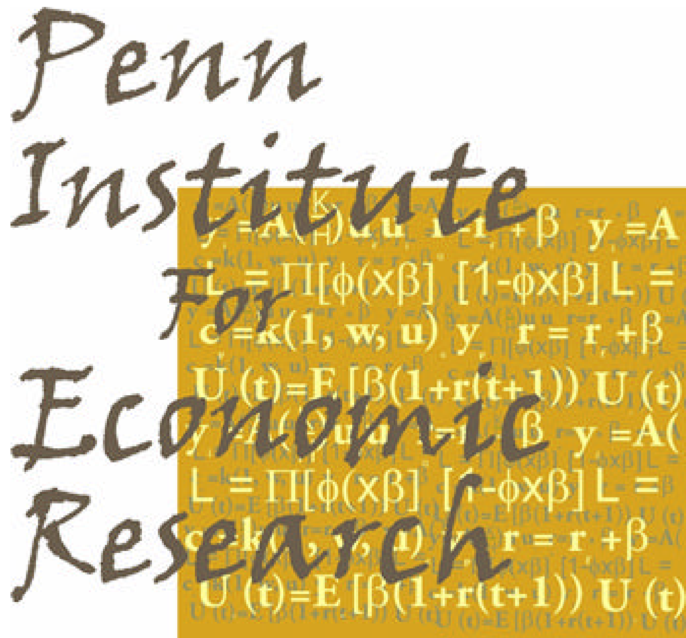

Penn Institute for Economic Research
Department of Economics
University of Pennsylvania
3718 Locust Walk
Philadelphia, PA 19104-6297
pier@econ.upenn.edu
http://www.econ.upenn.edu/pier

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"Economic Development in the Middle East"

by

Yochanan Shackmurove

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Economic Development in the Middle East

Yochanan Shachmurove

The City College of the City University of New York, and
The University of Pennsylvania
yochanan@econ.upenn.edu

ABSTRACT

The economic and financial development are examined in Algeria, Egypt, Iran, Israel, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Syria, Tunisia, Turkey, United Arab Emirates, and Yemen, representing the Middle East and North Africa region. Lengthy bureaucratic procedures, unclear regulations, corruption, and heavy reliance on oil exports pose major obstacles to economic development and integration into global markets. These controlled economies directly affect foreign and domestic investments that are measured by five factors: Starting a Business, Hiring and Firing Workers, Enforcing Contracts, Getting Credit, and Closing a Business. This paper demonstrates that improvements in the standard of living will only be attained with fiscal and political reforms.

JEL: E0; E1; F3; F4; N2; O4, O5

Keywords: Middle East and North Africa (MENA); Algeria; Arab Republic of Egypt; Islamic Republic of Iran; Israel; Jordan; Kuwait; Lebanon; Morocco; Oman; Saudi Arabia; Syrian Arab Republic; Tunisia; Turkey; United Arab Emirates; the Republic of Yemen; Economic Indicators; Foreign Direct Investment.

I. INTRODUCTION

The dominant worldwide trend towards globalization had induced the proliferation of global organizations such as the World Trade Organization (WTO), and the International Monetary Fund (IMF). There is an increased movement of more countries joining trade blocks.[1] These organizations were formed to aid countries in liberalizing international trade and finance. Dollar and Kraay (2000) discuss the benefits of increased international trade on economic growth, which then benefit the poor, improve infrastructure, transportation, and institutional quality. The positive spillovers affect fiscal policies, improve the performance of the export sector, increase competition for capital, goods, and services, and encourage both economic as well as political reforms. Thus, trade openness is not only beneficial but also necessary for countries to improve per capita income and reach the next stage of economic development.[2]

Some countries have taken full advantage of globalization, enjoying the wealth that it can bring while ensuring to minimize the downside risk. However, globalization has impacted different groups differently, forcing some to bear all the costs while others benefit. Nevertheless, on average free trade is widely believed to benefit the global economy and the standard of living. The critical questions is to identify what role the Middle East and North Africa (MENA) region play in the global community and the level of integration and development of its member countries.

The MENA region has been receiving extensive media coverage and public attention for various reasons. Many have recognized that most MENA countries have long abstained from the global trend of further globalization, modernization and political and economic liberalization. Some claim that the region is facing the reduction in oil wealth that can no longer act as a cushion or employ the huge population growth. In the beginning of 2004, President George

Bush outlined the necessary steps to achieve greater development in the MENA region in his so called Greater Middle East Initiative. The document suggested methods to promote political freedom, equality for women, access to education, advancement to greater openness in the MENA region, creation of free trade zones in the region, new financing for small businesses and helping in overseeing elections (Brezinski, 2004). However, the Initiative received a negative reaction from Arab nations, especially as a result of the ongoing conflict in Iraq (Dinmore and Khalaf, 2004, Holland, 2004, IMF, 2004). Increased violence has caused international companies to scale back their investments in Iraq leaving the U.S. to carry most of the burden to rebuild the country in time for the transfer of sovereignty from the U.S.-led coalition to an interim Iraqi government by June 2004 (The Economist Intelligence Unit, 2004B).

The increased interest in the MENA economies is mainly due to the fact that the region has done poorly relative to any other region in the world. And the question is of course "why?" The next section, Section II tries to suggest a few answers by studying the economic indicators of the region and by comparing it to other more developed countries and regions. Next, Section III turns to a specific detailed presentation of the countries in the region and their economic and financial policies that hinder economic growth. Section IV introduces the papers presented in this special issue. Finally, Section V concludes.

II. ECONOMIC INDICATORS

The private sector is central in promoting growth and expanding wealth opportunities in any country. It is generally believed to encourage investment, improve productivity, create jobs, and increase the standard of living. However, the MENA region will not be able to reach these objectives unless proper internal domestic reforms are implemented in the financial, regulatory,

and legal environment. These include protection of property rights, access to credit, and efficient judicial, taxation, and customs systems. Entrepreneurial motivations and the development of the private sector are often influenced by factors such as the regulatory costs of business and regulations that enhance or constrain investment, productivity, and growth.

Table 1

Country	GNI per Capita (US$)	Informal Economy (% GNI)	Population
Algeria	1,720	34.1	30,835,000
Egypt	1,470	35.1	65,176,940
Iran	1,710	18.9	64,528,160
Israel	16,510	21.9	6,362,950
Jordan	1,760	19.4	5,030,800
Kuwait	..	..	2,044,270
Lebanon	3,990	34.1	4,384,680
Morocco	1,190	36.4	29,170,000
Oman	7,720	..	2,478,000
Saudi Arabia	7,065	18.4	21,408,470
Syria	1,130	19.3	16,593,210
Tunisia	2,000	38.4	9,673,600
Turkey	2,500	32.1	68,529,000
UAE	20,217	26.4	2,976,290
Yemen	490	27.4	18,045,750
France	22,010	15.3	59,190,600
Germany	22,670	16.3	82,333,000
Japan	33,550	11.3	127,034,880
UK	25,250	12.6	58,800,000
US	35,060	8.8	285,318,016

Source: The World Bank Group (2003)

Table 1 outlines some characteristics for each of the economies, including Gross National Income per capita, the size of the informal economy as a percentage of the Gross National Income and the size of the population. For comparative benchmarks, the averages of more

developed countries such as France, Germany, Japan, UK, and the U.S., as well as Europe and Central Asia, MENA, and OECD regions are included. The fifteen MENA countries analyzed in this paper are Algeria, Arab Republic of Egypt, Islamic Republic of Iran, Israel, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Syrian Arab Republic, Tunisia, Turkey, United Arab Emirates, and the Republic of Yemen.

Tables 2-6 examine five indicators that play a significant role in the investment decision of an entrepreneur for the MENA countries, as well as France, Germany, Japan, the United Kingdom, and the Unites States. The five factors include: Starting a Business, Hiring and Firing Workers, Enforcing Contracts, Getting Credit, and Closing a Business (The World Bank Group, 2003).

The following subsections detail the importance of the five indicators and present comparative figures for the MENA countries.

A. Starting a Business

The regulations for creating new businesses differ significantly across various countries. In order to incorporate and register a new business, an entrepreneur has to comply with legal procedures. While some economies facilitate the process of new business entry with a straightforward and affordable process, others have lengthy, tedious and highly bureaucratic procedures that induce bribery of officials to smooth the process. Depending on these costs, entrepreneurs might try to run their business informally. These inefficiencies of heavier regulation are often associated with corruption and a larger unofficial economy (Djankov, 2001). Countries with more interventionist and less democratic governments limit the creation of new businesses and control the level of economic development more heavily than countries with more democratic and limited

governments. Public choice theory predicts that most regulations exist for the benefit (and bribery) of politicians and bureaucrats (McChesney, 1987).

Table 2: Starting a Business

Country	# of Procedures	Duration (days)	Cost (% GNI per capita)	Min. capital (% of GNI per capita)
Algeria	18	29	31.9	73
Egypt	13	43	61.2	788.6
Iran	9	48	6.6	7.4
Israel	5	34	5	0
Jordan	14	98	50.1	2,404.20
Kuwait	12	33	1.8	910.6
Lebanon	6	46	129.9	83.1
Morocco	11	36	19.1	762.5
Oman	9	34	5.3	720.9
Saudi Arabia	14	95	130.5	1,610.50
Syria	10	42	16.7	5,627.20
Tunisia	10	46	16.4	351.7
Turkey	13	38	37.1	13.2
UAE	10	29	24.5	404
Yemen	13	96	264.1	1,716.90
France	10	53	3	32.1
Germany	9	45	5.9	103.8
Japan	11	31	10.5	71.3
UK	6	18	1	0
US	5	4	0.6	0
Europe & Central Asia	10	48	21.7	123.9
MENA	11	50	54.5	1104.3
OECD: High income	7	30	10.2	61.2

Source: The World Bank Group (2003)

In order to legally operate businesses, the entrepreneur has to go through a number of obligatory procedures. These include (1) obtaining the necessary permits and licenses, and (2) completing all of the required inscriptions, verifications and notifications that enable the company to start its operation. Table 2 shows the highest number of procedures that a new business has to undergo is found in Algeria (18), followed by Jordan (14) and Saudi Arabia (14),

with a total length of time of 29, 98, and 95 days respectively. With 98 days, Jordan actually has the most number of days necessary to complete the procedure followed by Yemen with 96. In comparison, the average for the MENA region is 11 numbers of procedures, lasting 50 days, while that for the OECD countries is 7, lasting 30 days.

The costs associated with starting-up a business are found in the text of the Company Law, the Commercial Code, or specific regulations. The minimum capital requirement is generally specified in the Commercial Code or the Company Law, dictating the amount that the entrepreneur needs to deposit in a bank account in order to obtain a business registration number. Republic of Yemen has the greatest cost as a percentage of GNI per capita, 264.1 percent, compared to the regions average of 54.5 percent. The minimum capital requirement is actually the highest in the Syrian Arab Republic as a percentage of GNI per capita, 5,627.2 percent, compared to the region's average of 1,104.3 percent.

B. Hiring and Firing Workers

A complex system of laws and institutions exists to protect the interests of workers and to guarantee a minimum standard of living in each country. Botero, Djankov, La Porta, Lopez-de-Silanes, Shleifer (2003), study these regulatory bodies and find that poor countries regulate labor markets more than rich countries do, thus having adverse effects on unemployment, labor force participation, and economic activity remaining official. Taking these factors into consideration, the procedures and regulations of hiring and firing workers can have a significant impact on a country's economy. Table 3 presents the four indices of hiring and firing workers. Each index contains values between 0 and 100, where higher values indicate more rigid regulation. These indices are: (1) the flexibility of hiring index includes the availability of contracts for part-time

and fixed-term; (2) conditions of employment include working time requirements, such as mandatory minimum daily rest, maximum number of hours in a normal workweek, premium for overtime work, restrictions on weekly holiday, mandatory payment for nonworking days, and minimum wage legislation; (3) flexibility of firing covers workers' legal protections against dismissal, including grounds for dismissal, procedures for dismissal, notice period, and severance payment, and (4) the index of employment regulation is a simple average of the previous 3 indices.

Table 3: Hiring and firing workers

Country	Flexibility of Hiring Index	Conditions of Employment Index	Flexibility of Firing Index	Employment Laws Index
Algeria	58	60	19	46
Egypt	33	83	61	59
Iran	33	77	47	52
Israel	33	64	16	38
Jordan	33	82	64	60
Kuwait	33	40	50	41
Lebanon	53	50	35	46
Morocco	56	63	33	51
Oman	58	78	25	54
Saudi Arabia	33	58	16	36
Syria	33	79	22	45
Tunisia	73	53	44	57
Turkey	58	91	17	55
UAE	33	66	37	45
Yemen	33	66	28	43
France	63	61	26	50
Germany	63	46	45	51
Japan	39	64	9	37
UK	33	42	9	28
US	33	29	5	22
Europe & Central Asia	51	82	39	57
MENA	42	65	35	48
OECD: High income	49	58	28	45

Source: The World Bank Group (2003)

The most rigid regulations for hiring are found in Tunisia with a rating of 73, as compared to the average of the MENA region of 42. Turkey has the strictest conditions of employment and Jordan has the most rigid flexibility in firing. Comparatively, the region's average is 65 and 35, respectively. Overall, Jordan scores the highest (60) for having the most severe employment laws, as compared to the regions average of 48 and the OECD score of 45.

C. Enforcing Contracts

Investment, trade, and ultimately economic growth are highly dependent on the security of property and the enforcement of contracts. Inefficient regulations of contractual enforcement induce informal relationships based on family ties or previous transactions. A system of courts is responsible for enforcing contracts between debtors and creditors, suppliers and customers. However, in many countries the courts are slow, inefficient, and even corrupt. The performance of courts that is determined by how the law regulates their operations, or procedural formalism, was found to be lower in the richer countries (Djankov, La Porta, Lopez-de-Silanes, and Shleifer, 2003). Significant inefficiencies are also implied in their findings of the expected duration of dispute resolution, which is often extraordinarily high. This suggests that courts may not be an attractive venue for resolving disputes. These inefficiencies may impede the courts from properly protecting property and contracts, leading to alternative strategies, including private dispute resolution.

Table 4 includes four indicators that examine the differences in the efficiency of contract enforcement. (1) The number of procedures counted from the moment the plaintiff files the lawsuit in court until the moment of actual payment, (2) the associated time in calendar days, (3) the associated cost, including court fees, attorney fees, and other payments to professionals, and

(4) an overall index of procedural complexity in commercial dispute resolution, ranging from 0 to 100, with higher values indicating greater procedural complexity in contract enforcement. The Syrian Arab Republic has the most number of procedures (36), followed by Jordan (with 32), which continues for 596 and 147 days, respectively. Nevertheless, the longest duration of dispute resolution is found in Lebanon, whose 27 procedures take 721 days. In comparison, the average for the MENA region is 22 procedures lasting 297 days, while that for the OECD countries is only 17 procedures continuing 233 days. Again Lebanon is at the top of the list for the associated cost which makes up 54.3 percent of its GNI per capita, which is high in comparison to the 15.6 percent for the region's average. Finally, Kuwait has the highest rating for procedural complexity in MENA with a score of 76, in comparison to the region's average score of 61.

Table 4: Enforcing Contracts

Country	# of Procedures	Duration (days)	Cost (% GNI per capita)	Procedural Complexity Index
Algeria	20	387	12.6	72.2
Egypt	19	202	30.7	50
Iran	23	150	5.8	67.4
Israel	19	315	34.1	50.7
Jordan	32	147	0.3	48.6
Kuwait	17	195	4.4	76
Lebanon	27	721	54.3	67.4
Morocco	17	192	9.1	69.4
Oman	17	250	4.8	51
Saudi Arabia	19	195	..	50
Syria	36	596	31.3	69.4
Tunisia	14	7	4.1	59.7
Turkey	18	105	5.4	38.2
UAE	27	559	10.6	55.6
Yemen	27	240	0.5	59.7
France	21	210	3.8	79.2
Germany	22	154	6	61.1
Japan	16	60	6.4	39.2
UK	12	101	0.5	36.2
US	17	365	0.4	45.8
Europe & Central Asia	25	344	27.9	56
MENA	22	297	15.6	61
OECD: High income	17	233	7.1	49

Source: The World Bank Group (2003)

D. Getting Credit

Obtaining credit for business operations may be one of the greatest barriers to a firm looking to continue its growth, or it may even leads to cessation of its existence. Credit registries, or institutions that gather and disseminate information on credit histories, act as facilitators for creditors to assess risk and entrepreneurs to attain capital. Thus, credit registries enable the dissemination of credit so that entrepreneurs can rely on external credit rather than personal relations. If a bank lacks the information needed to screen credit applications and to monitor borrowers, it faces "adverse selection" or "moral hazard" problems in its lending activities leading to an inefficient allocation of credit. The efficiency of information exchange between lenders depends on the type of information shared and the design of the sharing mechanism. Thus, instituting a policy that would mandate the sharing of information, such as done in a public credit register, can stimulate competition, enhance the stability of the banking system, and attain efficiency (Jappelli and Pagano, 2000). On a microeconomic level, Galindo and Miller (2001) find that better developed credit registries benefit a country by reducing financial restrictions or more specifically reducing the sensitivity of a firm's investment decision to capital availability.

Table 5 details the factors affecting the ease to market credit.[3] The following factors are taken into account to evaluate the efficiency of credit markets: coverage of the market, scope of information collected, scope of information distributed, accessibility of the data available, quality of information available, legal framework for information sharing and quality of data. On the basis of the Extensiveness-of-Public-Credit-Registries Index, which averages the collection, distribution, access, and quality indices, Egypt and Tunisia received the highest ratings in the MENA region (48 out of 100). Higher ratings signify broader rules that are designed to facilitate

credit transactions. In comparison, the MENA region averaged a rating of 43. The Creditor Rights Index measures the effective regulations that give rights to creditors on collateral in cases of insolvency. Lebanon has the highest rating of 4, indicating strong creditor rights in the country, as compared to the MENA region's rating of 1.

Table 5: Getting Credit

Country	Public Credit Registry (PCR) Operates?	Year Public Credit Registry Established	PCR Coverage (borrowers per 1000 capita)	PCR Index	Private Credit Bureau (PCB) Operates?	Private bureau coverage (borrowers per 1000 capita)	Creditor Rights Index
Algeria	No	..	0	0	No	0	1
Egypt	Yes	1957	..	48	No	0	1
Iran	Yes	1990	..	45	No	0	2
Israel	No	..	0	0	Yes	47	3
Jordan	Yes	1966	19	47	No	0	1
Kuwait	No	..	0	0	Yes	147	2
Lebanon	No	..	0	0	No	0	4
Morocco	Yes	1966	..	33	No	0	1
Oman	No	..	0	0	No	0	0
Saudi Arabia	Yes	1985	0.3	42	Yes	..	2
Syria	No	..	0	0	No	0	3
Tunisia	Yes	1958	4	48	No	0	0
Turkey	Yes	1951	7	44	Yes	204	2
UAE	Yes	1982	12	44	No	0	2
Yemen	Yes	1975	7	38	No	0	0
France	Yes	1946	12	53	No	0	0
Germany	Yes	1934	5	44	Yes	693	3
Japan	No	..	0	0	Yes	777	2
UK	No	..	0	0	Yes	652	4
US	No	..	0	0	Yes	810	1
Europe & Central Asia			2	49		38.6	2
MENA			3.8	43		14.9	1
OECD: High income			43.2	58		443.5	1

Source: The World Bank Group (2003)

E. Closing a Business

In times of insolvency, an efficient exit strategy plays an important role in business operations and credit procurement. The existing bankruptcy laws determine the efficiencies of the bankruptcy process and insolvency resolutions. With inefficient procedures, inept businesses continue to exist despite misallocation of assets and human capital. The inefficient judicial

process can act against the interest of creditors in instituting a formal insolvency resolution. It can lead creditors to abstain from using the formal bankruptcy procedures all together.

Table 6: Closing a Business

Country	Actual Time (in years)	Actual Cost (% of estate)	Absolute Priority Preserved	Efficient Outcome Achieved	Goals-of-Insolvency Index	Court-Powers Index
Algeria	3.5	4	33	0	45	33
Egypt	4.3	18	67	0	39	67
Iran	1.8	8	100	1	84	67
Israel	4	38	100	1	67	67
Jordan	4.3	8	33	0	37	33
Kuwait	4.2	1	67	1	83	67
Lebanon	4	18	33	0	31	67
Morocco	1.9	18	33	0	36	100
Oman	7	4	0	0	29	67
Saudi Arabia	3	18	100	0	50	33
Syria	4.1	8	33	0	37	67
Tunisia	2.5	8	67	0	50	67
Turkey	1.8	8	67	0	51	67
UAE	5	38	33	0	23	33
Yemen	2.4	4	33	0	47	33
France	2.4	18	67	0	43	100
Germany	1.2	8	100	0	61	33
Japan	0.6	4	100	1	93	33
UK	1	8	100	1	86	0
US	3	4	100	1	88	33
Europe & Central Asia	3.2	15			51	57
MENA	3.7	13			47	57
OECD: High income	1.8	7			77	36

Source: The World Bank Group (2003)

Table 6 details the criteria for closing a business.[4] The time measure estimates the average duration needed to complete the insolvency procedure. The cost estimate takes into account the bankruptcy process including court costs, insolvency practitioners' costs, the cost of independent agents, (i.e. assessors, lawyers, accountants, etc.), and excluding the costs of bribes. The Absolute Priority Preserved indicates whether secured creditors get paid first before other claims

(100), second (67), or third (33). The rating of 1 in the Efficient Outcome indicates that the insolvency results in either foreclosure or liquidation. The Goals of Insolvency Index averages the previous four indices rescaled from 0 to 100 where a score of 100 would mean perfectly efficient and a score of 0 indicates the system does not function at all. In the MENA region, Iran has the highest score of 84 while UAE comes last with a score of 23. The average for the region is a score of 47. Finally, the Court-Powers Index averages three indicators of court procedures to indicate the degree to which the court drives the insolvency decisions. Higher values signify greater court involvement in the bankruptcy process.

To conclude this section, these factors clearly demonstrate why the development of the MENA financial markets and economies are stagnating.

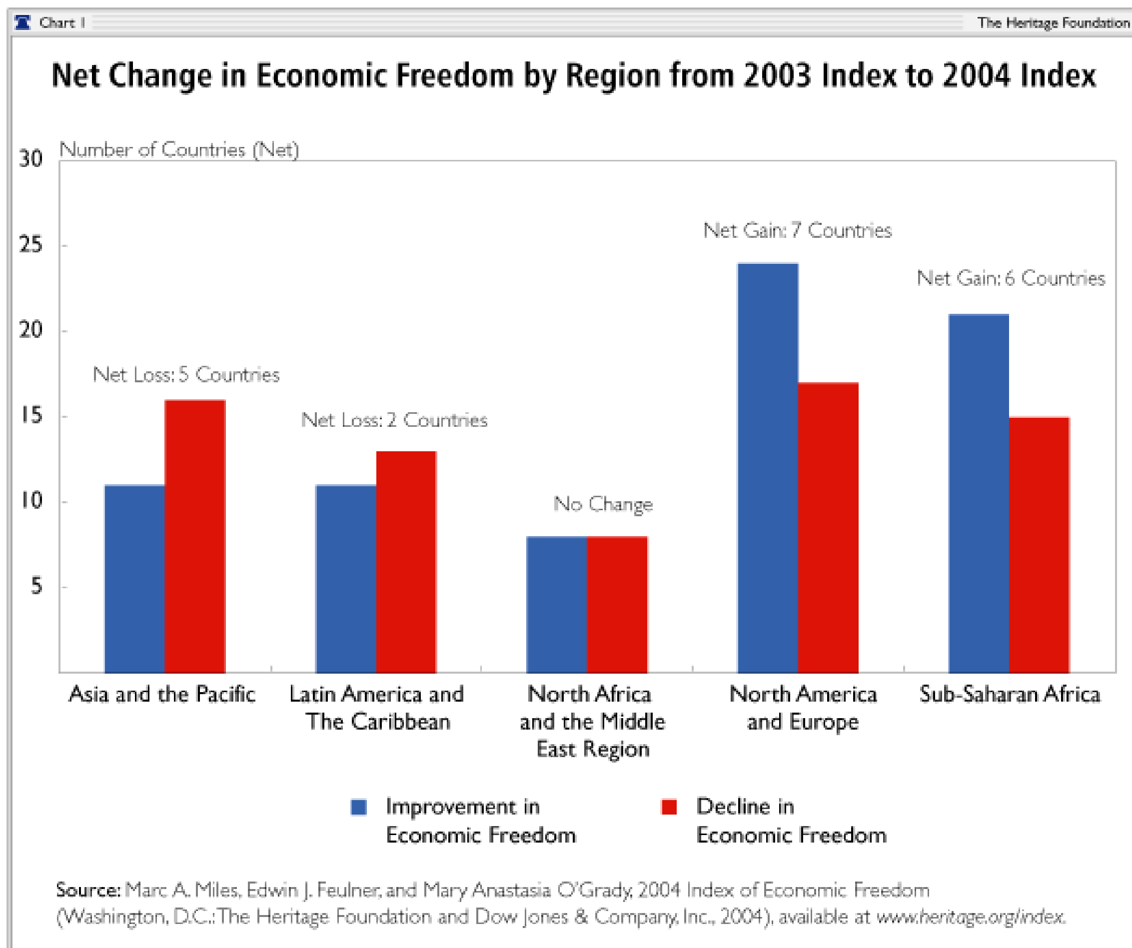
III. COUNTRIES IN THE MENA REGION

This section summarizes the current state of major economies found in the MENA region, which include Algeria, Arab Republic of Egypt, Islamic Republic of Iran, Israel, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Syrian Arab Republic, Tunisia, Turkey, United Arab Emirates, and the Republic of Yemen. To learn more about the financial markets of these countries please see last year's issue of the *International Journal of Business, Volume 8, Issue 3, 2003.*

The following subsections introduce economic conditions in each of the 15 countries in the MENA region. Detailed information can be found in the *2004 Index of Economic Freedom* by Marc Miles, et al. *Index of Economic Freedom* has served as a model since 1995 by which diverse economies can be compared on a standard scale. The *Index of Economic Freedom* defines economic freedom as "the absence of government coercion or constraint on the

production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself." Figure 1 compares five groups of countries that comprise each region. While North American and European region had the largest net gain of countries improving in its Economic Freedom, the net progress for the MENA region did not show a net growth or decline.

Figure 1



Source: Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, 2004 Index of Economic Freedom (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2004), available at *www.heritage.org/index.*

The following subsections will serve as a synopsis for each of the MENA countries. The economic variables examined in the following summaries are divided into ten broad categories used in *Index of Economic Freedom*. These categories are: trade policy, fiscal burden of

government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and informal market activity. Each factor is graded on a scale from 1 to 5 and then equally weighted to determine the average final score. The rating describes the economic freedom for the entire country, with a score of 1 or 2 having the freest economies while those with a 5 are most economically repressed. The scores are then used to rank the countries among the 161 total included in the study. Iraq was excluded from the study due to its current economic instability and political unrest. The countries are organized in alphabetical order.

A. Algeria (Rank: 100/161, Score: 3.31, Category: Mostly Unfree)

Civil disorder has characterized Algeria for the past decade, where the lengthy civil war has cost more than 100,000 lives. Aside from the conflict with the Islamic Salvation Front, economic development has been hindered by many years of economic mismanagement, high unemployment, housing shortage, and lack of private business growth. Economic reform towards privatization has been practically nonexistent due to private interests in the current system found among military elite and labor unions. The hydrocarbon sector, in which the government holds a monopoly, constitutes 30 percent of GDP and 95 percent of exports. The trade policies exacerbate any progress towards an open market, having an average tariff rate of 15 percent. The customs process continues to be controlled by bureaucratic time-consuming clearance procedures.

Algeria revised and implemented new laws to promote foreign investment, although payments and transfers are subject to various restrictions. While a select number of banks have set up subsidiaries or branches in Algeria, state-owned banks that generally finance loss-making

public-sector enterprises with non-performing loans control most of the banking activities in the country. Prices are influenced by subsidies and direct controls, although some have been removed. The judicial system is biased since it is under direct government control where the Government may remove judges, as it considers necessary. The military elite, allowing only a select few to prosper, largely controls the political and economic environment.

B. Egypt (Rank: 95/161, Score: 3.28, Category: Mostly Unfree)

Economic reforms in Egypt have faltered due to the post September 11 downturn in tourism, high Suez Canal tolls, and low level of exports. Little progress has been achieved in privatizing or reforming the significantly large public sector. Social concerns have taken precedence as the largest Arab country, with a population of 65 million, suffers from growing unemployment and the need to maintain subsidies on food, energy, and other commodities for the large percentage of the poor. Development of the natural gas export market may help the growth of the economy. The containment of the radical Islamic movements is a major cause of uncertainty, which hinders both domestic and foreign investment.

While investment laws have been revised to promote foreign investment, between 1998 and 2001, FDI actually fell by 50 percent, from approximately US$1bn to US$500m due to bureaucratic constraints. Although decreasing, state-owned banking sector still holds the majority of the market share. These banks are characterized by "low capitalization, a high percentage of poorly performing loans, massive overstaffing and stifling bureaucracy" (Miles, Feulner, O'Grady, Eiras, and Schavey, 2004). The Egyptian legal code is complex and often characterized by lengthy delays. Nevertheless, the legal system protects private property. Regulations and regulatory agencies are influenced by private interests and government

corruption, which cause delays in clearing goods through customs, arbitrary decision-making, and high market inefficiencies. The top income and corporate tax are 40 percent. In January 2003, the Egyptian pound changed from a pegged to a floating exchange rate.

C. Iran (Rank: 148/161, Score: 4.26, Category: Repressed)

The 1979 Islamic revolution has hindered economic progress and brought a widespread economic mismanagement. Bureaucracy opposes political and economic reforms resulting in stagnant economic progress. The Economist Intelligence Unit reports prohibition on "indecent" imports, such as inappropriate media, alcohol, pork, and ammunition. The top income tax rate in Iran is 54 percent with the top corporate tax rate at 25 percent. State-owned enterprises, and politically powerful individuals and institutions inefficiently control much of the non-oil economy. Organizations, such as the Islamic 'charities' gain considerable economic power controlling large business conglomerates, impeding private competition. In May 2002, a new law was enacted with the intention to attract and liberalize foreign investment. Nevertheless, hostility towards foreign business has caused lengthy delays in transactions and new deals.

All credit operations, personal capital movements, and most payments and transfers are subject to government controls. The banking sector is subject to close scrutiny as its ability to charge interest is restricted under Iran's interpretation of Islamic law. In 2002, the first private bank began operations after the tightly monitored approval from the central bank. The government provides massive subsidies for commodities and establishes minimum wages for each sector and region. Property rights are not protected. While private land ownership is prohibited, private investment in state land is allowed. With corruption posing a significant problem, economic development is further hindered by the government's discouragement of

allowing the establishment of new businesses. These tight controls have led to rampant smuggling and an active informal currency market.

D. Israel (Rank: 29/161, Score: 2.36, Category: Mostly Free)

Since gaining its independence in 1948, Israel has been burdened with heavy military spending in order to defend itself. Its economy experienced a boom in the 1990's driven by an influx of Jewish immigrants from the former Soviet Union and a strong high-technology sector. However, the collapse of the Palestinians peace agreements and the escalating Mid-East conflict brought on by the intifada in September 2000 had a negative impact on foreign investment and tourism contributing to the economic recession in 2001-2002. While certain types of imports are prohibited based on health, environmental, or obscenity regulations, export growth and increased public consumption have helped expand the economy in 2003. The top income and corporate tax rates are 50 and 36 percent, respectively. In 2002, the government consumed 31 percent of GDP. Excluding state-owned monopolies in airline and power, and regulated sectors like banking, insurance, and defense, foreign investment is allowed full ownership. Furthermore, current transfers, repatriation of profits, and invisible transaction are not subject to controls or restrictions.

The government is slowly moving to privatize the banking sector after taking control in 1983 to mitigate the banking crisis. Its official policies also include deregulations and encouragement of competition. With the liberalization in the capital markets, foreign banks are starting to compete in the market. Goods and services deemed as vital are subject to government's price controls. The government is free to impose price controls on goods and does so given large concentrations of its supply or through subsidies. The legal system in Israel is

highly influenced by U.S. and UK and is regarded as "independent, fair and honest," although expropriation is permitted in the interest of national security, particularly in cases of terrorist threats.

E. Jordan (Rank: 51/161, Score: 2.73, Category: Mostly Free)

With scarce economic resources, Jordan's constitutional monarchy has generally been dependent on foreign loans and foreign aid. Legislative and regulatory reforms under King Abdullah II allowed Jordan to accede to the WTO, leading to privatization and economic growth. Although the country faces a heavy debt burden, high unemployment, and the end of Iraqi-subsidized oil, Jordan can bring back tourism and foreign investment by working towards a more peaceful and open Middle East. In 2001, its tariff rate was 13.5 percent. However the inefficient customs pose a bigger hindrance to imports where they are subject to arbitrary regulations and frequent delays. The top income and corporate tax rates in Jordan are 25 and 35 percent respectively. In 2001, the government consumed 23 percent of GDP.

While the government promotes foreign investment, investors face numerous obstacles and restrictions such as the minimum capital requirement of $70,000 and a maximum of 49 percent ownership. The 2000 new banking law protects the interests of investors and works against corruption. U.S. Department of States estimates that 30 percent of Jordan's loans are nonperforming. Subsidies still remain for oil, while most price controls have been removed. The judiciary branch is designed to be independent; however the strong executive branch can easily influence the judges in its favor. Similarly the government is attempting to bring reforms to foster a more competitive environment, yet the bureaucratic and burdensome regulatory system

characterized by red tape and arbitrary application of customs, tax, labor, and other laws is a strong obstacle to attract investment.

F. Kuwait (Rank: 48/161, Score: 2.70, Category: Mostly Free)

Controlling approximately 10 percent of the world's oil supply, 50 percent of Kuwait's GDP and 90 percent of its export revenues come from oil production. Reforms by the government have been stalled by political pressure from Islamist and populist parties who benefit from the current system. Similarly, the parliament has delayed Project Kuwait to develop oilfields in the northern part of the country due to opposition of allowing foreign investors to gain control of the oil industries. Nevertheless, this project and foreign participation in Kuwait will enable the country to participate in reconstruction in Iraq and serve as a strategic transshipment port for goods bound to the region. With an average tariff rate of four percent, Kuwait prohibits imports from Israel and a short list of select goods such as pork and alcoholic products. Kuwait has no income tax or corporate taxes for wholly owned Kuwaiti companies while foreign corporations are subject to a 55 percent tax rate.

The government intervenes in the stock market. Along with the high tax rate, foreign investment faces significant restrictions, such as inability of foreigner to own real estate and invest in the oil sector. The banking sector is more competitive and open to foreign investment, although foreigners are restricted to maximum of 49 percent of ownership. Key services that are subsidized by the government are subject to price controls. While no minimum wages exist in the private sector, wages are set in the public sector that employs 93 percent of Kuwaitis. Although the judiciary is set up to be an independent entity, the Amir who appoints them and determines the length of their work contracts directly influences the judges. Government's involvement in

the economy does not foster a competitive environment and its bureaucratic procedures and red tape often cause significant delays in carrying out regulations.

G. Lebanon (Rank: 83/161, Score: 3.13, Category: Mostly Unfree)

With the need to rebuild its physical and political infrastructure after the end of the civil war in 1990, Lebanon faces a heavy public debt burden constituting 160 percent of GDP. The 16-year civil war has devastated the country and left unemployment at 25 percent. Although, the government is committed to improve its debt burden through tax reforms and debt management, privatization has been stalled by negotiations and political disagreement. Nevertheless, Lebanon has the most liberal banking in MENA, with no restriction on foreign investment and transparency. Much of the country, however, is occupied by neighboring Syria, limiting its sovereignty and influencing major government decisions. Aside from Lebanon's 12 percent tariff rate, import controls pose a significant barrier to trade. The top income and corporate tax rates are 20 and 15 percent respectively.

State owned-enterprises contributed to 17 percent of the government revenues in 2001, while at the same time its consumption constituted 18 percent of GDP. Although government red tape and corruption can be a hindrance to investment, Lebanon does not discriminate between national and foreign investments in most sectors. The government controls prices directly or through its state-owned enterprises in a broad range of sectors. It also has significant control over the judiciary system, resulting in a high-risk environment for foreign investors. This is mostly due to the lack of transparency, corruption, red tape, and unexpected changes in economic policies and regulations. This type of business environment fosters illegal trade and a strong informal market in a wide spectrum of goods.

H. Morocco (Rank: 66/161, Score: 2.93, Category: Mostly Free)

Morocco, which is a constitutional monarchy, is attempting to implement political and economic reform, through privatization, expanded civil rights, and the elimination of corruption. In Morocco, as in many other MENA countries, political elite whose vested interest lies in the current system hinders the progress. Although 20 percent of citizens live in poverty and unemployment is rampant, Morocco is endowed with rich resources, a thriving tourist industry, a growing manufacturing sector, and an agriculture industry that comprises 20 percent of the GDP. Although prices are generally liberalized, the government influences prices through its state-owned enterprises. In addition to an average tariff rate of 25 percent, inconsistent custom procedures and burdensome administration pose as barriers to trade. The top income and corporate tax rates are 44 and 35 percent respectively. Nevertheless, Morocco may be an attractive investment for foreigners who are permitted 100 percent ownership in most sectors, which is treated equally as locally owned investments.

The government established regional investment centers to diminish bureaucratic opposition and simulate new investment through various incentives. The few but powerful state-owned banks are used to finance government debt and are largely responsible for non-performing loans in the banking system. Bank reform was introduced to delegate roles of responsibility and establish penalties for violations. Even though the constitution provides for an independent judiciary, the courts, along with the government, are not reliable in law enforcement and are criticized for their inefficiency, corruption, lack of transparency, inability to enforce judgments, lengthy processing, bureaucratic delays, and overall incompetence in business-related litigation.

I. Oman (Rank: 54/161, Score: 2.80, Category: Mostly Free)

Since the 18th century, Oman has been governed by an absolute monarchy. In 2001, 66 percent of government's total revenues came from state-owned enterprises and its ownership of property. The oil industry has grown to be the dominating industry, making up 86 percent of export revenues and roughly 43 percent of GDP. At the current rate of production oil reserves are projected to last for only 18 years. The government realizes that diversification is essential and is trying to respond by expanding its gas-based industry, boosting economic activity, facilitating foreign investment and privatization, and promoting private-sector employment.

However, due to its constantly changing and complex customs procedures and regulations, Oman's restrictive trade policy is an obstacle to open trade and considerable progress. Similarly, establishing a business in the country can prove to be a tedious process, subject to the approval from various authorities in respect to land acquisition and labor requirements. Lack of clear regulations that explicitly codify Omani labor and tax laws cause ad hoc decisions and complicate the process even further. Burdensome regulatory requirements for approvals cause considerable delays and adverse conditions for the private sector. Additionally, political pressures have always influenced the judiciary branch. However, 2001 and 2002 saw significant changes in the restructuring of the legal system, where the courts, the Public Prosecution Service, the police, and an attorney-general have all been separated to function independently. Unemployment remains a significant concern, particularly among the fast-growing young population. To mitigate the problem, the government has implemented a quota program that replaces foreign workers with Omanis, which poses another impediment to foreign investment. While individuals do not have to pay an income tax, companies that are 70 percent foreign-

owned incur a 30 percent tax. Other domestic companies only face a 12 percent tax rate. Foreign ownership above 70 percent requires the approval of the Minister of Commerce and Industry, while certain industries are prohibited in the country all together. With its participation in the WTO, Oman is pressured to open its service sector to foreign firms.

The rate of deflation in Oman is another factor of concern for investors, where the weighted annual average was -0.76 percent from 1993 to 2002. The inflationary pressure is kept in check by price controls and a subsidy system. Additionally, the government-operated banking sector approves very favorable loans to Omani citizens. Only nationals of the GCC are permitted to invest in the local stock market. In Oman, only Israel is subject to restrictions on payments, transactions, and transfers.

J. Saudi Arabia (Rank: 74/161, Score: 3.05, Category: Mostly Unfree)

Saudi Arabia, one of the prominent countries in the Organization of Petroleum Exporting Countries (OPEC) has the largest oil reserves in the World. Oil exports account for 90 percent of export earning, 45 of GDP, and about 80 percent of budget revenues. At the same time, the country faces the challenges of a rapidly growing population, water shortages, and political challenges from Islamic extremists. Although the government recognizes the need for privatization to reduce its dependence on oil, the transformation will not happen immediately as the private sector constitutes only about 25 percent of the economy.

The government imposes subsidies on state-owned industries, resulting in a weighted average annual rate of inflation of –0.55 percent from 1993 to 2002. Furthermore, the government lists sectors that are prohibited to foreign investment, while many others are subject to tedious government regulations in favor of private interest. Its banking sector is tightly

controlled by the Saudi central bank and is heavily dependent on the global oil market. Further obstacles to foreign investments is the trading policy requirement of using only local agents to contract imported goods and the prohibition of non-Islamic religious imports. As a result, the informal market is growing, and the piracy rate reached 52 percent in 2001. Adverse conditions for foreign business are created by bureaucracy, unclear regulations, corruption, and favoritism of nationals in employment. Moreover, the government controlled judiciary branch, which is characterized by lengthy processing and unclear regulations, systematically favors Saudi-owned over foreign-owned businesses. Residents or corporations do not have pay an income tax, while foreign companies are subject to a 30 percent rate.

K. Syrian Arab Republic (Rank: 138/161, Score: 3.88, Category: Mostly Unfree)

Old guard generals, intelligence chiefs, and politicians prevent Syria from undertaking liberalizing reforms to restructure the lagging economy. Deeply rooted corruption, cumbersome legal, regulatory, and bureaucratic institutions hinder foreign and private investment. These structures have a direct effect on trading policies due to the country's tedious customs procedures. Similarly, the weakness in law enforcement is facilitated by cumbersome and inefficient regulations. For example, the protection of property rights is uncertain. At the same time, the government-influenced judiciary system enforces commercial laws arbitrarily, frequently favoring private interests. The top income and corporate tax rates are 15 and 45 percent, respectively, but War Effort Surtaxes increase the rate substantially.

Key industries, such as oil productions, telecommunications, and water distribution, compose the public sector. Through these sectors, the government influences prices using price controls and subsidies. Similarly, the government-controlled banking sector only lends to the

public sector, resulting in poorly serviced loans and insufficiently funded private enterprises. Due to its inefficiency, the public sector has become a substantial fiscal burden on the economy. As a result, foreign investment remains limited. In response, the government adopted a reform in 2000 to allow full foreign ownership of a company and its land in order to reverse the trend. These reforms have been ineffective in lifting the standard of living of the general population.

L. Tunisia (Rank: 67/161, Score: 2.94, Category: Mostly Free)

The free market economy of Tunisia has expanded due to prosperous trade, tourism, and influx of foreign investment, resulting in a modern, stable, and cosmopolitan country. Fear of Islamic terrorism and post-September 11 tourism decline has negatively affected the country's economic activity. While generally considered an open economy, Tunisia's non-tariff barriers to trade include import licenses and quotas. Additionally, some sectors limit foreign investment to protect domestic competitors and employment, and prevent foreign currency outflows.

The banking sector influences the financing of agriculture and housing through government-owned banks. The banking system is still state-dominated and drained by non-performing loans despite both domestic and WTO and EU pressures for reforms. Capital transactions are closely controlled and are subject to restrictions and official approval. Regulations and legal proceedings are often complex and unclear, giving way to corruption and bribery. Biased judges and bureaucratic procedures that significantly add to costs of doing business in the country especially burden the commercial sector. At the same time, foreigners are welcome to participate in the privatization program. Its top income tax and corporate tax rates are 35 percent.

M. Turkey (Rank: 106/161, Score: 3.39, Category: Mostly Unfree)

After suffering from a severe financial crisis in the spring of 2001, Turkey has pledged to implement swift reforms that would "recapitalize state-owned and private banks, make the central bank more independent of political control, allow the lira to float freely, decrease government spending, and arrange for the further privatization of state-owned banks and some companies" (Miles, 2004). Subsequently, the Turkish government is burdened with $93.5 billion worth of debt and the IMF is threatening to discontinue further aid if the plan fails. The high level of debt and inefficient tax collection has drained government resources and forced it to continuously borrow from its banking sector. As a result, the government has monopolized the industry, limiting the use of capital for other purposes. New rules have been implemented to ensure risk diversification and compliance with a minimum capital requirement. In fact, foreign banks are encouraged to take over troubled domestic banks.

In 2003, Turkey, the only Muslim member in NATO strongly opposed the war in Iraq and prevented the U.S. from using Turkey to open the northern Iraqi front. Consequently, this action caused the country to forfeit $24 billion of U.S. loans and grants and reduced the stock market to three quarters of its value. Foreign investment is highly desirable in Turkey. However investors are cautious to enter due to informal barriers including custom delays, high inflation of an averaging 49 percent annually for 1993 to 2002, excessive bureaucracy, weak judiciary branch, inconsistency in tax collection, frequent changes in legal institutions, and uncertainties in regulations and economy as a whole. While the government allows enterprises to set their own prices, it exercises extensive power on price through state produced goods such as agricultural products, drugs, and petroleum. Reforms, such as the eliminations of minimum capital requirements for foreign investors, are aimed to eliminate some barriers. Thus starting a business

is relatively simple; however making it official through obtaining permits can be difficult. The top income and corporate tax rates are 40 percent and 30 percent respectively.

N. United Arab Emirates (Rank: 42/161, Score: 2.60, Category: Mostly Free)

The United Arab Emirates (UAE) controls approximately 10 percent of the global oil supply and about 5 percent of the proven natural gas reserves in the world. Oil revenues comprise about one-third of its GDP. Although the energy reserves are expected to last for more than 100 years at current rates of production, in recognizing the need for diversification UAE is focusing on the development of its service sector and non-oil and gas industrial base. Foreign investment and privatization are sought in the interest of modernizing technology and reducing costs; however foreigners face widespread restrictions in owning land and investing in specific industries. Where the land is not state-owned, private property is generally well protected. Importers are required to have an import license and are subject to various restrictive regulations. Prices on goods are affected through government subsidies.

The public sector holds an important role in total employment and provides subsidized services and an extensive welfare system. In 2001, for example, public enterprises in the hydrocarbon sector alone accounted for 59 percent of the government revenues. In providing loan guarantees, the government minimizes the risk of default to attract international investment. The UAE has no income tax, no corporate tax, and no other significant taxes. However, foreign banks face 20 percent tax on profits and are subject to quotas to hire UAE nationals, and other restrictions. Legal proceedings are known to be lengthy and difficult, encouraging corruption. The informal market was about 26 percent of GNP.

O. Yemen (Rank: 131/161, Score: 3.70, Category: Mostly Unfree)

Aside from its prime location on the Red Sea, Yemen is a poor country with few resources. After two decades of political and civil turmoil its economy is burdened with rampant unemployment, frequent water shortages, high population growth rates, and a pervasive corruption in both the executive and judiciary branches. Thus, the country lacks enforcement of laws and contracts. Because violence is still a recurring problem, maintaining foreign investor relationships is crucial in order to adhere to IMF's structural adjustment program to improve economic conditions. In response, Yemen has begun to introduce new investment laws and procedure, such as the granting of equal treatment to domestic and foreign investors, in order to increase foreign investment. However, not enough is being done to implement programs of privatization or reduce state intervention in commercial activities and government spending.

In 2001, state-owned enterprises and government ownership of property generated 71 percent of the country's total revenues. In the banking sector, 2 out of 15 commercial banks are state-owned with the largest one in plans for privatization. Customs procedures act as another barrier to trade inducing large-scale smuggling. Government controls prices in the agriculture and fisheries industries. The top income and corporate tax rates are 35 percent.

Figure 2 compares the progression of economic freedoms for the fifteen countries during the periods of 1996, 2000, and 2004. Of the fifteen countries mentioned, only eight countries show an improvement towards a more open economy (Algeria, Egypt, Iran, Israel, Jordan, Oman, Syria, and Yemen). Economic Freedom in United Arab Emirates has deteriorated since 1996. Figure 3 groups the fifteen countries into one of four categories (repressed, mostly unfree, mostly free, and free) and compares their Economic Freedom to more industrialized countries such as France, Germany, Japan, U.S., and UK. Although Figure 2 shows the Economic

Freedom in Iran to be improving, the cleric-led government that tightly regulates the economy has resulted in the most economically repressed country in the MENA region.

Figure 2

Economic Freedom Progression (1996, 2000, 2004)

Free

Repressed

Yemen

United Arab Emirates

Turkey

Tunisia

Syria

Saudi Arabia

Oman

Morocco

Lebanon

Kuwait

Jordan

Israel

Iran

Egypt

Algeria

1.00 1.50 2.00 2.50 3.00 3.50 4.00 4.50 5.00

Ratings of Economic Freedom

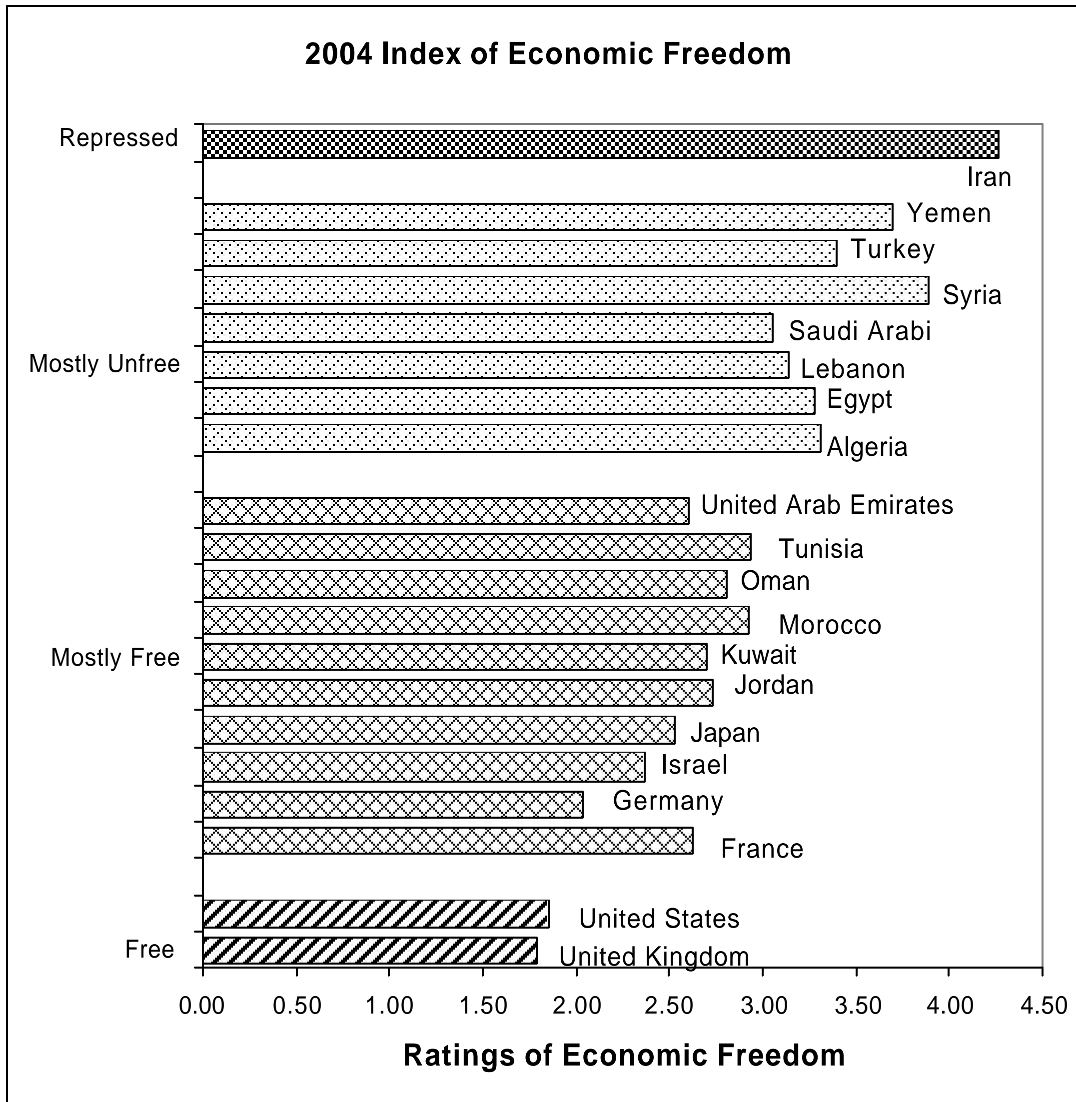
1996

2000

2004

Source: Marc. A. Miles, Edwin J. Feulner, and Mary Anastasi O'Grady, 2004 Index of Economic Freedom (Washington, D.C.: The Heritage Foundation & Dow Jones & Company, Inc., 2004) available at *www.heritage.org/index.*

Figure 3



Source: Marc. A. Miles, Edwin J. Feulner, and Mary Anastasi O'Grady, 2004 Index of Economic Freedom (Washington, D.C.: The Heritage Foundation & Dow Jones & Company, Inc., 2004) available at *www.heritage.org/index.*

IV. INTRODUCTION OF THE PAPERS

Interventionist and less democratic governments not only limit the level of economic development but also have a direct impact on the financial sector in each country. Regulations that restrict foreign investment not only prevent the liquidity of the financial markets but may also make them appear unattractive for domestic investors. Similarly, a limited, state-owned

banking sector can adversely affect capital flows mainly due to its inefficiency in extending favorable loans to private interest parties and then dealing with the burden of non-performing loans. While the MENA region has been getting extensive media coverage due to rising oil prices, the U.S. occupation in post-war Iraq, and the Palestinian-Israeli Conflict, publications on the economies and financial markets of the countries in the region has been very limited.

Omran and Pointon study the cost of capital in Egypt based on a sample of 119 companies. Growth and size of companies are found to be among the important determinants of the cost of capital. At the same time, the cost of equity for actively traded companies is influenced by financial and business risks. Other factors, such as liquidity and fixed asset backing, are important determinants of the cost of capital for specific industries.

Peters, Raad, and Sinkey investigate the banking sector in Lebanon during the period following the civil war. They find the bank profitability and capital adequacy has improved due to improved political conditions, cessation of war, lower inflation, and more favorable capital requirements. Growth of GDP, investment in T-bills, and the number of bank employees are the three factors that directly influence bank profitability. The authors recommend for banks to extend more loans in order to promote economic growth and indirectly improve their own financial performance.

Omet examines the dividend policy behavior of companies listed on the Jordanian capital market. Using a sample of 44 Jordanian companies, which are listed, on Amman Securities Market, he finds that these companies follow stable dividend policies. Even factors such as the imposition of taxes on dividends did not have any significant impact on dividend behavior of the listed companies. These findings are contrary to previous studies, which indicated that companies in less developed markets follow less stable dividend policies.

Aly, Mehdian, and Perry investigate daily stock market anomalies in the Egypt. Specifically, the authors test for the presence of a Monday effect in the Egyptian equity market, the Capital Market Authority Index. Trading on this exchange only takes place during four-day period (Monday through Thursday) as opposed to the traditional five-day week. The authors find that while Monday stock returns are significantly positive and more volatile, they are not significantly different from returns during the rest of the week. The Egyptian stock market is still in its developing stages with only about 100 stocks, among the listed 1071, that are actively traded. Nevertheless, the study demonstrates that the emerging Egyptian market is at least weakly efficient.

Moustafa examines the behavior of stock prices in United Arab Emirates (UAE) stock market. His findings show that stocks included in the Emirates market index support the weak form of the Efficient Market Hypothesis, which assumes that stock prices adjust rapidly to the arrival of new information. Thus, current prices of approximately the 40 stocks examined reflect all available information. These findings are surprising since the UAE stock market is relatively new and small; it officially started in 2000.

V. CONCLUSION

This paper presents the economies of the Middle East and North Africa and details the main obstacle to trade and to financial reforms that still prevail in large parts of the region. The economic and financial performances that influence business operations within countries in the region are compared to other countries such as Germany, France, Japan, UK and the U.S. and averages of each region. The paper documents many obstacles to free trade such as lack of transparency, unclear regulations, bureaucratic delays, red tape, and corruption. Just to give one

example, the informal market in Tunisia is large, being the size of is 38 percent of Gross National Income, in comparison to the 9 percent found in the U.S. Another factor that hinders growth is the bureaucratic proceedings of opening a business: it takes 98 days to open a business in Jordan versus 4 days in the U.S or an average of 48 in the Europe and Central Asia region.

As long as these impediments to free trade are not going to be removed, the region is not expected to utilize its full potential. In addition to economic reforms, further development would also involve political reforms that will improve the rule of law, the status of women, promote democratization in the decision making process, etc. As long as the MENA countries are controlled by interventionist governments and are not free to establish efficient regulatory institutions, such dismal economic performance is going to be the rule rather than the exception. Leaving these regimes under virtual dictatorships or monarchies is not going to improve their economies and help these countries integrate into the global market.

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ENDNOTES

1. Examples include:
   ASEAN: Association of Southeast Asian Nations include Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam, initially established on August 8, 1967.
   CARICOM: Caribbean Community and Common Market includes Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, with the Bahamas as a member of the Community but not the Common Market, was established on August 1, 1973.
   CIS: Commonwealth of Independent States includes Azerbaijan Republic, Republic of Armenia, Republic of Belarus, Georgia, Republic of Kazakhstan, Kyrgyz Republic, Republic of Moldova, Russian Federation, Republic of Tajikistan, Republic of Uzbekistan and Ukraine established on December 21, 1991.

EU: European Union includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, The Netherlands, United Kingdom, with additional members including Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia, formally established in 1998.

GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates established in May 1981.

MERCOSUR: Argentina, Brazil, Paraguay, and Uruguay and associated countries of Chile and Bolivia established in March 1991.

NAFTA: The North American Free Trade Agreement includes Canada, Mexico and the United States as implemented January 1, 1994.

SADC: Southern African Development Community includes Angola, Botswana, Mozambique, Namibia, Mauritius, Democratic Republic of Congo, Malawi, Seychelles, Tanzania, Zambia, Zimbabwe, Lesotho, Swaziland and South Africa.

WTO: World Trade Organization includes 146 members as of April 2003.

2. For opposing view see for example, Yanikkaya (2003) who finds that under certain conditions trade barriers can significantly promote growth, particularly for developing countries that may face unpredictable levels of capital flows, generating excessive volatility (see also, Meng and Velasco, 1999; Razin, Sadka and Coury, 2003). In addition, organizations such as World Bank and IMF, whose goal is to aid in the development and economic progress, may at times be their main hindrance (Weisbrot et al., 2001).

3. The methodology was recently developed and refined by Djankov, McLiesh, and Shleifer (2003), La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998), and "Credit Reporting Systems Project" in the World Bank Group. The methodology developed by Djankov, McLiesh, and Shleifer (2003), and La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998), and "Credit Reporting Systems Project" in the World Bank Group.

4. The methodology used in Table 6 was developed by Djankov, Hart, Nenova, and Shleifer (2003). The results are based on a survey, which compiled by Harvard University Scholars and international advisers that was then sent out to global international law firms and bankruptcy judges. The survey draws out a hypothetical bankruptcy scenario and describes a set of assumption to measure the following factors.

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