

**A co-operative security approach to the Mediterranean:  
Linking economic and security issues**

Final Report

NATO-EAPC Research Fellowship  
2000-2002

by

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Madrid, June 2002

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## Introduction

One of the most promising Mediterranean initiatives is the Euro-Mediterranean Partnership (EMP), started by the European Union (EU) in Barcelona in November 1995. The main aim of the EMP is to promote long term stability through economic development and liberalisation. Policy-makers as well as scholars assume that economic development has positive spill overs in political, social and security terms. It is also expected, that liberal economic policies lead in the long term to more liberal democratic institutions, which will foster co-operation and stability in the Mediterranean region. Private enterprises and its investment play a crucial role within this proposition and the economic performance of the so called Third Mediterranean Countries (TMC).

The aim of this research paper is to challenge the development strategy behind the EMP. Due to several factors on regional and national macro and micro-economic levels, the argument that is going to be defended is, that EMP is right by addressing private enterprises and its foreign investment as fundamental for a positive economic performance of the TMC, but mistaken in pursuing a policy of maintaining the political status quo, because this hinders to increase the necessary flow of foreign direct investment. Thus, the EMP enters into a vicious circle.

The hypothesis on which this paper is based on is that if the TMC do not carry out - simultaneously to the economic liberalisation- political liberalisation towards democratic systems, there will be no sufficient sustainable long term economic development, and so, the Mediterranean will continue to be an unstable area.

The work is carried out according to the distinction of the regional and national level, two level of analysis intimately interwoven. On regional level it is assumed, that security of all parts involved in the Mediterranean zone will be increased through patterns of co-operation. Through the revision of the corresponding findings and insights on this issue, three main elements promoting co-operation are identified: economic interdependence, international institutions and national authority structures.

The main finding is that, democratic national structures have an overwhelming positive impact on commercial exchange, and on the formation of well-functioning institutional framework. The increased transactions flows on the other hand have a positive impact on the regional institution-building and on the national economic performance. Here a direct impact on security can be identified: The more two or more nations exchange goods, the more likely is the formation of pacifying institutions, needed to co-ordinate these transactions flows and to facilitate information. On the other hand, increased trade patterns improve national economic performance thus the social and economic context of the societies, which could reduce pressure for migration and support for extremist movements.

On national macro-and micro-economic level, it will be argued, that the mayor problems of economic performance in the TMC lie in the failure of politicians and the political elite to implement adequate economic policies and strategies. This is due to a lack of a broad base of popular support of the regimes; the priorities of the Arab leaders are control and power maintenance instead of development. For this, it is argued that in order to experiment long term economic growth and to attract foreign and national investment, it is necessary to introduce democratic ruling. Under democratic ruling, so the argument, an institutional framework that guarantees good political economy performance will be built up. This argument will be verified to several statistical tests in the last section of this work.

The work is structured as follows: First of all, the European Policy towards the Mediterranean, the so-called Barcelona Process, is discussed. Then, a brief review of theoretical contributions

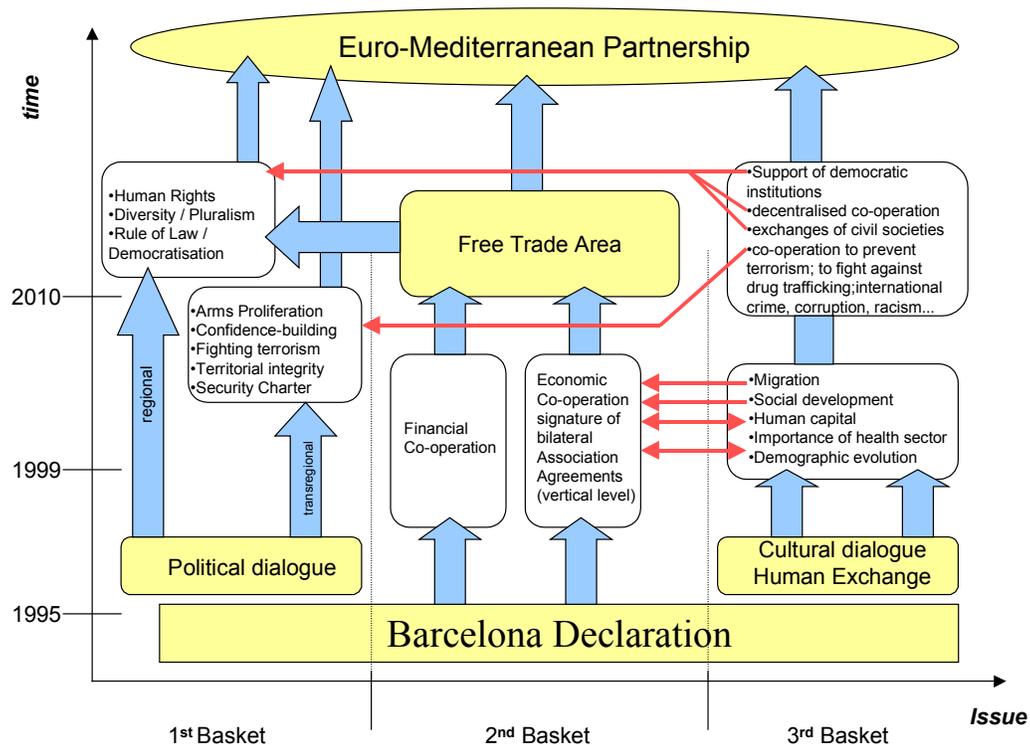
on security and development will be given. After this, and as mentioned above, follows the analysis of the regional level. To the regional level will be approached through the following steps: After a theoretical discussion, the main elements that encourage co-operation are identified. The main question that arises from this theoretical discussion is what causality and correlation exist between these major elements that encourage co-operation? Then, a brief analysis of the Mediterranean trade structures shows the peculiarities of this region.

In the second part, the analysis of the economic situation in the TMCs, the problems with growth are addressed. This first step was supported by the following sections, where the major characteristics of the Arab political economy will be determined. In the next step, the difficulties for the private sector were identified. Then, and according to this comparative case study, several models will be statistically tested in order to identify an ideal typical institutional framework where political economic performance can be improved. The findings will then be discussed in the last part of this work.

## European Ideas Meeting Mediterranean Realities

After a difficult negotiation process in November 1995, the Barcelona Conference concludes with the signing of the Barcelona Declaration by 27 Foreign Ministers from Europe and the Mediterranean. This Declaration is of political nature and includes several basic principles for the establishment of the EMP. Like the Helsinki Process, this document is subdivided into three big categories, the so-called baskets. The first contains principles for the development of an EMP in political and security co-operation terms. The second treats aspects of the economic and financial co-operation, including the creation of a Free Trade Area (FTA) by 2010. And last but not least, the third basket addresses co-operation in social and human affairs, underlining the important role of civil society. The final goal is the building of a Zone of Peace and Prosperity. In graphic 1 we show the core elements, goals and their relationships according to the Declaration of Barcelona.

Graphic 1: The structure of the EMP



In this section, development strategy that Brussels's decision-makers had chosen for reaching this admirable final goal, the creation of an EMP will be determined. It is not difficult to identify several elements of neo-liberal thought on international relations theory, because the participants included and include non-state actors. The celebration of the so-called Civil Forum, the instrument for discussion, which first time met in the immediately following the Barcelona Conference and in the same city, clearly gave civil society a new role.

The Declaration is thought to introduce democratic rule to the Mediterranean by means of economic development. The policy chosen for this goal is the opening of national economies and their insertion in the economic globalisation system.

With the proclamation of the Barcelona final paper, the following future scenario seems quite evident: increase in trade and foreign direct investment flows (by free trade) with the TMC and the escalation of economic development.

Consequently, this positive economic performance will finally lead to political liberalisation and democratic systems. This dual evolution is the precondition for the EMP. In other words, using the terminology applied above; increasing transactions flows (trade and FDI) will lead to an escalation of economic growth and later to the introduction of democratic rule in the TMCs. This ultimately will lead to a zone of peace, as outlined by the Democratic Peace Theory.

This strategy is supported by the work of Annette Jünemann<sup>1</sup>, who argues, that the EU presently supports only limited progress towards democratisation, because European security could be jeopardised by the strains on stability and the *status quo* as a result of political transformation. This policy of *status quo* maintenance is underlined by the absence political conditioning mechanisms. In order to avoid instability Brussels supports economic development along with *status quo* maintenance. Once a certain level of economic growth is reached, social forces will demand more political participation.

To a certain degree, this strategy reflects Europe's own experience. Europe's history shows that there has been a strong correlation between the evolution of market economies and democratic development. In the same vein, Gillespie states that "*[a]mong policy-makers who defend neo-liberalism, there has been the tendency to assume that political liberalisation in the Mediterranean area will follow automatically from economic liberalisation*" (1997:71)

### ***Theoretical considerations on security and development***

The origin of the concept of security goes back to the 17<sup>th</sup> century, more concretely to the Westphalia peace treaty of 1648, where the today known modern nation-state was born. This creation of the nation-state meant the bourgeoisie was suppressed under a powerful sovereign, in order to end up the wars between all and to design an internal order of peace, protecting at the same time life and propriety of the people against threats from outside. This explication corresponds to the realist Hobbesian idea, that each state is the enemy of all other state in the international arena. From this, the concept of national security can be derived, because it involves as fundamental priorities of the national sovereign the maintenance of the domestic peace and order y defend the nation form external threats. In this sense, national security contains two dimensions of insecurity or wars, the Hobbesian war referring to the internal dimension and the Clausewitzian wars, wars where states fight each other. These two dimensions are essential when treating security aspects en the contexts of developing countries. Before having a deeper look to this aspect, it is useful to describe shortly the evolution of the concept of security since then. This evolution is reflected in different philosophic traditions and historic interpretations of international relations.

On the contrary to national security, the concept of international security assumes that a states security is directly connected to with security of another state. Thus, there is certain degree of interdependence between these states in security issues. Keohane and Nye (1977) called this kind of structure complex interdependence. Both authors suppose that the realisation of the mutual vulnerability will leave to the creation of norms of conduct and the establishment of a

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<sup>1</sup> Findings outlined during the Euro-Med Summer School, July 1998, Catania, Italy.

security regime. These security regimes have their philosophical roots in Hugo Grotius work, who affirms -on the contrary to Thomas Hobbes- that state do not fight each other, but respect in their disputes common norms and recognise institutions above the state. Grotius also assumes, contrary to Immanuel Kant who states that the individual is principal actor in the international arena, that the state is the most important actor on international level.

In sum, it can be said, that contributions to the study of security are despite some exception rarely conceptual, what on the other hand explains the lack of a coherent school on this issue. One exception is the idea of the security dilemma, based on the assumption, that state are preoccupied of there security interest without paying attention to the possibility that their actions and behaviours can increase the feeling of insecurity of another state. But in the Cold War context, this liberal idea could not grow until the at least the end of the 1970s, when Robert Jervis (1976) renewed the interest in question for the interdependence of security issues. According to this new interest, insecurity was perceived like an inseparable combination of threats and vulnerability. This distinction explains how a state could organise its security policy: on one hand, it can reduce its vulnerability, on the other, there is the possibility to prevent of to reduce the threats. This last aspect reflects the idea of international security and in this way it became the inversion of the security dilemma. The reduction of vulnerability coincides with the concept of national security.

But one of the most interesting questions for the research work is the relation between security and development, an issue, which has not been treated yet.

The most important theoretical contribution to this is Robert McNamara's book *Essence of Security*. In this work, for the first time, the level of national development and the threat perceptions and security policy were correlated. According to McNamara, the relation between security and development can be defined as "... *security is development and without development there can be no security.*"(1968:149).

This author underlines no-military aspects of threats in developing countries and proclaims the importance of adopting adequate security policies. The reason why security studies have paid little attention to this linkage is once again due to realist thinking: the deficit in linking the analysis of domestic structures with the analysis of the behaviour on international level. During the dominance of realist thinking in the discipline of international relations, domestic structures and internal processes of a state had been considered as insignificant for security.

Another reason for not linking development and security lies in the liberal tendency, to separate economic and political-military issues. For this, economic development issues used to be studied without major consideration in its security context.

Today it is generally accepted that underdevelopment constitutes a crucial element for security and the corresponding policies adopted. En the developing world context, this relation affronts several difficulties, that are the contradictions between social fragmentation and the necessity to create a consensus on security issues; low level of institutionalisation y scare legitimisation of the leading elite; and finally, the asymmetry between population growth and resource access (the link between poverty, environmental degradation and demographic growth).

## Part I: THE REGIONAL LEVEL

### *Introduction*

A major part of the work of the scholars of International relations and the policy makers in the different State Departments of Foreign Affairs centres around the question on how to increase international security, how to pass the security dilemma or how to avoid conflicts and wars. The answer to this question used to lie in the idea of international co-operation, which means, states try to reach to feel themselves more secure through the establishment of patterns of international co-operation. The main question that arises from this is what encourage international co-operation.

The principal assumption in order to make co-operation work is the requirement of a minimum level of common interests. Without this intersection of interests, the necessity to co-operate tends to be zero. According to this, international co-operation can be defined as "*all the relations between international actors designated to the mutual satisfaction of interests and demands through the complementary use of their respective powers in the development of co-ordinated and/or solitary actions*". (Calduch, 1991:88).

The answer to the questions for the reasons that explain co-operation can be found in several theoretical contributions. One of these explications is the so called school of neo-liberal institutionalism, which is based on the question "*Under what conditions will co-operation emerge in a world of egoists without central authority?*" (Axelrode, 1984:3). The relation of this school of thought with the realist one lies in the assumption that the international scene is characterised by its anarchical power structure: there is no central authority above the state. However, meanwhile the realists scholars argue that the *raison d'etre* for the states is the search for survival within an international context of power projection, institutionalist perceive states as rational egoists motivated by the goal of benefits-maximisation and the defence of their interests.

The first critics on these points of view were articulated in 1977 by Wallace and Webb, who pointed out that none of these contributions, paid attention to the national power structures of the actors, according to them a crucial point for the comprehension of their international behaviour. They argue that interests and dynamics of the national level equally affect and even determine the interests and behaviours in the international arena. Putnam (1988) explains this phenomena as a two-level game, because priorities of actions at international level influence and are influenced by the internal situation and the national power structure.

Domestic influences, more concretely national democratic power structures are also used to explain the reason of the waves of regionalism the world actually experience. Fawcett *et.al.* (1995) for instance argue that the trends of regionalism go hand in hand with the "waves of democratisation" as identified by some authors (see p. e. Huntington, 1991; Markoff, 1996).

Another witness of the importance of national power structures for international behaviour is the more and more popular idea of the Democratic Peace Theory that claims that democratic states do not fight war against each others (Doyle, 1983a, 1983b; Russett, 1993).

## ***Economic Regionalism: pattern of Post Cold War co-operation***

Since the end of the 1980s the world experiments a wave of regionalisms, expressed by the creation and revitalisation of regional organisations and institutionalised co-operation frameworks. To approach to this phenomenon, it is useful to distinguish between "*regionalism*" and "*regionalisation*". Meanwhile "*regionalism*" refers to the institutional aspect that means, the establishment of agreements, organisations or any kind of institution of a determinate regional space, the concept of "*regionalization*" is related to increased interactions between actors in a geographically limited area. In other words, regions defined as a kind of co-operation are composed by two aspects of co-operation: a certain degree of interdependence and the creation of institutions for the co-ordination and regularisation of this interdependence.

The idea of international regions is not new, but compared to academic discussion of the 1950s to 1970s, it now centres on economic aspects, meanwhile within the Cold War context, the main issues of regionalism emphasised security and peace aspects: Today, the debate is about free trade agreements and the creation of commercial blocs. Concerning the degree of institutionalisation of regional integration in the 1950 to 1970s "alliances" "federations of states" or "federal state" were the kind of institutions under discussion. Today, these terms has been substituted by others like "preferential trade agreements", "free trade areas", "customs unions" or "common market". To state it different: issues on politics and security, the so called *high politics* of the 1950s to the 1970s were replaced by a more and more economic approach, the so called *low politics*.

Form the point of view of those countries that did not belong directly to the Cold War epicentre, the end of the bloc confrontation has several implications. On one hand, the opening of the socialist bloc meant the entrance of new states into direct competition for the access to world markets and credits, but even for humanitarian aid with the countries belonging to the developing world. Due to this new competition on market access and financial resources, regional co-operation offers for most countries a rational option to demonstrate the industrialised world a certain degree of independence and self-sufficiency. In other words, the fear to be left aside from the centres of economic activity constitutes one of the main dynamics that pushed countries in the economic periphery towards regionalism. The fear of marginalization in economic terms is often perceived as a mayor threat then the marginalization in security issues that accompanied the end of the bipolar international system (Fawcett 1995).

This anxiety is intimately linked and even caused by the progress of European integration. In 1986, the European Unique Act fixed the termination of the Common Market for the end of 1992. The idea of the European Common Market was perceived in a lot of place around the world as the creation of a European fortress, and motivated the politicians to carry out policies towards the creation of regional economies, all orientated to build up a kind of counterweight to the European giant. Fawcett *et.al.* (1995) for instance affirm that the European progress was essential for the signature of the North American Free Trade Association (NAFTA), but also for the creation of Asian-Pacific trading bloc. An additional factor that influenced this regional evolution was the large duration and uncertainty of the Uruguay Round (1986-1993), the eighth negotiation round of the GATT negotiation process.

However, the implication of the European Unique Act can also be localised in other regions with lower economic development levels, as for example the case of the Union of the Arab Maghreb, the *Pacto Andino*, the *Mercado Común del Cono Sur* (MERCOSUR) or the *Association of South East Asian Nations* (ASEAN).

In the case of the Maghreb, about 75 % of its trade is directed towards the markets of the European Union. In order to reach a counterweight to the "European Fortress", the 5 countries

of the Maghreb<sup>2</sup> signed in 1989 the UMA foundation treaty. In Latin America, as well the European Common Market as the fear to be excluded from NAFTA, motivated decision-makers the design G-3 and MERCOSUR regional co-operation frameworks.

The economic integration acquired also importance in other types of organisations like ASEAN and the Gulf Co-operation Council (GCC). Both had been designed at the beginning with the goal to guarantee national security of their members.

A very important additional aspect that explains the wave of economic regionalism are the impulses that are sent from the European continent: the expansion of liberal and democratic principles in all the regions of the world during the last years, in a world where the interdependence has increased and is increasing.

The relationship between regionalism and democracy has been hardly studied. Nevertheless, it is quite difficult to reject this argumentation line, if we consider that regionalism enjoyed more success and progressed more viable and efficiently between liberal countries. In a study of the regional institutions in the Middle East, Tripp (1995) linked directly the weakness and inefficiency of the regional institutions in the part of the world with the lack of democratic authority structures. In the MERCOSUR case, few years before the signature of the treaty, civil governments came back to power in Brazil and Argentina. This was undoubtedly no coincidence.

### ***Democracy and Trade***

Major part of the works on the Liberal Peace has reduced their research interest on the relationship that exists between trade, democracy and conflict. That means, scholars doing research on this issue argue that trade as well as democracy are important to achieve peace. Without any doubt, this assumption corresponds to the strategy carried out by the EU towards the Mediterranean. Nevertheless, the fundamental question lies in the relationship between democracy and trade.

Some scholars raised this question and obtained the conclusion that commercial flows between democratic states are more elevated. Dixon and Moon (1993) for instance, conclude their research with the affirmation that United States exports are bigger when trading with democratic countries. Bliss and Russett (1999) also affirm that volume of exchanges between democratic pairs of states is larger.

And Morrow *et.al* (1998)<sup>3</sup> could verify their hypothesis that common interests and democratic political systems are two factors that influence the increasing of exchange rates.

Trigo (2001), in her study about the determinants of intra-industrial trade flows between the EU and less developed countries, conclude that the absence of democracy has negative spill over effects on the volume of this kind of exchange pattern.

How can we explain this relationship between political system and trade? First of all, we must have in mind, that trade is carried out by enterprises and that the decision to export is a decision of businessmen that is always linked with calculations of benefits and risks. Thus, an enterprise that trades with another country always considers the political risk inherent of the political institutions in the country in question.

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<sup>2</sup> These are Algeria, Libya, Mauritania, Morocco, and Tunisia.

<sup>3</sup> These authors also control "alliances". Nevertheless their results do not indicate that alliances increase trade.

These risks, perceived by the businessmen, reduce the benefits thought to be obtained through the exportation of its products.

A different way to explain this relationship is that through tariff and non-tariff barriers, that are generally higher in non-democratic countries. In order to test this hypothesis, several trade obstacles measures have been correlated to the political regime type. Graphic 2 shows the results.

One way to measure trade obstacles is that of the openness to international transactions, sized up as total trade of a country (exports + imports) as a percentage of its GDP. The description of the political system is based on the Freedom House's civil liberty and political rights measure. For better visibility, states were regrouped and recodified on a scale from 1 to 3, where "1" signifies a totally democratic political regime and "3" an absolute non democratic or autocratic political regime. The first graph shows the result of this and indicates clearly that the less democratic a country, the less are its external trading relations, and therefore it is less open.

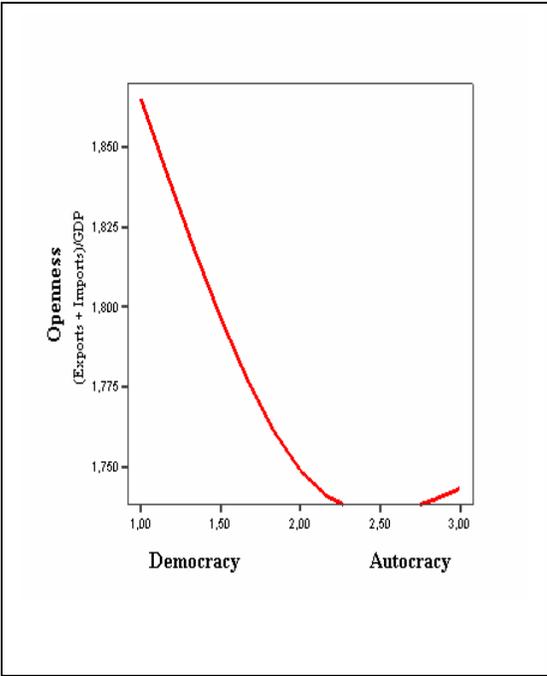
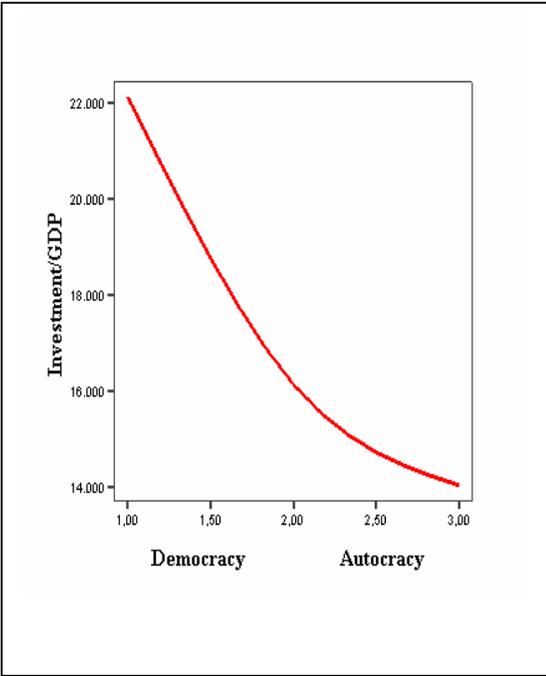
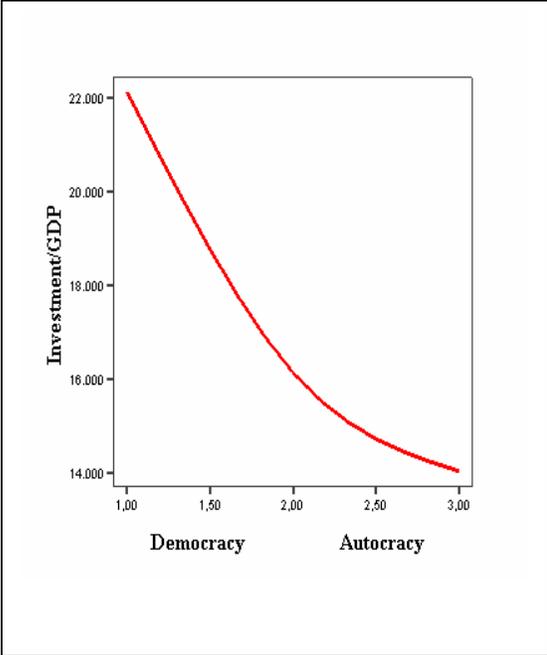
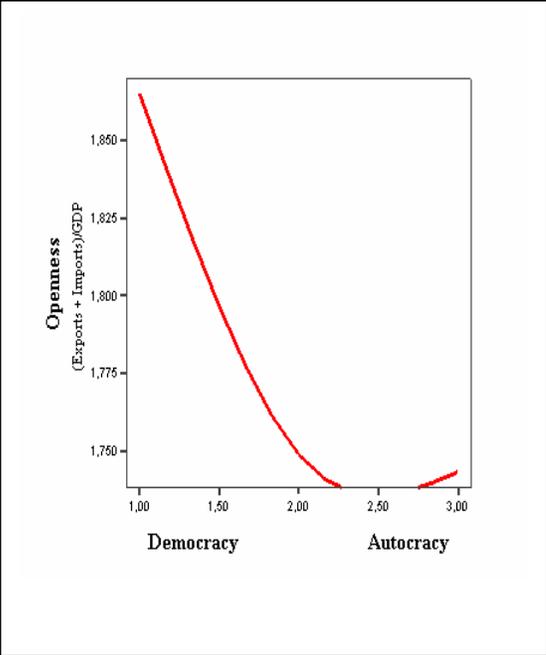
Another way to detect a correlation between democracy and commerce is by means of the income of the government obtained through taxes on international trade and capital flows as a percentage of its GDP. This index shows the degree of which tariff barriers hinder international transactions, and signify, the higher the income, the closer the economy towards the international economic activity. The graph once again demonstrates shows a clear tendency: in the way that democracy performance declines, increases government's income, and therefore the obstacles to trade.

In the next graph, attention to intra-industrial trade patterns is paid. It is assumed, that investment flows into a country increase the incentives for the establishment of scale economies, a thus, intra-industrial trade. It is also supposed that a more democratic country attracts more foreign and national investment. The graphic bears out this hypothesis by calculating the correlation between the political regime type with the sum of national and foreign investment as a percentage of GDP. Once again, less democracy means less investment flows.

And last but not least, the relation between property rights and democracy/autocracy was controlled. It is taken for granted, that in more democratic states property rights are more protected. Within the field of institutional economists, the idea of the protection of property rights as a necessary requirement for the functioning of the market has been pioneered and developed by Douglass C. North (1993). According to Leblang (1996) an index for the property rights protection was calculated. It is sized up as the claims of private sector as the percentage of the GDP. The higher the claims are the lower the protection of the property rights and consequently the higher the risks and uncertainty.

All the correlation between openness, investment, tariff-barriers, and property rights and on the other hand the political regime, confirm the findings of Dixon and Moon (1993) and Bliss and Russett (1998). On the other hand, the causal relationship found by Weede (1995), that trade increase prosperity, and later on this prosperity will produce a political shift towards democracy, can be rejected.

Graphic 2: Relationship between Political Regime and measures of commercial performance



## **Trade and International Organisations**

An additional element that influences transnational flows in general and commercial flows in particular is information. The probability that economic agents carry out business in countries, that are most similar to their own domestic structures, leave directly to another concept, that of international organisations. One of the principal functions of organisations is the information exchange. In this sense, institutions reduce the transactions costs and for this, they are essential for the promotion of transaction flows between two and more states.

As mentioned before, treating regionalism, several authors distinguish clearly between regionalisation and regionalism. Meanwhile the first concept refers to the regional concentration of economic flows; the second one establishes a linkage to a political process that is characterised by the co-ordination of the political economy between countries that compose a region.

Talking about region it is important to underline the geographic proximity. Russett *et.al.* (1998) point out that this proximity or common borderlines increase co-operation possibilities as well as -in the negative case- conflict propensity. From the distinction between regionalisation and regionalism we can deduce the question if there can be regionalism without regionalisation.

The answer to the question seems quite evident, a least after having a first look. Nevertheless, after having a closer look to co-operation in the Euro-Mediterranean region and its experience this question loose evidence, and justifies its formulation. One of the peculiarities of the Mediterranean basin is that hardly exists any trade between the TMCs, a problem generally recognised. One of the proposals to improve the volume of trade between these countries is the creation of a free trade area (Escribano/Jordán, 1999a; 1999b). Nonetheless, taken the actual quasi absence of transnational flows, it seems quite improbable that a free trade area can improve sustainable this lack of exchange.

Another example that calls in doubt the establishment of a regional institutional framework is the experience with co-operation initiatives like the Arab Maghreb Union. The necessity to launch this project was derived form the idea to create a counterweight to the European integration process. In this sense, the necessity has been motivated from an exogenous factor, and not because it has been demanded by endogenous factors. On the other hand the stagnation used to be explained by political problems, above all between Algeria and Morocco. Form this arise the question, what would be happened, if the Maghreb would have experimented a concentration of transnational flows before the signature of the Marrakech agreement (foundation of the AMU) and if the politicians would have derived from this the necessity to create an institutional framework for the co-ordination of this transaction flows.

Going back to a more theoretical level, it is assumed that for the creation of an institutional framework on regional or international level, a threshold level of exchanges is required. Stated different, it is hypothesised that for the establishment of any kind of regional institutions, a certain concentration of exchanges must be transcended. However, it is impossible to quantify this threshold level. It depends on so many factors, that the only way to approximate to this level is, that both parts involved in this process, must perceive the flows in such a way, that they view the co-ordination as indispensable. Without this level, policy-makers are not going the feel the necessity to create an efficient framework for the co-ordination and co-operation.

This could be a possible explication why some regional initiatives were and are more successful than others. On the other side of the Mediterranean basin, the EU represents a success story of regional integration. Russett *et.al.* (1998) describe the efforts of the father of the European integration like Konrad Adenauer, Jean Monnet, Robert Schuman after the World War II in a very brief but utile way for the forthcoming of the present research, when they write "*First, they*

*acted to restore and stabilise democratic governments in their countries. Then they created a network of economic interdependence that would make future war among those countries economically irrational, than they moved to embed this in the myriad institutional structures that have emerged, in widened and deepened from, in the European Union (EU)."*(441).

In other words, the economic interdependence augments through the introduction of democratic political systems. At the same time, increased interdependence required more and better co-ordination. This leads finally to the creation of different institutions in order to reduce the transaction costs. The European experience testifies that democracy encourages economic interdependence and the interdependence influence the creation of an institutional framework. On the other hand, institutions encourage the rise of interdependence. But it is assumed that economic interdependence must mature, must reach a threshold level, in order to make the co-ordination indispensable. Once the institutional framework is established, institutions and exchange enter in mutual dependence. If this is right, it is affirmed that regionalization promote regionalism and once established the regionalism, both develop a mutual dynamic.

The idea of maturity of the interactions is not new as the works of K.W. Deutsch (1954) and his colleagues (1957) show. They introduce the concept of *security communities*. Inherent to the building of these communities is a communication process that leads to the formation of a common identification, a mutual identity and the creation of a kind of *we-ness* between the parts involved in the construction of such a community.

### **Democracy and International Organisations**

Deutsch did not express explicitly, that the security communities, that can be understand here as a specific form of co-operation, evolve in an exclusive democratic context. Thus, the question arise which type of correlation exist between democracy and international organisations. There are few works that investigate the linkage between democracy and co-operation. One of such studies is the work of Karen L. Remmer (1998) based on the question: "*Does Democracy Promote Interstate Co-operation?*" She examined the MERCOSUR region and points out that "*Democratic pairs of states in the Southern Cone have been several times more likely to enter into economic agreements with one another than other pairs of states. [...] democratic pairs have been no more likely to enter into no economic agreements than other pairs of states.*"(1998:45). She although concludes that "*[i]n the M[ERCOSUR] region, co-operation outside the economic realm have revolved around regime similarity and joint authoritarian rather than democracy or joint democracy*" (ibid.). According to these conclusions, the effect of democracy on co-operation is reduced to economic co-operation.

However, Charles Tripp (1995) studied regionalism in the Arab World. His findings set off the results of Remmer about the influence of democracy on co-operation in political terms. In Tripp's words, "*as long as governments in the Arab states of the Middle East maintain themselves in the way to which they have become accustomed, avoiding the systematic answerability which the formulation of collective goals through institutional procedure would imply. As long as this remains the case in domestic politics, [...] it would seem that [...] regionalism [co-operation (the author)] will remain a largely symbolic issue.*" (1995:308).

Russett *et.al.* (1998) analysed the implications of the trilogy Democracy-Trade-International Organisations for conflicts and wars, coming to the insights that the ensemble of these three factors decrease the conflict propensity. Centring in the evolution of the international organisations networks, they observed that an increasing density of international institutions go hand in hand with the diffusion of democratic principles and interdependence around the world. They although argue, that international governmental organisations have indirect influences on the maintenance and the establishment of peace, because they promote democracy and interdependence.

From all the argumentation from above it can be deduced, that democracy promotes co-operation and the simple political similarity as stated by Remmer (1998), is not a sufficient condition to encourage successful and long-term co-operation projects, or co-operation structures that are more serious than simple lip services of decision makers.

### ***The creation of peace zones***

The elements that influence co-operation are, as argued above, democratic authority structures, interdependence and international organisations. These elements coincide with the elements identified more than 200 years ago by the German philosopher Immanuel Kant in his seminal work *The Perpetual Peace*.

The first element or article of this work is civil republican constitution on national level. Under the concept of "republican, Kant defines a legal framework that solve problems concerning the relationship between moral autonomy, individualism and the political order, at least legally. In the private sphere, these problems are solved at least partially through private property and an economic order oriented towards the market.

Concerning the second element, Kant leaves the national level and went on to the interstate level. His argument is that liberal republican states will establish peace zones between them in the sense of *foedus pacificum*. The last article refers to a cosmopolitan law, which works together with this federation of states

Major parts of the scholars working on the Democratic Peace Theory or the Liberal Pacifism isolate the variable "democracy" for their statistical tests. But the Kantian idea rejects this minimalist approach: the so called three definitive articles are necessary and work only as an ensemble towards the creation of a pacific union. Representation or democracy guarantees itself that the foreign policy of a country reflexes the preferences and the will of the mayor part of the population.

The concept of the Liberal Peace on the other hand goes one step ahead in the trilogy of the Perpetual Peace, because it includes also the interdependence. The classical liberals of the 18<sup>th</sup> and 19<sup>th</sup> century considered as well the interdependence as governmental control as the source of pacific benefits. Interdependence in conjunction with democracy are the two crucial elements on which the Liberal Peace is based on. Thus, concerning the Kantian idea of the Perpetual Peace, the Liberal Pacifist paid attention to two of the three definitive articles, but they do not taking into consideration the pacific benefits of international organisations. This last article has been incorporated in the most recent works around the political scientist Bruce Russett. The interplay of these three elements leave, it is assumed, ultimately to the establishment of zones of peace, or in Kantian words, to the establishment of the Perpetual Peace.

The liberal economic theory affirms that the cosmopolitan law was deduced from the international division of labour, and on the other hand from free trade, according to the comparative advantage. The reason lies in the assumption that each nation is richer when its economy is open to international trade. Thus, states have incentives for the development of policy that encourage commercial relations. Once established these commercial relations, there are incentives for not breaking these linkage and maintain co-operation. The hypothesis that markets must be maintained open is based on the assumption that next transactions will be determined by the prices and not by coercion. In such a context, the feeling of mutual security is vital in order to avoid searching for economic self-sufficiency for security reasons.

In addition to the dynamics that generate these three articles for the establishment of peace zones, correlation and causalities between these three must be identified in order to design a kind of hierarchy between them.

In the following section, the influence of democracy and trade on the establishment of international organisations and hence co-operations will be statistically tested. Data set were borrowed from Russett and his colleagues, who kindly give access to their data set through World Wide Web.

## ***The statistical evidence***

### **The Model**

In order to test the effects of democracy and trade on international co-operation, the following model will be tested.

$$\begin{aligned} \text{IGO} &= \text{DEMOCRAC} + \text{TRADE} + \text{ALLIES} + \text{CAPACIDA} + \text{DISPUT} \\ &+ \text{CONTIG} + \text{DISTANT} + \text{MINPOW} \end{aligned}$$

where IGO expresses international co-operation, DEMOCRAC a joint value that determines the degree of democracy of the pairs of states, TRADE measures the commercial exchange between both countries, CAPCIDA represents the relative power, DISPUT shows if there are in conflict between these states, CONTIG, if they have a common borderline, DISTANT size up the distance between their capitals and MINPOW indicates if one or both are considered as a great power. These variables are discussed in more detail in the following section.

### **The Variables**

Pairs of states are observed, that means, each data file contains observations of two states of columns that describe the bilateral relations between both, as for example, geographic distance, measures the distance between the capitals of the two countries that constitutes the pair, or conflict, that describe the existence or absence of conflictive behaviour between both.

#### *International Institutions (IGO)*

The dependent variable of the model is "international institutions"(IGO). It expresses the number of joint membership of both countries. State different, the index measures the degree of co-operation between country A and country B. This index includes all conventional international bodies, extracted from section A-D of the *Yearbook of International Organisations*<sup>4</sup>. All dormant institutions are excluded and all organisations have been weighted equal, without distinguishing relative importance of each.

#### *Democracy (DEMOCRAC)*

It is assumed, that the degree of democracy influence in co-operation, an index that measures the joint degree of democracy on bilateral level was created. In the data base work sheet, there are two columns, each measuring the level of democracy of the individual state which constitutes the pair. This individual measure of each state is based on the work of Jagers and Gurr (1995, 1996), known as POLITY III. From this data set, the variables democracy (DEMOC) and autocracy (AUTOC), has been extracted, each is measure on a scale ranking from 0 to 10, where 10 express the highest level achievable. For instance, a state, that obtained a score of 10 on the democracy scale, can be perceived as totally democratic, and for this obtains

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<sup>4</sup> The work has been carried out by Russett *et.al.* several years.

0 on the autocracy scale. To the contrary, a country with a score of 10 on the autocracy score can be identified as totally autocratic and thus, was classified on the democracy scale with 0. In order to reduce the number of variables, both scales has been integrated in one on a scale oscillating from -10 to 10, where the lowest score expresses the lowest level of democracy and 10 the highest level. To identify the degree of democracy of a pair of states, the value of both states has been summed up, obtaining in this way a scale from -20 to 20. And finally, this value has been recodified in order to soften up the values on a scale from -1 to 1 nominated DEMOCRAC.

#### *Trade (TRADE)*

Another element that has been identified above as crucial for the co-operation are the commercial exchanges between two states. This interdependence, it is assumed, generates once passed a threshold level of mutual exchanges, incentives for the establishment and the participation in institutions and organisations.

The data that measure the commercial ties between the states composing the pair come from International Monetary Fund's *Direction of Trade* statistics. As introduced in the theoretical discussion above, an important aspect of this flows are not the absolute flows, but the importance of this flows for one country. For this, the TRADE variable was calculated by adding exports and imports. This trade variable was expressed over the GDP of the given country, in order to determine the relative importance, of the flows for the country. For determining the level of dependency, the difference of the relative importance for each country was calculated, reaching in this way the variable called TRADE,

In addition to the mayor independent variables democracy and trade, several other control variables were introduced in the models, because it is assumed that they equally influence the behaviour of the states.

#### *Conflict (DISPUT)*

It is generally recognised that a conflict between two states have a negative impact on the co-operation. Thus, a dicotom variable of conflict was introduced on the right hand of the model. This conflict measures comes form the *Correlates of War* Project (COW). Each year were two states was involved in a conflict with the other state has been codified with 1, an to the contrary with 0

#### *Relative Power (CAPACIDA)*

The idea that the relative power of a country determines a state's behaviour in the international arena originates form the realist school of thought and refers to the concept of power balance between two countries. Behind that explication we can find the reasoning, that a balance of power and capacities dissuades conflicts and wars. This reasoning also includes the assumption that the preponderance of capacities augments the probability of peace preservation through the reduction of uncertainty over the side that would be a military confrontation. This index, called CAPACIDA is the natural logarithm of the proportion of military capacity of the stronger states over the index of the weaker state. Once again, the data for the calculation of this index come from the COW project and includes observations for the population, the arms industry and armed forces of a country (Singer / Small, 1995).

#### *Alliances (ALLIES)*

Generally it is supposed that allied countries are less prone to fight war against other allied countries. Countries that compose an alliance frequently have economical and political common interests. Form this peculiarities it can be deduced, that alliances have positive spill over effects on the dependent variables in each model, that means, that they augment co-operation in form of joint IGO membership, the reduce conflicts and they increase commercial exchanges. The variable is dicotom and obtains a value of "1" in the case when both states are linked by an alliance, and defence treaty or a neutrality pact. In any other case, the pair is score with "0".

*Distance (DISTANT) and Contiguity (CONTIG)*

Undoubtedly, the distance between to states or a common borderline influence the creation and the joining of common institutions or organisations, but it also increase the conflict propensity. In order to capture this element, two right hand side variables have been introduced. The first is one that measured geographic proximity and express the distance between the capitals of both countries in miles. For statistical reasons, the natural logarithm of these values has been used in the analysis (DISTANC). The other variable is dicotom and obtains a score of 1 if both states have a common borderline or if there is a direct connexion due to former colonial territories or if both are separated by water and this distance is less than 150 miles. Al other cases has been scored with "0".

*Minor Powers (MINPOW)*

The last index once again corresponds to the realist school of thought that argues that great powers influence the behaviour of states. State different, if a country is perceived as a great power, it is assumed that this status influences the relation to the other states. This observation is treated as dicotom, which means a pair of states is codified with "1" if a least one of both has been considered as such a great power. In the remaining cases, the value obtained the score of "0". The identification of the great powers has been carried out according to the results achieved by the COW project.

In order to control the above described correlation, the following regression equation has been estimated.

$$\begin{aligned} \mathbf{IGO}_{ab} = & \beta_0 + \beta_1 * \mathbf{DEMOCRAC}_{ab} + \beta_2 * \mathbf{TRADE}_{ab} + \beta_3 * \mathbf{ALLIES}_{ab} \\ & + \beta_4 * \mathbf{DISTANT}_{ab} + \beta_5 * \mathbf{MINPOW}_{ab} + \beta_6 * \mathbf{CAPACIDA}_{ab} \\ & + \beta_7 * \mathbf{CONTIG}_{ab} + e \end{aligned}$$

where  $e$  is the standardised error term and  $\beta_0$  the constant and  $\beta_{1-7}$  the regression coefficients.

## Results and Conclusions

Table 1: Model Summary

Model	R	R <sup>2</sup>	Corrected R <sup>2</sup>	Typified Error of estimation
1	.674 <sup>a</sup>	.454	.454	13.33

<sup>a</sup> Predictor variables: (Constant), MINPOW, TRADE, DISPUT, DEMOCRAC, DISTANT, ALLIES, CAPCIDA, CONTIG

Table 2: Regression results of the model

Model		Coefficients				
		Non standardised Coefficient		Standardised Coefficient		
		B	Typified Error	Beta	t	Sig.
1	Constant	36.112	.415		86.940	.000
	DEMOCRAC	10.821	.146	.360	74.242	.000
	TRADE	50.860	2.085	.117	24.397	.000
	ALLIES	10.807	.206	.266	52.430	.000
	DISPUT	-4.924	.378	-.059	-13.033	.000
	DISTANT	-.735	.038	-.093	-19.275	.000
	CAPACIDA	-2.424	.044	-.287	-54.687	.000
	CONTIG	-3.073	.297	-.082	-10.353	.000
	MINPOW	-1.260	.328	-.031	-3.839	.000

<sup>a</sup> Dependent Variable: IGO

As it is seen in table 1, the corrected R<sup>2</sup> is 0.454, that is to say, the variables introduced in the model explain 45 % of the increase of the participation in the same organisations and international institutions. This value could be higher, but considering the type of variables, the methodology to obtain the variables, this value satisfies this analysis completely. The estimation of the coefficients reaches results that appear in table 2. As it is seen, all the variables are significant (Sig. = 0.000). The variable of which it observes the democracy as one of the variables independent has obtained a coefficient of regression of 10.821, which means, if the democratic character of a pair of States increase in one point, the IGO increases almost by 11. This signify, when more democratic two states, more common organisations do they share. If the relative importance is increased of the commercial flows by one point, the impact and the dependent variable are considerable: an increase of 51 points.

If two States are tied together through an alliance, the joint organisations membership increases by 10 points. The other coefficients have obtained a negative value, that is to say, they have a negative effect to the dependent variable that was expected. In particular, the increase of the distance reduces the participation in common organisations. The other variable that observes the geographic proximity, CONTIG shows the same tendency. In other words, a common border means that is more probable that both states are members of the same organisation. It is not surprise that conflicts also have a negative impact to the dependent variable, in particular, the model confirms, that the existence of a conflict between both states diminishes the participation in an institution by 5.

It can be concluded, that democracy has a kind of spill over effects. This works on regionally on two levels. On one hand, democracy increase transaction flows, on the other hand, democracy encourage the creation of international institutions. But once established instruments to improve the co-ordination of this flows, a positive spill over from institutions to trade and other transnational flows can be observed.

From all the above mentioned, it can be deduced that transnational flows are larger between democratic states. At the same time, these flows augment knowledge and confidence among the actors. The expansion also produces the demand for establishing a framework in which these flows can be co-ordinated and controlled in a kind of formal or informal integration structure. But also an inverse relationship can be recognised, that means, the co-ordination through formal or informal institutions itself augment the volume of exchange.

### ***Trade asymmetries in the Mediterranean***

The exchange of goods represents a key variable that determines the relations between two or more states. In addition it is one of the main variables that have been identified above concerning the incentives to cooperate. When talking about the commercial relations in the Mediterranean usually they distinguish between horizontal and vertical level trade flows. That is to say, approaches that often analyze the relations between the TMCs and the EU, the so called vertical level and on the other hand, the horizontal level, which refers to the commercial ties between the TMCs themselves. The latter is more and more taking terrain in the academic discussion, and it is even argued that these trade directions will be crucial for the future of the Euro-Mediterranean Association. This differentiation determines the main characteristics, obstacles and peculiarities of the commerce in the Euro-Mediterranean context.

### **Commercial Flows between the EU and the TMCs**

The commercial relations between both shores are undoubtedly very asymmetric in terms of relevance of these flows as a percentage of total flows. While the highest importance from EU's perspective reach a little more than 8 % in the Greek case, the Hellenic exports towards the TMC do only slightly pass the 3 % level. Concerning the imports, the relative importance of EU's trading partners in the Mediterranean is even smaller: it centres around 2 % average, with Greece and Italy that surpass 5 % mark<sup>5</sup>.

To the no relevance of the exchanges with the Mediterranean for the EU the relevance of the European market and products for the TMCs is opposed: concerning exportations, the case of the Maghreb countries underlines this asymmetric trade pattern. Tunisia for instance exports a 75 % of its products to the European markets. A very similar dependency can be observed in the case of Morocco.

The average of the exports of the PMNC towards the EU passes slightly the 50% level. If the assemble of TMCs is divided in a Western and Eastern part, the picture is different: The average of the Maghreb surpasses 75 %, while the Eastern average is about a 35 % of its total exports. With respect to the imports, the importance has certain similarity to the export flows. The average surpasses 52 % slightly. The average of the importance of the imports that come from the EU centres on a 64 %.

A phenomenon widely recognized is the trade deficit at horizontal level, that is to say, between the TMCs themselves. The average of the exports does not pass the 10% level, the imports are even less important with approximately 6,5 % (see also Escibano/Jordan, 1999a; 1999b). How can we explain the absence of trade flows between the TMCs?

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<sup>5</sup> These values are calculated from the IMF Direction of Trade Statistics, 2000.

## Factors explaining the commercial performance of the TMCs

If one reviews the relevant literature on this issues, two argumentation lines can be found. The first centres on political failures, the second on structural explications.

### Political Factors

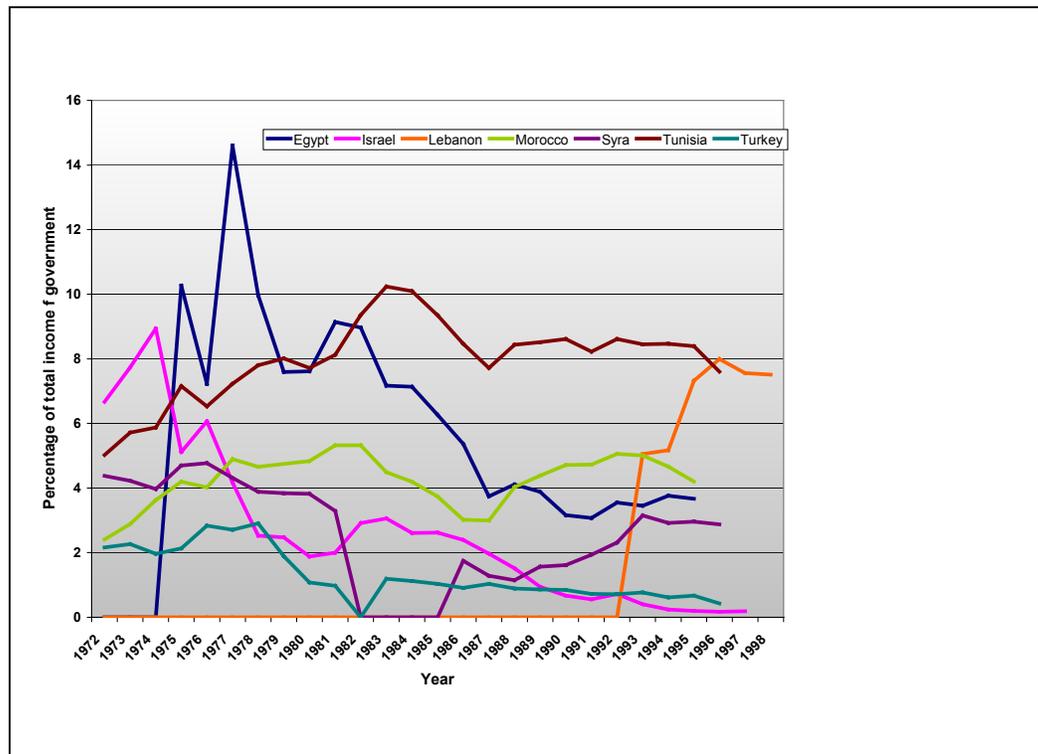
The commercial policies are one of the most mentioned explications of the intra-arabe trade deficit (El-Erian/Fischer, 1996; El-Nagger, 1992; Perthes, 2000).

The protectionist practices, the state control on the foreign trade, and foreign currency and investment restrictions are only some of the most quoted elements that make trading with the TMC very difficult

Although these restrictions are taken with the purpose of limiting the penetration in the local markets of the foreign products in practise this is quite different, because this restrictions harm first of all the building up of regional commercial ties (Perthes, 2000). As it is insinuated already in this example, many of the obstacles to trade have rather political aims then economic ones. They serve to generate income (see graphic 3).

For many political regimes that lack the sufficient popular legitimacy it is more comfortable, easier and less dangerous for their survival to establish tariffs than to burden the population with taxes on income. Another aspect concerning commercial policies is, that trade obstacles can serve like an instrument for the control and manipulation of industrial development and the behaviour of the consumer. It allows influencing in the distribution of the rents.

Graphic 3: Income of Government through tariffs on trade 1972–1998



Source: IMF: Government Financial Statistics, several years

Egypt, Jordan, Morocco, Syria and Tunisia for instance have very closed economies compared with similar countries in size and level of development (Al-Atrash/Yousef, 1999). This relatively restrictive position partially reflects the application of the strategies of import-substitution industrialization, strategies very common during the 1960s and 1970s.

These strategies are important for the understanding of the low level of intra-Arab trade. (Allum, 1998). While some countries of the region have designed policies oriented to the market and exportations, and have experienced hard structural adjustment programs (Jordan, Morocco, and Tunisia) others maintain a high degree of governmental intervention (Syria, Libya). These differences usually discourage the intra-regional commerce.

## Structural Factors

In the case of the structural factors, the first argument is that of the lack of the complementary of the economies of the region. In other words, the goods produced by each national economy are too similar so that there is no necessity to exchange these products (Fischer, 1993; Perthes, 2000; Lorca, 2001; Lorca/Escribano, 1998). The relative similarity of factor endowment, and thus the same comparative advantage seems to hinder the evolution of more intensive commercial ties. On the other hand, the lack of a diversified base of exports limits the opportunities of trade relations based on product differentiation. From all this it is possible to conclude that the intra-Arab trade does not fit well in any of the main models of the international trade, like are the model of Heckscher-Ohlin, that explains the commerce based on the different factor endowment or the model of the intra-industrial trade, that predicts increasing trade through the differentiation of products (Al-Atrash/Yousef, 1999; Escribano/Trigo, 1999).

An additional structural factor is the high dependency of the region of the international markets and the high diversity with respect to the degree of integration in the international economy. This high dependency is expressed mainly in the high concentration of the direction of trade towards few countries, as for example in the case of the Maghreb, where a 75 % of its products are export to the same market (Perthes, 2000). In sum, it can be affirmed that commercial relations of the TMCs correspond to the typical pattern of South-South relations: very similar products and little product diversity.

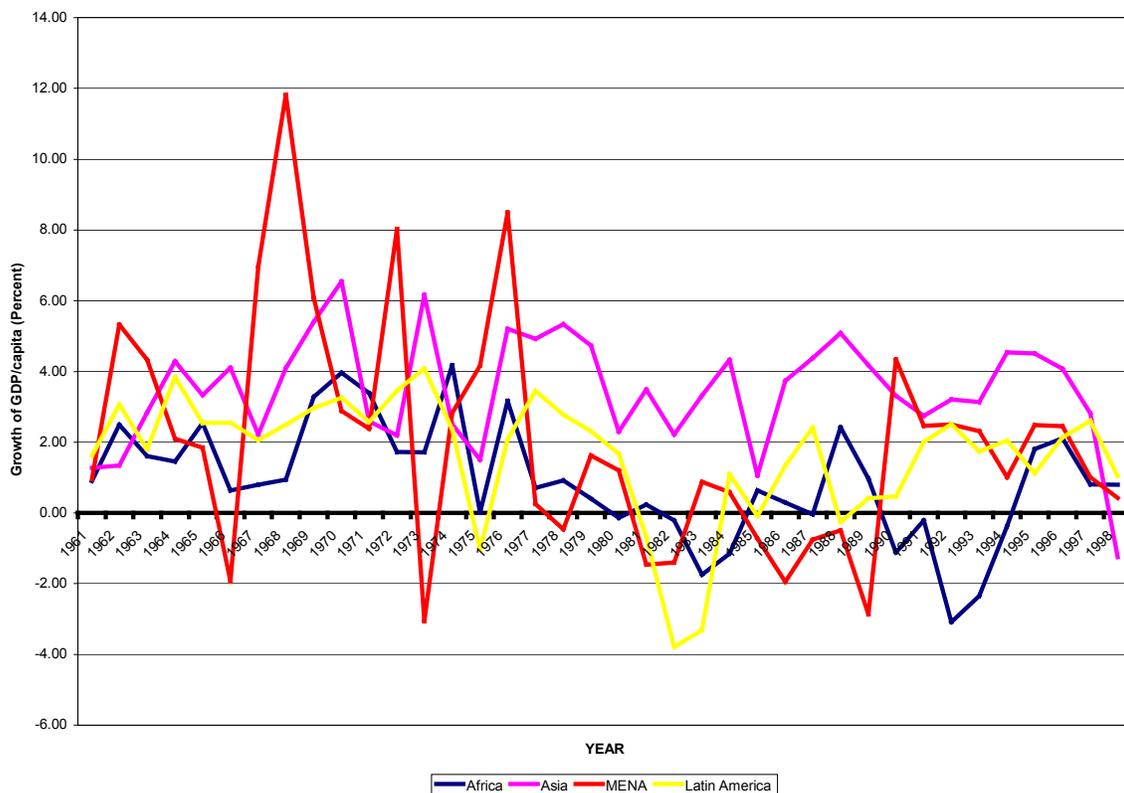
All these factors explain or they approach an explanatory model of the commercial behaviours in the Mediterranean. It can be concluded that it seems little probable that trade will become a pacifying factor between Mediterranean actors.

## Part II: THE NATIONAL LEVEL

### *Problems of TMC with growth and economic development*

The historic evolution, the experience with economic growth and the process of structural transformation are very different within the counties of the Mediterranean. Despite of that, from a global point of view, the development processes of the TMC have some common features with other developing regions. But we can also identify some very special characteristics, what Alejandro Lorca calls the "Arab Factor". An essential aspect is the high volatility of growth rates of Arab countries compared with regions like Africa, Asia and Latin America we can see in Graphic 4.

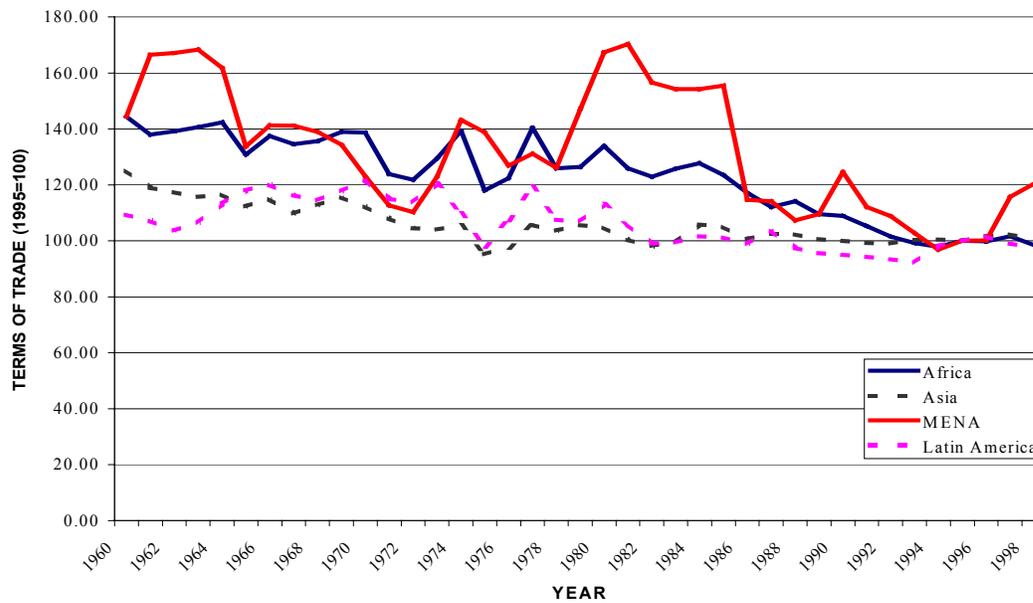
Graphic 4: Comparison of GDP/capita growth by region, 1960-98



Source: Global Development Indicators & World Development Indicators

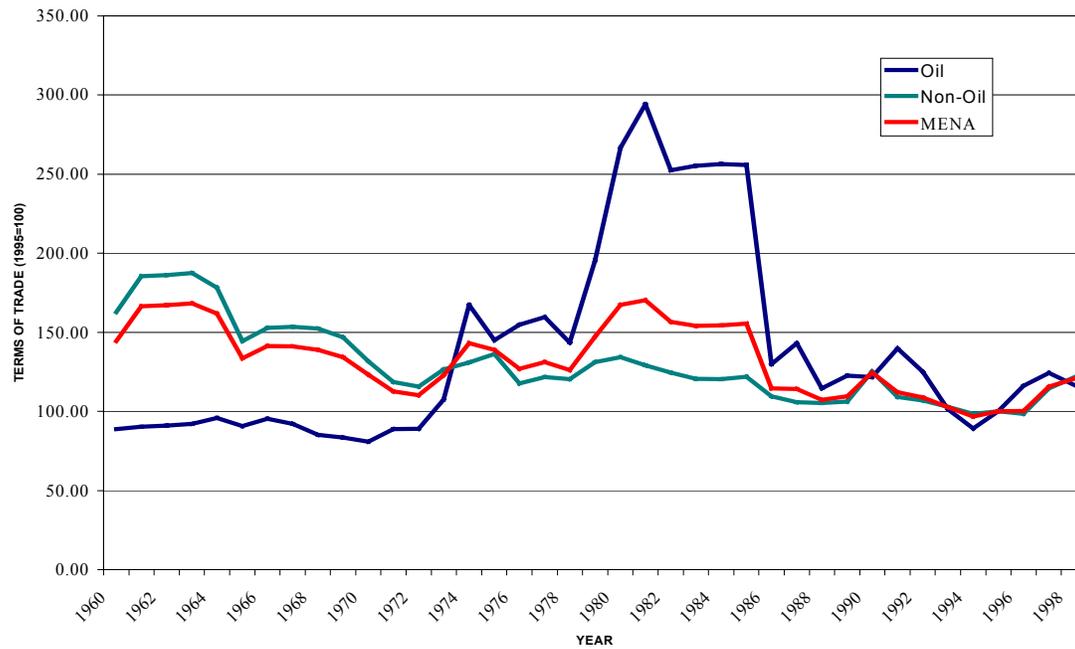
Graphic 4 demonstrates clearly, that the growth experience of TMCs is similar to that of Asia, Latin America, and Africa. The general tendencies followed the highs and lows of the world economy. However, the deep impact of the world-wide recession of the eighties was much more pronounced in the TMC countries than elsewhere. We also observe a much higher volatility of the TMC region.

Graphic 5: Evolution of "Terms of Trade" by region, 1960-1998



Source: Global Development Indicators & World Development Indicators

Graphic 6: Evolution of Terms of Trade of MENA countries, clustered in oil producers and not, 1960-1998.



Source: Global Development Indicators and World Developments Indicators,

In summary, during the 1950s to the 1980s, the TMC countries obtained very high growth rates, and declined at the end of the 1980s and the beginning of the 1990s. The high growth performance of this first period can be seen as a result of favourable international markets, above all due to the high energy prices. These prices declined in the 1980s. Between 1980 and 1992, the energy production of TMC countries reduced and saving rates declined drastically. This bad performance is not only due to the collapse of oil price, but also a consequence of political mismanagement and failure in economic policy planning (Richards/Waterbury, 1996).

Today the productivity of MENA countries is world-wide the worst (World Bank, 1995). The high volatility of the economic performance is strongly correlated with *terms of trade* fluctuations in general, and world market oil prices in particular (see graphic 5 and 6) (Fattah *et.al.*, 1999).

The main obstacles in the TMC are basically the bad institutional performance and structural factors (ibid; Rodrik, 1999). Another variable that explains the growth decline in the region are the investment rates, that experimented between 1974 and 1985 a very similar pattern like that of East Asian countries and significantly higher than in other regions.

However, the growth differences are attributed to the capital inefficiency, an endemic problem of the TMC and are associated to the strong role of the state in economic life and the *de facto* destination of the capital flows that are public investment and projects with low productivity (Bisat, *et.al.*, 1997; Page, 1998). High level of protectionism and the lack of world market integration are two additional points that explain low economic development and competition of TMC economies (El-Erian, *et.al.*, 1995).

And last but not least, the nearly absence of institutions that promote private investment as well as the lack of development of private sector activity is another common feature of the political economy of the region (El-Badawi, 1999; Joffé, 1997).

In summary, the growth pattern is intimately connected with the extreme dependence on the oil production and consequently on the high vulnerability facing external shocks, a weak diversity of their industrial basis, a lack of integration into the world markets, the underdevelopment of institutions that make markets work and the omnipresence of the state in the economic activity with its failures in carrying out the right policy to cover the demands of markets. In the next section, we are going to have a closer look on these policy failures.

## The Political Economy of the Arab Countries

The question that emerges here is about the role of the state in the economy. A starting point to answer this question could be a statement of Ian Roxborough, who claimed - after a sophisticated review of the theoretical contributions on development- that "*[t]o each form of economic development there corresponds a particular form of politics and form of states apparatus*" (quoted in Murphy, 1999:12). In other words, Roxboroughs argues that the size as well as the form of state apparatus as well as its relation to society is determined by the moment of economic development, the state in question finds itself.

In addition we would like to mention an observation made by Alejandro Lorca and Gonzalo Escribano (1999), who pointed out that development strategies applied by the Arab governments during the last decades go together with the strategies applied by other developing countries. They match at the same time with the paradigms of the preponderant economic thought. Nevertheless, the main differences between the Arab World's experience and the rest of the developing world is, that meanwhile in the mayor part of the developing world, one strategy was completely substituted by an other, the particular Arab factor is, that news strategies were introduced without the total abandonment of the former ones. That means the development

strategies we find today in the TMC contain "residuals" of former strategies. The argument we defend here is, that one of the mayor problems if not the mayor problem at all concerning economic development is, that Arab leaders were not capacitated or willing to adopt completely the new strategies. For instance, the introduction of an export oriented industrialisation strategy, emphasising the crucial role of private sector activity and at the same time the maintenance of a bureaucratic apparatus that belongs to import substituting industrialisation strategy is punished to fail. A brief analysis of the history of the political economy of the TMC explains this phenomenon.

In the aftermath of independence achieved by mayor part of this countries during the 1950s, the TMC were characterised by a state of backwardness with three common elements: 1) the production of agricultural products that required a no qualified work force; 2) the persistence of the production systems due to the lack of education and formation of the majority of population; 3) a vigorous integration of the traditional economy into the international division of labour.

Due to this situation at the beginning, it seem quite logical that the new populist political leaders had expanded widely their socio-economic field of activity as well as the interpretation of industrialisation through the substitution of imports as the right way towards the economic *take-off*. This new strategy replaced the then in vigour strategy directed towards the exportation of natural resources, the typical pattern of exchange between industrialised and developing countries. This former policy was accompanied by two structural changes, both pushed forward by demands form international markets: 1) the growth of agricultural production for exportation that caused a food deficit; 2) establishment of a kind of dualism between a modern and a traditional branch of agricultural production. This agricultural dualism was also transmitted to society in form of the creation of big differences between high and low social classes as well as between rural and urban society.

During the period when import-substitution dominated economic policy, the state took over a lot of responsibilities concerning the economic and industrial organisation by expanding its control until microeconomic levels through the creation of public enterprises and very detailed price controls.

The problems that rooted in this strategy are well known: they reach form disadvantages for exports, through the creation of capital-intensive jobs instead of intensive in work force, emerged to the discrimination of the agricultural branch and the accumulation of foreign debts. In order to improve these new socio-economic functions of the state, the expansion of the public administration became necessary. This process of bureaucratisation led also to a more and more centralisation of power. The following *oil-boom* even increased the power centralisation (Richards 1995). The rents generated by the oil are direct incomes for the government and easy to obtain. They do not produce any king of political commitment or obligation concerning society. This easy money on the other hand obviate from the necessity to extract taxes from the population. Nazi Ayubi described this situation polemically when he stated that "[t]he taxation function is [...] reversed in the oil states: instead of the usual situation, where the state taxes the citizen in return for services, here the citizen taxes the state" (1988:29).

The *oil-boom* affected all Third Mediterranean Countries, even those countries without any energetic resources, because of the migration of manpower. (Richards 1995). The Jordanian case demonstrates exemplary this phenomena, because without any resources of petroleum, Amman achieve mayor part of its income through rents, and thus it can be classified according to Rivlin (1996) as a "*non-oil rentier state*".

From a macroeconomic point of view, the rents have a negative impact on the economic performance of a state, best describe in the well known phenomena of the *Dutch disease*, what means that the exportation of oil and other mineral products use to influence negatively the process of structural transformation. The consequences of this disease are commonly known and

are the erosion of international competition and a greater national competition due to real appreciation of the currency. And in a final stage, when accompanied by bad income management, a process of deindustrialisation and partial agricultural abandonment is probable to be inaugurated.

The accumulation of the difficulties of each development stage until the 1980s conducted these national economies towards a situation where the intervention of the World Bank and the International Monetary Fund with their structural adjustment programs was inevitable. It became more and more evident, that the forces of power centralisation were not adequate for the demands of the present.

Economic and structural imperatives from the 1980s to actuality are, according to development theory, a growth performance based upon exportation with the crucial private sector activity. And this performance requires -from an institutional perspective-decentralisation. In other words, the strategy of industrialisation through the promotion of exports must be accompanied by the reduction of the role of the state in economic life.

The importance of private sector can be explained by its better capacity to respond quickly to changes in the international markets. In a more and more integrated world, the necessity to obtain information became essential in order to be competitive. And the new information technology like for instance the *Internet* is technologies extremely decentralised.

According to Handoussa (1996), the weakness of Arab economies can be summed up in the following six points:

1. the weakness of the technological know-how and the dependence of technology transfers;
2. the lack of co-ordination between education and professional training on one hand, and on the other, the demands of labour markets.
3. the concentration on low value-added activities, that neither generates jobs nor benefits.
4. the absence of economies oriented towards exportation
5. the lack of an industrial policy that promotes the development of dynamic comparative advantages that prevents interference with the functioning of the market.
6. the lack of integration into regional markets.

Coming back to statement of Roxborough, that to each stage of development corresponds a particular form of policy and state apparatus, this brief analysis shows that despite of the introduction of some liberalising and reforming instruments in the countries in question, the structure and behaviour of the state continue to be the main source that hampers the economic *take-off* in this area.

Thus, political-institutional factors have a deep impact on the economic performance and structural transformation as Mella affirms for the case of the Maghreb, where reform processes are hindered by administrative delays and administrative complexity, but also by the resistance of economic agents, who are used to look for *no-production-rents* (2000: 72).

Despite the expressed will of all the countries to improve institutional capacity and performance, little has changed in order to limit the weight of the public sector and in the best of the cases, a lip-service to institutional reforms was paid. (Richards / Waterbury 1996: 250).

## Institutions and Private Sector in the Arab World

As we stated earlier, the construction of an overdimensioned public sector was principally a consequence of the political economy carried out. Over the time, the function of public sector

changed. It became more and more an instrument of control over society for the political elite due to the growing lack of legitimacy.

There is an increasing consensus about the necessity to transform public sector dominated countries in countries where private sector dominates the economic life and where the role of the public sector is very limited.

In order to obtain this transformation and to promote the private sector, there are two strategies available: 1) the privatisation of public enterprises, and 2) the creation of a legal framework conducive to private sector enrolment.

Privatisation in general can be considered as a politically very hard way, due to the immense resistance from employees, managers and politicians. But even in cases where this resistance do not take place, it is questionable if the private firms are interested to risk the purchase of public enterprises generally characterised by low productivity and competition, except such enterprises that are monopolies or possess a big strategic advantage (airlines, railways, or telecommunications).

The second strategy is the building up of a legal framework conducive to private sector activity. It seems quite more important than privatisation and with much greater future options. But one major requirement of this strategy is the essential change of the role of the state in economic life, that means, the state must convert itself "*from player to referee*" (Page, 1998).

In the TMC context, important modifications of attitudes have occurred in this sense. The legal framework for foreign investment improved during the last decade. For instance, before the 1990s, major part of the TMC carried out very restrictive regulatory policy and the attitudes towards foreign capital in general were little hospitable. In a similar vein argues Alessandri (2000), who distinguishes two periods of attitudes towards foreign investment. The first reached until the 1980s. During this time, the objective of legislation was primordial to control foreign investors activity and to protect the own interests. It is quite obvious, that this period was extremely influenced by the import-substitution-industrialisation-strategy. The changes were realised during the 1980s, but above all during the 1990s, the second period, were major liberalisation processes were inaugurated.

Very important are the aspects of property rights in general and intellectual property rights in particular. These intellectual rights became a corner stone of the legislation for the promotion of foreign investment. Without any doubts, an improper protection of the patents or trademarks makes investment a not very attractive issue.

Despite these changes in the attitudes and a more favourable legislation for foreign investors, TMC have not reached their goal to attract more foreign capital. For instance, the inflow of foreign capital in 1998 reached an amount of 6 billion US-\$, what corresponds to a 3,6 % of world-wide investment designated to developing world. (UNCTAD, 1999). However, in absolute numbers from 1993 to 1998 FDI received by the TMC has duplicated, but in relative numbers, the part of world-wide FDI maintains as small as ever.

## Difficulties for doing business in the Arab World

Due to the bad performance in attracting foreign investment emerges the question of how can we explain this bad performance, or in other words, what are the reasons that make that foreign investment avoid this region? Joffé (1997) for instance, argues that the main reason lie in the distrust of foreign business circles and the lack of comparative advantage of the region compared to others.

Although it is very difficult to identify the reasons behind the investment decisions of businessmen, we try to find some arguments. Table 3, the results of 3685 interviews made with businessmen were summarised, in order to highlight the obstacles for doing business in different regions of the developing world.

*Table 3: Comparison of Indexes of Obstacles for Doing Business (1 = no obstacle ; 6 = very strong obstacle)*

Obstacle	World	TMC	Industrialised	South and Southeast Asia	Latin America and Caribbean	Sub-Saharan Africa	Eastern Europe
Financing	4.06	3.87	3.43	3.60	4.38	4.17	4.22
Labour Regulations	3.50	3.22	4.17	3.83	3.98	3.47	2.95
Foreign Currency Regulation	3.16	2.50	2.50	3.58	3.01	3.47	3.31
Tax Regulations	4.65	4.17	4.39	4.12	4.38	4.65	5.04
Policy Stability	3.68	3.54	2.55	3.32	4.22	3.63	4.15
Safety of Environment Regulations	3.24	2.93	3.52	3.32	3.46	3.36	2.90
Inflation	3.83	3.51	2.50	3.87	4.02	4.30	3.95
General Uncertainty on Costs of Regulations	3.75	3.60	3.13	3.63	3.68	3.84	4.05
Crime and Theft	3.88	2.19	2.76	3.37	4.45	4.27	4.13
Terrorism	2.38	1.68	2.17	1.76	2.86	2.28	2.58
Inadequate Supply of Infrastructure	4.02	4.55	3.11	3.91	4.47	4.31	3.94
Corruption	4.21	4.27	2.76	3.64	4.70	4.67	4.35
Regulations for starting new operations	3.22	3.38	3.34	3.67	3.22	3.24	3.05
Price Controls	2.67	3.12	2.20	3.13	2.82	2.63	2.78
Regulations on Foreign Trade	3.45	3.78	2.67	3.54	3.64	3.57	3.61

Source: Brunetti, Aymo / Kisunko, Gegory / Weder, Beatrice (1997): Institutional Obstacles for Doing Business: Data Description and Methodology of a World-wide Private Sector Survey, in: World Bank (1997): World Development Report 1997. - Washington D.C.: World Bank,

However, the results must be interpreted with caution, because in the case of the TMC, only three countries of the region were included (Jordan, Morocco, and Gaza / West Bank). All three countries are considered usually to offer exceptional conditions for private investment, compared to the rest of the countries in the region. Another factor that relative these results is, that only 3 % of the interviewed businessmen are doing business in the region.

As the table shows, the bad infrastructure was perceived as the main obstacle hindering doing business in the region, followed by "corruption" and "tax regulation": In Fifth and sixth place of the ranking we find "regulation of foreign trade" and "political instability". All these factors that hamper business belong to what we can call the institutional framework.

From a regional comparative point of view it is surprising that the TMC obtained relative good results. If we compare maximum and minimum values of each obstacle, the TMC region achieved higher results than South and Southeast Asia, Latin America and of course Sub-Saharan

Africa. Notwithstanding, as mentioned above, the results are not very representative. In order to get a more representative picture, which covers all the countries belonging to the region, we can consider two other sources of institutional indexes, that are the "*Economic Freedom Rating*" elaborated by the *Fraser Institute*, and on the other hand the "*Index of Economic Freedom*" promoted by *Heritage Foundation* (see table 4).

Table 4: Different forms to measure political institutions of the TMC

Country	<i>Economic Freedom Rating</i> (Fraser Institute) (max = 10)					<i>Index of Economic Freedom</i> (Heritage Foundation) (min = 5)	
	1975	1980	1985	1990	1995	1995	1998
Algeria	2.6	1.5	1.5	2.1	1.9	1.85	1.75
Egypt	2.1	2.7	3.2	4.2	4.0	1.50	1.65
Jordan	4.4	5.3	5.6	4.7	5.4	2.1	2.25
Lebanon						2.05	1.75
Libya						0.30	0.30
Morocco	4.2	3.6	4.2	3.5	4.6	2.10	2.05
Syria	3.7	3.2	2.8	3.4	2.7	0.80	1.00
Tunisia	3.1	3.0	2.7	4.3	4.7	2.15	2.25
Turkey	2.5	2.3	3.7	4.8	4.5	2.00	2.20
Singapore	6.4	6.8	7.7	8.3	8.2	3.75	3.70
Taiwan	4.8	5.3	5.4	6.2	6.8	3.05	3.05
Switzerland	7.0	7.2	7.4	7.3	7.4	3.20	3.10
United Kingdom	5.1	4.6	6.2	6.7	7.3	3.05	3.05
USA	7.0	7.2	7.4	7.3	7.4	3.10	3.10

Source: Gwartney, James / Lawson, Robert / Block, Walter (1997): *Economic Freedom in the World 1975-1995*. Vancouver: Fraser Institute and Holmes, Kim R. / Johnson, Bryan T. / Kirkpatrick, Melanie (1998): *Index of Economic Freedom*. Washington, D.C.: Heritage Foundation and Wall Street Journal

As table 4 shows, Algeria is the country that worst results achieved. Followed by Syria, where institutional performance is declining. Even in countries like Morocco, Egypt, Tunisia, or Turkey known as relative well reforming countries within the zone, there results are placed about 30 % and 40 % behind countries like Singapore, Taiwan, Switzerland or USA, known as exemplar countries concerning institutional performance.

All these comparative indices that describe the situation for doing business can be contrasted by individual country surveys. Lahouel (1998) for instance, affirms for the Tunisian case, that a 68 % of the interviewed businessmen, stated that administrative rigidity is a very serious problem for business. Anderson and Martínez (1996) testify that in Egypt, the introduction of new products or technical changes in the production process require the submission of licenses and in order to achieve such a license, a lot of time was lost.

Table 5: Components that constitutes the Economic Freedom Rating, 1995

Country / Component <sup>6</sup>	1A	1B	1C	1D	2A	2B	2C	2D	2E	2F	3A	3B	4 <sup>a</sup>	4B	4C	4D
<b>Algeria</b>	6	2	0	0	2	0	2	5	0	0	-	-	-	1	5	2
<b>Egypt</b>	8	4	10	10	8	0	2	2.5	0	10	4	3	5	6	5	0
<b>Jordan</b>	10	10	0	0	1	6	2	5	2.5	6	8	-	4	8	9	2
<b>Lebanon</b>	n.a.	n.a.	n.a.	n.a.												
<b>Libya</b>	n.a.	n.a.	n.a.	n.a.												
<b>Morocco</b>	10	10	0	0	4	2	4	5	0	8	8	3	1	8	5	5
<b>Syria</b>	3	6	10	0	6	2	0	2.5	0	0	-	-	6	0	6	0
<b>Tunisia</b>	10	10	0	0	4	2	6	5	0	8	5	-	1	8	8	5
<b>Turkey</b>	0	1	10	10	7	4	5	7.5	0	0	5	4	9	7	3	2
<b>Singapore</b>	10	10	10	10	6	8	8	7.5	0	10	9	9	10	10	10	10
<b>Taiwan</b>	10	10	10	10	4	6	6	7.5	5	10	5	5	8	10	5	5
<b>Switzerland</b>	10	9	10	10	5	8	6	10	10	10	2	8	8	10	4	10
<b>United Kingdom</b>	9	9	10	10	2	6	9	10	7.5	10	2	5	10	10	5	10
<b>USA</b>	10	10	10	10	5	8	9	10	7.5	10	3	7	9	10	3	10

Source: Gwartney, James / Lawson, Robert / Block, Walter (1997): Economic Freedom in the World 1975-1995. - Vancouver: Fraser Institute.

In addition to the problem of delay we must mention the problem of low probability of dispute resolution. This probability is about a 36 % in the Egyptian case (in contrast, in Japan and Belgium it is about 80 % and 88 %). It is quite evident, that to the extent resolutions are delayed or even not solved, to the same extent raise the transaction costs for enterprises involved in such disputes. The consequence is the decline of the benefits from doing business in such countries.

An additional factor concerning conflict resolution is the perception of inequality by the mayor part o the population and the lack of access for all to the systems of conflict resolution.

High transaction costs on the other hand conduct businessmen to look for other countries for doing their business or in the best cases, that business will take place applying technologies with little fixed capital (North, 1993). This show the importance of institutions for economic performance, but not only the existence of institutions is important, but also their protection through the judicial system that regulates disputes or violations of the law. A brief analysis of the evolution of systems of conflict resolution will explain at least to a certain degree the bad performance of the institutions in the TMC.

<sup>6</sup> Definitions of Components: 1A: Inflation rate; 1B: Standard Deviation of Inflation Rate; 1C: Ability to own foreign currency; 1D: Ability to maintain a bank account abroad; 2A: Government consumption as percent of total consumption; 2B: Relative importance of Government Enterprises; 2C: Extent of Wage and Price Control; 2D: Entry into business; 2E: Equality of Citizens under the law; 2F: Extent to which Government regulations Distort Real Interest Rates and Disrupt Credit Markets; 3A Transfers and subsidies as percent of GDP; 3B Top Marginal Tax Rate and Threshold; 4A Taxes on Trade as percent of Exports plus imports; 4B Black Market Premium; 4C Measure of Trade Openness; 4D Freedom to Engage in Investment Transactions with Foreigners. In each case the scores are assigned in such a way that a high score indicates economic freedom on the dimension measured, the index ranging is from 0 to 10.

## ***Statistical Evidence for the relation of democracy and development***

The crucial question on what an answer must be found in this part is if democracy improves economic performance. As identified in the former sections of this work analysing the political economy of the TMC, one of the mayor obstacles to economic development in these countries is the bad management of the economic policies and the absence of an institutional framework that make the markets in these countries work. An additional factor directly linked with the first ones, is the donation of primary goods in the TMCs, above all oil and its impact of the other countries in the region, classified as *no-oil rentier states*. The peculiar economic situation causes a kind of disconnection of the ruling elite from the ruled society. But before starting the statistical analysis, the relevant literature and the mayor finding were briefly discussed.

### **Democracy and Development: Literature Review**

According to Sirowy and Inkeles (1990), we can distinguish between three different points of view concerning this relationship. The first is the so-called conflictive viewpoint. The scholars who defend this perspective conclude that democracy hinders economic growth (see e.g. Huntington 1968). The compatibility viewpoint states that democracy does not hinder good economic performance. And finally, the sceptic viewpoint considers that there is no relationship between the variables.

Comparing the mayor finding of 18 studies reaching 21 results, Przeworski and Limongi (1993) find that the results of eight studies are in favour of democracy, and eight are in favour of authoritarian political systems. The remaining five results defend the sceptical viewpoint, that no relationship was found. When we compare the dates when the analyses were published, the majority of the works written before 1987 conclude in favour of non-democratic systems, while works published after this date favour democracy.

These conclusions seem to be in accordance with the insights of the grand development scientist Jagdish Bhagwati, whose opinion has changed over time. While during the sixties he developed the concept of the *cruel dilemma* that in general terms condemns democracy for hindering the good performance of national economies, in his book published in 1997, he revised this concept. Now he affirms that democracy does not hinder economic growth, but it even promotes growth. One argument that explains this revision is that formerly most analyses were principally based on the Harrod-Domar-Model of economic growth. According to this model, development was analysed by taking into consideration only two parameters: rate of investment and capital productivity. By controlling other factors that influence growth, Nelson and Singh found that there is a "strong statistical evidence that developing countries with governments that provide higher levels of political and civil liberties to their citizens achieved a significantly higher GDP growth rates than those with autocratic governments"(1998:690). Another interesting finding of this study is that there is no reverse causality in the democracy-growth link, which means that growth do not necessarily lead to more democracy.

In the following section, some statistical tests were carried out in order to verify the working hypothesis of the work that in order to experiment a long term sustainable economic growth, the introduction of democratic political systems is unavoidable, because a democratic context encourage the building of an institutional framework that makes market work.

The data set is borrowed from the works carried out by Dani Rodrik, who approached to this issue through different aspects of the political economy. The analysis through the lens of the political economy is what best approximates to the growth difficulties of the TMCs. In this

sense, the statistical test a carried out along three different models, each sought to explain the benign effects of democracy on the economic performance.

## The models of the relation between democracy and development

The different aspects of the political economy concerning the impact of democracy are

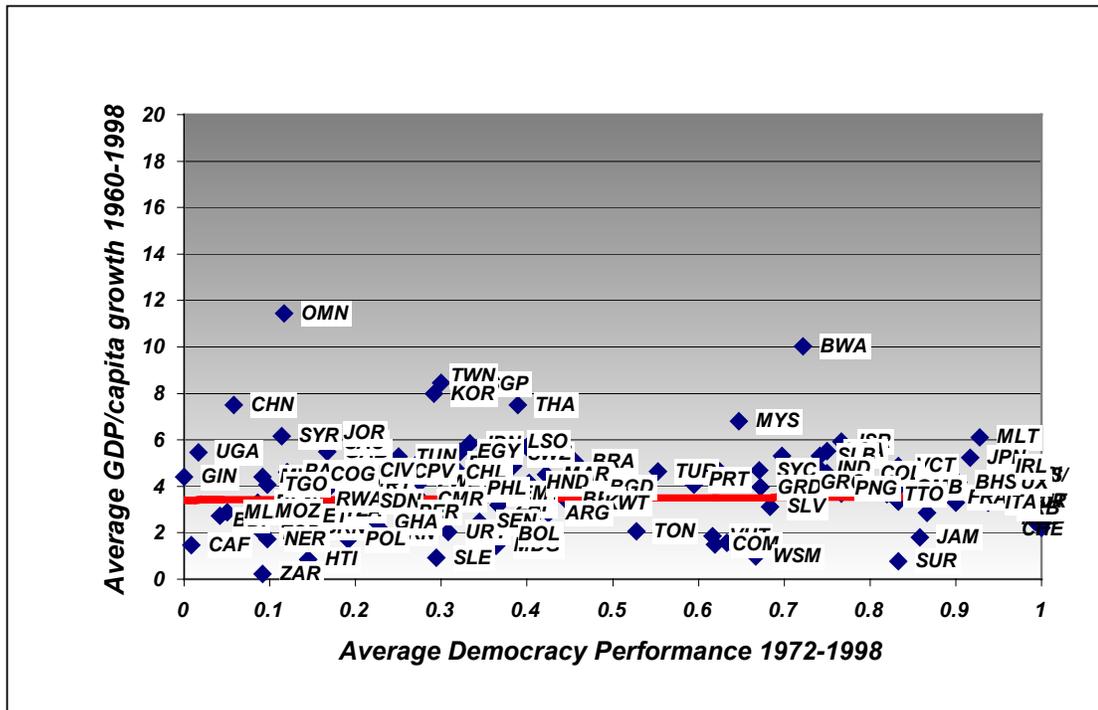
1. Democracies promote on long term more predictable growth rates,
2. Democracies experience a more stable economic performance
3. Democracies are more capacitated to affront the consequences of external economic chocks.

In the following sections, for each of those three aspects a model will be designed, supported by the corresponding theoretical argumentation.

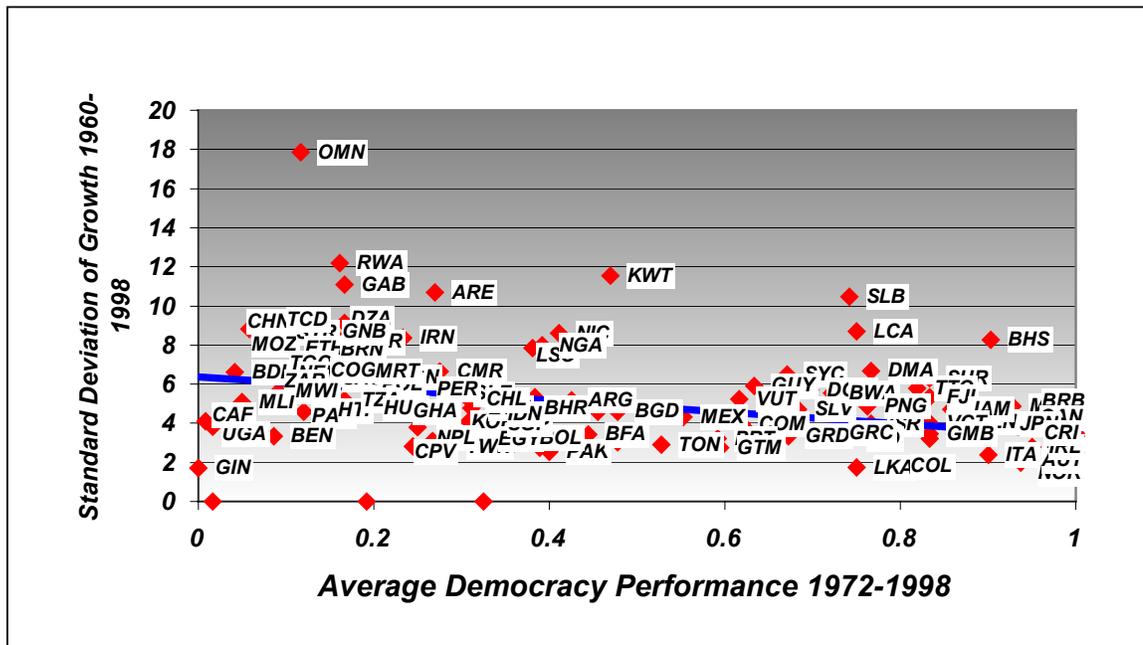
### Democracy and long term economic growth

The brief literature review on the relation between democracy and development showed, that despite a growing consensus concerning the positive impact of democracy on growth, an overwhelming agreement on this relationship is still missing.

*Graphic 7: Political Regime and long term GDP/capita growth*



Graphic 8: Democracy and long term growth variation



In graphic 7 the relationship between democratic performance and GDP/capita growth during the 1960-1998 period is shown. The average annual GDP/capita growth rate for 129 countries of this period has been calculated. This growth performance has been contrasted with the Freedom House Civil Liberty and Political Rights Index, developed by Gastil (1978). This index has been recodified and obtains now scores on a scale from 0 to 1, where 0 means total autocracy and one total democracy. The tendency line does not allow detecting any systematic relationship between political regime type and economic performance. However, asking for the possibility to identify major stability in the variance of the growth rates, and the existence of a relationship with the regime type, the standard deviation of the annual GDP/capita growth rates has been stipulated. This variation was once again contrasted with the political regime type variable. Graphic 8 shows the results. The tendency line is now much clearer, and it can be deduced that with the degree that improves democratic performance, declines the level of variation, that means, more democratic states experiment less variation in annual growth rates, thus are less likely to suffer from macroeconomic instabilities.

Rodrik (1997) achieved similar results in his analysis. In order to test if there is a linkage between political regimen and the variance of the growth rate, this author regrouped his panel of 93 countries in a group of democratic and another of autocratic states. He then determined coefficient of variation conditional. Once obtained this, he has regressed his growth variation coefficient with a variable that controls the initial GDP/capita (for 1960), the index of initial secondary school enrolment and regional dummies for Latin America, East Asia and Sub-Saharan Africa. The results of the regression analysis are summarised in table 6 and the insights achieved affirm the results and tendencies obtained in the graphic 5 above that means, the variation coefficients are larger in autocratic countries and reverse. Thus, democracies are more stable than in macroeconomic terms.

*Table 6: The variation of long term economic performance according to regime type*

<b>Coefficient of Variation of long term growth</b>		
	<b>Autocracy</b>	<b>Democracy</b>
<b>Unconditional</b>	1.05	0.54
<b>Conditional</b>	0.70	0.48
	Degree of Democracy	Degree of Democracy
	<b>Low</b>	<b>High</b>
<b>Unconditional</b>	1.02	0.61
<b>Conditional</b>	0.64	0.54

Source: Rodrik, 1997.

In order to avoid that these results are accidental, because autocracies used to have lower GDP/capita rates, Rodrik regressed the democracy index with the variables of GDP/capita and the initial level of secondary school enrolment. Then he regrouped the countries according to if the value of democracy was above or under of the regression line. In this way, two groups of different levels of democracy have been created. The table above also shows the results for this. The results show the same tendency that means, they affirm that more democratic regimes enjoy greater macroeconomic stability.

### **Democracies and short term economic growth**

Sah (1991)<sup>7</sup> argues that countries with decentralised political systems are less prone to suffer from short term volatility, because political decentralisation favour a greater diversification of power and for this, the risk of imperfect information is smaller.

To verify this hypothesis, that is, the relation between regime type and the volatility in the short term economic performance, the degree of volatility of three vectors that generally describe economic performance has been calculated. These vectors are: a) real GDP, b) real consumption, c) investment. The volatility is determined through the identification of the standard deviation of the growth rates of each of these three vectors. Later, each of these three variables has been regressed with several independent variables like democracy, the logarithm of the GDP/capita, the logarithm of population and a variable that measures the risks of external economic chocks. Although regional dummies for Latin America, East Asia and Sub-Sahara Africa and OCDE member states were introduced.

Regression results were shown in the following tables (table 7 and 8). The "democracy" regression coefficient for the three models is negative and statistically significant in all cases with the exception of the model where GDP volatility is the dependent variable (in the case of the volatility of investment and consumption t is 2.892 and 2.347, respectively). The coefficients of regression for the GDP, investment and consumption volatility are -1.2, -4.2 y -7.7, respectively, what means, that a shift form an autocracy to an democracy is associated with the reduction of the standard deviation of the rates of GDP, investment and consumption of 1.2; 4.2 y 7.7 percent points. These results coincide with concrete country experience made: countries like India, Costa Rica, Malta and Mauricio with long democratic traditions have experimented considerable lower volatility in their growth rates then countries with short or no democratic experience like, Syria, Chile or Iran, even when variables like country size and the impact of external chocks are controlled. (Rodrik, 1997).

<sup>7</sup> Quoted in Rodrik (1997).

*Table 7: Results of the regression analysis of GDP volatility (1960-1989)*

		Coeficientes <sup>a</sup>				
		Coeficientes no estandarizados		Coeficientes estandarizados		
Modelo <sup>b</sup>		B	Error típ.	Beta	t	Sig.
1	(Constante)	-2,348	3,619		-,649	,513
	LOGPIBCINI	1,310	,780	,307	1,680	,097
	LOGPOBINI	,427	,309	,156	1,380	,171
	Choques Externos	,100	,044	,279	2,291	,024
	Democracia	-1,178	,843	-,204	-1,397	,166
	América Latina	1,326	,575	,285	2,305	,024
	Asia Oriental	-,432	,571	-,080	-,757	,451
	Africa Subsahariano	,536	,651	,134	,825	,412
	OCDE	-,630	,705	-,151	-,893	,374

a. Variable dependiente: VOLATILIDAD PIB 1960-1989

b. Observaciones = 94 / R cuadrado corregida = .203

*Table 8: Results of the regression analysis of investment GDP volatility (1960-1989)*

		Coeficientes <sup>a</sup>				
		Coeficientes no estandarizados		Coeficientes estandarizados		
Modelo <sup>b</sup>		B	Error típ.	Beta	t	Sig.
1	(Constante)	3,789	6,126		,618	,533
	LOGPIBINI	1,738	1,342	,211	1,295	,199
	LOGPOBINI	4,853E-02	,527	,009	,092	,927
	Choques Externos	,120	,080	,164	1,491	,140
	Democracia	-4,188	1,448	-,375	-2,892	,005
	América Latina	1,333	,992	,142	1,343	,183
	Asia Oriental	-,312	,966	-,030	-,323	,743
	Africa Subsahariano	2,964	1,113	,382	2,663	,009
	OCDE	-,807	1,208	-,100	-,668	,506

a. Variable dependiente: VOLATILIDAD INVERSIONES 1960-1989

b. Observaciones = 92 / R cuadrado corregida = .400

*Table 9: Results of the regression analysis of consumption volatility (1960-1989)*

		Coeficientes <sup>a</sup>				
		Coeficientes no estandarizados		Coeficientes estandarizados		
Modelo <sup>b</sup>		B	Error típ.	Beta	t	Sig.
1	(Constante)	-20,001	15,005		-1,333	,187
	LOGPIBINI	6,434	3,417	,432	1,883	,064
	LOGPOBINI	1,276	1,123	,133	1,137	,259
	Choques Externos	-,235	,180	-,170	-1,304	,196
	Democracia	-7,734	3,296	-,381	-2,347	,022
	América Latina	5,896	2,133	,355	2,765	,007
	Asia Oriental	,351	2,145	,018	,164	,870
	Africa Subsahariano	4,649	2,531	,321	1,837	,070
	OCDE	-4,334	2,974	-,300	-1,458	,149

a. Variable dependiente: VOLATILIDAD CONSUMO 1960-89

b. Observaciones = 82 / R cuadrado corregida = .216

However, these results must be considered with care. The explicative power, expressed in the corrected  $R^2$  is not very high. The three models tested only reach an explanation power between 20 and 40 percent.

### **Democracies and the impact of external economic chocks.**

In this section it will statistically it will be tested if democratic countries are more capacitated to soften the effects of economic chocks for the national economy. Mayor part of the developing countries suffered during the 1970s a dramatic fall of their growth rates. The TMCs suffered these chocks during the 1980s more than other regions as it was shown above. In some regions, as for instance in a lot of Latin American countries, nearly one decade was needed to surpass the negative effects of these chocks and to restore the macroeconomic balance. Form all this observations emerge the question if democratic countries are more prone to re-establish macroeconomic stability, because they are more capable to carry out programs and policies of economic and structural adjustment, necessities to soften this chocks. This question has originally been articulated by Rodrik (1997a), who argues that adjustment to external chocks normally is slower y less efficiency in countries that do not enjoy adequate institutions of conflict resolutions and that at the same time suffer form latent social conflicts. Consequently this countries experience a much larger decline of their growth rates in the aftermath of an external economic chock. Generally it is supposed that countries that have established several institutions like that ones that strengthen the functioning of the market, institutions that offer an adequate conflict resolution mechanism will experiment a considerable smaller reduction of its growth performance then countries where these institutions are lacking or are bad developed. .

In order to test the hypothesized relationship between growth rate decline and institutions different models and using different variables has been designed. In all models, the dependent variable is the growth rate difference before and after an external chock. To determine the external chocks, there are two different ways. On one hand, they can be determined through the identification of the break year of the tendency of the growth rate a work that has been carried

out by Pritchett (1997)<sup>8</sup>. This break year used to be situated in the second half of the 1970, where 1977 represents the average break year. Thus, the dependent variable is the difference of growth rates before and after the break year of each country.

An alternative measure of this could be the differences of the average annual growth rates for the period of 1960-1975 and the period of 1975-1995. This differentiation coincides nearly with that of Pritchett and has been proposed by Rodrik.

On the right side of the regression equation, that means as independent variables, different institutional performance measured has been integrated into the model. The index of democracy the sum of the two vectors of the Freedom House measure of Civil Liberties and Political Rights has been taken. This sum has been recodified to improve visibility of the results. Countries scored with are perceived as total autocracies, and that scored with 1 are considered as fully democratic states.

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Other alternative indices are in agreement with Rodrik, those that POLITY98 of Gurr and Jagers offers (1995). The indices are a) the degree of operational independence of executive authority "INDPODEJE" and b) the degree in which no-elite can accede to political institutions "ACCESSNOELITE". Like the index of democracies, these three indices have been recodified in a scale from 0 to 1. These two indices are correlated with the index of Freedom House. The relations are of the following way: the independence of the executive authority usually is smaller in democratic countries and the access of non-elite to the political institutions usually is greater under democratic regimes.

Additionally to these index that describes the political system, two index that measures the effectiveness and the operation of the institutions were introduced in the estimations. The index of "Institution" comes from International Country Risk Guide (ICRG) and includes as a whole aspects like the State of Right, the corruption, the quality of the bureaucracy and the risk of expropriation.

Since all these indices are subjective, another quantitative index has been calculated that measures the protection of the Property Rights. This idea has been processed by David Leblang (1996). According to this author, it is possible to come near to a quantitative form to the measurement of the protection of the property right. It is obtained through determination of the degree of the availability of state resources for the activity of the private sector. In this sense, a financial sector without restriction indicates obviously that a government is committed with the protection of these rights. That is to say, the government do not limit investment resources to the public companies, but it makes them available to private enterprises. For this reason, this variable express the percentage of the total of credits granted to the private sector over the

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<sup>8</sup> Pritchett, Lant (1997): Economic Growth: Hills, Plains, Mountains, Plateaus and Cliffs, non published document, World Bank, October 1997, quoted in Rodrik (1997).

GDP<sup>9</sup>. This index in addition reveals the importance of the public companies and the size of the public sector.

*Table 10.: Correlation of the different political and institutional measures*

		Democracy	INDPODEJE	ACCESSNOELITE	Institutions	Property Rights
Democracy	Correlación de Pearson					
	Sig. (bilateral)					
	N					
INDPODEJE	Correlación de Pearson	-,884**				
	Sig. (bilateral)	,000				
	N	116				
ACCESSNOELITE	Correlación de Pearson	,933**	-,902**			
	Sig. (bilateral)	,000	,000			
	N	116	116			
Institutions	Correlación de Pearson	,696**	-,701**	,762**		
	Sig. (bilateral)	,000	,000	,000		
	N	97	93	93		
Property Rights	Correlación de Pearson	,471**	-,463**	,502**	,639**	
	Sig. (bilateral)	,000	,000	,000	,000	
	N	116	101	101	91	

\*\* . La correlación es significativa al nivel 0,01 (bilateral).

In addition to these variables that observe the political and institutional performance and index that measures the impact of the external shocks for the 1970s has been calculated. This index is determined, in agreement with Rodrik (1997a) by multiplying the standard deviation of the logarithm of the first differences of terms of trade of each country in the period between 1971 and 1980 with the average of the total trade (exports + imports) as a percentage of the GDP during the period between 1970 and 1974. It is assumed that in this way the volatility of the income from foreign trade can be detected. On the other hand one includes two more variables, that are GDP growth of the period previous to the shock (the average of the 1960-1975), as well as the GDP per capita in the year of the rupture. To part of this, regional dummies for Latin America, East Asia and Sub-Sahara Africa was included.

Table 10 shows the correlation between the different forms to measure the political institutional aspects: the different variables are much correlated as it has been said before. The correlation between "democracy" and the "independence of the executive authority" are negative and significant and indicate that in the democratic countries independence is smaller, due to the control mechanisms. The other variables are significantly correlated and the sign express the awaited tendencies.

<sup>9</sup> This data is form *Internacional Financial Statistics* del FMI; the file is nominated "Claims on Private Sector" (Línea 32d).

Table 11.: Summary of the Models <sup>a</sup>

Model	R	R <sup>2</sup>	Corrected R <sup>2</sup>	Typified Error of estimation	Number of Observations
1	,742	,550	,525	2.453990	113
2	,766	,587	,561	2.422799	103
3	,782	,611	,587	2.350285	103
4	,722	,521	,489	2.163815	95
5	,745	,555	,527	2.466749	101
6	,799	,638	,613	2.067592	94

<sup>a</sup> Dependent Variable: Growth Differences before and after Economic Chocks identified by Pritchett (1997).

Table 12: Regression Coefficients of the models

		No Standardised Coefficients		Standardised Coefficients	t	Sig.
Model		B	Error typ.	Beta		
1	(Constant)	,519	,799		,649	,518
	Growth before	-1,056	,106	-,721	-9,968	,000
	East Asia	2,574	,815	,231	3,159	,002
	Sub-Sahara Africa	-1,646	,742	-,220	-2,218	,029
	Latin America	-2,349	,697	-,270	-3,372	,001
	Democracy	4,072	1,014	,375	4,016	,000
	Initial GDP/capita	-2,835E-04	,000	-,287	-2,875	,005
2	(Constant)	4,131	,932		4,434	,000
	Growth before	-1,059	,106	-,727	-9,994	,000
	East Asia	2,974	,829	,261	3,586	,001
	Sub-Sahara Africa	-2,139	,764	-,273	-2,799	,006
	Latin America	-1,981	,719	-,222	-2,755	,007
	INDPODEJE	-2,879	,734	-,328	-3,923	,000
	Initial GDP/capita	-2,637E-04	,000	-,266	-2,774	,007
3	(Constant)	1,214	,747		1,625	,107
	Growth before	-1,041	,103	-,715	-10,124	,000
	East Asia	3,030	,804	,266	3,766	,000
	Sub-Sahara Africa	-1,905	,746	-,244	-2,553	,012
	Latin America	-2,088	,696	-,234	-3,001	,003
	ACCESSNOELITE	3,927	,829	,427	4,736	,000
	Initial GDP/capita	-3,517E-04	,000	-,354	-3,568	,001
4	(Constant)	-,488	1,040		-,469	,640
	Growth before	-1,016	,120	-,704	-8,502	,000
	East Asia	1,531	,772	,168	1,984	,050
	Sub-Sahara Africa	-3,276	,708	-,494	-4,629	,000
	Latin America	-1,985	,690	-,281	-2,879	,005
	Institutions	,710	,215	,534	3,297	,001
	Initial GDP/capita	-4,112E-04	,000	-,493	-3,059	,003
5	(Constant)	1,449	,773		1,876	,064
	Growth before	-1,147	,112	-,778	-10,202	,000
	East Asia	1,712	,859	,155	1,992	,049
	Sub-Sahara Africa	-2,107	,758	-,278	-2,779	,007
	Latin America	-1,933	,745	-,219	-2,593	,011
	Property Rights	3,033	1,226	,217	2,474	,015
	Initial GDP/capita	-1,219E-04	,000	-,125	-1,315	,192
6	(Constant)	2,513	,660		3,810	,000
	Growth before	-,957	,096	-,727	-10,010	,000
	East Asia	2,342	,695	,251	3,370	,001
	Sub-Sahara Africa	-1,508	,729	-,212	-2,070	,041
	Latin America	-1,516	,664	-,183	-2,283	,025
	External Chock	-,192	,048	-,300	-3,971	,000
	Initial GDP/capita	-5,077E-05	,000	-,056	-,687	,494

<sup>a</sup> Dependent Variable: Growth Differences before and after Economic Chocks identified by Pritchett (1997).

What the results of the regressions concern, the work theses can be verified, that when more democratic are a country, minor is the impact of the external shocks in the economy, which can be associated with more macroeconomic stability and smaller risks of a country. In concrete it can be seen in table 12 that all the political variables are very significant and positive, with the exception of INDPODEJE and external Shock, which corresponds to the awaited tendencies. That is to say, INDPODEJE (-2.789) is greater in non-democratic countries, which indicates that countries where the independence of the executive authority is greater, the impact of the external shocks is greater, what means, the macroeconomic stability is smaller. And with

respect to the variable that measures the shocks that are highly significant and negative (-3.971), to the equal one must interpret the coefficient of regression (- 192) of such form that as greater the external shock is the bigger the differences of the rates of growth between the before and after the break year.

What the regional dummies concern, it must be emphasised that the excepted results are obtained. East Asian region have negative signs. That means, that as well Latin America as Sub-Saharan Africa underwent subsequent to the break year a decline in their growth rates, located generally in the middle of 1970s.

The same tests have been made changing the dependent variable. Instead of using break year studied by Pritchett, this time 1975 has been taken like the year of rupture in the growth tendency. Conform to that, the difference of the averages of the annual rates of growth of the GDP/capita has been calculated for the period from the 1960 to 1975 and from the 1975 to 1995. All the other variables have been adapted to these two periods, that is to say, the logarithm of the GDP/capita has been taken for 1975. Table XXXX shows the summaries of the tests of these models.

*Table 13: Summary of models<sup>a</sup>*

<b>Model</b>	<b>R</b>	<b>R<sup>2</sup></b>	<b>Corrected R<sup>2</sup></b>	<b>Typified Error of estimation</b>	<b>Number of Observations</b>
1	,804	,646	,626	1,6740	113
2	,839	,705	,686	1,5132	102
3	,834	,696	,677	1,5355	102
4	,794	,631	,606	1,4320	94
5	,821	,674	,655	1,6054	108
6	,794	,630	,605	1,5240	96

<sup>a</sup> Dependent Variable: GDP/capita growth rate differences between 1975-1995 and 1960-1975.

*Table 14: Regression Coefficients of models<sup>a</sup>*

<i>Model</i>		<b>No Standardised Coefficients</b>		<b>Standardised Coefficients</b>		
		<i>B</i>	<i>Error typ.</i>	<i>Beta</i>	<i>t</i>	<i>Sig.</i>
<b>1</b>	(Constant)	7,656	2,075		3,689	,000
	Growth 60-75	-87,343	8,700	-,727	-10,040	,000
	East Asia	1,450	,553	,169	2,623	,010
	Sub-Sahara Africa	-2,618	,531	-,456	-4,931	,000
	Latin America	-1,533	,452	-,233	-3,388	,001
	Democracy	1,911	,704	,227	2,715	,008
	Log GDP/capita 75	-2,073	,659	-,333	-3,143	,002
<b>2</b>	(Constant)	10,417	2,198		4,740	,000
	Growth 60-75	-83,727	8,200	-,717	-10,210	,000
	East Asia	1,674	,517	,200	3,236	,002
	Sub-Sahara Africa	-3,065	,505	-,532	-6,066	,000
	Latin America	-1,510	,440	-,230	-3,429	,001
	INDPODEJE	-1,584	,483	-,240	-3,278	,001
	Log GDP/capita 75	-2,360	,600	-,387	-3,931	,000
<b>3</b>	(Constant)	8,777	2,037		4,310	,000
	Growth 60-75	-84,870	8,344	-,727	-10,171	,000
	East Asia	1,718	,525	,205	3,274	,001
	Sub-Sahara Africa	-2,993	,515	-,520	-5,817	,000
	Latin America	-1,598	,444	-,244	-3,600	,001
	ACCESSNOELITE	1,505	,544	,220	2,767	,007
	Log GDP/capita 75	-2,302	,628	-,378	-3,664	,000
<b>4</b>	(Constant)	9,893	2,154		4,594	,000
	Growth 60-75	-75,773	9,293	-,643	-8,154	,000
	East Asia	,842	,514	,123	1,638	,105
	Sub-Sahara Africa	-3,631	,503	-,730	-7,223	,000
	Latin America	-1,228	,479	-,232	-2,566	,012
	Institutions	,406	,126	,410	3,210	,002
	Log GDP/capita 75	-3,136	,781	-,595	-4,014	,000
<b>5</b>	(Constant)	5,718	1,883		3,037	,003
	Growth 60-75	-94,552	8,070	-,785	-11,717	,000
	East Asia	,878	,552	,101	1,589	,115
	Sub-Sahara Africa	-2,398	,490	-,417	-4,894	,000
	Latin America	-1,133	,456	-,170	-2,487	,014
	Property Rights	2,878	,779	,265	3,693	,000
	Log GDP/capita 75	-1,428	,564	-,226	-2,534	,013
<b>6</b>	(Constant)	4,806	1,815		2,648	,010
	Growth 60-75	-77,452	9,313	-,660	-8,317	,000
	East Asia	1,535	,507	,224	3,029	,003
	Sub-Sahara Africa	-1,897	,553	-,367	-3,432	,001
	Latin America	-1,117	,472	-,184	-2,366	,020
	External Chocks	-,129	,036	-,276	-3,613	,000
	Log GDP/capita 75	-,897	,517	-,161	-1,736	,086

<sup>a</sup> Dependent Variable: GDP/capita growth rate differences between 1975-1995 and 1960-1975.

The corrected R<sup>2</sup> oscillates between a 61% and 70 %, which indicates that this dependent variable improves the explanatory power of the models. The results show the same tendencies. All the variables continue being very significant.

The difference is that the most significant of the political institutional variable is not any more "democracy" but "Property Rights" and "Institutions". The variables that measure the attributes of the political system as well as the possibilities of no-elite to be able to accede to the political institutions (ACCESSNOELITE) or the democracy are highly significant, although less significant than the indices that measure the institutional quality. The coefficients of regression of the growth of the period previous to the year of rupture are significant and highly negative.

The regional dummies demonstrate the same tendencies, and confirm therefore the previously stated.

## Conclusions: Development and Security in the Mediterranean

As I have shown in the present analysis of the relation between security and economic issues in the Mediterranean context, democracy has mayor positive affects on the creation of a cooperative security framework in the Mediterranean area. It can even be affirmed that without the introduction of democratic political systems in the TMCs, the Mediterranean region continues to be an unstable an insecure region in the European neighbourhood.

The two-level approach to Mediterranean security showed clearly, as well through its theoretical argumentation as by the means of its statistical tests, that democracy enjoys a kind of what I would like to call “diffusion effect” on development and therefore on security.

On a regional or international level, according to the Democratic Peace Theory, democratic countries do not fight wars against each other, and used to resolve conflicts in pacific ways.

Another finding that encourages the augmentation of security of democracies is through the commercial exchange. It was argued, that democratic pairs of states have greater mutual trade volume, than pairs of non democratic states.

And finally, it is more probable that an efficient institutional framework will build up, when the actors involved in this process are democratic countries. On the other hand, these institutional frameworks have positive spill over on the volume of commercial exchange. However, this is a mutual dependency, because, greater trade flows do also promote the creation of international organisations and institutions. Nevertheless, for doing so, a threshold level of exchanges must be reached. Without this, it seems very unlikely, that the actors of the international scene feel the necessity to engage in such an institution-building process.

The brief analysis of the trade structures in the Mediterranean also shows, that until the introduction of the democratic principles, the ruling elite have more incentives to hinder the improvement trading relations than to create a context that favour it. Thus, it seems unlikely, that in the given situation, trade will become a pacifying factor of the Euro-Mediterranean relations, as suggested in the EU’s Barcelona Declaration.

On the national level, the comparative analysis of the political economy of he TMC determine, that the mayor obstacle to development lies in the lack of capacity or will of the ruling elite to adopt the right policies and to build up a national institutional framework that encourage foreign investment as well as the national private sector activity. The policy failure can be explained through the lack of the popular support of the ruling elite. This deficit of legitimacy causes policies that are directed to the survival of the regime and not to policies for improving the socio-economic situation of the mayor part of the population. In this sense, and as pointed out above, the security of the political regime is directly linked to issues of economic development.

The statistical tests in the last section of this work demonstrate, that democratic political systems perform much concerning the building of institutions that encourage and secure foreign investment and the private sector activity in general, because, democracies experiment more predictable and more stable long term economic growth, and thus offer more macroeconomic stability that promotes the private sector activity.

For all this and as it has been mentioned already, according to Robert McNamara (1968) security is development and without development there will be no security. An affirmation that proved right through the present analysis of the Euro-Mediterranean relations and that at the moment has gained much in popularity, as the Spanish *Libro Blanco de la Defensa 2000* indicates.

In this sense it can be concluded that a political order, based on a healthy relation between the ruling elite and the society, hence based on democratic principles is fundamental for the

international security. Thus the relationship that exists between development and security in the Mediterranean can be summarised with the words of Béchir Chourou from Tunisia who pointed out that *"the ultimate objective of any policy is/should be to insure the welfare of the human being, and we shall consider any action that prevents or hinders the achievement of human welfare as a threat to security"* (1998:277).

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