Regional Integration and Real Convergence: Evidence from MENA Countries

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Abstract

This article analyses and explains the real convergence process in MENA countries over the past 50 years. It provides a threefold contribution. Firstly, given the recent increasing attention paid to the Euro-Mediterranean area, it focuses on the convergence of MENA countries towards the EU per capita income. Second, it provides an econometric modelling of the determinants of convergence. Finally, it is based on a wide set of convergence indicators applied to various measures of per capita income as well as the Human Development Index (HDI). Results show that despite a lack of s-convergence for the MENA region taken as a whole, the convergence hypothesis is accepted using the g and β-convergence tests, especially for Tunisia, Egypt, Turkey and Morocco. However, there is evidence of divergence for Jordan and Algeria. It is also shown that the convergence process strongly depends on education, R&D, transport and infrastructure as well as public investment. By contrast, there is no direct impact of the regional integration process with the EU, although the EIB loans positively contribute to the convergence process. Finally, trade specialization and firm agglomeration have been detrimental to convergence of MENA countries.

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I. Introduction

Middle East and North African (MENA) countries have experienced a rather disappointing macroeconomic performance in the past decade, especially when compared with some Asian countries. As an illustration, according to the classification of the World Bank, the average growth rate of these countries reached only 3.8% in the 90s and 4.1% from 2000 to 2009, whereas at the same time, East Asia and Pacific countries registered respectively 8.5% and 8.4% and South Asian countries 5.6% and 6.5% (World Bank, 2010).\(^1\) Within the Euro-mediterranean area, the growth performance of MENA countries is close to that of EU-15 but well below that of Cohesion countries (Spain, Portugal, Ireland and Greece) before the financial and economic crisis which has started in 2008 (Table 1, Figures 1 and 2).\(^2\)

This modest performance questions the capacity of MENA countries to converge toward EU per capita income levels.\(^3\) This problem is particularly important since the persistence of huge gaps in the standards of living between the two sides of the Mediterranean is likely to reinforce economic and political problems linked to poverty, illegal migration as well as political instability in these countries as shown by the recent riots in this area.

In this regard, the implementation of the Barcelona Agreement in 1995 was intended to reinforce the economic relationship between the EU and MENA countries, as a means of boosting trade, FDI and also economic growth of these countries. This objective was stated again in the European Neighborhood Policy (ENP) and more recently when the Union for the Mediterranean (UMed) was initiated.

Despite the importance of the concept of real convergence for both the EU and MENA countries, there is currently only a few empirical studies available applied

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\(^1\)For these data, we used the PPP GDP which is the gross domestic product converted to international dollars using purchasing power parity rates. Data are in constant 2005 international dollars.

\(^2\)This paper disregards the effects of the recent economic crisis on GDP and growth since the period 2008-2011 does not reflect the structural growth pattern of most countries since the 1960s.

\(^3\)In this paper, the concept of real convergence can be defined by the reduction in per capita GDP differences between MENA countries and the EU.