SOUTHERN MEDITERRANEAN DEVELOPMENT THROUGH TRADE, FOREIGN DIRECT INVESTMENT AND MIGRATION

WAI MUN HONG
Researcher MERIGG
Facultad de Ciencias, Económicas y Empresariales
Universidad Autónoma de Madrid

ALEJANDRO V. LORCA
Jean Monnet Chair, MERIGG
Facultad de Ciencias, Económicas y Empresariales
Universidad Autónoma de Madrid

EVA MEDINA MORAL
Researcher MERIGG
Facultad de Ciencias, Económicas y Empresariales
Universidad Autónoma de Madrid

ABSTRACT

Since the launch of the Barcelona Process in 1995 and later the Euro-Mediterranean Partnership, economic relationship between the European Union (EU) and Southern Mediterranean has grown tremendously. Trade volume, in terms of absolute value, between the EU and Southern Mediterranean has grown to an unprecedented height. Although the value has increased, foreign direct investment (FDI) from the EU to Southern Mediterranean remains low. South-to-North migration has also undoubtedly increased given the fact that it has become one of the priority concerns of the EU. Development has taken place through these economic exchanges. However, economic development growth rate remains considerably low compared to that of Latin America and Southeast Asia. This paper discusses about the economic development dynamic of Southern Mediterranean in comparison with that of Latin America and Southeast Asia through economic indicators, economic openness and trade, FDI and migration flows and structures. It also discusses about the challenges faced by Southern Mediterranean and how the economic crisis in the EU may affect their economic relationship.[1]

KEY WORDS: trade, foreign direct investment, migration, Southern Mediterranean, economic openness, economic development.

JEL: F02, F13, F14, F21, F22, F24, F59.

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[1] Lorca, A. and Hong, W. M. (2009). 'Los tres Mediterráneos: Un Enfoque Comparado'. *Información Comercial Española, ICE: Revista de economía, no. 846 (Enero-Febrero)(19-32).*

INTRODUCTION

Through close cooperation with the EU[2] since the launch of the Barcelona Process in 1995 and later the Euro-Mediterranean Partnership, Southern Mediterranean[3] have unquestionably shown signs of social and economic development, but how far have they gone in comparison to the developing economies in the Latin America[4] and those in the Southeast Asia[5]. Development has taken place through trade, FDI and migration in similar ways. These three elements are sources of interaction between two or more economies, be it interaction between two developed economies or between one developed and one in developing. Besides tapping on external market in order to up the overall demand for exports, interaction facilitates interchange and diffusion of technology and knowledge that can improve productivity and intensify competition, therefore fuel development.

Trade, FDI and migration between the EU and the Southern Mediterranean have unquestionably increased over years, yet economic development has remained unimpressive in the latter compared to that of Latin America and Southeast Asia. Many economists have also gathered that the source of the different economic development rate comes from the difference in culture or even religion. Although it is undeniable that culture may have played some important role in development, Lal (1998) has pointed out that the source of the successful economic development of the four newly industrialized economies (NIEs) (also known as the four Asian tigers[6]) is basically a process of "copy and paste" the existing knowledge and technical of the more developed economies into their own contexts.

Lorca (1996, 2006) argues that the EU has not developed a *model* for development like that of the United State's *maquila* or Japan's *flying geese paradigm* that aims at rending a helping hand in the development of the less-developed economies for Southern Mediterranean. In the absence of a *model*, could the Euro-Mediterranean Partnership be as effective as a motor for development in the southern Mediterranean.

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[2] Although it currently has 27 member states, the EU in this paper refers only to the 25 member states joined before 2007 namely Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

[3] The 10 southern Mediterranean economies include Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Occupied Palestinian Territory, Syria and Tunisia. However, in some parts of this paper, Libya is not included. Nevertheless, Southern Mediterranean is divided into two sub-regions Maghreb and the Middle East. Maghreb includes Algeria, Libya, Morocco and Tunisia; and Middle East includes Egypt, Jordan, Lebanon and Occupied Palestinian Territory. Most of the time Israel is treated individually.

[4] Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago and Venezuela.

[5] Cambodia, Indonesia, Malaysia, the Philippines, Thailand and Viet Nam.

[6] Hong Kong, Singapore, South Korea and Taiwan.

1. ECONOMIC DEVELOPMENT OF THE SOUTHERN MEDITERRANEAN ECONOMIES

The Southern Mediterranean enjoys an average gross domestic product (GDP) per capita of US$4,937, with Israel having the highest GDP per capita of US$20,601 and the Occupied Palestinian Territory the lowest of US$966. Although this average is slight lower than that of the Latin America of US$5,592, it is about double the average of the Southeast Asia (US$2,174). (See table 1)

Table 1. Economic and Human Growth, Development and Equality.

	Population (in million)	Annual average growth rates of real GDP	Per capital annual average growth rates of real GDP	GDP (nominal), US$ billion at current price	GDP per Capita (nominal), US$ at current price	Gini Index	Percentage of the Population living with less than US$1 a day	Human Development Index
Year	2006	1995 - 2005	1995 - 2005	2006	2006	Various Years	1990-2004	2004
Southern Mediterranean	**195**	**3.56%**	**1.52%**	**$583**	**$4,937**	**37.83**	**2.22%**	**0.754**
Israel	7	3.10%	0.89%	$140	$20,601	39.20	-	0.927
Algeria	33	3.89%	2.36%	$116	$3,476	35.30	2.00%	0.728
Libya	6	2.88%	0.81%	$49	$8,196	-	-	0.798
Morocco	31	3.56%	2.25%	$65	$2,087	39.50	2.00%	0.640
Tunisia	10	4.87%	3.65%	$31	$3,003	39.80	2.00%	0.760
Egypt	74	4.50%	2.60%	$110	$1,484	34.40	3.10%	0.702
Jordan	6	4.62%	2.12%	$14	$2,502	38.80	2.00%	0.760
Lebanon	4	2.05%	0.70%	$22	$5,441	-	-	0.774
Occupied Palestinian territory	4	2.60%	-1.07%	$4	$966	-	-	0.736
Syria	19	3.49%	0.86%	$31	$1,614	-	-	0.716
Latin America	**541**	**2.93%**	**1.62%**	**$2,981**	**$5,592**	**51.01**	**13.46%**	**0.768**
Southeast Asia	**505**	**4.60%**	**2.88%**	**$901**	**$2,174**	**41.50**	**15.00%**	**0.726**

(1) All data is of 2006 unless specified.
(2) The Gini Index is based on the Human Development Report 2006 of various years from 1995 to 2003 according to data availability. The Gini Indexes are derived from the average of all the Gini Index of the economies basing on the latest data available regardless of the corresponding year.
(3) The Percentage of the population living under poverty line (National Poverty line and less than US$1 a day) is derived from the average of all data of the economies basing on the latest data available regardless of the corresponding year.
Source: Authors' own calculation based on UNCTAD Statistics database (2010) and Human Development Report 2006.

Inequality is the lowest in Southern Mediterranean compared to the Latin America and the Southeast Asia. The Southern Mediterranean has an impressive average Gini index of 37.83 that can be compared to that of United State's 40.80 and Hong Kong's 43.40; however it still remains higher than that of the EUaverage of 31.63.[7] Furthermore, Southern Mediterranean has also one of the lowest percentages of population living in poverty; an average of only 2.22 per cent of the population is living with less than US$1 a day.

Despite the generally better-than-average economic development and equality, the economic growth rate of the Southern Mediterranean remains considerably low. Although its economic growth rate is generally higher than the North America

[7] Gini coefficient 100 represents the highest inequality. The average Gini Index of the 10 southern Mediterranean economies and the 25 EU economies are derived from the average of all the Gini Index of the economies basing on the latest data available regardless of the corresponding year.

developed economies and the EU-25, it still remains less impressive than that of the developing economies, in particular the Southeast Asia. The annual average growth rate for the Southern Mediterranean is 3.56 per cent between 1995 and 2005 compared to the Southeast Asia that has recorded a 4.60 per cent.

Although the developing economies across these three regions share somewhat similar economic characteristics, they have experienced different rate of economic and social development dynamic. The sources of the differences could most possibly come from the difference in culture, political regime or even natural resource endowment.

2. TRADE DYNAMICS

Trade is one of the most essential motors of economic development from technology and knowledge transfer and its *spill-over* effects through importing high-technology capital goods that up productivity, while investing the earnings from exporting productions to foreign market in economic and social development. This process is particularly important for developing economies such as the Southern Mediterranean.

Table 2. Trade Openness and Trade Structure, 2006.

	Total Export-to-GDP Ratio	Total Import-to-GDP Ratio	Total Trade-to-GDP Ratio	Percentage of Other Manufactured goods Export on Total Export	Percentage of Fuel Export on Total Export	Percentage of Capital Goods Import on Total Import	Percentage of Food Import on Total Import	Food Import-to-GDP	Food Import per capita
Southern Mediterranean	**29.41%**	**34.10%**	**31.75%**	**25.88%**	**30.19%**	**26.23%**	**13.92%**	**4.34%**	**$174**
Israel	33.35%	34.10%	33.72%	12.92%	0.10%	27.54%	5.69%	1.94%	$400
Algeria	47.10%	18.51%	32.80%	0.41%	98.05%	37.54%	19.21%	3.55%	$124
Libya	62.15%	19.31%	40.73%	0.79%	90.59%	37.69%	13.75%	2.66%	$218
Morocco	19.17%	35.64%	27.41%	35.24%	3.76%	27.66%	9.31%	3.32%	$69
Tunisia	37.53%	48.45%	42.99%	48.11%	11.32%	29.77%	8.53%	4.14%	$124
Egypt	12.50%	18.78%	15.64%	14.83%	55.46%	19.10%	19.05%	3.58%	$53
Jordan	36.04%	79.85%	57.94%	37.91%	0.83%	24.58%	13.31%	10.63%	$266
Lebanon	10.12%	42.76%	26.44%	40.84%	0.32%	18.61%	17.12%	7.32%	$398
Occupied Palestinian territory	1.26%	6.90%	4.08%	45.36%	1.09%	18.66%	19.97%	1.38%	$13
Syria	34.86%	36.68%	35.77%	22.40%	40.35%	21.18%	13.23%	4.85%	$78
Latin America	**21.25%**	**40.84%**	**31.04%**	**15.05%**	**16.11%**	**29.05%**	**12.80%**	**5.75%**	**$308**
Southeast Asia	**61.35%**	**55.98%**	**58.67%**	**33.45%**	**14.56%**	**36.24%**	**6.42%**	**3.30%**	**$76**

Source: Authors' own calculation based on UNCTAD Statistics database (2010).
Note: All regional figures are based on the average of all the available countries' data.

Although South Mediterranean's average total trade-to-GDP of 31.75 per cent seems considerably resistant to foreign trade compared to that of the Southeast Asia (58.67 per cent) (see Table 2). A substantial part of the high export-to-GDP ratio is contributed by the massive petroleum export of Algeria and Libya, to a lesser extent Egypt and Syria. Export of petroleum and gas accounts for 98.05 per cent of Algeria's total export and 90.59 per cent of Libya. While the less natural resource rich economies such as Morocco, Tunisia, Jordan and Lebanon have somewhat successfully centered their export in low-skilled manufactured goods such as apparels, footwear, textiles and possibly low-skilled electronic goods.[8]

However, the Southern Mediterranean remains to be the least opened to import. It has an average import-to-trade ratio of 34.10 per cent as compared to that of Latin America's 40.84 per cent and Southeast Asia's 55.98 per cent. The average of capital goods imports of the Southern Mediterranean represents 26.23 per cent of its total import and that is smaller than that of Latin America's 29.05 per cent and Southeast Asia's 36.24 per cent.[9]

Although considerable share of labor force dedicated to agriculture production, Southern Mediterranean continues to import a substantial amount of food that worth about $20 billion that represents an average of 13.92 per cent of its total import and apparently not as much as Latin America basing on food import-to-GDP ratio and food import per capita: Southern Mediterranean has an average of food import-to-GDP ratio of 4.34 per cent and food import per capita of US$174 compared to Latin America 5.75 per cent and US$308 respectively.[10] Despite so, Southern Mediterranean still runs a deficit of $11 billion on traded food items while Latin America has comfortably maintained a surplus of US$58 billion.[11] This is an obvious consequence of low productivity in agriculture and high population growth rate despite falling fertility rate.[12,13] This deficiency has become a potential source of detriment to the earning from traded primary commodities for the Southern Mediterranean.

Accordingly EU-Southern Mediterranean trade has revolved around importing of capital goods and food from the former (EU) to the latter (Southern Mediterranean) and exporting petroleum and low-skilled manufactured goods to the former from the latter. As concentrated as traded goods, EU-Southern Mediterranean trade flow is also limited to a small number of economies.

Algeria has become EU’s biggest trade partner representing 29.41 per cent of EU-Southern Mediterranean total trade. Unquestionably a good part of this trade relation is made up by Algeria’s export of petroleum and natural gas, of which the EU is in scarce of, to Italy, Spain and France respectively. (See Table 3)

Israel, Morocco and Tunisia have also become some of the EU’s most important trade partners in Southern Mediterranean. The strong trade tie between the EU and

8 We considered “other manufactured goods” (according to SITC Rev. 3) as low-skilled and low value manufactured goods in this paper.

9 We considered “machinery and transport equipment” (according to SITC Rev. 3) as capital goods in this paper.

10 Latin America's average figures on food import-to GDP ratio and food import per capita are somewhat distorted by some Caribbean island and small developing economies that import considerably high volume of food since their economies are mainly based on services such as tourism.

11 The trade surplus and deficit values on traded food items are authors' own calculations based on the UNCTAD Statistics database 2009.

12 27.81 per cent of the total labour force in Southern Mediterranean is dedicated to agriculture, however agriculture production has only accounted for 9.35 per cent of the overall GDP and out of the agriculture production 16.67 per cent goes to export in 2006, according to authors' own calculation based on the UNCTAD Statistics database 2009.

13 The average annual population growth rate of Southern Mediterranean is 1.77 per cent from 2002 to 2006 according to UNCTAD Statistics database 2009.

Israel is largely made up of the intensive trade with Belgium, Germany, United Kingdom and the Netherlands respectively, representing 14.02 per cent of the EU-Southern Mediterranean total trade. While Morocco and Tunisia tend to trade more intensively with France, Spain and Italy respectively, representing 21.95 per cent of the EU-Southern Mediterranean total trade.[14]

Table 3. EU and Southern Mediterranean Trade Flows, 2006.

Reporter →	Southern Mediterranean		Algeria		Morocco		Tunisia		Egypt		Syria		Israel		The rest of Southern Mediterranean[a]	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
Spain	$11,680	$5,875	$5,983	$1,027	$2,609	$2,692	$748	$699	**$1,038**	$270	$355	$75	$903	$749	$42	$363
	16.93%	8.68%	8.67%	1.52%	3.78%	3.98%	1.08%	1.03%	**1.51%**	0.40%	0.51%	0.11%	1.31%	1.11%	0.06%	0.54%
France	$14,809	$15,280	$4,570	**$4,370**	**$3,564**	**$3,840**	**$3,777**	**$3,392**	$801	$624	**$962**	$404	$1,095	$1,302	$40	$1,348
	21.46%	22.58%	6.62%	**6.46%**	**5.17%**	**5.67%**	**5.47%**	**5.01%**	1.16%	0.92%	**1.39%**	0.60%	1.59%	1.92%	0.06%	1.99%
Italy	$17,043	$12,118	**$9,314**	$1,881	$617	$1,503	$2,583	**$2,901**	**$1,270**	**$852**	**$2,140**	$562	$1,073	$1,840	$46	$2,580
	24.70%	17.91%	**13.50%**	2.78%	0.89%	2.22%	3.74%	**4.29%**	**1.84%**	**1.26%**	**3.10%**	0.83%	1.55%	2.72%	0.07%	3.81%
Germany	$3,740	$10,716	$396	$1,477	$344	$1,089	$917	$1,182	$153	**$1,086**	$143	$334	**$1,758**	**$3,201**	$28	$2,347
	5.42%	15.84%	0.57%	2.18%	0.50%	1.61%	1.33%	1.75%	0.22%	**1.60%**	0.21%	0.49%	**2.55%**	**4.73%**	0.04%	3.47%
Belgium	$5,971	$5,941	$1,998	$528	$371	$498	$276	$342	$191	$170	$26	$87	**$3,068**	**$3,937**	$41	$378
	8.66%	8.78%	2.90%	0.78%	0.54%	0.74%	0.40%	0.51%	0.28%	0.25%	0.04%	0.13%	**4.45%**	**5.82%**	0.06%	0.56%
Netherlands	$5,274	$3,596	$2,845	$271	$341	$504	$233	$231	$396	$344	$114	$104	$1,312	$1,786	$33	$356
	7.65%	5.31%	4.12%	0.40%	0.49%	0.74%	0.34%	0.34%	0.57%	0.51%	0.16%	0.15%	1.90%	2.64%	0.05%	0.53%
United Kingdom	$5,301	$4,842	$1,624	$386	$752	$485	$340	$256	$460	$346	$474	$50	**$1,602**	**$2,459**	$49	$860
	7.68%	7.16%	2.35%	0.57%	1.09%	0.72%	0.49%	0.38%	0.67%	0.51%	0.69%	0.07%	**2.32%**	**3.63%**	0.07%	1.27%
The Rest of EU-25	$5,173	$9,304	$1,955	$1,728	$522	$1,466	$152	$727	$304	$911	$173	$518	$1,970	$2,603	$95	$1,350
	7.50%	13.75%	2.83%	2.55%	0.76%	2.17%	0.22%	1.07%	0.44%	1.35%	0.25%	0.77%	2.86%	3.85%	0.14%	2.00%
EU-25 Total	**$68,990**	**$67,672**	**$28,685**	**$11,669**	**$9,120**	**$12,077**	**$9,028**	**$9,731**	**$4,615**	**$4,604**	**$4,387**	**$2,133**	**$12,782**	**$17,877**	**$374**	**$9,582**
	100%	**100%**	**41.58%**	**17.24%**	**13.22%**	**17.85%**	**13.09%**	**14.38%**	**6.69%**	**6.80%**	**6.36%**	**3.15%**	**18.53%**	**26.42%**	**0.54%**	**14.16%**

(a) All trade values are in million of US dollars.
(b) All percentages are derived from the following equation:

$$\frac{Total\ Country\ to\ Country\ Trade\ Value}{Total\ EU\ to\ Southerns\ Mediterranean\ Tade\ Value} \times 100 \text{ ; such that: } \frac{Total\ A\lg elia\ to\ Spain\ Trade\ Value}{Total\ EU\ to\ Southerns\ Mediterranean\ Tade\ Value} \times 100 = 8{,}67\%$$

(c) The value of the total EU to Southern Mediterranean trade equals to 100%
Source: Authors' own calculation based on United Nations Comtrade database (2009).

Southern Mediterranean remains substantially dependent on EU; EU represents some 43.74 per cent of Southern Mediterranean total export and supplies 39.90 per cent the latter's total import. However, from the EU's perspective, Southern Mediterranean only accounts for 1.81 per cent of the EU total export and 2.18 per cent of its total import. In comparison, Latin America poses as a threatening competitor being EU's largest trade partner among the developing regions.[15] Latin America accounts for 1.85 per cent of EU's total export and 2.33 per cent of EU's total import.

Population size, GDP and GDP per capita are some of the most important and common trade determinants. The gravity model of trade presents two hypothesises: (1) the distance between trade partners and; (2) the economic size.

Our findings has proven to be inconsistent with the first hypothesis whereby the EU-

[14] Due to lack of data representation, Libya is left out from this part of the paper. However, the authors strongly believe that Libya carries out a considerable high trade volume with the EU, particularly Italy through petroleum and natural gas export from the former to the latter and Libya could have been one of the EU largest trade partner comparably to that of Algeria.

[15] The developing regions here refer to Southern Mediterranean, Latin America and Southeast Asia.

Latin America total trade value (US$189 billion) is higher than that of the EU-Southern Mediterranean (US$180 billion) despite the vicinity.[16] However, this analysis is evidenced by the second hypothesis so that Southern Mediterranean has become less attractive as a trade partner because of its small economy size and low GDP despite its high average GDP per capita.[17]

The general high trade cost in Southern Mediterranean (US$859 per container for export and US$1,088 for import) has also made it an unfavorable trade partner.[18] Besides, Southern Mediterranean, in general, is less opened to trade institutionally; it has the lowest freedom to trade internationally index of 6.16 among the developing regions: Latin America 6.70 and Southeast Asia 7.29.[19] Being one of the least democratic, economic policies and reforms of Southern Mediterranean tend to bend towards protectionism or even nationalism.

3. INVESTMENT OPENNESS AND FOREIGN DIRECT INVESTMENT IN THE SOUTHERN MEDITERRANEAN

Foreign Direct Investment (FDI) is possible more effective than trade as a source of economic development because it involves greater participation of investors. Hatakeyama (2008) claims that “FDI has contributed a lot to the enhancement of the technological levels of the East and Southeast Asia whose economic development was termed the “East Asian miracle”.

Table 4 Openness to Foreign Direct Investment, 2006.

	Total FDI Inflow (current US$ Million)	GDP (current US$ Million)	FDI Inflow-to-GDP Ratio
Southern Mediterranean	$40,442	$584,443	6.92%
Israel	$14,305	$143,807	9.95%
Morocco	$2,366	$65,637	3.60%
Egypt	$10,043	$107,484	9.34%
Algeria	$1,795	$116,460	1.54%
Libya	$2,064	$49,711	4.15%
Tunisia	$3,311	$30,962	10.69%
Jordan	$3,219	$14,839	21.69%
Lebanon	$2,739	$22,136	12.38%
Syria	$600	$33,407	1.80%
Latin America	$70,701	$3,073,892	2.30%
Southeast Asia	$25,786	$904,271	2.85%

(a) All regional figures are based on the average of all the available countries' data/value.
(b) The FDI Inflow-to-GDP Ratio is derived from the following equation:

$$\frac{Total\ \ FDI\ \ Inflow\ \ Value\ \ of\ \ Country}{GDP\ \ of\ \ Country_i} \times 100 \quad \text{; such that:} \quad \frac{Total\ \ FDI\ \ Inflow\ \ Value\ \ of\ \ Israel}{GDP\ \ of\ \ Israel} \times 100 = 6{,}92\%$$

Source: Authors' own calculation based on The World Bank World Development Indicator database (2009).

16 The total trade value is derived from the summation of the export value and import value and the cited values are of year 2006 and are authors' own calculations based on United Nations Comtrade database (2009).

17 Please refer to table 1 for data on population size, GDP and GDP per capita.

18 The cost to export and import data are based on The World Bank's Ease of Doing Business of year 2009. Although trade cost is considerably higher than that of Southern Mediterranean, the sheer economic (market) size of Latin America could comfortably compensate for this deficiency.

19 The indexes on Freedom to Trade Internationally is based on The Heritage Foundation's Economic Freedom Index of year 2006. Higher the index higher freedom to trade internationally.

Despite the impressive openness to FDI, Southern Mediterranean is still considered as the one of the least favorable FDI destination.[20] Nevertheless, it also reflects the importance of FDI inflow in Southern Mediterranean. (See table 4)

FDI inflow is particularly important to the smaller Southern Mediterranean economies such as Jordan, Tunisia and Lebanon. This is also a result of high FDI inflow and low GDP. However, it is the reverse for the bigger Southern Mediterranean economies where FDI inflow is less significant, yet remains more important than that of Latin America and Southeast Asia.

Despite its vicinity, Southern Mediterranean remains no more attractive than Latin America and Southeast Asia as a FDI destination although it has an overall highest FDI Inflow-to-GDP among the developing region.[21] (See table 5). Although EU's FDI outflow to Southern Mediterranean has grown by US$812 million from 2001 to 2005, the value still remains inferior (US$2,859 million) to that of Latin America (US$8,867 million) and Southeast Asia (US$5,521 million). In fact, Latin America has suffered a negative growth of -66.60 per cent while Southeast Asia has registered an extremely strong growth of US$6,010 million.[22]

Table 5. EU FDI Outflow.

	EU FDI Outflow in US$ million	EU FDI Outflow in US$ million	EU FDI Outflow Growth in percentage
Year	2001	2005	2001-2005
Southern Mediterranean	$1,473	$2,859	94.06%
Israel	$277	$873	215.59%
Morocco	$187	$858	358.61%
Egypt	$468	$979	109.03%
The Rest of Southern Mediterranean	$541	$148	-72.63%
Latin America	$26,549	$8,867	-66.60%
Southeast Asia	-$489	$5,521	-1,229.11%

(a) The percentage of EU FDI Outflow Growth is derived from the following equation:

$$\frac{\textit{The Difference in EU Total FDI Value to Destinatios}_i \textit{ in } 2001 \textit{ and } 2005}{\textit{EU Total FDI Outflow Value to Destination}_i \textit{ in } 2001}$$; such that:

$$\frac{\textit{The Difference in EU Total FDI Value to Israel in } 2001 \textit{ and } 2005}{\textit{EU Total FDI Outflow Value to Israel in } 2001} \times 100 = 215{,}59\%$$

Source: Author's own calculation based on the European Union Foreign Direct Investment Yearbook 2007.[23]

However, EU's FDI outflow to Southern Mediterranean has only concentrated on Israel, Morocco and Egypt and the rest accounts for only 5.18 per cent of the total

[20] The insignificant share of the FDI inflow in Southeast Asia in table 4 is due to the exclusion of Singapore whose FDI inflow share is impressively high.

[21] European Union Foreign Direct Investment Yearbook 2007.

[22] The negative percentage of -1,229.11 per cent (US$6,010 million) in the EU FDI Outflow Growth into Southeast Asia showed in Table 5 is largely due to natural technical error in calculation (the value of the EU FDI Outflow to Southeast Asia in 2001 was a negative value (-US$489 million)). This should not be confused with negative growth.

[23] The figures in the European Union Foreign Direct Investment Yearbook 2007 are in euros, however authors have converted the figures in euros to U.S. Dollars based on European Central Bank Bilateral Annual Exchange rate of the corresponding year.

FDI outflow from EU to Southern Mediterranean. In fact, only Israel, Morocco and Egypt have recorded a strong growth in FDI outflow from EU of 215.59 per cent, 358.61 per cent and 109.03 per cent; while the rest of the Southern Mediterranean altogether has registered a negative growth of 72.63 per cent.[24]
A substantial part of EU's FDI outflow to Southern Mediterranean made up by France-to-Morocco investment representing about 22.23 per cent of the total EU-to-Southern Mediterranean investment by end of 2004: and the Netherlands and the United Kingdom-to-Egypt representing 3.84 per cent and 3.19 per cent respectively.[25] Although less significant, Spain-to-Morocco investment is also considerably important.

Institutionally, the Southern Mediterranean region has fared worst among developing regions. It lacks of economic freedom (6.32), democracy (3.92) and effective governance (-0.33).[26] Being less democratic can also posed as a two-edged sword: an undemocratic state is arguably represents political stability that favors FDI inflow. However, also being one of the most polemical regions in the world, it does not enjoy more internal and external peace and stability and these impede FDI inflow.[27]

Its institutional environment has neither proved to be favorable to doing business and highlighting the two most unfavorable factors are (1) paid-in minimum capita as a percentage of revenue per capita of US$566 has heavily impeded the ease of starting a business and; (2) its cost of US$ 401 to deal with construction of permits is almost double of Latin America (US$244) and triple of Southeast Asia (US$118).
Its high trade cost could have acted as a counter-stimulus to lure FDI inflow, however, the unwillingness of the government in Southern Mediterranean, in general, to open up its economy and imposed heavy restrictions on foreign ownership has been detrimental to potential FDI inflow.

4. EU AND THE SOUTHERN MEDITERRANEAN MIGRATION AND REMITTANCE FLOW

Migration has become one of the most important sources of economic development for Southern Mediterranean. Migrants from Southern Mediterranean make up the largest pool of immigrants in the EU representing 11.77 per cent of EU's total immigrants. Remittances of Southern Mediterranean immigrants in the EU has also become an important source of income and foreign exchange. (See table 6)
A very significant part of the Southern Mediterranean-to-EU migration is made up of Algeria and Morocco-to- France migration that represent 29.36 per cent and 16.71

[24] Due to small economy size, EU FDI outflow to Tunisia may look insignificant when compared with Egypt, Israel and Morocco, therefore it is put together with the rest of the Southern Mediterranean. However, the authors, herein, would like to highlight that it is strongly believed that EU FDI outflow to Tunisia does experience a certain degree of growth.

[25] The percentages are authors' calculations based on the European Union Foreign Direct Yearbook 2007.

[26] The Economic Freedom indexes are of year 2006 of the Heritage Foundation; the Democracy indexes are of year 2008 of Economist Intelligence Unit and; the Worldwide Governance indicators are of year 2007 of World Bank. For all indexes, higher the index higher the economic freedom is, higher democracy enjoys and better governance.

[27] According to the Institute for Economics & Peace's “2008 Methodology, Results & Findings: Global Peace Index” Southern Mediterranean has scored an average of 2.215, Latin America 2.131 and Southeast Asia 2.069. Lower the Global Peace Index more peace the economy enjoys.

per cent of the total Southern Mediterranean-to-EU migration respectively. Morocco-to-Spain migration has also made up a considerable share of Southern Mediterranean-to-EU migration representing 14.78 per cent. (See table 7).

Table 6. Composition of Immigrants from the Developing Economies in the EU and Remittances from the EU, 2006.

	European Union			
	Immigrants		Remittance	
	Percentage	Number	Percentage	Value in US$ million
Southern Mediterranean	11.77%	4,682,295	12.47%	$8,577
Latin America	7.43%	2,956,336	5.88%	$4,045
Southeast Asia	2.78%	1,106,301	3.04%	$2,092
The Rest of the World	78.02%	31,043,344	78.61%	$54,069
Total	100%	39,788,276	100%	$68,783

(a) The percentage of immigrants in the EU is derived from the following equation:

$$\frac{Total\ number\ of\ Inmigrants\ from\ \mathrm{Re}\,gion_i\ in\ the\ EU}{Total\ Number\ of\ Inmigrants\ in\ the\ EU}\times 100$$; such that:

$$\frac{Total\ number\ of\ Inmigrants\ from\ Southern\ Mediterranean\ in\ the\ EU}{Total\ Number\ of\ Inmigrants\ in\ the\ EU}\times 100 = 11{,}77\%$$

(b) The percentage of Remittance from the EU is derived from the following equation:

$$\frac{Total\ Value\ of\ \mathrm{Re}\,mit\tan ces\ from\ the\ EU\ to\ \mathrm{Re}\,gion_i}{Total\ Value\ of\ \mathrm{Re}\,mit\tan ces\ from\ the\ EU\ to\ World}\times 100$$; such that:

$$\frac{Total\ Value\ of\ \mathrm{Re}\,mit\tan ces\ from\ the\ EU\ to\ Southern\ Mediterranean}{Total\ Value\ of\ \mathrm{Re}\,mit\tan ces\ from\ the\ EU\ to\ World}\times 100 = 12{,}47\%$$

Source: Authors' own calculation based on database "Bilateral Estimates of Migrant Stocks" by University of Sussex and World Bank (2010).

Table 7. Southern Mediterranean-to-EU Migration Flows, 2006.

Destination country → Source country ↓	European Union	France	Italy	Spain	Belgium	Germany	The Netherlands	United Kingdom	The Rest of the EU
Israel	1.21%	0.18%	0.08%	0.05%	0.04%	0.28%	0.09%	0.28%	0.20%
Algeria	32.45%	29.36%	0.51%	1.36%	0.21%	0.51%	0.09%	0.25%	0.16%
Libya	0.49%	0.03%	0.03%	0.03%	0.00%	0.09%	0.01%	0.22%	0.08%
Morocco	45.69%	16.71%	6.19%	14.78%	1.63%	2.36%	3.37%	0.29%	0.36%
Tunisia	9.41%	8.02%	0.18%	0.06%	0.11%	0.71%	0.08%	0.07%	0.17%
Egypt	4.17%	0.51%	1.27%	0.10%	0.03%	0.42%	0.20%	0.59%	1.05%
Jordan	0.61%	0.02%	0.01%	0.07%	0.01%	0.32%	0.02%	0.07%	0.10%
Lebanon	3.75%	0.81%	0.12%	0.10%	0.05%	1.46%	0.07%	0.25%	0.90%
Syrian Arab Republic	2.22%	0.29%	0.08%	0.16%	0.03%	0.81%	0.11%	0.10%	0.63%
Southern Mediterranean Economies	100%	55.94%	8.48%	16.69%	2.11%	6.96%	4.04%	2.13%	3.66%

(a) The percentage is derived from the following equation:

$$\frac{Total\ number\ of\ Inmigrants\ from\ Country_i\ in\ Country_j}{Total\ Number\ of\ Inmigrants\ from\ Southern\ Mediterranean\ in\ the\ EU}\times 100$$; such that:

$$\frac{Total\ number\ of\ Inmigrants\ from\ A\lg elia\ to\ France}{Total\ Number\ of\ Inmigrants\ from\ Southern\ Mediterranean\ in\ the\ EU}\times 100 = 29{,}36\%$$

(b) Total number of immigrants from Southern Mediterranean in the EU equals to 100 per cent.
Source: Authors' own calculation based on database "Bilateral Estimates of Migrant Stocks" by University of Sussex and World Bank (2010).

While the presence of migrants from the Middle East is minimal, instead, about 68.66 per cent of the total migrants from the east Southern Mediterranean migrates to

Arabic Peninsula, in particular Saudi Arabia where it absorbs 96.62 per cent of the total migrants from Middle East to Arabic Peninsula.[28]

Although the share of the world remittances is one of the smallest, Southern Mediterranean accounts for one of the largest shares of remittances sending out from the EU. South Mediterranean accounts 12.47 per cent of the total remittances sending out from the EU while the EU accounts for 41.04 per cent of the total remittances received in the Southern Mediterranean. (See table 6)

France is unquestionably the biggest remittance sending economy in the EU to the South Mediterranean. France-to-Algeria remittance flow accounts for 17.52 per cent of EU-to-South Mediterranean remittance flow; that of France-to-Morocco represents 15.85 per cent; and France-to-Tunisia remittance flow represents 9.79 per cent. Spain-to-Morocco remittance flow also accounts for a significant share representing 14.02 per cent of the EU-to-Southern Mediterranean remittance flow and that of Germany-to-Lebanon represents 7.32 per cent. (See table 8)

Table 8. EU-to-Southern Mediterranean Remittance Flows, 2006.

Remittance-sending country ↓	Remittance-receiving country									
	Southern Mediterranean	Israel	Algeria	Libya	Morocco	Tunisia	Egypt	Jordan	Lebanon	Syria
France	$4,117 47.99%	$4 0.05%	$1,503 17.52%	$0.16 0.002%	$1,360 15.85%	$840 9.79%	$33 0.39%	$4 0.04%	$348 4.06%	$24 0.28%
Italy	$695 8.10%	$2 0.02%	$26 0.31%	$0.16 0.002%	$504 5.87%	$19 0.22%	$83 0.97%	$1 0.02%	$53 0.61%	$7 0.08%
Spain	$1,353 15.78%	$1 0.01%	$70 0.81%	$0.13 0.002%	$1,202 14.02%	$6 0.07%	$6 0.07%	$13 0.15%	$42 0.49%	$13 0.15%
Germany	$1,080 12.59%	$7 0.08%	$26 0.30%	$0.47 0.01%	$192 2.24%	$75 0.87%	$27 0.32%	$58 0.67%	$628 7.32%	$68 0.79%
United Kingdom	$219 2.55%	$7 0.08%	$13 0.15%	$1 0.01%	$24 0.28%	$8 0.09%	$38 0.45%	$13 0.16%	$107 1.25%	$8 0.10%
The Rest of the EU	$1,114 12.98%	$8 0.09%	$23 0.27%	$1 0.01%	$436 5.09%	$38 0.45%	$84 0.98%	$23 0.27%	$437 5.09%	$64 0.75%
EU Total	$8,577 100%	$28 0.33%	$1,661 19.37%	$3 0.03%	$3,717 43.34%	$985 11.49%	$272 3.17%	$112 1.31%	$1,614 18.82%	$185 2.15%

(a) All remittance values are in million of US dollars.
(b) The percentage is derived from the following equation:

$$\frac{Total\ Value\ of\ \ Remittances\ sent\ from\ Country_i\ to\ Country_j}{Total\ Value\ of\ \ Remittances\ sent\ from\ the\ UE\ to\ Southern\ Mediterranean}\times 100$$; such that:

$$\frac{Total\ Value\ of\ \ Remittances\ sent\ from\ France\ to\ Moroco}{Total\ Value\ of\ \ Remittances\ sent\ from\ the\ UE\ to\ Southern\ Mediterranean}\times 100 = 15{,}85\%$$

Source: Authors' own calculation based on University of Sussex and World Bank's “Bilateral Remittance Estimates using Migrant Stocks” of 2006.

However, the EU-to-Southern Mediterranean remittance flow trends are considerably predictable from its migration flow trends. The minimal share of EU-to Middle East remittance is observed by the insignificant share of Middle East immigrants in the EU. This is also to say that remittances from the EU is less important to Middle East than to Maghreb, although, in general, remittances have become a very important component in economic development in Southern Mediterranean.

Remittances have been particularly important for Jordan and Lebanon where remittance-to-GDP stands at 17.44 per cent and 25.94 per cent respectively,

[28] Due to lack of data representation, Occupied Palestinian Territory is excluded from this part of the study.

however, remittances from the EU have played a much inferior role. Remittances from the EU represent 4.49 per cent and 28.20 per cent of the total remittances received by Jordan and Lebanon respectively. The EU has also contributed little to the remittances sent to Egypt and Syria. Much of these remittances should accordingly come from Saudi Arabia where the presence of Middle East migrants is stronger.[29] (See table 9)

On the contrary, although remittance-to-GDP is smaller, remittances from the EU has been considerably important to economies like Algeria, Morocco and Tunisia. More than 70 per cent of the remittances received by these Southern Mediterranean economies comes from the EU.

Table 9 Remittance-to-GDP Ratio, 2006.

	World Remittance-to-GDP Ratio	EU Remittance-to-GDP Ratio	Arabic Peninsula Remittance-to-GDP Ratio
Israel	0.29%	0.02%	-
Algeria	1.68%	1.43%	0.002%
Libya	0.02%	0.01%	0.0001%
Morocco	7.23%	5.69%	0.06%
Tunisia	4.54%	3.21%	0.09%
Egypt	3.04%	0.25%	1.61%
Jordan	17.44%	0.78%	4.60%
Lebanon	25.94%	7.32%	2.26%
Syria	2.73%	0.59%	0.76%
Average Remittance-to-GDP	6.99%	2.14%	1.17%

The percentage is derived from the following equation:

$$\frac{EU\ \ \mathrm{Re}\,mit\tan ce\ \ Outflow\ \ \mathrm{int}\,o\ \ Country_i}{GDP\ \ in\ \ Country_i}\times 100$$; such that:

$$\frac{EU\ \ \mathrm{Re}\,mit\tan ce\ \ Outflow\ \ \mathrm{int}\,o\ \ Tunisia}{GDP\ \ in\ \ Tunisia}\times 100 = 3{,}21\%$$

Source: Author's own calculation based on University of Sussex and World Bank's "Bilateral Remittance Estimates using Migrant Stocks" of 2006 and UNCTAD Statistics database (2009).

The sources of migration come in various forms such as (1) migrants from natural disaster prone areas; (2) political instability; (3) high unemployment rate in home country and; (4) seeking better prospects (for instance, higher salary). Southern Mediterranean is not the most natural disaster prone region yet it has the lowest average disaster risk index of 1.17 deaths every one million inhabitants. However, its unimpressive average environment vulnerability index (EVI) of 320 may reflect how unprepared it is in the face of adverse natural situations. (See table 10)

Southern Mediterranean migration in the EU is the highest. This migration is clearly not a result any cause of vulnerability to natural disaster, rather it is triggered by high

[29] The total remittance sent from Arabic Peninsula, particularly Saudi Arabia, remains insignificant in the Middle East and a considerably substantial part of the world remittance-to-GDP ratio of Jordan and Lebanon remain unexplained.

unemployment rate and possibly low income.[30] Despite its average GDP per capita of $4,937, compared to that of the EU's average of $29,456, migrants are attracted to work in the EU. Governance ineffectiveness have caused the failure to create sufficient jobs and consequently confronted by the increase in unemployment rate that may cause social unrest.

Table 10. Disaster Risk Index and Environment Vulnerability Index.

	Disaster Risk Index Average (average number of people killed per million inhabitants)	Environment Vulnerability Index Average
Southern Mediterranean	1.17	320
Latin America	12.79	309
Southeast Asia	5.83	328

Note: All regional figures are based on the average of all the available countries' data. For Environment Vulnerability Index (EVI), lower the index the better it is.
Source: Authors' own calculations based on the United Nation Development Programme's A Global Report: Reducing Disaster Risk-A Challenge for Development(2010), and South Pacific Applied Geoscience Commission (2008).

5. CHALLENGES FACING SOUTHERN MEDITERRANEAN COUNTRIES

If democracy and economic development are correlated, then Southern Mediterranean may have a long way to work towards the objective. It is precisely the political regime harbors in Southern Mediterranean that has created a “political machine” where the people benefit from the State's income from exporting petroleum and gas through heavy subsidies. It may seem beneficial from a social welfare perspective while the state continue to consolidate more power and control that may lead to corruption and ineffective governance and in turn impedes overall economic and social development.[31]

While in the sphere of political matters may be tricky to manage, Southern Mediterranean could still approach economic and social development through good governance. To attain economic development betterment, Southern Mediterranean needs to shift away from over dependence on a small basket of few primary commodities, particularly petroleum and gas. Although trade, especially export, indirectly helps to create jobs through external demand, extracting and producing petroleum and gas is a capital intensive activity, therefore it does not help create as many jobs as other economic activity such as manufacturing. Furthermore, the demand for such primary commodities is vulnerable to price speculation that can influence income. Beside, primary commodities are normally income inelastic goods where demand does not increase according to an increase of income. While Morocco and Tunisia have somewhat successfully shifted their productions and exports to manufactured goods, they are still often of low-skilled and low-value content.

[30] According to CIA, in year 2006, unemployment rate in Algeria is 15.7 per cent, Egypt 10.3 per cent, Lebanon 20 per cent, Morocco 7.7 per cent and Tunisia 13.9 per cent.

[31] The economic development experience in the Southeast Asia has also proven that even without being fully democratic economic development can still made possible.

The similarity in trade structure and the lack of regional integration has a negative impact on the economy efficiency and productivity of the Southern Mediterranean. In fact, a non-integrated Southern Mediterranean is confronted by fierce competition with one another in producing and exporting the same type of traded goods and this will not allow to take advantage of synergy. (Lorca 1997; Lorca and Hong 2009) An integrated Southern Mediterranean will mean a bigger market where economies of scale can be benefited from and this is also to say productivity and efficiency improvements. (Lorca and Escribano, 1998) Good governance is extremely important in executing appropriate economic reforms not only to enhance trade but also attracting FDI. Southern Mediterranean need to implement reforms that make FDI much easier. FDI is also a source to boost trade, particularly intra-firm trade.

Although migration can help relieve the pressure on the state to create jobs, Southern Mediterranean may face brain drain problem if it does not improve its economic situation to attract these migrants back by creating more jobs (or to reduce the high unemployment rate). Technology and knowledge transfer through returning migrants is equally important to overall development. Southern Mediterranean immigrants are normally contracted in the EU to fill up low-level unskilled jobs regardless of their qualifications and this will result in "wasted" potential in both Southern Mediterranean and the EU. A capable and an uncorrupted state is very important not only to create jobs to lower the unemployment rate but also to be able to implement effective measures to achieve overall economic and social development.

To maintain an overall political stability, the governments of the polemical Southern Mediterranean countries would have put away their political differences and work together towards common goals such as establishing a peaceful region and economic co-operations aiming at shared-prosperity.

6. CONCLUSION

Despite the launch for the Barcelona Process in 1995 and the precedence of the Euro-Mediterranean Partnership, it has not resulted in any impressive economic and social development in Southern Mediterranean although economic relationship with the EU has improved.

The overall economic development in the Southern Mediterranean is mainly fuelled by the production and export of oil and gas (an average of 30.19 per cent of the total export) and is overly dependent on it, especially Algeria (98.05 per cent) and Libya (90.59 per cent). Manufactured consumer goods that Southern Mediterranean produces and exports are mostly those of low-skilled (an average of 25.88 per cent of the total export) that often generate too little income allow import of expensive capital goods to improve its productivity without running into trade deficit.

Not only its inferior infrastructure, political regime and instability in Southern Mediterranean have possibly made it one of the least favorable FDI destinations. Southern Mediterranean governments are generally less democratic, support protectionism and resistant to FDI inflow.

Migration being the only international exchange Southern Mediterranean is more opened to, relies on remittance, although not too dependent (an average of 6.99 per cent on GDP), to fuel to the home economy despite the negative effects of "brain drain" on economic development in the short term but beneficial in the long term when migrants will return to their home countries contributing through knowledge and technology transfer. While from the EU's perspective, "temporary" migrant workers will solve the problems of public expenditure on social benefits for its ageing population and shrinking workforce. (Lorca 1997; Lorca and Hong 2009)

As cost of transportation has plummeted over the years, thus cost of trade has decreased accordingly, distance is no longer an important barrier to trade between the EU and Latin America or Southeast Asia and their historical colonialism links have helped the facilitation of trade and investment between them. This has become one of the threats to the southern Mediterranean that the EU can look beyond its neighbors to trade or invest in a more favorable economic and political climate.

In order to remain competitive, so as to improve its economic and social development, Southern Mediterranean will be faced with the challenge to undertake fundamental economic and political reforms that allows it to be more regionally integrated, as well as globally integrated in the world economy and to benefit from it.

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