at the initial stages of reform(13). The reasons behind this sequencing proposition are:

- The arbitrary nature of many quantitative restrictions creates uncertainty for consumers and producers;
- Quantitative restrictions create distortions that reduce efficiency in domestic production and dampen competition in the domestic market;
- Quantitative restrictions support the development and maintenance of monopolies, and quotas often lead to rent-seeking and corruption in the allocation of rights to imports.

Given that other structural reforms such as price liberalization, privatization and financial sector reforms aspire to reduce uncertainty for consumers and producers and to promote transparency and efficiency, it is illogical to maintain distortionary trade restrictions or to sequence them later after embarking on other structural reforms. This supports actions of the Moroccan government when it started to gradually implement the removal of trade restrictions before conducting other structural reforms. Since these structural reforms aim at enhancing efficiency of production and promoting competition, maintaining trade restrictions would have resulted in conflicting finalities. In other words, persistent trade restrictions would have annulled positive outcomes of other structural reforms. Finally, since other structural reforms aspire to produce a healthier domestic economy, trade restrictions-generating illegal practices would have infected the reform process in other areas such as price liberalization, privatization and financial sector reforms.

On the sequencing of trade reforms in relation to exchange rate policy, it is interesting to note that trade reform often requires large nominal devaluations like in Morocco in 1984, 1985, 1987 and 1990. As known among economists, devaluation boosts exports because it lowers their prices in foreign currencies and reduces imports because it increases their prices denominated in domestic currency. In this sense, the rate of devaluation seems to work like an implicit tariff rate on imports. However, while devaluation may contribute to the reduction of imports in the short run, its impact on exports takes longer time to materialize. Positive effects of devaluation on exports necessitate a diversified structure for the domestic economy. In a context where exports consist of primary goods with prices determined at the level of international markets, or a reduced number of manufactured goods, devaluation would impact exports only slightly. Another issue concerns impact of real depreciations on the domestic economy. While such depreciations may contribute to boost exports, they may also lead to a fall in real wages unless they are offset by a rise in living standards through reduced protection. Unfortunately, this is not the case in Morocco where social inequalities are widening, poverty is increasing and unemployment is intensifying.

Reform Outcomes in Morocco: The Need for Political and Institutional Reforms

What is more important in the Moroccan reform process is that how reforms are designed, implemented and evaluate how they perform. The following section deals with this issue, focusing on the inefficiency of macroeconomic stabilization, obstacles to successful outcomes in structural reforms as well as on the need for second generation of reforms, especially, political, institutional, social and cultural reforms. This second generation of reforms, if they have been accompanied by macroeconomic stabilization and structural reforms, would have resulted in excellent economic reform outcomes.

Inefficiency of Macroeconomic Stabilization and Structural Reforms

(a) Inefficiency of Macroeconomic Stabilization. As already noted, fiscal austerity in Morocco consists of reducing public expenditures in a politically feasible way. While the Moroccan economy should be subjected to appropriate adjustments because of multiple disequilibria it suffers from, reforms, especially on the fiscal front, have been conducted in a way incompatible with sustainable growth and optimization of the social welfare. Indeed, instead of centering fiscal adjustment on current public consumption and other wasting expenditures prevailing in the

public sector, Moroccan policy makers have resorted to cutting public investment spending.

Using multiple analytical and empirical approaches, previous studies have revealed how fiscal reforms in Morocco were manifestly inefficient (Mansouri, 2000; 2001; 2003a; 2003b; 2003c; 2003e; 2003f). While current public consumption is seen to crowd out private consumption and investment and to hinder economic growth, this kind of public spending was maintained and even sustained. On the other hand, whereas public investment is seen to crowd in private consumption and investment, and to foster economic growth, it was dramatically reduced in proportion to GDP. The problem is that when current public consumption is maintained and even sustained, private consumption and investment - which are the components of aggregate private spending - will dramatically fall, and this will hinder the development opportunities of the country.

(b) Obstacles to Structural Reforms. Whereas price liberalization was conducted early in a context of relatively high inflation, gradual efforts in this reform area resulted in a liberalized, although partially, price system. The relatively partial price liberalization may be explained by the need for subsidizing prices of basic goods and services widely consumed by the poor and relatively less favored people.

In spite of the relative success of Moroccan policy makers in the price liberalization area, it is important to stress that multiple obstacles remain in the realm of the functioning of markets in the context of an unachieved market-oriented economy. Well-functioning markets for goods and services in a situation of price liberalization obviously require an active competition policy (Mansouri, 1992). Such a competition policy has to reduce the degree of economic concentration and therefore, to curb the tendency of the productive system to yield higher costs and prices and the tendency of large-size enterprises to exert considerable political influence. Following these considerations, Moroccan policy makers adopted a competition policy to ensure existence, freedom and loyalty of competition, which are indispensable conditions for price liberalization.

The law on competition in Morocco seems to be insufficient to observe and identify anti-competitive practices. Since the design of price liberalization programs in 1982, Moroccan policy makers started to adopt a competition policy. In spite of price liberalization, firms have remained linked to fix their prices. Such inter-firm agreements concerning levels and periods of increase in prices

have hindered competitive practices. In general, what matters more is not the price liberalization itself or the institution of a competition law, but how well price liberalization and low competition have been implemented.

Concerning privatization, as already noted, only relatively profitable public sector enterprises have been transferred to the private sector. This may contradict the fact that the rationale behind privatization is that the private sector is more rational than the public sector. Normally, based on such a rationale, Moroccan decision makers must resort to the privatization of less profitable public sector enterprises. Since they have preferred the adverse solution, it seems that Moroccan policy makers aim at maximizing exceptional public revenue from privatization, not at improving productive and allocative efficiency through the operation. While such extra revenue from privatization has allowed Moroccan decision makers to eradicate the brunt of fiscal adjustment on public investment, it is expected that subsequent privatizations would be accelerated to complete the liberalization of the economy.

While privatization of less profitable public sector enterprises is extremely urgent in the case of Morocco, it is vital to know why the privatization process resulted in poor outcomes in terms of delaying the process over time. As pointed out by Campos and Esfahani (1996), "Government interventions cannot be divorced from issues of redistribution, because it is partly through redistribution that a regime sustains itself". In the real world of politics, redistribution does not necessarily mean a transfer of wealth from rich to poor. It really means the transfer of wealth from the less powerful to more influential groups.

When the Moroccanization process was conducted in the early 1970s, firms previously owned by foreigners were attributed to powerful groups and individuals in the private as well as public sector, therefore creating quasi-feudalities operating around the political regime. No vigorous efforts from Moroccan decision makers have been devoted to promote and enhance 'people's share ownership' within the Moroccanization process. When decision makers decided to privatize public sector enterprises, multiple interest groups - such as highly concentrated industries, landlords and trade unions - resisted reforms.

What is perhaps more important in the privatization process is that the Moroccan political regime may be considered as the most powerful "interest group" in the sense that the regime would have likely resisted early efficient privatizations because of the importance of public sector enterprises in ensuring political support. In addition to resistance from trade unions and other interest

groups, it seems that the public sector as a source of political support for government, may explain why privatizations are delayed, and consequently, why performances in this reform area are relatively poor in terms of the number and the nature of privatized enterprises (Mansouri et al., forthcoming).

On tax reforms, Loayza and Soto (2003) posit that "market-oriented reform in the tax system seeks to minimize the distortionary effect of taxation on private activity while generating sufficient revenue to finance government operations". Three outcome indicators are taken into consideration in this study of tax reform outcomes, namely: (a) the ratio to GDP of total taxes; (b) the ratio to total taxes of taxes on international transactions; and (c) the ratio of direct taxes to total taxes. While the first outcome indicator measures the success in raising revenues through non-inflationary means, the second outcome indicator measures the degree of reliance on a common type of distortionary taxation (Loayza and Soto, op. cit.). As for the third indicator, it represents efforts of decision makers in raising income taxes for purposes of income redistribution.

As already noted, it may be noted that following tax reform measures beginning in 1986, tax revenues did not improve well until 1991. Over the period, tax revenues were generally stationary, with an annual average of about 21% of GDP. However, tax revenues slightly improved since 1992, corresponding to the end of the debt rescheduling, with an annual average of about 25% of GDP over the period 1992-2000. As already argued, whereas tax reforms yield successful results only in the medium and long run, other factors - such as inflationary pressures and the fall in import duties following trade liberalization - may also explain the slow rise in tax revenues.

Data investigations show that the ratio to total taxes of taxes on international taxes remains relatively high in the Moroccan case. While this observation also holds in other developing countries, heavy taxation of international transactions may be considered as typically distortionary. Over the period 1970-1985, taxes on international transactions are estimated to be around 17,5% of total taxes and 4.4% of GDP. Following the implementation of tax reforms in 1986, taxes on international transactions amounted to 16.15% of total taxes and 3.7% of GDP in annual averages over the period 1986-2000. Following these estimates, it seems that tax reforms failed in eradicating reliance on trade taxes to improve tax revenue.

Since direct taxation has stronger redistributive intensity, reliance on this kind of taxes to increase tax revenue is urgently needed. According to calculations, direct taxes are estimated to be about 12.6% of total taxes and 2.6% of GDP from 1970 through 1985 in annual averages. Following the implementation of tax reforms since 1986, direct taxation slightly improved with values of about 15.6% of total taxes and 3.8% of GDP in annual averages over the period 1986-2000. In spite of these improvements, direct taxes remain below what is expected from tax reforms, especially in terms of redistributive intensity. Weak values for direct taxation also reflect shortcomings in tax administration as well as the predominance of tax evasion and fraud.

(c) Outcomes of financial sector reforms. In this reform area, one can observe how much efforts from decision makers have yielded relatively better performances in comparison with neighboring countries like Algeria and Tunisia. Indeed, monetary policy becomes increasingly liberalized and multiple controls on banks as well as on stock and exchange markets have been removed, although sometimes partially. While such liberalization-based financial reform indicators indicate positive outcomes, outcome indicators matter more in this reform area[14]. As highlighted by Loayza and Soto (2003), the ratio to GDP of a broad monetary aggregate (like M2) as a relevant outcome indicator for depth and activity of financial markets in the case of the banking sector may be considered. From 1960 through the end of 1983 - date when financial reforms were started to be gradually implemented - the sum of money and quasi-money was estimated to be around 40% of GDP in annual average, with 36% for money and only 4% of GDP for quasi-money. Over the period 1984-2000, the sum of money and quasi-money was estimated to be around 64% of GDP in annual average, with 48% for money and 16% of GDP for quasi-money.

This distinction between money and quasi-money is interesting, especially in developing countries. As in many developing countries, monetary aggregates in Morocco are characterized by the predominance of money, which is more liquid, in comparison with quasi-money, which constitutes the main determinant of savings in the banking sector. While relatively liquid money heavily dominated monetary aggregates in Morocco before the initiation of incremental financial sector reforms in the early 1980s, quasi-money experienced more relatively substantial growth afterward, suggesting that financial reforms contributed to enhancing, even though not strongly, financial depth.

Another outcome indicator concerns the size and liquidity of the Casablanca Stock Exchange. While the number of listed companies has

remained relatively stable in the early 1980s until the beginning of the 1990s, the stock market capitalization experienced a really big bang, passing from an annual average of 5% of GDP during the period 1986-1993 (Mansouri, 1997a) to nearly 25% of GDP in 2003 (Bourse des Valeurs de Casablanca, Stock Market Statistics, 2003). However, most of the boom in stock market capitalization is due to privatization.

Stock market liquidity, as measured by the ratio to GDP of the volume of transactions, has also experienced important increases, suggesting that financial market reforms, coupled with privatization, are good news for the stock market development. Nevertheless, in spite of these important stock market development patterns, outcomes in this reform area remain below what is expected, especially if compared to outcome indicators with available data in some developing countries, especially in South-Eastern Asia and Latin America (Mansouri, 1997a; 1997b; 1999c).

Another reliable outcome indicator in the financial reform area may be the levels of real interest rates. As already noted, real interest rates in Morocco have experienced a tendency to become positive. This suggests that financial sector reforms, especially through eradicating financial repression, has resulted in less repressed financial markets, and, consequently, to more reliable incentives to savings especially in the long-run, thereby enhancing quasi-money and financial depth.

Loayza and Soto (2003) opine: "In the case of banking, a good indicator of financial depth that focuses on the private sector is domestic credit allocated by private commercial banks to the private sector, divided by GDP." In the Moroccan case, the ratio to GDP of the credit stock available to the private sector was estimated to be around 38% of GDP as annual average over the period 1960-1983. During the period 1983-2000, characterized by bank reform efforts, the credit stock available to the private sector jumped to about 63% of GDP. Even though the time-series of the credit has sometimes experienced sharp fluctuations over the period and no control has been done for the contribution of other factors, data investigations suggest that reforms of the banking sector have yielded relatively good performances.

As Loayza and Soto (op. cit) argue: "Using the percentage change in the ratio of real imports plus real exports to real GDP as an outcome indicator of trade reform rests on the assumption that average changes in this ratio that occur in the

medium-term are mostly caused by policy changes. Under such assumption, this indicator can be used to compare improvements in trade openness over time".

This outcome indicator may be termed the "ratio of trade openness". It may be argued that such a ratio experienced a slight decrease over the period 1960-1984, with a value of −0.06 percentage points. Following trade reforms of the second part of the 1980s, the ratio of trade openness experienced early decreases of about 1.62 and 2.74 percentage points in 1985 and 1986 respectively before rising afterward with growth rates of 2.96 percentage points in 1987 and a relatively higher rate of 5.85 percentage points in 1990. In annual average over the period 1985-1997, the ratio of trade openness is estimated to be around only 0.5 percentage points. Data investigations indicate that these weak trade performances may be explained by export as well as import ratio to GDP fluctuations. It may also be noted that trade reforms in Morocco did not perform well regarding the evolution over time of the composition of trade flows in terms of goods and trade partners. In spite of some improvements in exports toward Africa and elsewhere, Moroccan exports remain highly concentrated in the European Union, especially in France and Spain.

Need for a Second Generation of Reforms

What matters more is not to "reform to reform" but to "reform to improve". In addition to inadequacies and mistakes in timing and sequencing of reforms, bad performances of the Moroccan reform process seem to be explained by the fact that institutional and political reforms (the second generation of reforms) have not been accompanied by macroeconomic stabilization and structural reforms. The Moroccan government, as well as international financial institutions and partner countries in Europe and elsewhere, are aware that outcomes and results of economic reforms crucially depend on the institutional, political, social and cultural context. This suggests that reforms in these areas are particularly urgent.

As highlighted through interviews with decision makers in Rabat, real reforms in the Moroccan case are those which started later in the 1990s and early 2002[(15)]. In a situation of autocracy, political repression, weak state capacity, bad governance and weak civil society, economic reforms cannot yield successful results.

(i) The Driving Role of Democracy, State Capacity and Governance. It seems that poor reform performances are partially due to an inappropriate and resisting

institutional and political environment. Reform of political institutions may be interpreted as building a capacity for economic reform because political institutions ultimately determine the 'rules of the game" (Liew and Bruszt, 2003). All reforms of the second generation are linked to the concepts of democracy, state capacity and governance. Reform is certainly a political act and, consequently, there is no sense in dealing with reforms without taking into consideration the driving role of democracy.

Democracy and participation are essential for successful reforms. Democratization permits the gathering of consensus necessary for sustainable reforms as well as for economic, social and political stability. However, what matters is not to 'democratize to democratize' but to improve the quality of public institutions(16). It is now well-known that state capacity in the reform process may be stronger in certain less democratic countries in comparison with relatively democratic ones. This means that democracy is not the equivalent of the sole 'multipartism'.

As Alesina and Perrotti (1994) posit, democracy is a system where governments can lose elections. Unfortunately, right-wing political parties always won the elections until 1998 when left-wing political parties formed a government, but only in coalition with old right-wing political parties. It is relevant to say that bad administrative and political governance is largely due to the absence of real democracy even if the Moroccan democratization process is perhaps the best in the region of the Middle East and North Africa (MENA). Lack of reliable governance is bad for reform efficiency and long-run economic growth in general. For instance, if public investment is seen to crowd in private investment and economic growth and current public consumption are seen to crowd out them, bad governance will be indirectly considered as bad for growth(17). Bad governance also occurs through dilapidation of public resources, particularly through "over-invoicing", non-respect of rules related to public transactions, etc (Mansouri et al., forthcoming).

As Isham (1997) points out: "Discussions of governance often generate more rhetorical heat than empirical light. Governance, like religion, is a broad topic that inspires strong beliefs and is difficult to measure reliably". According to The World Bank (1992), governance is the manner in which power is exercised in the management of a country's economic and social resources for development. Governance raises three main questions, namely: (a) What; (b) How; and (c) How well. In the reform process, it is important to know what the public decisions are,

which affect the allocation of public expenditures, especially public investment, and determine incentives for all other actors (Isham, op. cit.). How those public decisions are exercised depends on social and political structures as well as official and unofficial institutions. If the two questions are essential, how well public decisions are designed and implemented to achieve better reform performances is the most important one.

To improve reform outcomes and reform efficiency, a good functioning of public institutions is needed. Such institutions crucially depend on administrative and organizational factors: (a) efficiency in collecting information; (b) efficiency in the organization of decision making; (c) efficacy in allocating tasks between executive agencies of economic reforms and policies; and (d) transparency of financial measures of the government, including audit.

In the Moroccan case as well as in the general case of many developing countries, bad governance is closely related to the concept of state capacity. State capacity may be defined as "the ability to undertake and promote collective actions efficiently". [(18)] As for the effective state, it may be defined as a state where ambitions are matched with capabilities.

According to Liew and Bruszt (2003), there are four types of state capacity:

- Upholding general rights of economic actors;
- Creating a predictable policy environment for economic actors;
- Preventing the use of the state institutions by powerful private groups to redistribute wealth and opportunities to themselves;
- Regulating relations among economic actors in a balanced way and preventing the misuse of asymmetries in economic and informational power within the market.

From this point of view, successful economic reforms inevitably involve some form of political reform. Political institutions are devoted to maximize aggregate social welfare. To reach this goal, the state should have capabilities to identify specific problems, to explore reform programs and to implement them efficiently. Because state capacity, as defined above, is not fully well guaranteed in Morocco, reform outcomes on the macroeconomic as well as structural front are below what is initially expected (Mansouri et al., forthcoming).

As Ruis and van de Walle (2003) argue: "It would however be a mistake to treat state capacity as entirely exogenous to the political system, as is too often done". As highlighted through interviews with certain Moroccan policy makers, among others, the first generation of reforms has permitted to enhance state capacity through learning from already undertaken reforms. Such increasing state capacity would probably facilitate initiation and implementation of the second generation of reforms. It would likely allow Moroccan decision makers to revise already undertaken macroeconomic and structural reforms. Nevertheless, this would be the case only if Moroccan decision makers learn fast from their past reform mistakes and slippages.

(ii) The Major Role of Civil Society in the Reform Process. Counter-performances in macroeconomic stabilization and structural reforms may also be explained by the lack of civil society. In a situation of economic liberalization and decreasing state interventions, a strong civil society is urgently needed. Its role in abiding the population, replacing the role of the state in responding to people's needs, as well as its active role in influencing public policies, are of great importance. For instance, stronger civil society is needed for efficient further privatizations, promotion of the "entrepreneurship spirit" and "people's share of ownership". Also crucial would be its role in influencing public decisions in political and institutional reforms. Unfortunately, at least in the Moroccan case, the emergence of a real civil society faces major challenges. It is important to mention the following challenges: (a) the neo-patrimonial nature of the Moroccan state; (b) the lack of "citizenship mankind"[19] ; and (c) the traditional nature of the Moroccan society. In Morocco, one can easily observe how the Moroccans still behave as simple individuals, not as true citizens (Mansouri et al., forthcoming).

The neo-patrimonial nature of the Moroccan state is due to the resistance of old 'collectivist' economic and social formations inherited from pre-capitalist modes of production. While the construction of a market-oriented economy is crucial in the reform process, the cultural environment may be a resisting factor. A market-oriented economy system needs a situation where economic agents do not expect the government to respond to all their needs. Paradoxically, this is not the case in Morocco. For instance, people tend to associate increasing prices not on demand and supply mechanisms, but to the fact that the state does not assume its responsibility in regulating prices. In the perception of the Moroccan people, the state has to play its role in regulating not only the economy but also the social sphere, i.e. distribution of benefits, clientelism, etc. Hence, instead

of organization into civil society associations, Moroccan people often expect that the state can respond to all their needs. This Moroccan cultural reality may constitute an obstacle against reforms[20].

As Bernoussi (2000) points out, the major characteristic of the Moroccan is that he is often away from all forms of institutional contracting. According to the Conseil National de la Jeunesse et de l'Avenir , only 18% of interviewed urban youth understand the meaning of the term 'association' against only 10% of rural youth, with only 14% of urban and 6% of rural who adhered to constituted associations. This passive situation would not likely change at least in the short and medium run even if there is some political willingness to change the situation. Indeed, 60% of urban youth and 50% of rural youth interviewed persons justified their reluctance through their unwillingness to adhere to associations and their preference for individual acts.

The traditional nature of the Moroccan society also hinders the emergence of civil society. The concept of 'tradition' among sociologists who studied the Moroccan society refers to the geographical and value space where certain institutions were set up to respond to people's needs within the framework of a political regime characterized by oldness and holiness. Pascon (1967), the renowned Moroccan sociologist, studied the nature of the Moroccan society and pointed out the robustness of resistance against political modernization with civil society as a 'major cone'.

In the same direction, it is important to know whether civil society as known in occidental countries is needed in oriental societies like Morocco. It is now well known that 'private sector' organizations exist in the Arab World in general and in Morocco in particular. However, such organizations are different from what is known as civil society in the developed World. Simple terminological investigations clearly show how differences are manifest. Civil society in the developed World is assimilated to 'institutions of the nations' (Mu'assassat ul-Umma in Arabic). In the Arab World, citizenship is opposed to fraternity; trade unions are opposed to sophist groups, etc (Mansouri et al., forthcoming).

In the framework of civil society, among the emerging associations, one can mention feminist associations. After efforts devoted during the 1990s to defend women rights in a patriarchal society, feminist associations obtained timid amendments of the Mudawana [21]. in 1997. Bad performances in this reform area are essentially due to a resisting religious milieu. Following the enthronement of the King Mohammed VI, a new relatively revolutionary familial code has been promulgated. Without the arbitrage of the King, such code would not have emerged.

Concluding Remarks and Policy Implications

In addition to the speed of adjustment and sequencing associated with reforms, it is argued that reform outcomes in Morocco may be due to the fact that economic reforms have not been accompanied by political and institutional reforms. The speed of adjustment and sequencing of reforms are strongly linked to political economy issues which have received less attention among the academia and policymakers. Among the components of political and institutional reforms, it is important to mention efforts to enhance democracy, governance, state capacity and civil society.

Since reforms on the political and institutional fronts may affect the willingness and ability of the bureaucrats to continue to extract rents and to benefit from corruption and briberies, the bureaucracy has been seen to block the reform process in these areas, especially through advantaging the slowness of laws and their implementation. Even under the government changeover during the period 1998-2002, reforms of the second generation have experienced a particular slowness. The ruling elite is also a powerful stakeholder which may affect and be affected by reforms of the second generation. While a coalition government was set up in 1998, some key ministerial departments, known as sovereignty ministries, e.g. the Ministries of Interior, Justice, Foreign Office, Religious Affairs and the powerful General Secretariat of Government, remain under the direct control of the Royal Palace.

The implicit hypothesis of Moroccan decision makers seems to be that the causality runs from economic policies to institutions rather than the other way around. Extra-economic factors play major roles in altering the expected objectives of reforms. Sociologically speaking, the 'social and societal issues' may play a major role in the Moroccan reform process. Social institutions, organizations and structures are particularly important. In Morocco, the tendency is to expect that all the components of the society have the willingness and capacity to comply efficiently with reform demands. Moroccan decision makers and political parties often tend to forget that social institutions, organizations, structures and components all have some conditions to comply with reforms. Such conditions have to be taken into account in the reform process. If certain existing conditions are seen to hinder reform efforts, they should be apprehended, corrected and reformed.

Footnotes

(1) On this issue, see previous works by Mansouri, 2000, 2001, 2003a, 2003d.

(2) For details on the measurement of fiscal surpluses in Morocco and a sample of developing and developed countries, see Mansouri (2001, 2003a).

(3) In Morocco, the structural adjustment program, coupled with external debt rescheduling, started in 1983 and ended in late 1992.

(4) On sustainability of fiscal deficits in Morocco, details may be found in Mansouri's previous studies using the accounting approach as well as the present value constraint approach to fiscal sustainability and solvency (Mansouri, 2001, 2003a).

(5) This means that inflation in Morocco became lower and comparable to inflation rates observed in the European main trading partners.

(6) It is interesting to stress that inflation in Morocco, in comparison with other countries with inflationary tradition, has never reached the level of inflation-maximizing seigniorage, estimated to be around 20%, corresponding to a maximum of money creation (seigniorage) of about 4% of GDP.

(7) However, as will be seen later, "social learning" from past reforms in other countries cannot be considered as the sole reason of a gradual approach to financial reforms. Resistance of bank trade unions, as powerful interest groups, may also have something to do with slow reforms in this area (Mansouri et al., 2006).

(8) See the data base on interest rates in a sample of developing countries, in Easterly, Rodrigùez and Schmidt-Hebbel, 1994.

(9) On this issue, see the pioneering work of Little, Scitovsky and Scott, 1970.

(10) See also Bhattacharya (1997).

(11) On this issue, see Mansouri (1999d ; 2003f).

(12) See for example, Sachs (1987).

(13) See for example, Nsouli et al. (2002).

(14) On this important distinction between policy and outcome indicators, see Loayza and Soto, 2003.

(15) Mainly interviews with Central Directors in the Ministry of Finance and Privatization, Statistics and Plan, advisors of Ministers, political scientists, leaders of political parties, etc.

(16) It is extremely difficult to introduce democracy in a country where illiteracy rates are high. It matters to raise questions about the perception of democracy among the Moroccan people. Democracy in Morocco tends to be an "imported product", i.e., democracy has not emerged from cultural, sociological and historical reality of the country. Thus, it is important to know how the emergent democracy in Morocco may be improved so as it can positively influence the reform process (Mansouri et al., forthcoming).

(17) See Mansouri, 2003b.

(18) See also Bicanic et al., 2003; Ruis and van de Walle, 2003.

(19) This means that the Moroccans do not generally feel as true citizens belonging to a society.

(20) On effects of cultural factors on the reform process, see for example Ruis and van de Walle, 2003.

(21) In Morocco, the Mudawana is the legal framework organizing the relationships between men and women within the family.

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