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Economic Transitions in Central and Eastern Europe: Any Lessons for the Arab Spring?

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The Vienna Institute for International Economic Studies (wiiw)

Executive summary

This paper discusses the key reform agenda and economic characteristics of selected Middle East and North Africa (MENA) countries in comparison with transition countries in Central, East and Southeast Europe (CESEE). By looking at the latter's transition experiences we draw policy lessons for current MENA transitions in the wake of the Arab Spring. Policies aiming at the liberalization of domestic and international markets, privatization and increased competition in the state-controlled sectors, as well as institutional reforms anchored in the international context are broadly similar tasks facing both regions. However, there are also a number of substantial differences in development levels, demographic, social and other characteristics. MENA have not (at least so far) suffered from 'transformational recessions' like the CESEE in the early 1990s; they were also largely spared the effects of the recent crisis which hit the CESEE disproportionally hard.

The main task in the MENA countries will typically be a thorough modernization and expansion based in part on already existing structures with the help of external assistance and foreign direct investment (FDI). Most MENA countries have been lagging behind in terms of export performance, competitiveness and trade restructuring. In contrast to the CESEE, MENA countries have failed to increase their export market shares not only in the EU but globally. Foreign capital is an indispensable component of transition, modernization and restructuring, as well as of the private sector development and job creation. Similarly, the regional integration needs to be fostered with the help of the EU and other IFIs by promoting and broadening the bilateral free trade agreements and lifting the existing barriers.

There is no guarantee for success of a transition strategy – as illustrated by the experience of CESEE. Moreover, the current global crisis makes policy implementation not easier. It is quite certain that some countries (such as Tunisia) will fare better than others (e.g. Egypt). The abundance of natural resources represents an additional challenge (Algeria and Libya vs. Russia and Azerbaijan).The existing diversity both within and between the regions compared will likely persist and affect the outcome of transition strategies.

Keywords: *transition, integration, foreign trade, FDI, labour market, Central and Eastern Europe, Middle East and North Africa*

JEL classification: *E24, F13, F53, O2, O43, O57, P52*

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Introduction

At the outbreak of the 'Arab Spring' early 2011, many references and comparisons to the transition in Eastern Europe 20 years ago appeared.[1] Later on, there have been more frequent references to different strategies that were followed by CESEE countries in their transition from socialist planned economy and whether some of these strategies are applicable to the ongoing changes in the MENA countries. In the meantime, a number of studies, initiatives and opinions related to the issues of MENA transitions and the outcome of Arab Spring appeared (see references for a selection). This paper provides the key economic characteristics of the selected Middle East and North Africa countries (MENA) in comparison with Central, East, and Southeast European transition economies (CESEE).[2] It identifies the main challenges of economic transitions in the MENA region and attempts to outline possible common features and differences with transitions in the CESEE. The expectation is that some regularity in these processes can be discerned and thus policy lessons for transitions in MENA countries can be drawn from comparisons with the CESEE – the huge diversity of both MENA and CESEE countries notwithstanding.

Though the challenges currently facing the MENA countries may differ, there is certainly a need for market liberalization, for privatization of state-owned or state-controlled companies, for modernization and restructuring, and for various regulatory and institutional reforms aiming at improved the business climate and competitiveness. In these policy areas, MENA countries today are not at the point where CESEE socialist countries were in 1989-1991, but all subsequent reforms undertaken by the latter group (and their varying

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1 Comparisons of MENA and CESEE transitions started to be investigated at wiiw immediately after the outbreak of the Arab Spring early 2011. The first outcome of this research was published already in July 2011 (Havlik and Richter, 2011). Subsequently, a high level international workshop on "MENA Transition and International Response: Challenges and Prospects" was organized in Vienna with the support of Austrian Ministry of Finance (for the programme and presentations see http://www.wiiw.ac.at/?action=events&opt=details&id=121; Gligorov et al., 2012a). The present paper elaborates some of these findings reflecting the latest developments in the region.

2 The *MENA* region consists of two sub-regions, the *Maghreb* (Algeria, Libya, Morocco and Tunisia) and the Mashreq (Jordan, Lebanon, Occupied Palestine Territories and Syria). Finally, Egypt is included to provide the complete MENA coverage. The *CESEE* region comprises the New EU Member States (NMS) from Central and Eastern Europe, the South East European countries (SEE: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Kosovo) as well as selected CIS countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine).

outcomes – both positive and negative) might prove useful to compare with the various tasks that different MENA countries are facing now. Lessons can be learned from the gradual as well as from shock therapies, from persistent vs. hesitant reforms, from privatization and integration strategies, and from mistakes with the application of the Washington Consensus as well as from successes of the less orthodox reform strategies. The advantage of comparing current MENA transitions with those in CESEE is that the latter group of countries is also composed of subgroups that are at a different stage of the transition process and can provide for various points of reference for reform and policy challenges currently facing the diverse MENA countries. In some respects, Balkan transition will be instructive, in others that of former Soviet republics while in many respects transition and integration strategy pursued in Central Europe may provide a comparator benchmark group that is interesting because its strategy (aiming basically at the accession to the European Union) cannot be copied by MENA countries. Last but not least, the current international environment (economic, geopolitical and ideological) facing MENA transition sharply differs from that facing the CESEE's more than two decades ago.

The latter is extremely important since transitions and sustainable reforms need to be anchored in a supportive international environment. In the case of many CESEEs, the European Union (EU) provided such an anchor and a "return to Europe" was their declared transition target. In those CESEE countries where the EU accession anchorage was either weaker (SEE), delayed or even non-existent in the foreseeable future (Russia, Ukraine, Moldova, Belarus), the transition processes and economic restructuring have been much slower and less successful. The lack of an EU membership perspective and alternative 'weaker' institutional anchors such as WTO membership or other policy instruments (such as European Neighbourhood Policy, Eastern Partnership or even EU Association Agreements) may not suffice to firmly underpin the sustainability of the reform process (Havrylyshyn, 2008). Likewise, MENA countries cannot hope and are in fact not looking for such a strong (EU membership) institutional anchor. Nevertheless, the EU has been looking for ways to strengthen and reshape its Neighbourhood Policy for the MENA region, relying on the experience of transition in CESEE.[3] It remains to be seen whether these efforts will be sufficient in order to firmly underpin MENA's transition: the present author increasingly shares some of the recently voiced scepticism in this respect – see Laqueur (2012), Emerson (2011), Ould Mohamedou, 2012, Schumacher (2012).[4]

What were the causes of the Arab Spring?

Before discussing similarities and differences between MENA and CESEE in more detail, it is useful to highlight a few points regarding the MENA social and political situation before

[3] See 'A new response to a changing neighbourhood. Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions', Brussels, 25/05/2011, COM(2011) 303.

[4] Needles to say, the recent disappointments with economic, political and institutional setbacks in reform processes in many CESEEs (e.g. Hungary, Albania, Bosnia and Herzegovina, Belarus, Ukraine, etc.) have not been encouraging either.

the outbreak of the Arab Spring. This is what an informed observer wrote about Libya in 2011(quoted in length from Roberts, 2011):

The Jamahiriyya lasted 34 years (42 if backdated to 1969), a respectable innings. It did not work for foreign businessmen, diplomats and journalists, who found it more exasperating to deal with than the run of Arab and African states, and their views shaped the country's image abroad. But the regime was not designed to work for foreigners and seems to have worked fairly well for many Libyans much of the time. It achieved more than a tripling of the total population (6.5 million today, up from 1.8 million in 1968), high standards of health-care, high rates of schooling for girls as well as boys, a literacy rate of 88 per cent, a degree of social and occupational promotion for women that women in many other Arab countries might well envy and an annual per capita income of $12,000, the highest in Africa. But the point about these indices, routinely cited, naturally enough, by critics of the West's intervention in reply to the propaganda that has relentlessly blackened the Gaddafi regime, is that they are in one crucial sense beside the point. The socio-economic achievements of the regime can be attributed essentially to the distributive state: that is, the success of the hydrocarbons sector and of the mechanisms put in place early on to distribute petrodollars.

There was even an attempt at reforms (perhaps in analogy to Gorbachev's 'perestroika' pursued at the same time in the USSR):

Gaddafi seems to have realized years ago what he had done – the quasi-utopian dead end he had got Libya and himself into – and tried to escape its implications. As early as 1987 he was experimenting with liberalization: allowing private trading, reining in the Revolutionary Committees and reducing their powers, allowing Libyans to travel to neighbouring countries, returning confiscated passports, releasing hundreds of political prisoners, inviting exiles to return with assurances that they would not be persecuted, and even meeting opposition leaders to explore the possibility of reconciliation while acknowledging that serious abuses had occurred and that Libya lacked the rule of law. These reforms implied a shift towards constitutional government, the most notable elements being Gaddafi's proposals for the codification of citizens' rights and punishable crimes, which were meant to put an end to arbitrary arrests. (Roberts, ibid.)

In the case of former socialist countries in Central and Eastern Europe, the lack of political legitimacy coupled with economic inefficiency was crucial for the instability of the system. Successive reforms failed to produce either stability or growth and exhausted the political space of the regime and thus the system collapsed. Still, the end came after a decade of stagnation, social strife over food shortages in a number of countries, and in a political and ideological impasse. In the case of the uprisings in MENA countries, the background, in particular the economic one, was arguably somewhat different. As shown in more detail below, the last couple of years saw respectable economic growth, though that was not necessarily reflected in an improvement of the income per capita due to demographic and distributional factors. Still, there was no stagnation comparable to Brezhnev`s early 1980s in the Soviet bloc and hardly any serious attempt at internal reforms a la Gorbachev in late 1980s (if we disregard Gadaffi's reforms quoted above, as well as the IMF-, World Bank- and EU-led controversial attempts at trade and economic liberalizations – see below and López-Cálix, 2010, Eurochambres, 2011). Thus, though the underlying causes and the immediate triggers may be different, the key three problems for MENA and CESEE regime changes have been the same: political legitimacy, economic inefficiency and the necessity of institutional reforms in order to stop and reverse the socio-economic falling behind the capitalist "West". Therefore, policy reforms that are worth exploring and comparing with the choices made by various CESEEs during the past twenty years are useful to be investigated. The advantage of comparing current MENA transitions with those in CESEE is that the latter group of countries is composed of subgroups that are at a different stage of the transition process and can provide for various points of reference for reform and policy challenges currently facing MENA countries or indeed subgroups among them. In some respects, Balkan transition will be instructive, in others that of the former Soviet Union (CIS) countries while in many respects the transition in Central and Eastern Europe (NMS) may provide a comparator benchmark that is interesting because its transition target (EU accession and the related institutional anchor) cannot be copied by MENA countries. The aim is not just to chart similarities or provide lessons that can be followed, but also to explore the functional alternatives where the instruments that were available to CESEE (e.g. the EU accession anchor in the case of NMS) are neither available nor appropriate for MENA countries.

MENA and CESEE: Reform agenda, economic performances and structures in a brief comparison

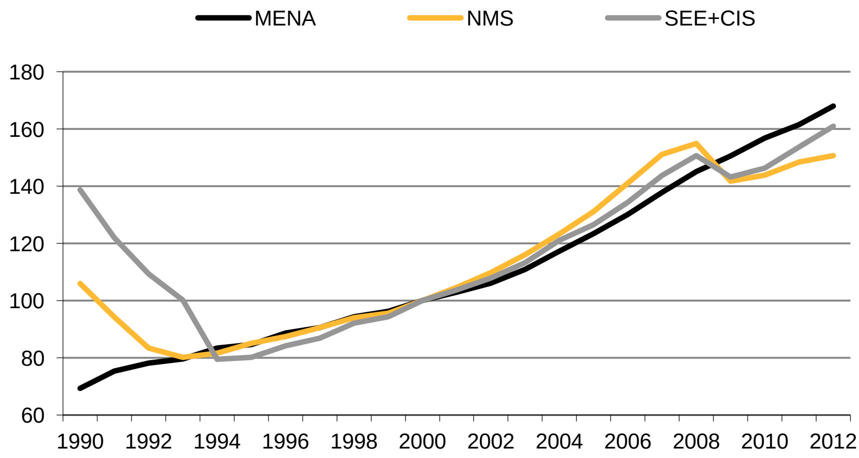
Reform agenda

The main economic transition tasks in the CESEE were restoring/preserving macroeconomic stability, liberalizing internal and external trade and finance, privatization and corporatization of state-owned enterprises in order to modernize and restructure, and labour market reforms with the aim to addressing the adverse social effects of transition. In short, the transition was dubbed "from command to market economies" and had a clearly defined goal: the establishment of a *functioning market economy with pluralistic ownership structures and democratic political institutions* (Havlik, 1991). Reforms were implemented at different speeds and vigour in different countries and with more or less varying success, not least because starting conditions differed widely. In the process, there were a number of political and policy challenges, including exchange rate crises, sovereign defaults, and large shifts in the labour markets, the emergence of open unemployment in particular. The political, economic and institutional changes at the beginning of 1990s were accompanied by severe "transformational recessions" which resulted partly from policy failures or were inherent to the systemic change as such. On average, the GDP dropped between 1990 and 1993 by about 30% in the NMS and more than 50% in the SEE and CIS (Figure 1). In some cases, democratic regimes did not survive and in others hybrid political regimes developed. Several multinational states (Soviet Union, Czechoslovakia and Yugoslavia) disintegrated, in some cases (Yugoslavia) accompanied by the violent nationalist cum religious conflicts (Libya and Syria are currently confronted with similar challenges). In other cases countries broke up peacefully (Czechoslovakia) or the transformation processes led to a series of lasting conflicts and instability (in parts of Russia, Georgia, Armenia, Moldova and Serbia). The (re)emergence of nationalism and the resurrection of religion as key socio-political driving forces were perhaps some of the less expected features accompanying the CESEE transitions.

Figure 1

GDP growth in MENA, NMS and SEE+CIS, 1990-2012

2000 = 100, unweighted averages



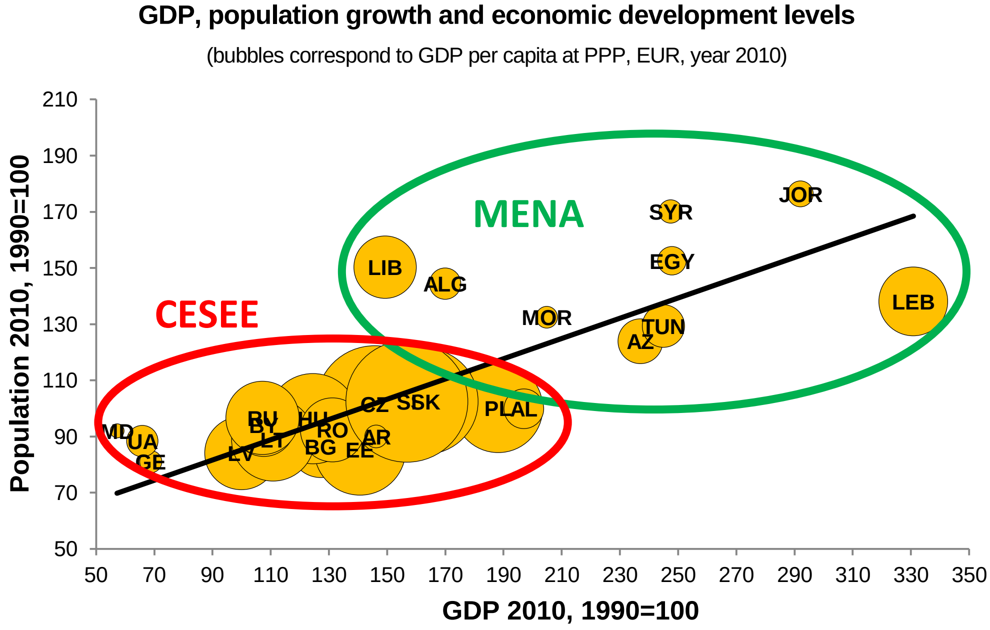
Sources: National statistics, wiiw, Eurostat, IMF WEO Update, April 2012.

Economic performances

The following section compares the main MENA and CESEE countries with the aim to identify key common features, similarities and most important differences between the current economic situation of the MENA countries and the challenges that faced the former socialist CESEE economies both at the outset of their transition and during the past two decades. The aim is to get an idea about the key differences and similarities between these two groups of countries that may be useful from a comparative and policy point of view.[5]

[5] Annex Tables 1a-1c provide a more detailed overview of the key macroeconomic and structural data for the MENA and CESEE countries (the latter split into two groups: SEE-CIS and NMS). For more detailed country reports see European Economy (2011); for recent developments in the CESEEs see Gligorov et al. (2012b).

Figure 2



Source: Annex Tables 1a-1c (see also for country codes).

As illustrated in Figure 2, the majority of MENA countries are at a much lower level of economic development (in terms of per capita GDP at purchasing power parity – see Annex Tables 1a-1c for actual data and the country codes) than most Central European transition countries.[6] However, a number of transition countries in Southeast Europe, as well as many countries in the CIS, have similar economic development levels as the MENA countries (e.g. Albania, Bosnia and Herzegovina, Kosovo, Armenia, Georgia, Moldova and Ukraine are comparable in this respect to Morocco, Tunisia, Syria, Egypt and Jordan). On the MENA side, the exceptions are Libya and Lebanon: their level of economic development is more similar to that of Poland, Romania and Bulgaria in their early stage of transition than to the rest of the MENA. However, on closer inspection, only Lebanon is a genuine exception among the MENA, as Libya's favourable standing is explained mainly by its revenues from oil exports and not by an indeed higher level of economic development. It is remarkable that the MENA countries with the biggest population and political weight (Egypt, Morocco, Algeria and Syria) are all at a much lower level of economic development than the majority of Central European CESEE.[7]

One of the key challenges facing MENA is their populations' fast growth: between 1990 and 2010, MENA population increased between 30% (Tunisia) and 70% (Jordan and Syria). As a consequence, there has been hardly any – or very little – *per capita income catching up in MENA countries,* despite fairly high GDP growth (Figure 2). In contrast, the

[6] That situation was basically similar even 20 years ago – see Gligorov et al. (2012a). Needless to say, these rough estimates have to be taken with caution – especially regarding MENA countries.

[7] It should be reminded that most MENA countries were recipients of development assistance (not just military) from many CESEEs during 1960s-1980s.

income catching up has been quite impressive in a number of CESEE (with the notable exceptions Georgia, Moldova and Ukraine whose GDP is still below the initial level of 1990 – see Figure 2). Needles to say, a part of per capita income growth in CESEE can be attributed to either stagnating (or even falling) populations: the latter has been quite dramatic in several CESEE countries (e.g. in Bulgaria, Romania, the Baltics and Ukraine population declined by more than 10% during the transition period). The reasons for the varying population developments are complex (and beyond the scope of this study): migration, low birth rates, culture, social stress, etc. In general, we will argue in this paper that the current MENA's transition is – to a much larger degree than those in CESEE countries twenty years ago – thus essentially linked with formidable *economic development* challenges.

The MENA group obviously did not manage to close the income gap vis-à-vis the EU average during the past two decades – despite GDP growth rates mostly exceeding 4% p.a. on average during the period 1990-2010. At the same time, MENA economic growth has been lagging behind other emerging market countries, especially those in South East Asia. The failure of MENA to 'reap the fruits of globalization' (Masood, 2010), their losses of export markets shares as well as the social exclusion, growing inequality and frustration of the population – their *relative lagging behind* – have all contributed to the outbreak of recent revolutions. At the same time, MENA did not suffer from 'transformational recessions' like the CESEE early 1990s (at least so far);[8] they were also mostly spared the effects of the recent crisis which hit the CESEE disproportionally hard (Figure 1). According to the IMF, MENA's low degree integration with international capital markets, together with spillovers from fiscal expansion in neighbouring oil-exporting countries, helped to offset the impact of the global slowdown. As a rule, MENA GDP growth even accelerated during the 2000-2010 period and their short-term growth outlook is generally positive (except for conflict-torn Syria – see IMF, 2011b and IMF WEO Update, April 2012). The latter suggests that MENA economic transitions could proceed without a kind of 'transformational recessions' which accompanied CESEE transitions – whether thanks to avoiding 'mistakes' in the reform strategy or because of a different reform agenda remains to be seen.

Nevertheless, the Arab Spring turmoil and its aftermath are expected to have adverse short-term effects on economic growth, trade and investments - albeit for somewhat different reasons than was the case in CESEE's transitions.[9] The OECD paper prepared for the latest 'Arab World Competitiveness Report 2011-2012' on opportunities and challenges in the MENA region does not explicitly mention the economic transition but rather a continuation and/or refocusing of ongoing reforms. Among the key challenges facing the MENA region job creation, tackling corruption, public sector reforms and trade diversification are mentioned (see O'Sullivan et al., 2012).

[8] Except for Libya where the GDP fell by estimated 60% in 2011 due to the civil war, but it is expected to recover fast according to the IMF (IMF WEO Update, April 2012).

[9] These effects are perhaps comparable to violent (or frozen) conflicts in the former Yugoslavia, Georgia, Azerbaijan and Moldova during the early 1990s.

Economic structures

Prior to transition the state had an overwhelming role in the economy of CESEEs (except for Yugoslavia where elements of a market economy existed), ranging from the direct state ownership and detailed central controls of all enterprises to the monopoly of foreign trade, allocation of foreign exchange, extensive price controls and the primitive forms of financial transmission (cash and accounting money transactions conducted by a state-owned monobank). These (and other) controls were most extensive in Albania, Romania and in the Soviet Union while in Poland and Hungary relatively liberal regimes existed long before the transition had started (agriculture, in particular, was private). Yugoslavia was to a significant extent a (socialist) market economy in several respects similar to some MENA countries (e.g. Algeria, Egypt and Syria). There was no open unemployment in CESEEs and the foreign travel was heavily restricted (again except for Yugoslavia). On the contrary, a sizeable over-employment existed in the state sector and being out of job was usually punishable by law. Repeatedly, and ultimately towards the end of the communist period, and again to various extents in individual CESEE countries, cautious market-oriented reform efforts were attempted. These reforms mostly failed to yield the desired results (some of them were crushed by the external intervention as in Hungary in 1956 and in Czechoslovakia in 1968), but later on certain niches were opened up to private initiative mainly in small-scale retail trade, crafts, agriculture, construction and simple household services. A major challenge and the declared aim of transition was the (re-) establishment of private ownership. Initial transition measures thus included the liberalization of prices and of foreign trade (the abolishment of the state foreign trade monopoly and of most subsidies; huge exchange rate devaluations followed in order to foster export competitiveness and limit imports) – measures sometimes dubbed as a ‘shock therapy’. Furthermore, the privatization of state enterprises and the building-up of the institutional system of a market economy required protracted and sustained efforts which have not been fully completed even two decades after transitions had started.

Privatization in the broad sense required facilitating business start-ups throughout the economy and the elaboration of privatization schemes in an environment where domestic private capital was extremely scarce compared to the needs of a functioning market economy. In some CESEEs (and again to various degrees) the restitution of properties to former owners or to their heirs was implemented. In general, the privatization of small and medium-sized enterprises (SMEs) was relatively easy whereas the privatization of big state owned enterprises, especially those established during the communist era, which were often loss-making was much more difficult. The latter resulted partly from the lack of domestic capital, and partly it was due to the social and political implications (e.g. regarding ‘fairness’ considerations and the adverse labour market effects). In some countries, various innovative privatization schemes (such as free voucher distribution to citizens or employees’ – usually management – buy-outs) were implemented (Czech Republic and Russia were two prominent examples). Additionally, the newly reconstructed commercial banking system was far from being able to provide the necessary support to these changes due to the lack of both knowhow and capital. Frequently, the existing assets or capital were misallocated or squandered in the process (via various forms of asset stripping and the outright theft). Later on, many newly privatized companies had to be recapitalized by the state and then sold anew, usually to foreign investors who brought about the necessary capital, management and marketing skills as well as technical know-how. A number of former state-owned enterprises went bankrupt and were eventually abandoned.

The MENA group is now probably in a better position in many of these respects, at least regarding privatizations and the existence of a market economy. Though the state's direct or indirect role there is bigger than in developed market economies and the state is 'heavily involved in many private sector activities and plays the role of the employer of first choice and last resort',[10] the MENA's way towards a functioning market economy based on predominantly privately owned businesses should not necessarily be as long, painful and controversial as it was in the former communist countries. The role of the state in the economy of MENA countries – judged, for example, by the share of government revenues and expenditures in GDP – is currently comparable to less advanced CESEE and it is generally lower than either in NMS or in Western Europe (Tables 1a-1c in the Appendix). The dimension of privatization tasks is thus smaller in MENA countries and the barriers to private entrepreneurship which are to be removed are of a different nature than it has been the case in CESEE. Employment in the public sector ranges from 22% in Tunisia to around 33-35% in Syria (O'Sullivan et al, 2011). Even in Egypt, where the public sector accounts for over 40% of value added outside agriculture and for 70% of non-agricultural employment, the dimension of potential privatization is smaller than it was in CESEE at the outset of transition. However, there may be other, more subtle obstacles to privatization (Droz-Vincent, 2011) and labour market challenges are partly of a different nature.[11]

Investment climate, Foreign Direct Investment (FDI)

The important challenge in the MENA region, as has also been the case in CESEE countries, is the fundamental reform in the regulation of business activities, including a radical reduction of cronyism, corruption and the lifting of pre-industrial era limitations to competition and transparency - a process that necessarily should involve the revision (scaling back) of the public sector's role in the economy. Concerning the foundations of a market economy, basic trading skills (bazaar) and small entrepreneurship have historic roots in the MENA region. The respective traditions have not been interrupted for decades even in 'quasi-socialist' countries such as Algeria, Libya or Syria. Financial institutions (and other prerequisites of a market economy) have been in place for a longer time already, though

[10] IMF (2011a) paper prepared for the G8 Summit in Deauville, France, 27 May 2011. The simultaneous high incidence of unemployment (especially youth) and low competitiveness is being ascribed to the skill mismatch – see Masood (2010), O'Sullivan et al (2011).

[11] Rapidly growing populations, low female activity rates, etc. (The World Bank, 2011c).

the access to finance has been an important constraint to business.[12] Instead of re-establishing the market economy from the scratch, as it was the case in the CESEEs, the main task in the MENA countries will typically be a thorough modernization and expansion based in part on already existing structures, sometimes with the help of external assistance.[13] Besides, the existence of a widespread poverty together with large income inequalities once more illustrates that MENA transition must involve several classic economic development tasks.

The success of MENA transition (and its sustainable development) depends also on the investment climate and other conditions for doing business which are indispensible for modernizations and restructuring. MENA and the CESEE (and individual countries within both regions) widely differ also in these respects. According to the latest World Bank Doing Business ranking, both groups of countries do not score particularly well (in the majority of cases they score worse than most EU countries).[14] In general, Eastern Europe & Central Asia countries not only rank better than MENA in terms of FDI stocks, but have been recently doing better in Doing Business rankings as well. Compared to 84% of Eastern Europe & Central Asia countries which implemented in 2009/2010 at least one reform making it easier for doing business, only 50% of Arab world countries undertook similar reforms. Morocco, Moldova and Armenia are among the top countries which improved the ease of doing business the most across several areas of regulation. Figure 3 illustrates the positive correlation between the Ease of Doing business ranking and the countries' attractiveness for FDI.

A strong presence of foreign investors in the local economy may be seen as a mixed blessing. On the one hand, recipient CESEE countries have been integrated into worldwide production networks and today not only produce (this was the case already before transition) but also export to the world market cars, computers and telecommunication devices which was not the case before. The mother companies of the local financial affiliates introduced a more sophisticated banking culture and technologies, provided ample liquidity for the pre-2008 economic boom in the region and, finally, helped their local affiliates to survive the worst months of the 2008-2009 global financial crisis. On the other hand, FDI firms often remain isolated islands of modernity with insufficient subcontracting activities induced among local firms and limited spillovers. The strong specialization of the foreign-owned firms in industry (e.g. on the automotive industry) is sometimes seen as one-sided and thus potentially risky. There is no national industrial policy any longer in the countries concerned, with negative consequences for domestic R & D activities and innovation. Domestic-market oriented foreign firms often crowd out domestic-owned competitors. Last but

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[12] At the same time, the Islamic finance has been growing rapidly in recent years – see Mohieldin (2012).

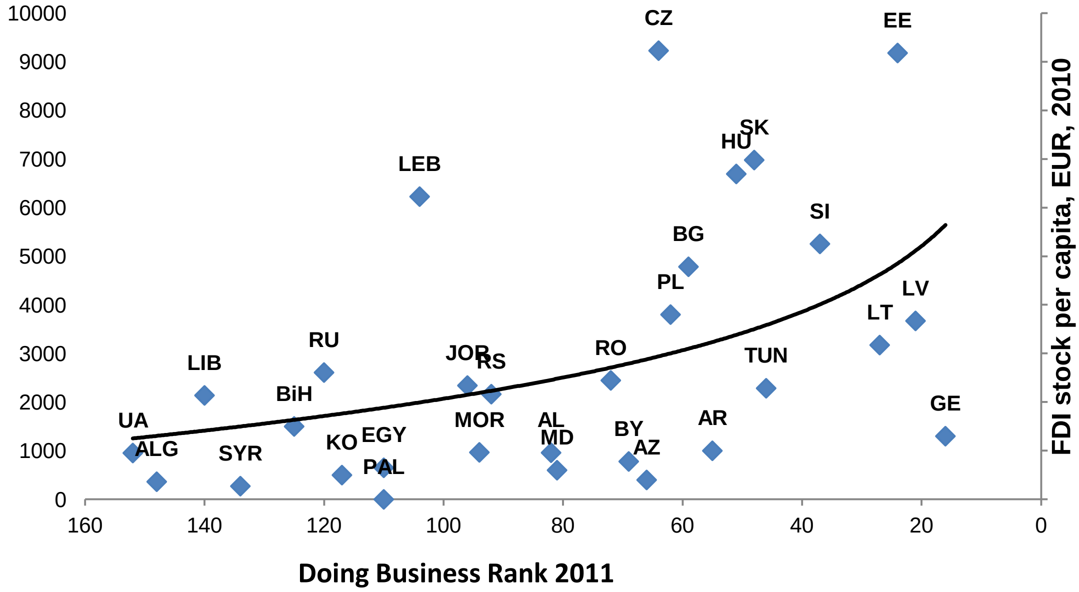
[13] However, both the role and forms of external assistance are controversial and by no means straightforward: The IMF, The World Bank supported reform programs, and the European Union policies aiming at bilateral trade liberalizations (and the support for the old regimes in general prior to Arab Spring) have not only led to desired results but even discredited such forms of an external assistance in general (Eurochambres, 2011, Ghiles, 2011, Ghoneim, 2011, etc.).

[14] However, a number of new EU member states, as well as Italy (rank 87) and Greece (rank 100), do not score particularly well either – see The World Bank's Doing Business 2012 (http://www.enterprisesurveys.org).

not least, a considerable part of the profit generated in the highly profitable foreign sector is transferred abroad to the mother company.

Figure 3

FDI stock per capita and Ease of Doing Business, selected MENA and CESEE



Note: a lower rank indicates better investment climate.
Source: Annex Tables 1a-1c (see also for country codes).

The MENA countries may learn a lot from the recent experience of the CESEEs in this area: they have the option to diminish the negative side-effects of FDI by a gradual and segmented opening up to foreign investment and through cleverly designed measures to shield domestic producers and providers of services from being wiped out by market-seeking FDI, as well as by preserving (or devising) elements of an industrial policy. There are already some positive examples in the MENA region: Tunisia ('an outsourcing hub in the MENA region with car, IT and aeronautical industries') and Egypt ('attracting global IT investments') are mentioned as 'success stories' (Masood, 2010). Similarly, Libya was praised by the IMF for its achievements in modernization and diversification as late as in October 2010. As MENA countries have no perspective of EU accession, the outright liberalization of capital flows is not a must for them and the FDI policies in China, India or Malaysia may be more expedient. The above quoted success stories in Egypt and Tunisia should be carefully studied also with respect to costs and benefits of domestic market versus export-oriented FDI projects. All in all, should the MENA countries opt for a modernization path and export-led growth strategy similar to that of the more advanced CESEEs, they must be aware of the fact that foreign capital is an indispensable component of transition, modernization and restructuring as we know it. Moreover, there are important lessons to be learned also with respect to a job creation and income growth related to or generated by FDI (The World Bank, 2011b).

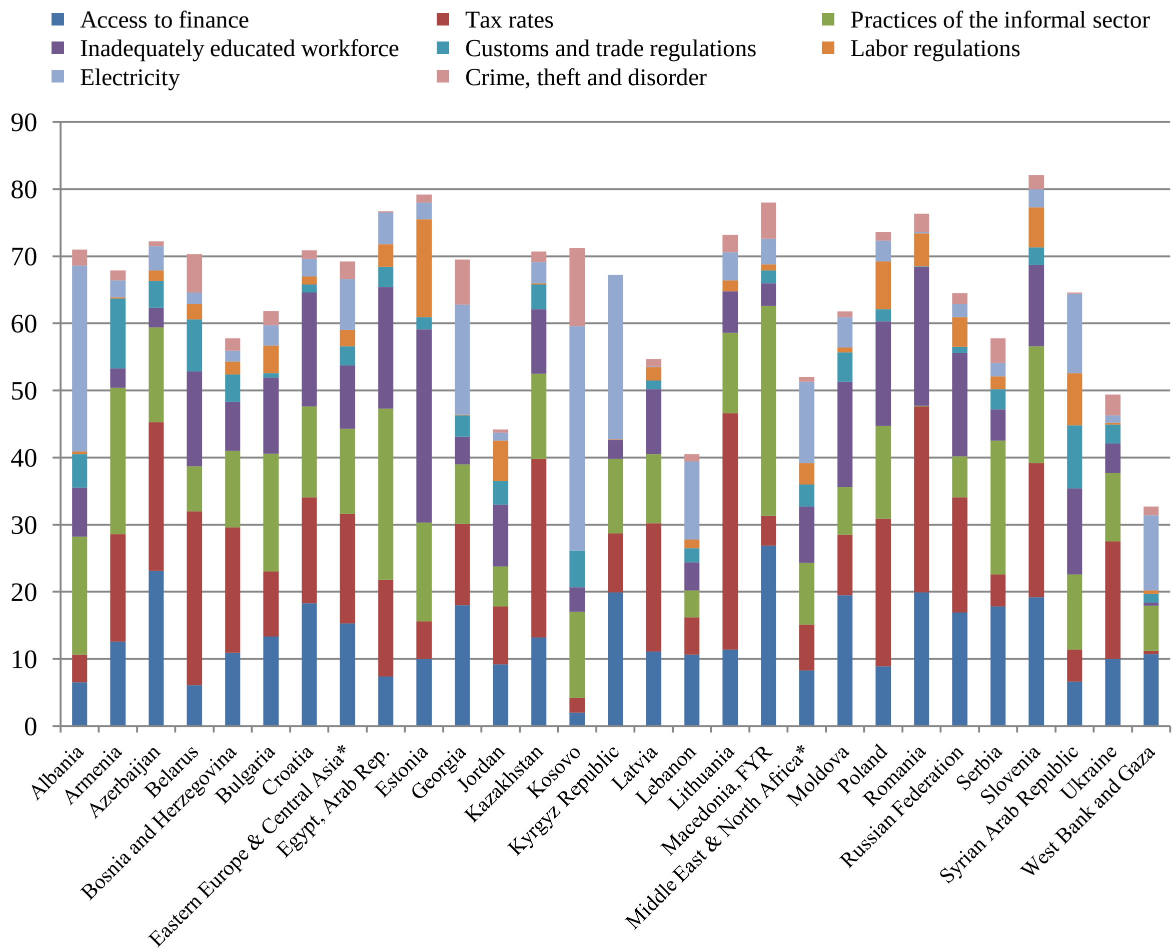
The prospect of membership in the EU (the above mentioned EU ‘accession anchor’) and the necessity to secure the creation of a favourable legal and institutional environment for badly needed foreign direct investment compelled the CESEEs to continuously elaborate on their institutional competitiveness, going beyond the focus on traditional cost competitiveness which prevailed at the early stages of transition. That required a radical departure from the initial conditions soon after the beginning of transition. The process of institutional upgrading was generally more successful in Central Europe than elsewhere farther East or South. The MENA countries are going to face this challenge only now while the pure costs competitiveness (e.g. low unit labour costs) is probably not crucial (or the only challenge) in this context. This is clearly seen also from the results of a worldwide ranking of individual economies displayed in the regular World Bank survey ‘Ease of Doing Business’ which measures various indicators related to entrepreneurship in more than 180 countries in the world. The most recent results (from 2012) show that out of the altogether 27 transition countries covered, 8 were ranked among the first best 50 countries, 13 among the second 50, and 6 among the last 100 countries of the altogether 183 countries ranked. Concerning the MENA group, only one (Tunisia) was among the first 50. Besides, there is a clearly visible positive association between the business climate ranking and FDI stock: a better business climate is instrumental in attracting more FDI (see Figure 3).

Apart from overall investment rankings, The World Bank’s Enterprise Surveys provide a large number of additional detailed results which are relevant for the assessment of business environment and competitiveness (such as regulations and taxes, the access to finance, corruption, crime, infrastructure, various characteristics of firms and labour, innovation and technology, etc.[15] In each country covered by the survey, several hundred firms - usually domestically owned SMEs operating in the non agricultural formal private economy - are being surveyed. Figure 4 lists the latest eight biggest obstacles to ease of doing business in selected CESEE and MENA countries (out of fifteen obstacles surveyed) as identified by respondents (usually domestic SMEs owners or managers). These eight obstacles account for 60-70% of all obstacles surveyed (except for Jordan, Lebanon, Ukraine, West Bank and Gaza).

[15] See www.enterprisesurveys.org for definitions of indicators and other details. Unfortunately, not all countries are covered by detailed surveys and results are available with a time lag of at least three years.

Figure 4

Biggest obstacles to Ease of Doing Business, 2009 (% of firms surveyed)



Note: '' indicate group average.*
Source: Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

The financial intermediation is generally underdeveloped in both regions – as evidenced e.g. by a relatively low percentage of firms that operate with a bank loan or a credit line. Lending practices thus pose a serious obstacle – a fact which is particularly relevant for the development of SMEs (see also Alvarez de la Campa, 2011).The practices of the informal sector (corruption and crime) are being frequently mentioned as important obstacles, especially in the CESEE. Large proportion of firms in the MENA region are also confronted with corrupt practices, be it for obtaining import license, the construction permit and/or electrical connection or the government contract. Whereas only a minor proportion of firms possess an internationally recognized quality certificate (just about 16%, though one has to take into account that most domestically owned and domestically operating SMEs which are covered by the sample do not export and do not require such a certificate), a relatively high proportion of firms uses Internet (slightly more in the CESEE than in the MENA region). In contrast, only a small percentage of firms use technology licensed from abroad.

Again, there are relatively more such firms in the CESEE than in the MENA, indicating a relative backwardness and a lower competitiveness of firms in the latter region.

Except for Poland and Slovenia, the overwhelming part of the financial institutions and insurance companies in the CESEEs are also foreign-owned, though not in the CIS.[16] By contrast, the significance of foreign ownership in the financial sector of the MENA countries has been smaller: foreign-owned assets amount to about one fifth of all banking system assets; though the state ownership is extensive in some MENA banking and insurance sectors (70% of banking assets in Egypt, 95% in Algeria and 100% in Syria – see Eurochambres, 2011). Recently, the importance of the Islamic finance has been on the rise in the MENA region (Mohieldin, 2012).

Measures aimed at increasing the export potential and competitiveness in general should become one of the principal components of the transition strategy in the MENA region. The latter could be assisted by technology spillovers brought about by FDI. Indeed, foreign-owned enterprises have been the engine of restructuring and modernization in CESEEs' industry, financial services and trade. Starting almost from a scratch, 60% to 80% of exports in more advanced CESEEs (mostly NMS) are nowadays delivered by foreign-owned firms. We have no comparable data about the MENA countries at this stage, but per capita FDI stocks (or FDI stocks in GDP) display a generally smaller weight of foreign capital in the economy than in the CESEEs. The exceptions are, however, not negligible: Tunisia and Jordan (Lebanon is another exception) have a record comparable to the less successful FDI-absorbing transition countries, and some Balkan economies are not more successful in attracting FDI than the MENA economies. The attractiveness for foreign investments is associated with the quality of the business climate (as indicated by Ease of Doing Business ranking (see Figure 3 above).

Labour market

On the surface, there is no much difference in the labour market performance between MENA and CESEE: unemployment rates are broadly similar in both regions (about 10% in 2010). However, both the youth unemployment and vulnerable employment rates are much higher in the MENA region while the employment rates are lower (Brada and Signorelli, 2012). Labour regulations are not perceived as a major constraint by the majority of firms, especially in the more "liberal" CESEE (in contrast to "more regulated" pre-revolutionary Egypt and Syria). However, the inadequately educated workforce is definitely a constraint: a substantial percentage of firms in the MENA region, in particular in Algeria, Egypt, Lebanon and Syria, complain about skills shortages. In the CESEE, the lack of education is perceived much less as a constraint; the firms in these countries also employ less unskilled workers and – most important for competitiveness – a higher proportion of firms offer their workers formal training (e.g. 46% of firms in Armenia, 61% in Belarus, about

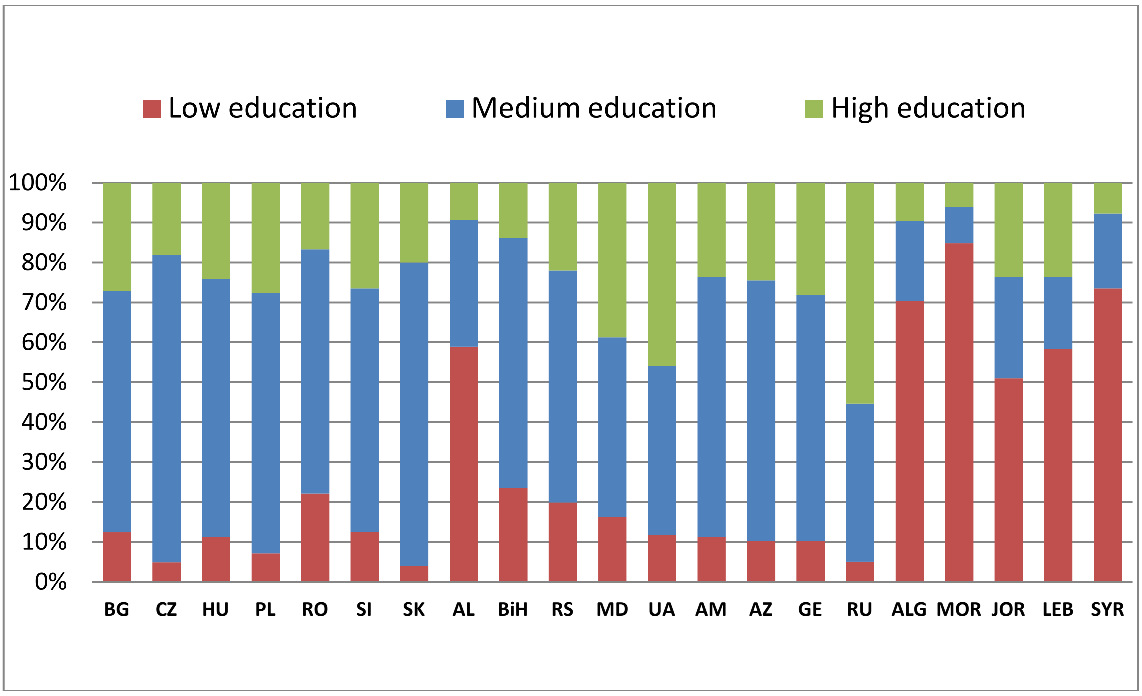
[16] See Grinberg et al. (2008), in particular the contribution by G. Hunya.

50% in Bosnia and Herzegovina, Moldova, Russia and Ukraine). Indeed, the fairly high qualification of the labour force – one of the few positive heritage of the previous system – represents also one of the key competitive advantages of firms in the CESEE, despite worsening quality of education since the fall of the Soviet Union (O'Sullivan et al., 2011).

The majority of CESEE have a much better educated workforce than MENA countries: the share of low educated workers in total employment is much lower in the former group of countries than in the MENA region and the results of enterprise surveys are confirmed by the labour force data (except Albania - Figure 5). The good qualification of the labour force (both medium and highly educated workers) in the majority of CESEEs has been not only one of their competitive advantages in attracting FDI, but also a factor smoothing transition.

Figure 5

Employment by educational attainment, in % of total (year 2010 or latest available)



Note: see Annex Tables 1a-1c for country codes.
Source: Laborsta (ILO), Eurostat and national statistics.

The economic structure of CESEEs at the beginning of transition resembled that of advanced industrialized countries. Industry played the key role, partly in continuation of the pre-communist structures (typically in Central Europe), partly as mainly newly created under the communist rule with a bias towards heavy industry and the military sector in particular (typically in the Balkans, and the former Soviet Union). Even if the products of these industries were mostly inferior to those of their western counterparts in terms of quality, design and the efficiency of the production processes (and services sectors were grossly underdeveloped), the societies producing them were overwhelmingly industrial, with a labour force possessing the appropriate skills. That was reflected in the employment and skill structures, ways for upward social mobility (including the role of women), and in countless aspects of everyday life (including, to a large degree, culture, religion and nationality issues). Even if a huge part of the industrial firms perished under the competitive pressure imposed by the sudden (and perhaps premature) liberalization of imports in the early process of transition, a considerable part of the involved human capital survived the initial industrial collapse and was able to adapt and get employed in the newly emerging restructured market economy. Still, the 'transformational recession' (a term first coined by the Hungarian economist János Kornai) was frequently deeper than the recent 'global crisis' and left deep scars on the economies and societies of the CESEEs, especially regarding the labour market coping with high unemployment affecting in particular young workers – the latter being one of the few common features among MENA and CESEEs presently.[17]

In the MENA countries almost a third of the population is younger than 14 years. As a consequence the working age population in the MENA region will continue to grow in the next thirty years or so. The large inflow of new labour market entrants combined with a lower rate of workers retiring and new job creation has and will put an enormous pressure on the MENA countries' labour markets. Thus, job creation will remain a top priority in the coming years in order to remain at current unemployment levels. Estimates of international organizations on the need of additional jobs in the next decade are ranging between 25 million (MENA-OECD Investment Programme) and 50-75 million jobs (World Bank, 2011b), which would require (most likely unrealistic) annual GDP growth rates in excess of 6.5%.

Foreign trade and regional integration

One of the most important features of early transition in the CESEEs was the radical opening up of the economy to foreign competition via the liberalization of external trade and current account (later also capital account) transactions. The external liberalization was initially associated with a huge devaluation of domestic currencies which, together with domestic price liberalization, contributed to high inflation at the beginning of transition. The economic opening represented an unprecedented shock after many decades long extreme protectionism under the umbrella of the Soviet-led regional 'integration' bloc called CMEA. After a widespread and rapid collapse of many state enterprises and even whole industries (which contributed to the depth of the transformational recession mentioned above – see Figure 1), the recovery started relatively soon as parts of industry became (cost) competi-

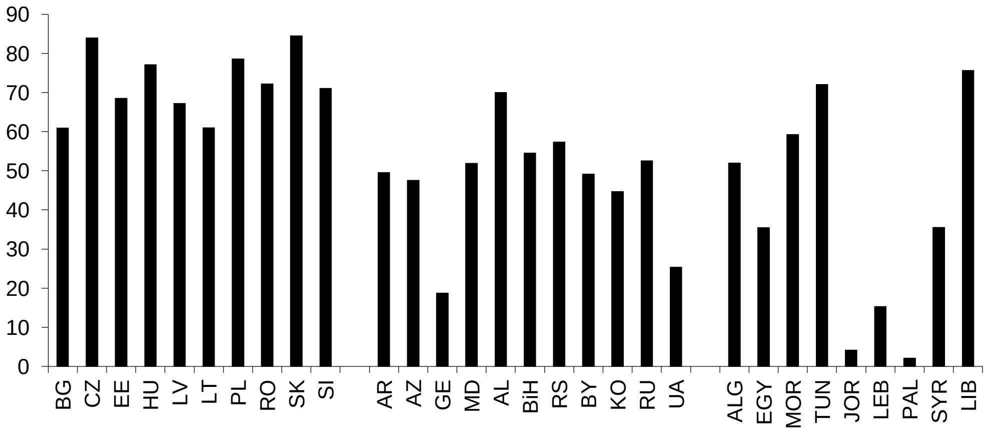
[17] However, most CESEE countries differ from those in the MENA region in terms of demography and a host of social indicators – see Gligorov et al. (2012a). An eminent requirement for MENA is an adjustment of skill structures, changes in the educational system and incentives (the skills mismatch is frequently cited as one of the reasons for high youth unemployment in MENA countries - see, for example, Masood (2010)). Differences can also be found when comparing other features of the labour markets. The participation rate is very low in the MENA region with less than half of the working age population participating in the labour force. This is mainly due to low female activity rates – see O'Sullivan et al, 2011.

tive after devaluations and thanks to modernization and restructuring. These developments were closely correlated with massive inflows of FDI: foreign-owned enterprises played an outstanding role in the rapid expansion of CESEEs' exports. Many CESEEs (particularly the new EU member states in Central and Eastern Europe) adopted an export-driven growth strategy, nevertheless with a completely different geographical distribution of trade, different actors (exporters) and, after FDI had helped in restructuring and modernization, also new or upgraded products. Highly developed EU economies became their main export markets, firstly in labour-intensive products, and also the main source of imports, of both consumer and investment goods. To different degrees in the individual CESEEs, strong specialization in a few groups of engineering products has occurred relatively soon after the start of transition (Dobrinsky and Landesmann, 1995) and these specialization patterns even strengthened afterwards (Havlik, 2008).

Except for Jordan and Palestine, the EU is the most important trading partner of MENA as well: more than half of MENA exports (more than 70% in the case of Tunisia and Libya – see Figure 6 and Annex Table 1a-1c), and about 40% of their imports are traded with the EU. The intra-regional trade is underdeveloped and it is frequently being seen as one of the reasons for MENA's general economic backwardness (Masood, 2010; Chauffour, 2011, Malik and Awadallah, 2011). The EU-MENA free trade agreements (Association Agreements) have many drawbacks: they do not apply to agricultural products; services trade and FDI flows are hampered by cumbersome investment regimes (Eurochambres, 2011).

Figure 6

Exports to the EU in % of total exports, selected MENA and CESEE countries, 2010



*Sources: Annex Tables 1a-1c; UN COMTR*ADE, CISSTAT, Eurostat.

However, there is a huge asymmetry in the importance of EU-MENA trade: less than 2% of EU trade is conducted with MENA region; in relative terms (shares of MENA in EU's total imports) the market share of MENA in the EU remained constant during past decade – below 2% (only Libya managed to increase its market share in the EU during 2000-2010 – largely thanks to rising energy prices). For comparison, the Central and East European

NMS managed to nearly double their market share in the EU in the same period: from 3.9% of EU total imports in 2000 to 7.5% in 2010 (Gligorov et al., 2012a).

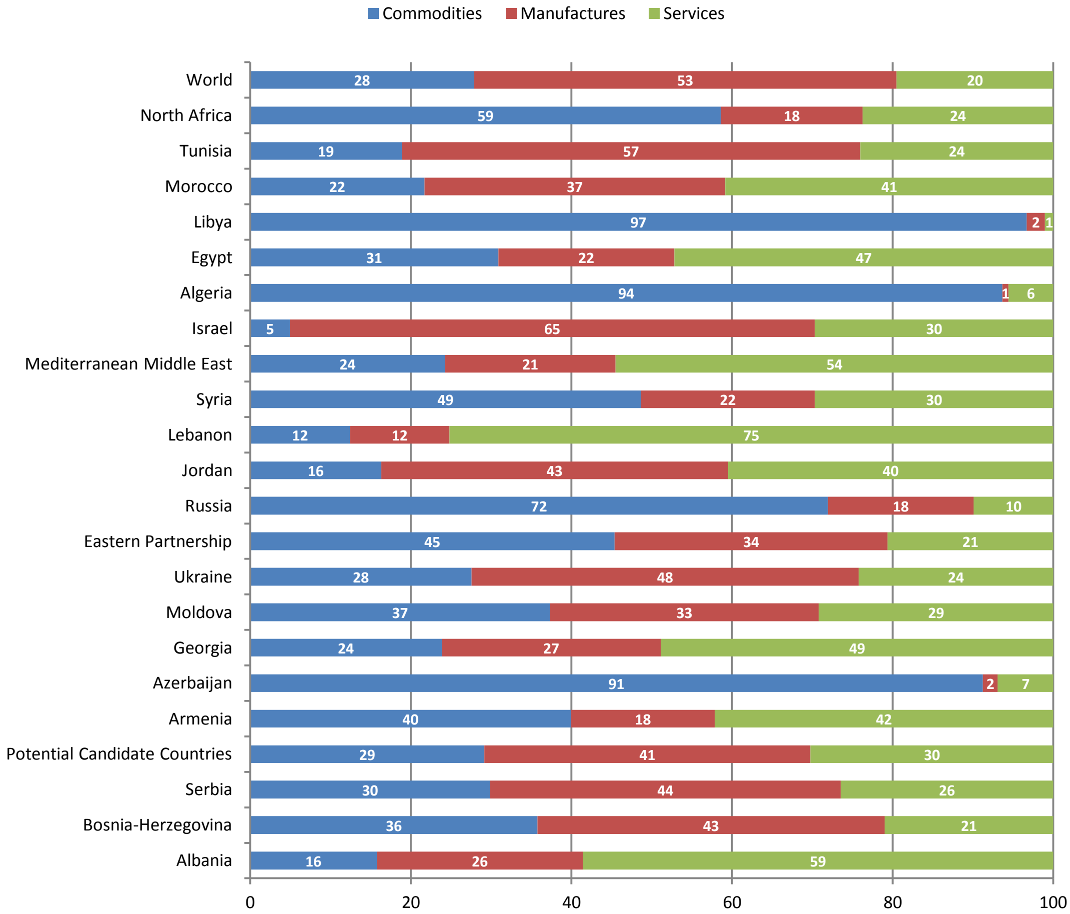
As opposed to the pre-transition CESEEs, the MENA countries have not been a regional trading bloc (on the contrary, their lack of intra-regional trade is seen as one of the culprits of low development levels) and thus may in this respect resemble CESEEs in the period immediately after the disintegration of COMECON and trade liberalization. However, with a 28% share of exports of goods in GDP, MENA's trade openness is relatively low and is similar to that of Western Balkan countries Annex Table 1a-1c). However, the average level of protection in individual countries of the group is significant (with import tariffs averaging about 12%) and several MENA countries are at the high end of a ranking which compared 139 countries by overall trade restrictiveness according to the IMF. Trade openness is clearly insufficient, despite the existence of Greater Arab Free Trade Agreement (GAFTA), the Common Market for Eastern and Southern Africa (COMESA), Association Agreements with the EU, etc.[18] Yet the main problem for MENA countries' exports is not protectionism itself, but (as in the CESEEs twenty years ago) the lack of established export industries, low competitiveness, export concentration in traditional low value added products and a mismatch of skilled labour which could be relied on in case of the intention to follow the pattern of an export-driven catching-up process. Indeed, Figure 7 illustrates very low shares of manufactures in MENA's exports, especially compared to the NMS (Havlik et al., 2009; Havlik and Richter, 2011). These problems are often compounded by trade restrictions imposed by major trading partners (e.g. on agriculture products in the case of the EU – the largest market for MENA countries).[19]

[18] See Dabrowski (2011).

[19] For a comprehensive overview of various trade impediments in MENA region see Eurochambres (2011).

Figure 7

Composition of MENA and CESEE exports, 2010



Source: UN Comtrade, calculations by Roman Stöllinger, wiiw.

The MENA countries, again in contrast to the CESEEs, have failed to increase their export market shares not only in the EU but in global trade in general; in contrast to CESEE, they did not manage to increase their shares of exports in GDP in the past decade (except for Tunisia). This is another indicator that MENA region 'is not realizing the full benefits of globalization'.[20] A comprehensive EU-MENA trade agreement, possibly accompanied with intra-MENA (and Turkey) Customs Union agreement – the last option mentioned above would be beneficial for MENA's development (Eurochambres, 2011; Ülgen, 2011, Dreyer, 2012). For the time being, the existing EU-MENA trade agreements, Action Plans and other Neighbourhood Policy instruments are insufficient and have been frequently criticized (see, for example, Emerson, 2011, Ghoneim, 2011). At the same time, even the feasibility of an export-led growth strategy is sometimes being doubted owing to the changed conditions in the world economy (Palley, 2011).

20 See, for example, Masood (2010).

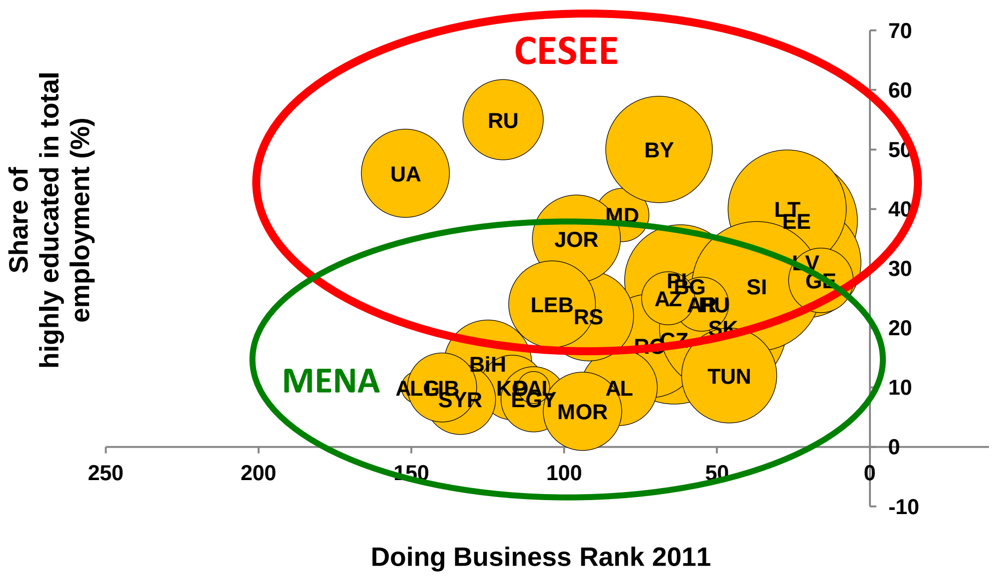
Conclusions

MENA's future development challenges are mostly of a political and social nature; the economic transition will not require a radical overhaul of the existing system as was the case in CESEE countries after the 1989-1991 systemic changes. This relates to a number of economic policy areas such as the labour market, public sector reforms, foreign trade and foreign direct investment, to mention just a few of the most important ones. Thus, MENA is facing the urgent task to create new jobs outside the public sector, and to improve governance and the rule of law. The agenda for MENA's economic reforms is admittedly much narrower than that faced by CESEEs twenty years ago. The above-quoted OECD paper lists the following four areas (see O'Sullivan, 2012):

- improving governance, transparency and accountability;
- increasing social and economic inclusion;
- modernization, supporting private sector development and job creation;
- fostering the regional and global integration.

Figure 8

Comparing MENA and CESEEs: Ease of Doing Business, employment skills and manufacturing exports per capita (in logarithms; proportional to bubbles)



Source: Annex Tables 1a-1c (see also for country codes).

Figure 8 provides a synthetic picture of the socio-economic standing and challenges facing the CESEEs and MENA regions: the climate for investments (as reflected in the latest World Bank's Doing Business ranking), skills structure of the labour market and the export performance (the intensity of manufacturing exports). There is a clear distinction in both regions with respect to labour market structures: the MENA region is lagging behind considerably in this respect. With respect to the investment climate there are frontrunners and laggards in both regions, though parts of the CESEE region tend to score better (e.g. the Baltic states, Georgia and Slovenia). As far as the export performance (manufacturing exports per capita) is concerned the NMS clearly stand out while the majority of MENA countries are lagging behind considerably. As expected, a worse investment climate and poor workers' skills are both detrimental to the development of manufacturing exports.

Institutional reforms which aim at improvements of the business climate and the promotion of inclusive economic developments have to be urgently addressed by local governments. Two latter broad economic reform areas (modernization and integration) probably open the greatest space for the involvement of the international community. The experience of CESEE suggests that FDI inflows are instrumental to modernization, private sector development and job creation – although the above-mentioned caveats must be taken into account. Similarly, regional integration can be fostered with the help of the EU and other IFIs by promoting and broadening existing bilateral free trade agreements and lifting the existing barriers. Here again the experience of NMS is a valuable inspiration and those CESEE and MENA without EU membership perspective should be encouraged by the EU to negotiate new and more ambitious Free Trade Agreements with the EU with a prospect for a customs union (Dreyer, 2012).

In all the policy areas mentioned above (and there are plenty of others) there is no guarantee for success – as illustrated by the experience of CESEE. Moreover, the current global crisis makes the policy implementation not easier. If anything, the future scenarios must reckon with a slow process of improvements, many backlashes and no success guarantees. It is also quite certain that some countries (e.g. Tunisia) will fare better than others (Egypt). The abundance of natural resources represents an additional challenge (Algeria and Libya vs. Russia and Azerbaijan).

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ANNEX

Annex Table 1a

Central and East European new EU member states (NMS): an overview of economic fundamentals, 2010

	BG Bulgaria	CZ Czech Republic	EE Estonia	HU Hungary	LV Latvia	LT Lithuania	PL Poland	RO Romania	SK Slovakia	SI Slovenia	*NMS-10* [1]	*EU-15*	*EU-27* [2]
GDP in EUR at exchange rates, EUR bn	36.03	149.31	14.31	97.09	17.97	27.54	354.31	121.94	65.91	35.42	*919.8*	*11314.1*	*12257.5*
GDP in EUR at PPP, EUR bn	80.17	211.29	21.01	154.62	28.23	46.79	582.70	236.29	98.19	42.85	*1502.1*	*10729.6*	*12257.5*
GDP in EUR at PPP, EU-27=100	0.7	1.7	0.2	1.3	0.2	0.4	4.8	1.9	0.8	0.3	*12.3*	*87.5*	*100.0*
GDP in EUR at PPP, per capita	10600	20100	15700	15500	12600	14200	15300	11000	18100	20900	*14700*	*26900*	*24400*
GDP in EUR at PPP per capita, EU-27=100	43	82	64	64	52	58	63	45	74	86	*60*	*110*	*100*
GDP at constant prices, 1990=100	127.2	145.7	140.7	124.5	99.9	110.8	188.2 [3]	131.3	163.1	156.8	*160.8*	*140.1*	*143.1*
GDP at constant prices, 2000=100	148.9	139.6	146.5	121.5	143.5	153.1	146.6	149.0	159.7	130.6	*143.8*	*112.7*	*115.8*
Industrial production real, 2000=100 [4]	142.3	146.1	163.6	141.8	143.4	169.4	175.0	126.1	192.1	118.7	*156.2*	*92.7*	*102.6*
Share of industry in GDP, %	19.0	26.2	19.0	21.7	15.8	20.2	21.7	23.0	23.3	19.6	*23.1*	*16.3*	*16.8*
Share of agriculture in GDP, %	4.2	1.5	2.9	3.2	4.0	3.0	3.2	6.6	3.6	2.2	*3.4*	*1.4*	*1.5*
Population - thousands, average	7534	10520	1340	10000	2239	3287	38184	21438	5430	2049	*102021*	*398230*	*501465*
Employed persons - LFS, thousands, average	3053	4885	571	3781	941	1344	15961	9239	2318	966	*43058*	*172798*	*216405*
Unemployment rate - LFS, in %	10.2	7.3	16.9	11.2	18.7	17.8	9.6	7.3	14.4	7.3	*9.9*	*9.6*	*9.7*
General gov. revenues, EU-def., in % of GDP	34.9	39.3	40.9	45.2	36.1	33.8	37.5	34.0	32.3	44.3	*37.8*	*44.6*	*44.1*
General gov. expenditures, EU-def., in % of GDP	38.1	44.1	40.6	49.5	44.4	40.9	45.4	40.9	40.0	50.1	*44.3*	*51.2*	*50.6*
General gov. balance, EU-def., in % of GDP	-3.1	-4.8	0.3	-4.3	-8.2	-7.1	-7.8	-6.9	-7.7	-5.8	*-6.4*	*-6.6*	*-6.6*
Public debt, EU def., in % of GDP	16.3	37.6	6.7	81.3	44.7	38.0	54.9	31.0	41.0	38.8	*47.1*	*82.9*	*80.2*
Price level, EU-27=100 (PPP/exch. rate)	45	71	68	63	64	59	61	52	67	83	*61*	*105*	*100*
Compensation per employee, monthly, in EUR [5]	433	1283	1119	1005	780	781	883	621	1134	2035	*898*	*3217*	*2776*
Compensation per employee, monthly, EU-27=100	15.6	46.2	40.3	36.2	28.1	28.1	31.8	22.4	40.8	73.3	*32.3*	*115.9*	*100.0*
Exports of goods in % of GDP	43.2	59.0	61.4	71.0	37.9	56.8	35.3	30.6	74.0	51.9	*47.1* [6]	*29.1* [6]	*30.4* [6]
Imports of goods in % of GDP	50.9	57.6	63.1	67.7	45.0	61.5	37.8	35.4	73.8	55.3	*48.9* [6]	*29.5* [6]	*30.9* [6]
Exports of services in % of GDP	14.3	10.6	23.9	15.1	15.4	11.3	7.0	5.4	6.7	13.1	*9.3* [6]	*9.8* [6]	*9.7* [6]
Imports of services in % of GDP	8.7	8.6	14.7	12.1	9.3	7.8	6.3	5.9	7.8	9.4	*7.8* [6]	*8.5* [6]	*8.4* [6]
Current account in % of GDP	-1.3	-3.1	3.6	1.1	3.0	1.5	-4.7	-4.0	-3.4	-0.8	*-2.9* [6]	*0.06* [6]	*-0.17* [6]
Trade with the EU													
Exports to the EU (%, share of total)	60.9	84.0	68.6	77.1	67.2	61.0	78.6	72.2	84.5	71.1	*77.7*	*63.4*	*65.0*
Imports from the EU (%, share of total)	58.7	74.8	79.7	67.7	76.1	56.6	70.1	72.5	72.6	67.9	*70.5*	*60.8*	*61.9*
Share in the EU total exports	0.24	2.16	0.15	1.43	0.12	0.25	2.37	0.69	1.07	0.40	*7.68*	*56.3*	*100.0*
Share in the EU total imports	0.28	1.78	0.19	1.13	0.17	0.25	2.31	0.85	0.92	0.39	*7.50*	*53.70*	*100.0*
World Bank Doing Business rank 2011	59	64	24	51	21	27	62	72	48	37			
FDI stock per capita in EUR, 2010	4784	9228	9179	6692	3670	3174	3801	2447	6978	5254	*4681*	*11366*	*10251*

NMS-10: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia. PPP: Purchasing power parity.

1) wiiw estimates. - 2) wiiw estimates and Eurostat. - 3) 1989=100, which in the Polish case is the appropriate reference year. - 4) EU-15 and EU-27 working day adjusted. - 5) Gross wages plus indirect labour costs, according to national account concept. - 6) Data for NMS-10, EU-15 and EU-27 include flows /stocks within the region.

Source: wiiw, Eurostat, AMECO.

Annex Table 1b **Eastern Partnership countries, Western Balkans, Russia: an overview of economic fundamentals, 2010**

	AR Armenia	AZ Azerbaijan	GE Georgia	MD Moldova	BY Belarus	AL Albania	BiH Bosnia and Herzegovina	RS Serbia	KO Kosovo	RU Russia	UA Ukraine
GDP in EUR at exchange rates, EUR bn	7.06	39.22	8.79	4.46	41.27	8.85	12.52	29.02	4.26	1115.05	103.92
GDP in EUR at PPP, EUR bn	12.85	69.31	17.11	8.40	101.45	21.70	24.91	62.34	9.31	1807.74	248.82
GDP in EUR at PPP, EU-27=100	0.10	0.57	0.14	0.07	0.83	0.18	0.20	0.51	0.08	14.75	2.03
GDP in EUR at PPP, per capita	3900	7700	3800	2400	10700	6800	6500	8500	4200	12600	5400
GDP in EUR at PPP per capita, EU-27=100	16	32	16	10	44	28	27	35	17	52	22
GDP at constant prices, 1990=100	146.2	237.0	68.8	57.2	107.6	197.0	.	.	.	107.2	65.8
GDP at constant prices, 2000=100	215.6	402.5	183.4	164.6	203.9	170.8	143.3	150.4	178.1	159.5	152.4
Industrial production real, 2000=100	160.6	326.1	130.0	135.8	224.9	234.5	186.6	106.0	120.0	148.5	154.5
Share of industry in GDP, %	14.8	52.6	12.1	13.2	44	8.9	17.8	18.4	20	26.7	24.4
Share of agriculture in GDP, %	17.4	5.4	7.3	11.9	9	16.8	7.1	8.0	12	3.5	7.2
Share of services in GDP, %	67.8	42.0	80.6	74.8	47.0	74.3	75.1	73.6	68.0	69.8	68.4
Population - thousands, average	3255	9047	4453	3562	9481	3210	3843	7300	2210	142938	45871
Population 1990=100	90.0	124	81	92	94	99.9	.	.	.	96.6	88.4
Population 2000=100	101	113	100	98	94.9	104.9	101.6	97.1	.	97.5	93.3
Employed persons - LFS, thousands, average	1104	4329	1628	1143	4666	1100	843	2396	.	69803	20266
Unemployment rate - LFS, in %	7.0	5.6	16.3	7.4	0.7	15.0	27.2	19.2	45	7.5	8.1
General gov. revenues, nat. def., in % of GDP	21.6	27.4	28.2	38.3	42.0	26.6	42.5	39.5	27.7	35.3	29.0
General gov. expenditures, nat. def., in % of GDP	26.5	28.3	26.4	40.8	43.8	29.7	47.0	43.9	29.9	38.9	34.6
General gov. balance, nat. def., in % of GDP	-4.9	-0.9	-4.5	-2.5	-1.8	-3.1	-4.5	-4.4	-2.2	-3.6	-5.9
Public debt, nat. def., in % of GDP	39.4	7.4	36.7	26.3	45.1	61.0	39.1	36.0	6.1	8.6	39.5
Price level, EU-27=100 (PPP/exch. rate)	55	57	51	53	41	41	50	47	46	62	42
Average gross monthly wages, EUR at exchange rate	219	307	258	195	308	246	622	461	.	526	213
Average gross monthly wages, EU-27=100	7.9	11.0	9.3	7.0	11.1	8.9	22.4	16.6	.	18.9	7.7
Exports of goods in % of GDP	12.2	51.1	21.1	35.7	46.4	13.2	29.8	25.5	7.2	27.2	37.8
Imports of goods in % of GDP	33.7	13.0	43.2	85.4	63.0	36.8	55.7	42.0	47.6	16.9	44.2
Exports of services in % of GDP	8.1	4.0	13.7	15.5	8.2	19.2	7.8	9.2	12.2	3.0	12.4
Imports of services in % of GDP	10.7	7.3	9.2	17.3	5.3	17.2	3.6	9.2	11.1	5.0	8.8
Current account in % of GDP	-14.7	29.0	-9.6	-11.7	-15.5	-11.9	-5.6	-7.2	-15.4	4.8	-2.1
Trade with the EU											
Exports to the EU (%, share of total)	49.6	47.6	18.7	51.9	49.1	70.1	54.5	57.3	44.7	52.6	25.4
Imports from the EU (%, share of total)	23.0	25.3	28.3	43.4	46.2	64.6	45.9	56.0	38.3	41.6	31.4
Share in the EU total exports, in %	0.01	0.06	0.03	0.04	0.17	0.05	0.08	0.19	0.02	2.23	0.45
Share in the EU total imports, in %	0.01	0.25	0.01	0.02	0.07	0.02	0.05	0.10	0.00	3.92	0.29
World Bank Doing Business rank 2011	55	66	16	81	69	82	125	92	117	120	152
Type of institutional arrangement (ENP, PCA, FTA, etc.)	ENP	ENP	ENP	ENP	ENP	SAA	SAA	SAA		PCA	ENP
FDI stock per capita in EUR, 2010	1000	400	1300	600	780	960	1500	2164	.	2609	954

Annex Table 1c

Middle East and North Africa (MENA): an overview of economic fundamentals, 2010

	ALG Algeria	EGY Egypt	MOR Morocco	TUN Tunisia	ISR Israel	JOR Jordan	LEB Lebanon	PAL Palestinian Authority	SYR Syria	LIB Libya	*NMS-10* [1]	*EU-15*	*EU-27* [2]
GDP in EUR at exchange rates, EUR bn	119.00	164.79	68.74	33.40	164.02	19.95	29.60	5.57	44.75	53.81	*919.8*	*11314.1*	*12257.5*
GDP in EUR at PPP, EUR bn	194.14	385.09	117.77	76.89	169.65	27.19	45.93	.	83.08	70.07	*1502.1*	*10729.6*	*12257.5*
GDP in EUR at PPP, EU-27=100	1.58	3.14	0.96	0.63	1.38	0.22	0.37	.	0.68	0.57	*12.25*	*87.54*	*100.00*
GDP in EUR at PPP, per capita	5400	4900	3700	7300	22800	4400	11800	.	4000	10700	*14700*	*26900*	*24400*
GDP in EUR at PPP per capita, EU-27=100	22	20	15	30	93	18	48	.	16	44	*60*	*110*	*100*
GDP at constant prices, 1990=100	170.0	247.9	204.8	244.9	238.1	292.1	330.8	.	247.5	149.3	*160.8*	*140.1*	*143.1*
GDP at constant prices, 2000=100	144.5	161.8	162.2	154.5	135.7	184.3	166.1	.	155.0	146.9	*143.8*	*112.7*	*115.8*
Industrial production real, 2000=100	108.2	132.9	136.7	123.3	119.4	145.6	110.0	106.8	120.0	140.0	*156.2*	*92.7*	*102.6*
Share of industry in GDP, %	54.5	37.3	27.3	30.0	27.0	34.3	17.7	24.3	33.7	78.2	*23.1*	*16.3*	*16.8*
Share of agriculture in GDP, %	11.7	13.7	19.9	7.8	3.0	2.8	4.8	21.6	21.0	1.9	*3.4*	*1.4*	*1.5*
Share of services in GDP, %	33.7	49.0	52.8	62.3	70.0	62.9	77.6	54.1	45.3	19.9	73.5	82.4	81.7
Population - thousands, average	36134	77800	31851	10544	7430	6113	3908	4000	21016	6561	*102021*	*398230*	*501465*
Population 1990=100	144.4	151.5	132.5	129.3	164.6	176.3	138.1	.	165.2	150.3			
Population 2000=100	118.8	122.9	111.9	110.2	122.1	125.9	109.7	.	127.3	122.7			
Employed persons - LFS, thousands, average	9472	22975	10284	3277	2841	1053	1270	717	4822	.	*43058*	*172798*	*216405*
Unemployment rate - LFS, in %	10.0	9.0	9.1	13.0	6.7	12.5	6.4	24.0	8.4	.	*9.9*	*9.6*	*9.7*
General gov. revenues, nat. def., in % of GDP	37.3	25.1	25.5	29.6	40.0	24.8	21.4	26.1	21.8	62.0	*37.8* [3]	*44.6* [3]	*44.1* [3]
General gov. expenditures, nat. def., in % of GDP	38.5	33.4	29.0	30.9	44.1	30.2	28.7	41.6	26.9	53.4	*44.3* [3]	*51.2* [3]	*50.6* [3]
General gov. balance, nat. def., in % of GDP	-1.1	-8.3	-3.5	-1.3	-4.1	-5.4	-7.3	-15.5	-5.1	8.7	*-6.4* [3]	*-6.6* [3]	*-6.6* [3]
Price level, EU-27=100 (PPP/exch. rate)	61	43	58	43	97	73	64	.	54	77	*61*	*105*	*100*
Exports of goods in % of GDP	32.3	12.2	19.3	37.1	25.6	26.6	13.9	13.1	20.2	63.0	*47.1*	*29.1*	*30.4*
Imports of goods in % of GDP	26.8	21.2	35.8	47.4	26.7	51.7	45.2	65.4	25.8	37.4	*48.9*	*29.5*	*30.9*
Exports of services in % of GDP	2.1	11.4	13.8	13.1	11.4	19.5	38.9	.	8.9	0.7	*9.3*	*9.8*	*9.7*
Imports of services in % of GDP	8.4	7.4	8.2	7.6	8.3	16.1	33.2	.	5.3	8.6	*7.8*	*8.5*	*8.4*
Current account in % of GDP	7.9	-2.0	-4.3	-4.8	2.9	-4.9	-10.9	-8.9	-3.9	14.4	*-2.9*	*0.1*	*-0.17*
Trade with the EU													
Exports to the EU (%, share of total)	52.0	35.5	59.3	72.1	26.3	4.2	15.3	2.1	35.6	75.7	*77.4*	*63.4*	*65.0*
Imports from the EU (%, share of total)	52.9	27.1	51.8	57.3	34.4	20.9	36.5	8.1	25.0	48.3	*70.3*	*60.8*	*61.9*
Share in the EU total exports, in %	0.54	0.19	0.22	0.26	0.31	0.01	0.01	0.00	0.09	0.74	*8.8*	*56.3*	*100*
Share in the EU total imports, in %	0.41	0.39	0.36	0.29	0.38	0.07	0.12	0.00	0.10	0.18	*8.3*	*53.7*	*100*
World Bank Doing Business rank 2011	148	110	94	46	34	95	104	131	134				
Type of institutional arrangement (ENP, PCA, FTA, EFTA, etc.)	FTA	FTA	FTA	FTA	FTA	FTA	FTA	FTA	FTA	FTA			
FDI stock per capita in EUR, 2010	364	650	967	2285	8060	2341	6226	.	272	2138	*4681*	*11366*	*10251*

1) wiiw estimates. - 2) wiiw estimates and Eurostat. - 3) EU definition: expenditures and revenues according to ESA'95, excessive deficit procedure.

Sources: national statistics, wiiw, Eurostat, AMECO, IMF, UNCTAD and COMTRADE.