

forum forum

Newsletter of the Economic Research Forum

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A Word from the Managing Director

Asking the right questions

I am a strong believer in the idea that answering the right question imperfectly is better than answering the wrong question perfectly. Of course, no one knows for sure what the right questions are. The only thing we can claim at ERF is that we try.

The questions we decided to ask in the 18th annual conference, covered in this issue of Forum, were about corruption and economic development. The 17th Annual Conference was on Politics and Economic Development, which was in response to the tumultuous changes that were sweeping the ERF region in early 2011. This year's focus on corruption was a natural follow up to that discussion. The speakers attempted to answer such questions as: how to measure corruption and what are its consequences for economic development? What are the root causes of corruption, both in terms of incentives and penalty perspective, as well as politics? Finally, they offered their views on how to prevent or at least mitigate corruption.

Not surprisingly, there was general agreement that corruption is detrimental. However, this was as far as consensus went. There are questions as to its provenance, effects and the best way to battle it. For example, does poverty cause corruption or does corruption breed poverty? Is prevention a matter of legislation or political and culture adjustment?

As regular readers of Forum know, the spring issue deals with the Annual Conference, so all those of you who couldn't join us at the conference might find it useful to catch up. The issue examines the answers presented by conference participants as well as a close look at a pre-conference workshop on The Political Economy of Arab Awakening.

There's also a detailed look at the latest ERF news on the premises, charter and recent affiliates and associates.

Ahmed Galal

A handwritten signature in black ink, appearing to read 'AG Galal', written in a cursive style.

Revolutions may be all very well

...But we need to face some hard, economic facts

The 18th ERF Annual Conference kicked off to a great start before it even got started. A workshop entitled *The Political Economy of Arab Awakening* explored aspects of the Arab awakening in an attempt to understand the changes that have transformed the region since the beginning of last year and to inform the political process. In an effort to be as informed as possible, the proceedings also drew experiences from other regions. The workshop was an early fruit of ERF's latest research agenda; *The Political Economy of Transformation in the Arab World*. That agenda was ERF's response to the political changes which had swept the region 18 months ago. As Ahmed Galal, ERF managing director put it, it is important that ERF articulate a new research agenda for the coming years. Because while the revolutions themselves might have been cathartic, a tough question lay ahead: how were these countries to navigate the upcoming political and economic questions?

The workshop rolled out a comprehensive view of the issue: an examination of the revolutions, possible causes and comparisons with other regions.

The opening discussions started with the empirical, in the shape of a study presented by Harvard University's Stephen Kosack and Evann Smith on Arab mass movements in a comparative perspective. This ongoing research sought to correlate data from mass move-

On why it's all about timing.

ERF is finally established, finally making an impact on the region and more importantly, each conference attracts more participants than the year before. This year's conference, on Corruption, is especially important in light of the Arab Spring and the impact of corruption on the [transitional processes].

Abdlatif Al-Hamad, Arab Fund for Economic and Social Development

ments in various countries around the globe over the last 100-200 years to create a massive public data set. Relying on the data from an initial 10 countries they introduced a typology to shed some light on the uprisings in Egypt in 2011.

Kosack and Smith tagged the Egyptian revolution as an 'unorganized class-based protest movement.' Such movements, they said, have various characteristics, chief among which is that they are rarely politically successful. Even when they are, they tend to remove political leaders, but struggle to remove regimes completely.



Clockwise from L: Djavad Salehi-Isfahani, Mohamed Elmeshad, Mohamed Negm, Hamouda Chekir and Hazem El-Beblawi



Jillian Schwedler and Pratap Mehta

Classifying protests is useful but ultimately, one needs a context in which to understand them and to understand why they ever came about. Ishac Diwan, also of Harvard, offered participants an analytical framework to understanding the Arab revolutions.

Diwan outlined how the ‘authoritarian bargain,’ which had seemingly propped up former autocratic regimes satisfactorily for so long, had shifted over time. This was essentially because the middle classes, major social drivers, became dissatisfied with the version of crony capitalism practiced by former regimes and its inability to distribute wealth evenly. The result was that the middle class began to create a new coalition with those traditionally outside of this system. This may form some of the foundations for a future social and political compact, but the reality is uncertain.

Countries like Tunisia and Egypt are in transition, but the effectiveness of those transitions will depend greatly on the nature of those organizational structures that emerge. Mushtaq Khan of the University of London, spoke of the need to construct organizations that can operate in a competitive democratic environment, incorporate the poor and are capable of encompassing all socioeconomic strata, by spreading the benefits of growth more broadly than former regimes had done.

In the context of emerging economies, Khan believes this rests on patron-client politics as a means to overcome the shortage of available tax revenues,

much like those at the disposal of more advanced democratic countries. Lacking in formal revenue-generating mechanisms, many emerging economies need to rely on informal mechanisms to develop relevant patron-client relationships.

Khan feels that the one significant problem in Egypt, for example, is that the middle class doesn’t have such mechanisms and organizations in place. This not only represents a risk of potential failure, it supports the typology supported by Kosack and Smith.

The problem with transitions is that goodwill doesn’t necessarily translate into practice. There can be a chasm between what organizations say they intend to do and what they wind up doing. Jillian Schwedler, of the University of Massachusetts at Amherst, undertook comparative research on Yemen and Jordan. She found that while there were extensive announcements in both countries about what was planned, Jordan has initiated inclusive structural practices in its transition to democracy, while the Yemen, despite glowing rhetoric has failed to show moderation and inclusivity.

And, along with a great deal of hard work, we could all do with a little imagination. Actually, if Egypt and Tunisia are to avoid the ‘typological curse’ associated with the type of movement that brought about regime change, then their new governments will have to employ rather a lot of imagination. Pratap Mehta of the Centre for Policy Research called for a “spirit of compromise” enabling wealth to be distributed more evenly by those in positions of power. The elite, he said, need to be brave and ensure that various voices and interests are included in these new regimes.

Among the underlying challenges facing both Tunisia and Egypt were the many unexpected changes brought about by the uprisings. There were no longstanding plans in place to bring about smooth transitions, and this has created a series of unique challenges. Hazem El-Beblawi, Former Deputy Prime Minister of Egypt placed emphasis on what he called ‘fire fighting;’ handling those things that require urgent action, before one could get around to building the pillars of democracy.

The elephant in the room

Or, how ERF has made it its business to discuss subjects others are often happy to leave well enough alone

Last year, it was *Politics and Economic Development*, a subject that was important, delicate and incredibly timely. The theme of ERF's 18th Annual Conference was *Corruption and Development*.

Corruption probably has negative effects on development. It breeds bad work practices and is likely to lead to adverse income and wealth distribution.

And it's a particular problem in the ERF region. Transparency International publishes an annual Corruption Perception Index, which measures the perceived level of public sector corruption in 183 countries around the world. Of all those in ERF's region, only three (Bahrain, Qatar and the UAE) score above 5 on a scale of 1-10, with 10 being "very clean" and the other end of the scale being "highly corrupt."

The vast majority fall in the bottom third.

Corruption is thought to have played a major role in the uprisings that swept the region last year. So, everyone does, in fact, agree that corruption is a bad thing. However, that's about where the general agreement ends. Even in countries awash in corruption it's often difficult to arrive at any solid facts.

On why what we know isn't as important as what we don't.

We know that more developed countries are less corrupt and less developed countries more corrupt but we don't know the process of transition. The problem is, there are many different types of corruption. There are some types of corruption that are absolutely integrated with societies because they're large informal societies. The political structure often requires a lot of informal allocation of resources, and the political organizations to actually construct the political order on which stability is based. You can't get rid of this [quickly] because in the long run, what happens is that a lot of this becomes formalized in legal transfers of tax resources to constituencies. And then corruption comes down. The other problem is that there are a lot of state interventions which are extremely important and powerful people distort the operation of these activities.

Mushtaq Khan, University of London

Does poverty bring about corruption or does corruption breed poverty? Generally speaking, richer countries are often less corrupt than ones struggling with poverty. Some economists favor the "bad governance" explanation. The answer, they say, is to institute good anti-corruption legislation. Then there are those economists who point out that it's impossible to assume that reducing corruption automatically boosts development, particularly since there is no historical evidence to support this fact.



L to R: Paul Collier, Ahmed Galal, Abdlatif Al-Hamad, Daniel Kaufmann and Serdar Sayan

As with previous conferences, there were three plenary sessions. The first was entitled *Measurements and Consequences of Corruption*.

ERF Chairman of the Board Abdlatif Al-Hamad, of the Arab Fund for Economic and Social Development, welcomed everyone and pointed out that, "ERF is finally established, finally making an impact on the region and more importantly, each conference attracts more participants than the year before."

Ahmed Galal, ERF managing director, took a few moments to explain the choice of the theme of the conference. As far as perception was concerned, "Corruption is in the eye of beholder," he said. It represents different things to different people; economists, policymakers, citizens. He also noted that ERF was developing a knack for choosing prescient themes for its conferences; corruption was probably a major catalyst of the Arab uprisings and the ability to examine it in a new era of accountability provided a previously untapped opportunity.

The first of the plenary's speakers was Paul Collier, Director of the Centre for African Economics at Oxford University. Collier argued that the cost of corruption is much greater than we generally believe. He conceded that it was terribly difficult to measure, and as a result "what you measure needs to come from a diagnosis of what can be done about it." Essentially this means placing an emphasis on the state to set up regulatory processes and to focus on changing the values of individuals and organizations.

Collier noted that corruption came in both grand and petty forms. He presented an example of the first from a West African country where the Minister for Mining awarded prospecting rights to a resource extraction company at his discretion. It was a deal that brought financial gain

to the minister in question, but none to the government he was serving. The deal, worth a potential \$10 billion, represented over treble the annual GDP of the country. The temptation to the minister, he said, must have been enormous.

He offered also an example of the second; a study into education in Nigeria, which found that a high proportion of 10 year olds who were regularly attending school were illiterate. The explanation that emerged was that many of their teachers were functionally illiterate, and so were ill-equipped to teach basic literacy skills. Interestingly, these teachers had teaching certificates, which suggests some teachers had gained their certificates through unethical means.

The best way to combat corruption was not merely through anti-corruption legislation but also through good process, he suggested. "Good processes aren't an alternative to the pursuit of the corrupt but in

On why even corruption bows to progress

Modern corruption is the diversion of goods from the public sphere to private gain. It's important to make that distinction because historically, corruption was understood as a moral depravity. So it's a modern notion that there is a political system from which things should not be diverted to private gain. And in many places in the region – and I would argue around the world – the two are often confounded, which confuses, among others, policymakers and efforts to root out corruption.

Lisa Anderson, The American University in Cairo



L to R: Rima Khalaf, Samir Makdisi, Atif Kubursi and Imed Limam

combination, they're more effective," he said.

Daniel Kaufmann, Senior Fellow at the Brookings Institution, discussed the many different measures of corruption and their relationships, citing the importance of voice, accountability and freedom of speech and association.

He noted that evidence suggests that over the past decade, misgovernance in the Arab world was not only acute, but also worsened over time. The quality of democratic governance, which was already poor and continued to deteriorate, was largely ignored by the international community. He noted that basic rights had not evolved; the indicators for freedom of the press, for example had remained stagnant over the years covered in his research. Governance and transparency, he said, matter. As do such ostensibly non-econometric factors like democratic accountability, rule of law and gender rights.

Finally, Serdar Sayan, TOBB University of Economics and Technology, underscored new approaches to gauging corruption in different parts of the world, using survey-based measures to assess perceptions.

The second plenary, *Determinants of Corruption*, was chaired by Rima Khalaf, UN Economic and Social Commission for Western Asia.

First to take the floor was Lisa Anderson, president of the American University in Cairo. Anderson defined modern corruption as the diversion of goods from the public sphere to private gain. Historically, she said, corruption has always existed, but it had previously considered "a moral depravity." Progress being what it is, corruption had evolved from a moral depravity into a modern affair: "It's a modern notion that there is a political system from which things should not be diverted to private gain," she said. It was important, though, to understand this modern notion so as to adopt appropriate policies



Lisa Anderson speaking on Determinants of Corruption

to root out corruption.

Mushtaq Khan then took pains to underline that corruption wasn't a 'one size fits all' affair. There are different drivers of corruption in developing countries, he noted, and it is just not possible to target all of them at the same time. The shotgun approach isn't particularly conducive to corruption prevention in emerging economies. It is important to select and prioritize.

Finally, Jeffrey Nugent of the University of Southern California focused on the situation in the MENA region, which seems to record a higher corruption rate compared to other regions. He underlined the importance of homogenizing the regulations and promoting transparency measures. He also emphasized that country-specific research that focuses, for example, on monitoring corruption with audits and identifying which incentives might work best would be of enormous value. Most importantly, however, it was important to simplify the rules, so there was less room for discretion by officials in deciding which tax rate or custom duty should be applied in each specific case.

The third plenary session, *Fighting Corruption*, was chaired by a man who was had firsthand experience in battling corruption; Former Deputy Prime Minister of Egypt, Hazem El-Beblawi.

Ziad Ahmed Bahaa-Eldin, member of the Egyptian People's Assembly, underlined the need to consider different measures to prevent corruption in the future. He thought the most dangerous type of corruption was the one built into a country's legal foundations; in other words, corruption whose means of attainment had been built into the legal system. Since it's protected by law, when conduct that is inherently corrupt was undertaken it would look defensible and justified. Bahaa-Eldin was one of the drivers behind the Egyptian Initiative for Prevention of Corruption.

Pratap Mehta shared some successful practices of fighting corruption in India, a country which has struggled with corruption. The recent enactment of the Right to Information Act (RTI), however, which "provides for setting out the practical regime of right to information for citizens" has brought enormous success in battling corruption.

Finally, Michael Ross of the University of California at Los Angeles discussed the "unobvious correlation" between oil and corruption in the Middle East region. According to Ross, special problems of corruption exist in the oil-producing states: the oil, a state-owned asset, is managed by National Oil Companies (NOCs), generally prone to corruption. "There are special problems of corruption in oil-producing states," he said, "because the revenues generated come from something owned by the government and they use their national oil companies and sometimes off-budget accounts to manage these revenues."

On why one should always think outside the box

If you apply a little bit of imagination, political solutions can be found. There are win-win situations where people currently in power can share some power with other groups, can distribute some wealth without actually, fundamentally endangering their position. So we should not see society as a zero-sum game, we should try to find imaginative ways in which different interests can be reconciled. However, there has to be a spirit of compromise for that work and the question is whether the elites, who have more responsibility in these matters, will be able to generate those compromises.

Pratap Mehta, Centre for Policy Research

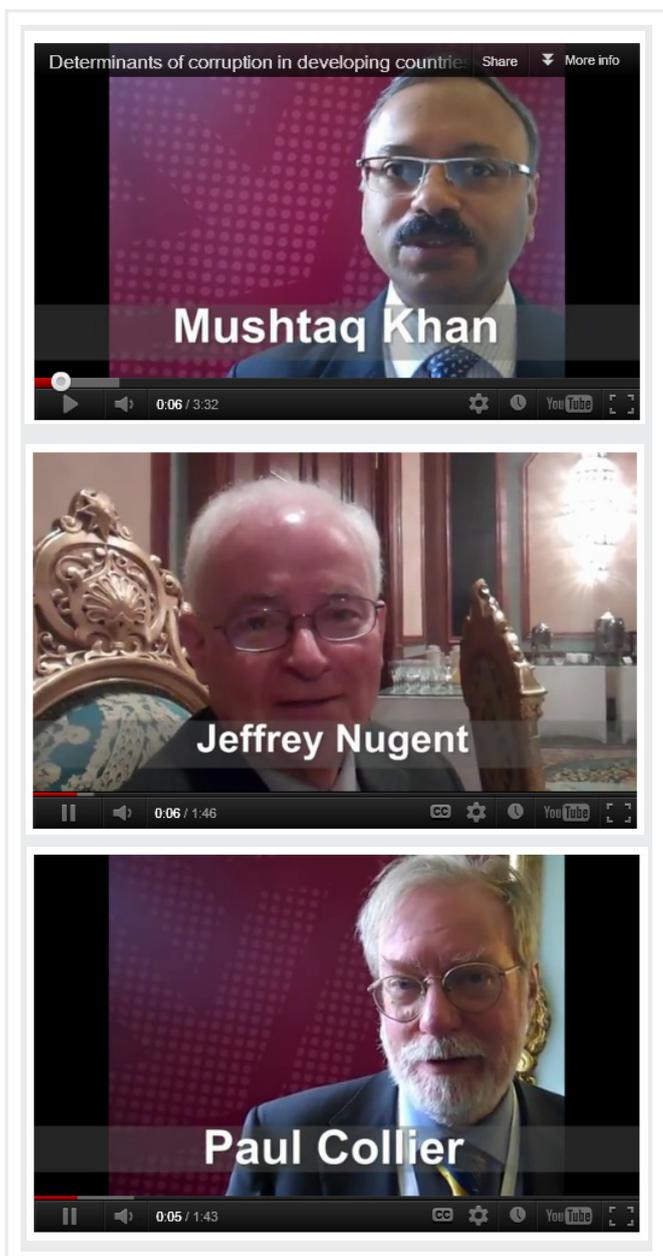
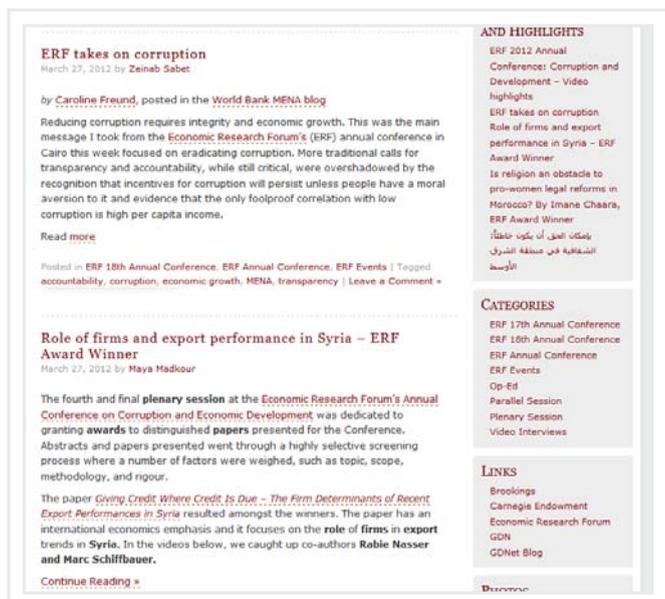


UCLA's Michael Ross on Determinants of Corruption

Online Coverage

Last year ERF in collaboration with GDNNet took coverage of the annual conference viral. The 17th Annual Conference was the first to have its own dedicated blog, which contained detailed, up to the minute coverage of the conference and video interviews with many of the participants. It was so successful that it was repeated with even more video interviews, twitter feeds and session coverage articles. For those were not at the conference, the blog may be viewed here <http://erfblog.org/>

The video interviews, in particular, allowed coverage of events and aired views that would not otherwise have been available. Among them were interviews with many participants who had papers at the parallel sessions. The video interviews may all be accessed from the blog.



Celebrating Excellence

Best Paper Awards

A good meal is always made perfect with a good dessert. In many ways, the Best Paper Awards are the perfect way to end the conference. While ERF carries out myriad tasks, events, researches and functions, these awards are closest to an academic's heart, representing a dedication to the pursuit of excellence. The Awards were created to encourage and celebrate exceptional research efforts.

The papers submitted to the conference are assessed by a committee of internationally recognized academics from the ERF network, who judge them on the following criteria: whether the paper adds substantially to existing research in its field, sound methodology, meticulous research execution and finally, policy relevance. The awards are presented to authors of the best papers presented in each theme.

Traditionally, the Best Paper Awards ceremony wraps up the conference. Last year's conference introduced what organizers hoped would become a tradition: a short video shown before the awards. The video, a collaboration between ERF and GDNet, proved such a hit with the participants, that it cemented its tradition-keeping status. This year's offering may be viewed here:

http://www.youtube.com/watch?feature=player_embedded&v=Hjxjs0stBE

The winners of the ERF 18th Annual Conference Best Paper Awards are listed below, along with abstracts of their papers.

Microeconomic and sectoral studies

- *Financial Constraints and Productivity Under Unobserved Heterogeneity of the Technology: An Application to the Moroccan Garment Sector Using Latent Class Stochastic Frontier Models*, Mohammed Chaffai, Diego Landivar and Patrick Plane

A random sample of 324 organizations is analyzed in this paper over a three year period (2000-2002). By focusing on the difficulties to access financial resources as well as the cost of money, we explore, at firm level, the implications of these variables on both the firm technological choice and the technical efficiency. Assuming a common technology to all firms complies with the competition model and embraces the long run theoretical perspective of the neo-classical paradigm but ignores the fact that many enterprises succeed to survive with non-optimal techniques and organizational methods.

Finance

- *Financial Cascades in the MENA Region: Theory, Empirics and Policy*, Hamid Mohtadi and Stefan Ruediger

We develop a randomized analytical model of financial herds and cascades which we first numerically simulate and later empirically test for a panel of 11 MENA countries among a sample 35 markets from 2000 to 2009. Financial Cascades, i.e., information free riding behavior, occur when uncertainty is high and markets are informationally opaque. Monte Carlo simulation of the model shows that when traders or investors readily update their "reservation price" and "reservation sell to buy ratio" (points at which they sell or buy), based on new market data, an inverted-U pattern emerges, depicting the effect of market transparency on volatility. In this pattern, increased financial transparency actually increases market volatility at first, only to reduce it later at higher levels of financial transparency. This first (upward) portion seems consistent with the Fur-



The recipients of the 2012 Best Paper Award

man-Stiglitz (1998) thesis that more frequent news and information intensifies volatility, while the second (downward) portion of the inverted-U follows the more conventional wisdom exemplified by the International Monetary Fund’s position on opacity as the cause of cascades. Of our several measures of market transparency the “transparency of government policy” for the MENA group and the “strength of audit” variable for the full sample emerge as the variables that support the inverted-U hypothesis above.

International Economics

- *Giving Credit Where Credit Is Due - The Firm Determinants of Recent Export Performances in Syria. Zaki Mehchy, Rabie Nasser, and Marc Schiffbauer*

This paper illustrates the recent export performance of the Syrian economy and determines the firm characteristics that drove this export performance at the detailed 4- or 6-digit product-firm level. The analysis provides guidance to Syrian policymakers by identifying the most binding firm-level bottlenecks that prevent better export performances. The first part documents the recent export performance and diversification trend of the Syrian economy. While Syria lost some

ground in its level of export sophistication relative to regional peers, the economy has recently shown strong export performances in a few new industries that might help pioneer the diversification into higher value-added industries. The second part constructs a unique dataset linking (4 or 6-digit) product level export data with tariff and firm survey data, respectively, to analyze the firm-level determinants underlying the strong export growth of some manufacturing products. The results show that manufacturers using a higher share of imported or foreign intermediate inputs experienced higher growth in their relative export shares suggesting that superior access to foreign technologies or markets have been a key impetus of the strong recent export performance of Syrian manufacturing products. On the other hand, products with stronger state presence (administered export prices or manufactured by SOEs) experienced lower export growth. Moreover, product groups facing more intense competition tend to perform better while export growth was lower for product groups where surveyed firms reports bribes as more common. Finally, we document the divergence between the export performance of the Syrian economy and recent labor market developments. We find that firms manufacturing products

with strong export growth had higher productivity growth but have tended to reduce their stock of labor between 2006 and 2008.

Labor and Human Development (Shared)

- *Structural Labor Market Transitions and Wage Dispersion in Egypt.* Chaimaa Yassine

In this paper we determine the feasibility of using data from the Egyptian Labor Market Panel Survey (ELMPS2006) to estimate the Burdett-Mortensen job search model. The data contain sufficient information on wages, labor force states, durations, and transitions to generate estimates of the model's structural parameters. Results indicate that arrival rates of offers for workers are generally higher when unemployed than when employed. When a worker is already employed, the arrival rates of offers for highly educated workers tend to be higher than their uneducated peers. We therefore find that they consequently move faster up the job ladder. Although, we were able to calculate a firm-specific productivity distribution, we choose to rather focus on the supply side of the equilibrium job search model. We therefore study labor market differentials across the different educational groups in Egypt, showing that the wide Variation in frictional transition parameters across these groups helps to explain persistent unemployment and wage differentials especially among the very high educated. Formal Tests and policy implications are performed based on the obtained results.

- *Labor Mobility between the Formal/Informal Divide in Turkey: Evidence from Individual Level Data,* Aysit Tansel and Elif Oznur Acar

In this study, we implement the mobility analysis to Turkish labor markets with a specific emphasis on informality. Turkey, given its economic and demographic dynamics, provides rich evidence for a growing, heterogeneous and multifaceted informal labor market (World Bank, 2010; Aydin et al., 2010; Ozdemir et al., 2004; Kenar, 2009; Bulutay and Tasti, 2004; DPT, 2009). However, the existing evidence on labor informality in Turkey

is mixed and scant. Data limitations and conceptual obscurity have hindered detailed analyses. Along these lines, we aim to contribute to the existing literature by providing a diagnosis of dynamic worker flows across distinct labor market states and identifying the effects of certain characteristics (i.e. age, gender, education, work experience, etc.) on variant labor mobility patterns. To the best of our knowledge, this study is the first such to undertake a labor mobility analysis in the context of formal/informal division in Turkey.

Institutional Economics

- *Pro-Women Legal Reform in Morocco: Is Religion an Obstacle?* Imane Chaara

The question of the role of modern law in triggering social change is of particular importance in societies where customs and norms support the marginalization of some social groups. The conventional view is that the success of the formal law is constrained by the system of informal rules and values which support the prevailing customs, and the law therefore appears as a 'dead letter'. Aldashev et al (2012) mitigate this pessimistic scenario by formally showing that the law has, under certain conditions, the effect of making the custom evolve in the direction of the law. One of the conditions to achieve this effect is the identification of agents with the new law. In this paper, we focus on the adherence of agents to a pro-women legal reform in Morocco, the reform of the Family Code which is religious-inspired legislation. We use a unique database created from a survey we conducted in Morocco in 2008 to provide some evidence about the factors which drive conservative positions with respect to a progressive legal reform. We observe that women who are benefiting from the reform are not unanimously in favour of it. Conversely, a non-negligible part of the male population strongly supports the new legislation. In order to explain these behaviors, we mainly focus on three specific factors: education, location and religion. Contrary to what naïve beliefs would suggest – rural men with a low level of education and intense religious practice express a lower support for the new Family Code –, we find that there is no straightforward relation between the

three aforementioned factors (education, location and religion) and support for the new legislation. Another precondition to the effect stressed by Aldashev et al. (2012) is that agents have sufficient information about the law. The data analysis leads to an unexpected finding: living in rural areas is, in some cases, positively and significantly associated with a higher probability of being properly informed than living in the city of Casablanca, the economic centre of the country.

Macroeconomics

- *An Applied Endogenous Growth Model with Human and Knowledge Capital Accumulation for the Turkish Economy.* Ebru Voyvoda and Erinc Yeldan

The main objective of this research is to analytically investigate and assess the interactions between knowledge driven growth, acquisition of human capital, and the role of strategic public policy for the Turkish economy within the context of a general equilibrium model. The model aims to investigate the public policies towards fostering the de-

velopment of human capital (such as investments in education and learning) and those at enhancing total factor productivity through investments in physical capital and innovation (such as subsidies to R&D); and study the impact of various public policies on patterns of growth, along with their likely consequences from the points of view of capital accumulation, income distribution, social welfare and economic efficiency for the Turkish economy. With the aid of the model, we seek for analytical answers to the following question: for a government constrained with its budgetary requirements, which type of public subsidization policies are more conducive for enhancing growth and social welfare: promotion of human capital formation through subsidies to education expenditures, or promotion of new R&D formation through subsidies to R&D investment expenditures?

18th Annual Conference

Parallel Sessions

At major conferences, it's easy to get caught up in the Plenary sessions. They're large events, they often attract marquee names and they can be the scene of many an exciting discussion. However, for academics, the parallel sessions exert a magnetic pull. This is where serious discussion over serious work takes place. Researchers can expect to interact with, and be grilled by, their peers. The parallel sessions represent intense planning and coordination and the papers presented have all been picked apart by seasoned academics. The parallel sessions cover the six broad economic themes that ERF concentrates on, namely: Microeconomics, Macroeconomics, Finance, Institutional Economics, International Economics and Labor and Human Development. Of the 196 proposals submitted to the conference, only 55 papers were accepted, and those were presented at the conference.

Microeconomic and sectoral studies

The microeconomics sessions reflected the sheer variety this discipline encourages. The papers covered topics ranging from Water Pricing and Poverty, Health and Air Pollution, Ownership and Firm Performance, Firm Characteristics, Constraints and Productivity, and Market Structure, Firm Size and Welfare Implications.

Identifying Direct and Indirect Effects of Firms' Characteristics on Tunisian Regional Productivity, *Mohamed Amara and AbdelRahmen El Lahga*

Evaluation de la Valeur du Temps de Transport: Le Cas de la Ville de Sousse, *Maissa Chaibi and Khaireddine Jebi*

The Optimal Design of Water Pricing in Multi-agents Irrigated Areas with Countervailing Incentives: Evidence from Tunisian Water Sector, *Wided Matoussi and Mohamed Salah Matoussi*

Foreign Direct Investment, Foreign Ownership Structure and Innovation: Empirical Findings from Firms in Tunisia, *Mohieddine Rahmouni*

Ownership Structure and Firm Performance: Evidence from Jordanian Corporations, *Adel Bino*

Market Power and Social Welfare Loss: the Case of the Middle East and North Africa Banking Industry, *Mohamed Chaffai and Salma Sellami*

A Multidimensional Analysis of Water Poverty at Local Scale: Application of Improved Water Poverty Index for Tunisia, *Hatem Jemmali and Mohamed Salah Matoussi*

Financial Constraints and Productivity Under Unobserved Heterogeneity of the Technology: An Application to the Moroccan Garment Sector



Participants at one of the parallel sessions

Using Latent Class Stochastic Frontier Models,
Mohammed Chaffai, Diego Landivar and Patrick Plane

Cost Effectiveness Analysis of Family Planning Services Offered by Mobile Clinics Versus Static Clinics in Assiut, Egypt, *Ghada Al-Attar*

On Informality and Productivity of MSEs: Evidence from MENA Countries, *Rana Hendy and Chahir Zaki*

Finance

Finance continues to be a topic of much debate. The sessions reflected this interest, addressing such diverse issues as Bank Ownership and Cost of Transformation, Economic Downturns and Bank Profitability, Assessment and Prevention of Risk in Banks, Price Bubbles and Stock Market Return, and Uncertainty, Prediction and Ratings of Financial Institutions

Is there a Bubble in Saudi Real Estate? Evidence from The Stock Market, *Mahmoud Haddad and Sam Hakim*

Financial Cascades in the MENA Region: Theory, Empirics and Policy, *Hamid Mohtadi and Stefan Ruediger*

Predicting Bank Financial Strength Ratings in an Emerging Economy: The Case of Turkey, *Hulisi Ögüta, M.Mete Doganay, Nildag Basak Ceylan, Ramazan Aktas*

Macro-Financial Vulnerabilities And Economic Downturns: A Comparison Analysis Between Cost-Sensitive Learning And Markov-Switching Approaches, *Meriem Djennas, Mohamed Benbouziane, Mustapha Djennas*

Regime-Switching Behavior in the Conditional Volatility of MENA Stock Market Returns, *Slah Bahloul and Fathi Abid*

Who Bears the Burden of Banking Transformation in Turkey? An Empirical Analysis of Demand, Competition and Welfare Analysis, *G. Gulsun Akin, Ahmet Faruk Aysan, Sebnem Ileri, Levent Yildiran*

Bank Profitability and the Business Cycle: Evidence from MENA Countries, *Souhir Slimi*



Participants at one of the parallel sessions

Prevention Du Risque De Defaillance Des Banques De La Region Mena: Analyse Par Equations Simultanees En Donnees De Panel, *Sanae Solhi and Abdelhaq Mehdi*

Stock Market Assessment of Bank Risk: Evidence from the Maghreb Region, *Lassaâd Mbarek and Dorra Mezzez Hmaied*

Ownership Structure and Financial Performance in Islamic Banks: Does Bank Ownership Matter? *Sarra Ben Slama Zouari and Neila Boulila Taktak*

International Economics

The international economics sessions tackled issues such as Determinants of Exports and Diversification, Trade in Services and Product Diversification, Globalization, Labor Demand and Technological Upgrading, and External Shocks, FDI and Economic Growth.

Globalization and Movement up the Technological Ladder: Evidence for Jordan and Tunisia Using Detailed Export Databases, *Ndjamé Diop and Sofiane Ghali*

Giving Credit Where Credit Is Due - The Firm Determinants of Recent Export Performances in Syria, *Zaki Mehchy, Rabie Nasser, and Marc Schiffbauer*

On the Determinants of Trade in Services: Evidence from the MENA Region, *Fida Karam and Chahir Zaki*

The Determinants of MENA Export Diversification: An Empirical Analysis, *Marouane Alaya*

Impact of Trade Reforms in Tunisia on the Elasticity of Labor Demand, *Rim Mouelhi and Monia Ghazali*

External Shocks and Monetary Policy in a Small Open Oil Exporting Economy, *Jean Pierre Allegret and Mohamed Tahar Benkhodja*

An FDI is an FDI is an FDI? The Growth Effects of Greenfield Investment and Mergers and Acquisitions in Developing Countries, *Philipp Harms and Pierre-Guillaume Méon*

Product Diversification and Exporter Sales: Evidence from Jordan, *Jamal Ibrahim Haidar*

Labor and Human Development

Labor and human development are crucial development issues for the ERF region. Sessions tackled subjects like Economic Crisis and the Labor Market, Labor Market Dynamics, Social Protection in Egypt and Iraq, Agricultural Transformation and Structural Change, Labor Supply and Labor Market Entry, and Education and Inequality in Morocco.

Rethinking Social Insurance in Egypt: An Empirical Study, *Irène Selwaness*

Formal and Informal Social Protection in Iraq, *Najat El Mekkaoui de Freitas and Hillary Johnson*

Transition to First Permanent Job After Separation from School in Turkey, *Bengi Yanik Ilhan and Insan Tunali*

Determinants of Labor Force Participation In Syria (2001 – 2010), *Rabie Nasser and Zaki Mehchy*

Structural Labor Market Transitions and Wage Dispersion in Egypt, *Chaimaa Yassine*

Labor Mobility between the Formal/Informal Divide in Turkey: Evidence from Individual Level Data, *Aysit Tansel and Elif Oznur Acar*

Agricultural Transformation and Labor Mobility During the ARIP Period in Turkey: Evidence from Micro-Data, 2000-2002, *Huseyin Ikizler and Insan Tunali*

Segmentation du marché du travail en Algérie et la détermination du salaire dans les secteurs agricole, moderne non protégé et modernes protégé, *Nacer-Eddine Hammouda and Ali Souag*

Falling Real Earnings in Egypt, 2008 to 2009: How the Declines Differ by Gender and Initial Earnings, *Paul Cichello, Hala Abou-Ali, and Daniela Marotta*

The Effect of Financial Crisis on Hiring and Separation rates: Evidence from Tunisian Labor Market, *Ilham Haouas and Mahmoud Yagoubi*

Inegalite et polarisation des depenses des menages au maroc : evolution et etat actuel, *Touhami Abdelkhalek Et Fouzia Ejjanoui*

Les déterminants des acquis scolaire au Maroc: analyse microéconométrique appliquée aux enquêtes internationale TIMSS et PIRLS, *Aomar Ibourek*

Institutional Economics

The institutional economics sessions addressed such topics as Institutions, Financial Development, and Economic Growth, Politics, Social Norms, and Fiscal Policy, and Religion and Socioeconomic Development

Pro-Women Legal Reform in Morocco: Is Religion an Obstacle? *Imane Chaara*

Is Corporate Governance Different for Islamic Bank? *Hamadi Matoussi and Rihab Grassa*

Institutions and the Finance-Growth Nexus: Empirical Evidence from MENA Countries, *Kaouthar Gazdar and Mondher Cherif*

What about Tax Morale in the Palestinian Territories? Beyond the Economic Reasons, *Luca Andriani*

Does Institution Quality Matter for Financial Development and Economic Growth Nexus? Another Look at the Evidence from MENA Countries, *Housseem Rachdi and Sami Mensi*

Fiscal Manipulation in Non-Democratic Regimes: The Case of Egypt, *Hoda Youssef*

Threshold Effect of Inflation on Growth: Evidence from MENA Region, *Samir Ghazouani*

Macroeconomics

The macroeconomics sessions presented myriad topics: Exchange Rate and Inflation, Remittances and Financial Stress, and the Economic Growth in Turkey and MENA. The following papers were presented:

The Spillover Effects of The Global Financial Crisis on Economic Activity in Emerging Economies – Investigating the Egyptian Case Using the Financial Stress Index, *Amira El-Shal*

Exploring the Role of the Exchange Rate in Monetary Policy in Egypt, *Hoda Selim*

The Effectiveness of Countercyclical Fiscal Policy: Firm-level Evidence from Turkey, *Florian Misch and Atilm Seymen*

An Applied Endogenous Growth Model with Human and Knowledge Capital Accumulation for the Turkish Economy, *Ebru Voyvoda and Erinc Yeldan*

Food International Price Pass-Through in Egypt's Inflation, *Sherine Al-Shawarby and Hoda Selim*

Hot Money Inflows and Business Cycle Volatility: Empirical Evidence from the MENA Region, *Bedri Kamil Onur Tas and Selahattin Togay*

The Flow of Migrant's Remittances into Sudan: The Role of Macroeconomic Environment, *Ebaidalla Mahjoub Ebaidalla and Abdalla Ali Edriess*

Public Expenditures Shocks in A Real Business Cycle Model: Implications for The Tunisian Economy, *Mohamed Hédi Lahouel, Sarra Ben Slimane and Moez Ben Tahar*



L to R: Rania Roushdy, Barbra Craig and Hala Abou-Ali



Book Review

“After the Arab Spring: Economic transitions in the Arab World”

by Magdi Amin, Ragui Assaad, Nazar al-Baharna, Kemal Dervis, Raj M. Desai, Navtej S. Dhillon, Ahmed Galal, Hafez Ghanem, Carol Graham and Daniel Kaufmann

Brookings Institution, 2012

Reviewed by Mohamed Elmeshad

Countries of the so-called Arab Spring are in a palpable transition period. Looking at comparable transitions in the past in these countries, they have a short window to make the changes demanded by the revolutions irreversible.

Egypt is on the verge of a presidential election that may very well define what kind of a transition it might experience nearly 16 months after the ouster of Hosni Mubarak. The world has seen 103 attempts at a democratic transition since 1960; only 57 of which were successful. It is no coincidence that in all of these cases GDP increased within the first five years of this transition, while the failures all decreased.

Polls show that the revolutions coincided with a striking decrease in satisfaction with the performance of their governments in providing services, opportunities, and inclusive institutions in which citizens could voice their concerns. Although GDP was increasing at respectable rates in countries like Egypt and Tunisia, the prospects for development of

the welfare of common citizens were decreasing.

Revenue was based more on rents rather than productivity, and the authoritarian regimes in place restricted the ability of common citizens to seek opportunity in closed-off economies dominated by inefficient and corrupt public sectors and an almost irrelevant legal system.

In its latest publication, *After the Arab Spring: Economic Transitions in the Arab World*, the Brookings Institution produces a book that discusses “the economic consequences of the Arab Spring and broader economic imperatives of the region.” The book is based on contributions of a diverse group of scholars, specialists, and former officials, such as Ahmed Galal, Managing Director of the Economic Research Forum, Nazar al-Baharna former Bahraini Secretary of State, Ragui Assaad, a labor specialist from the University of Minnesota and ERF Research Fellow, and a host of Brookings Institution fellows, and many others.

The book discusses how in this



period of “extraordinary politics... the reformer’s objective is to reform before their opponents mobilize,” especially on the economic front. Using Russia and the Philippines as an example, they show how if political reform is not accompanied by widespread economic changes, the real prospects for change become limited. What is perhaps most important for Egypt’s presidential candidates, many of whom have yet to present a full platform, is the need to provide a guiding vision. The Brazilian model presents a glowing example. There, private enterprises coupled with efficient state-run enterprises to bolster

sectors necessary for development, not least of which was in manufacturing.

Underlying all economic change in the coming period needs will be “unraveling the existing social contract” in a way that manages public expectation and decreases reliance on the public sector for employment and production. Arab governments were able to decrease unemployment—which was already very high—but the kind of employment had an increasingly dismal quality. Since the turn of the century Arab countries had the lowest rate of labor productivity growth in the world. In the 90’s they were second only to Sub-Saharan Africa. Many of the development indicators over the past 20 years have been misleading, and the book attempts to take a holistic view of the indicators to see what went wrong and recommends steps forward.

Egypt, for example has double the amount of university graduates relative to population than Turkey does, despite the fact that Turkey has easily bypassed Egypt in development boasting triple its GDP-per capita. Brookings’ labor experts argue that the education system in Egypt has turned into one big diploma mill where acquiring a degree is more important than acquiring skills desired in the job market.

Egypt must “move away from the production of diplomas to the production of human capital,” they argue. This would require providing training centers and direct training so that universities are not the only place where acquisition of skills leads to higher personal income.

The youth have been all too reliant on the state and family to make the youth-to-adult transition in hope of finding a better job that is only taking longer to fulfill. Most college graduates need up to 2.3 years to find jobs after graduating. Over the next 20 years Egypt will be expecting around 15 million new entrants into the labor market. At the current rate and given current policies, the market will not be able to accommodate them.

The private sector should have an important role to play in this. Currently labor laws, while they in theory protect the rights of workers, are scarcely implemented. Many youth prefer public sector jobs as a result, especially since many companies resorted to informal employment where workers essentially have no rights.

Besides increasing monitoring by the government, the book argues the need to allow for civil societies to flourish in order to increase civil monitoring of both the public and private sector.

Administrative controls on private businesses currently in place usually result in creating “a log-jam of overlapping requirements, prevented transparency, and created conditions for corruption and excessive administrative discretion.”

Past transition experiences, such as that of Indonesia proved that a special anti-corruption commission maybe necessary to move in a positive direction and “building a modern state.” This would help the implementation of government directives to move towards a much needed revival of industry and manufacturing since en-

trepreneurs and investors would be more likely to operate in an environment where they are not always held to the whims of corrupt officials who demand cut-backs for permits.

Manufacturing comprises only 13% of GDP in the Arab World, compared to 29% in East Asia.

International cooperation needs to play an important role in this to make-up for technological or market gaps in the Arab World. Intraregional cooperation is a desired, albeit romanticized concept since researchers see low “bilateral complimentary” in Arab markets that would make economic cooperation feasible for Arab governments. Arab countries will need to look elsewhere to engage in trade agreements to export products in the future, while attracting investment from abroad.

Central to any kind of reform will be the governments’ ability to enforce an efficient and wide reaching social services network.

This would need budgetary reform to both avoid a fiscal crisis and appease those who rose up partly due to their governments’ failure in directing public funds. Welfare and subsidy reform are central. Here, however, Brookings does not delve deep enough into the true political implications of different kinds of reform.

Mohamed Elmeshad studied Economics at George Washington University. After two years with the Peace Corps in Benin he worked as a corporate analyst with a private equity firm before embarking on as a career as journalist. He is with the Egypt Independent.

New ERF Affiliates

New Research Fellows

Mahmoud Al Iriani, Yemen

is a Yemeni national who graduated in 1998 with a Ph.D. in Economics from Kansas State University (KSU), U.S.A. During his study at KSU, he taught undergraduate students as a graduate teaching assistant. He also holds a masters degree in Economics from Iowa State University, U.S.A. In 1998, Mahmoud moved back to Yemen where he taught at Sana'a University before moving to the UAE. Between 2000 and 2006, he taught at the United Arab Emirates University then rejoined Sana'a University in 2006. He taught at Sana'a University for two years and worked as a visiting professor at the Arab Academy for Business and Financial Sciences (AABFS) of the Arab League, Sana'a branch. Between 2008 and 2010, he was the dean of the College of Business at the Lebanese International University, Sana'a branch. In 2010, he joined the Dubai Economic Council, UAE where he is currently working as an Economic Advisor at the Economic Policy Research Center. His fields of specialization are in the areas of Energy Economics, Development Economics and International Economics. Regionally, his main research is on Energy Policy, Energy Efficiency and Conservation. He has published in internationally refereed journals and he is a reviewer for journals like the Journal of Energy Policy and the Journal of Energy Economics. He has also contributed a chapter to the annual «Gulf Economic Report» since 2005.



Mohammad Reza Farzanegan, Iran

isanIraniannationalwhoreceived his BA degree in theoretical economics in 1999 from Allameh Tabatabaei University in Tehran. He successfully defended his Masters thesis entitled "*The Role of Iran in the Caspian Energy Resources*"



with distinction at the University of Tehran in 2002. The results of his Masters thesis were published in the Oil & Gas Journal (2003). He's also worked as a researcher at the Capital Market Research Department of the Tehran Stock Exchange (TSE). From 2006-2009 his PhD study at Technische Universität Dresden was mainly focused on the examination of political economy of Iran. His PhD dissertation entitled "*Political Economy of Natural Resources and Governance in Iran: An Empirical Investigation*" was graded with "summa cum laude" and awarded the Dr. Feldbausch Preis "Best Dissertation" in 2009. The PhD project was financed by the DAAD doctoral scholarship. Since November 2009, Mohammad Farzanegan has been working as a researcher in the Research Department Environmental and Resource Economics, Environmental Management at ZEW Mannheim. In 2010, Mohammad Farzanegan was awarded the Georg Forster Research Fellowship for Postdoctoral Researchers of Alexander von Humboldt Foundation for 24 months. His Post-Doc project carried out from May 2010 as a cooperation between the Dresden University of Technology and ZEW. Since April 2012, he is Assistant Professor of the Middle East Economics and chair of the Middle East Economics Unit at the Center for Near and Middle Eastern Studies (CNMS), Philipps-University of Marburg. His main fields of research are the political economy of natural resources, quality of governance, effects of oil shocks on the macroeconomy, public finance and public choice. His regional focus is primarily Iran and other MENA countries. He has several publications in internationally refereed journals such as World Development, Energy Economics, European Journal of Political Economy, Applied Economics and Ecological Economics.

Hafez Ghanem, Egypt

Hafez Ghanem – who holds a PhD in Economics from the University of California, Davis – is a development expert with extensive experience in policy analysis, project formulation and supervision and management of multinational institutions. He



has worked in over 21 countries in Africa, Europe and Central Asia, Middle East and North Africa and South East Asia. He joined the Brookings Institution in 2012 as a senior fellow in the Global Economy and Development program to lead the Arab economies project. During the period 2007-12 he worked at the Food and Agriculture Organization of the United Nations (FAO) as the Assistant Director-General responsible for the Economic and Social Development Department. This Department, with more than 300 employees from all over the world, is responsible for FAO's analytical work on agricultural economics and food security, trade and markets, gender and equity, and statistics. Prior to joining FAO, he spent twenty-four years on the staff of the World Bank where he started as a research economist and then senior economist in West Africa and later South Asia. In 1995, he moved to Europe and Central Asia where he was Sector Leader for Public Economics and Trade Policy. In 2000, he returned to Africa as Country Director for Madagascar, Comoros, Mauritius and Seychelles. In 2004, he became Country Director for Nigeria where he led a multinational team of more than 100 professionals, managing the Bank's loan portfolio of some USD 1.5 billion. He has many publications in professional journals and was a member of the core team that produced the 1995 World Development Report. He is fluent in Arabic, English and French.

GholamReza Haddad, Iran

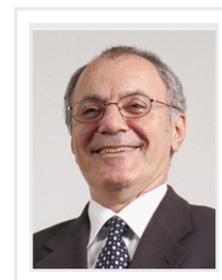
GholamReza Keshavarz Haddad, is an Iranian national who has been an Associate Professor at Graduate School of Management and Economics (GSME), Sharif University of Technology (SUT) since 2000. Haddad was born and brought up in Iran, and earned his Ph.D. in economics from the University of Tehran, School of Economics as a distinguished student. He was a senior researcher at the Institute for Trade Studies and Research (ITSR), Iran during 1999-2003. GholamReza's research interests are in the areas of Labor Market and applied Micro-econometrics. He has 28 empirical papers in the Iranian national journals and 4 publications in the international journals. Haddad taught at the graduate programs of Tehran, Tarbiat Modaress, Allameh Tabatabaee,



Syestan and Baluchestan, and Sharif University of Technology over 2000-2011.

Almas Heshmati, Iraq (Kurdish)

Almas Heshmati is a dual Kurdish/Swedish national. He is a Professor of Applied Economics at Department of Food and Resource Economics, College of Life Sciences and Biotechnology, Korea University. He held similar positions at the Seoul National University, University of Kurdistan Hawler, RATIO Institute (Sweden) and the MTT Agrifood Research (Finland). He was Research Fellow at the World Institute for Development Economics Research (WIDER), The United Nations University during 2001-2004. From 1998 until 2001, he was an Associate Professor of Economics at the Stockholm School of Economics. He has a Ph.D. degree from the University of Gothenburg (1994), where he held a Senior Researcher position until 1998. His research interests include applied microeconomics, globalization, development strategy, efficiency, productivity and growth with application to manufacturing and services. In addition to more than 80 scientific journal articles he has published books on EU Lisbon Process, Global Inequality, East Asian Manufacturing, Chinese Economy, Technology Transfer, Information Technology, Water Resources, Power Generation, Development Economics and economic and social impacts of landmines.



Gamal Ibrahim, Sudan

Gamal Ibrahim is a Sudanese national with an MA in Development Economics from the University of Leeds, UK and a PhD from Nottingham Trent University, UK. He taught economics at Nottingham Business School, Nottingham Trent University for 9 years before joining the Arab Monetary Fund in Abu Dhabi in 2009 as a Senior Economist. In 2010, he joined the United Nations Economic Commission for Africa as an Economic Affairs Officer in the Governance and Public Administration Division. He has a strong track record in research on development economics as well as vast experience in graduate teaching. He has published widely in leading economics Journals and has substantive experience in supervising PhD students. His main field of specialization is

institutional economics with a particular emphasis on economic governance, finance for development and private sector development.

Kamiar Mohaddes, Iran

is an Iranian and Swedish national with a PhD in Economics from the University of Cambridge, UK. He is currently a Lecturer in Economics and Fellow of Girton College, University of Cambridge, UK. He is also an Affiliated Lecturer at Boston University, USA. Kamiar's research is mainly focused on oil-producing economies. His most recent research projects examine the effects of natural resource abundance on growth, as well as the long-run and short-run implications of oil revenues for oil exporters using the Global VAR model. Together with colleagues, he is also building a quarterly global model of the world, including 15 MENA countries, in order to compare the macroeconomic consequences of supply- versus demand-driven oil price shocks across both oil importers and oil exporters.



Zeynel Abidin Ozdemir, Turkey

A Turkish national, Zeynel Abidin Ozdemir is a professor at the department of Economics at Gazi University, Turkey. He earned his PhD in Economics from the Cukurova University (2002), and he holds a masters degree in Econometrics from the Cukurova University (1997). His fields of specialization are in the areas of Econometrics, Time Series Analysis, Applied Econometrics, Financial Econometrics, and Applied Macroeconomics. He has published in internationally refereed journals and is a member of the Turkish Economic Association. He is a referee for journals like the International Economic Journal.



Afsin Sahin, Turkey

is a Turkish national, currently working as Associate Professor of Economics in Department of Banking, School of Banking and Insurance, Gazi University, Ankara, Turkey. His main research interests are macroeconomics, monetary economics and applied econometrics. He obtained his Bachelor's degree in

Economics, Bilkent University in 1999, his M.A. degree in Economics from Gazi University, and his Ph.D. in economics from Selçuk University in July, 2008. Afsin Sahin had previously worked as Assistant Inspector in Audit and Inspection Unit in a private bank, Istanbul, Turkey (March, 2004 – August, 2005). He joined the Department of Banking, School of Banking and Insurance, Gazi University as an Assistant Professor in May, 2010. He obtained his Associate Professor of Economics degree from Interuniversity Council, Ankara, Turkey in March, 2012. He published several times in academic journals and books.



Ebru Voyvoda, Turkey

Ebru Voyvoda is from Turkey. She received her MA (1998) and Ph.D. (2003) degrees in Economics from Bilkent University, Turkey. During 2003-2004 she was a visiting researcher at the Department of Economic, University of Utah in USA. She joined the Department of Economics, Middle East Technical University, Turkey in September 2004, and has been working there since. Dr. Voyvoda spent the 2011-2012 Academic Year at the Department of Environmental and Resource Economics, Environmental Management in Center for European Economic Research (ZEW), Germany as a visiting researcher. Her areas of interest include applied general equilibrium modeling for policy analysis, quantitative methods in macroeconomic models and economic growth.



New Research Associates

Shireen Al Azzawi

Shireen Al Azzawi is an Egyptian national. She received her Ph.D. in Economics from the University of California, Davis in 2005. She also holds two M.A. degrees, from Stanford University (2000) and The American University in Cairo (1998). Upon graduation, she worked for three years as an Assistant Professor at the Economics Department of The American University in Cairo. She has been teaching at the department of Economics at Santa Clara University, USA. Her fields of interest are International Economics, Applied Microeconomics and Economic Development. Her research has been published in *Economic Development and Cultural Change*, *the Journal of International Trade and Economic Development* and *the International Research Journal of Finance and Economics*. She also has several completed papers under review, as well as a number of ongoing projects investigating the impact of economic reform and trade liberalization on poverty and inequality in Egypt, and on the labor market, and a project investigating the effect of innovation and knowledge flows on Mergers and Acquisitions.

Mohamed El Komi

Mohamed El Komi is an Egyptian national. He is an Assistant Professor of Finance and Economics at Durham Business School, Durham University. He is also a visiting Scholar at the Economics Department, Rice University, Houston, USA. He earned his Ph.D. in Public Policy and Political Economy (Economics) from the University of Texas at Dallas, School of Economic, Political and Policy Sciences. His fields of specialization are in the areas of Behavioral and Experimental Economics, Islamic Finance, Development Economics, and Public Policy. He was an adjunct Professor, at the Department of Economics, University of Texas at Dallas, USA. He earned a Master of Science in Applied Economics from the University of Texas at Dallas, Department of Economics, and a Master of Arts in International Political Economy from the University of Warwick, UK, School of Social Sciences.

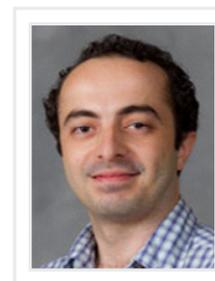
May Gadallah, Egypt

May Gadallah is an Egyptian national. She is an assistant professor at Faculty of Economics and Political Science, Cairo University, Egypt. She got her Ph.D. in Biostatistics from University of California, Los Angeles (UCLA) in 2006, during which time she worked as a teaching assistant. After graduation she worked as post-doc in Epidemiology Department at UCLA. She worked as a consultant in projects with the Population Council and the World Bank. Her research applies advanced statistical techniques to different fields such as labor economics, gender research, and health. She teaches statistical courses such as Sampling, Multivariate Analysis. She has published in fields such as Epidemiology, Economics, and Statistics.



Ali Hashemi

Ali Hashemi is an Iranian national. He graduated from Virginia Tech in 2011 with a Ph.D. in Economics. After teaching economics at Wake Forest University for a year, Hashemi joined the Department of Finance and Economics at Ashland University in 2012. He specializes in health and development economics. Primarily, he is interested in the economic impacts of health care intervention programs, and secondarily, he focuses on poverty, income inequality, and inequality of opportunities in the Middle East. Hashemi has also worked as a consultant for the World Bank.



Saed Khalil, Palestine

Saed Khalil is a Palestinian national with a Ph.D. in Economics and Management from University of Trento – Italy. He worked as a national accountant at the Palestinian Central Bureau of Statistics for six years. In 2009 he joined Palestine Monetary Authority, where he works at the Research and Monetary Policy Department as a chief division of the Macroeconomic Analysis and Outlook. He is also a part time assistant professor at



the Department of Economics of Birzeit University. His fields of specialization are in the areas of monetary economics, macroeconomics policy, and international economics.

Hoda Selim

Hoda Selim is from Egypt. She has been an economist at the Economic Research Forum (ERF) since April 2011. Prior to joining ERF, she worked for five years at the World Bank's Cairo Office in the Poverty Reduction and Economic Monitoring department. She previously held a research-related position at the Global Development Network. She has participated in research on macroeconomic issues in Egypt and the Arab region including economic development, economic growth, monetary and exchange rate issues. Selim holds a BA in economics from Cairo University, and earned a MA in Corporate and International Finance and a PhD from Sciences Po in Paris.



From Research Associate to Research Fellow

Rania Al-Mashat, (Egypt), Head of Monetary Policy Stance, Central Bank of Egypt

Rim Ben Mouelhi, (Tunisia), Professor, *Institut Supérieur de Comptabilité et d'Administration des Entreprises*

Houssein Eddine Chebbi (Tunisia), Associate Professor, Faculty of Economic Sciences and Management of Nabeul (FSEGN), University of Carthage

Awad Mataria (Palestine), Assistant Professor of Health Economics, Birzeit University

Wasseem Mina (Egypt), Assistant Professor, United Arab Emirates University

Mahmoud Sami Nabi (Tunisia), Researcher Economist, IRTI, Islamic Development Bank

Mehmet Teoman Pamukcu (Turkey), Assistant Professor, Department of Science and Technology Policy Studies (TEKPOL), Middle East Technical University, Turkey

Mona Said (Egypt), Assistant Professor of Economics, Economics Department, The American University in Cairo

From Research Associate to Policy Affiliates

Mohamed Al-Maitami (Yemen), Professor of Economics, Economic Consultant and Planner

From Research Fellow to Policy Affiliates

Savas Alpay (Turkey), Director General, Statistical Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC)

Ralph Chami (Lebanon), Division Chief, Middle Eastern Division, The IMF Institute

Heba Nassar (Egypt), Professor of Economics and Political Science-Faculty of Economics and Political Science-Cairo University

Sahar Tohamy (Egypt), Economic Advisor to Minister of Housing and Utilities, Ministry of Housing, Utilities and Urban Development

Research Activities

Since the last edition of Forum, ERF has been busy initiating new research activities dealing with several areas including new projects on industrial policy and diversification, urbanization, public procurement and democratic transition in oil economies. In addition, ERF launched a new Round for Egypt Labor Market Panel Survey and a major project in cooperation with FEMISE on structural transformation. A brief description of these projects is presented below.

Private Sector Development and Economic Diversification in the GCC countries, *Mohamed Chemingui*

The project will undertake an investigation of why the GCC economies have not succeeded in diversifying their economies and reducing their dependency on the oil sector and related activities. More specifically, it will look at the economic development of GCC countries in the context of structural transformation and economic diversification through an analysis of the evolution of the productive structure of the region. Particular attention will be given to the private sector as an engine for economic growth, transformation, and diversification.

How Did Firms Export New Sophisticated Products with Few Existing Capabilities? The Case of Lebanon Between 2000 and 2008, *Sami Atallah and Dima Karbala*

This study examines how firms have developed new and sophisticated exports despite the absence of existing nearby capabilities. The project examines this question by looking at how Lebanese firms managed to improve their position on the product space between 2000 and 2008. The study aims to build on the existing literature by shedding light on the micro dynamics of how capabilities are formed.

On Exports Diversification: New Evidence Using Customs Data, *Rana Hendy*

This research examines export diversification and industrial policy using exporter-level data. Its objective is twofold: On the one hand, it will study export growth at the firm margin as well as at the product and destination margins. On the other hand, it will evaluate the role of industrial policy based on impact evaluations of specific export promotion programs. The results of this research are expected to be of great importance to policy makers in the region.

Shocks, Risk Preferences and the Labour Market, Evidence from a Natural Experiment in Palestine, *Elisa Cavatorta, Ben Groom, and Massoud Karshenas*

This research addresses whether shocks affect risk and time preferences and how these preferences influence employment decisions. Specifically, this research examines the impact of adverse shocks on risk and time preferences and investigates whether individuals that differ in their risk attitudes sort themselves into specific occupations. We use data from the West Bank region of the Palestinian Territories to implement a quasi experimental empirical strategy aimed at measuring the causal effect of a shock to livelihoods, such as the separation wall, to individual risk attitudes. Despite the relevance of this topic for the whole Arab region, little is known about the behavioral consequences of shocks and uncertainty in the Middle East and in developing countries in general. This research aims to fill a number of gaps in the literature and promises to contribute significantly to both the academic literature as well as public policy.

The Impact of Urbanization on Political Outcomes in Turkey, *Cem Baslevent*

During the last sixty years, the urbanization rate in Turkey has increased from about 25 to 75 percent due to the more-than-three-fold population increase and the massive migration from rural to urban areas. The main purpose of the project is to carry out descriptive and econometric analyses (at the province and district levels) to identify the urbanization-related determinants of two key political outcomes, namely the election turnout rate (which is meant to proxy for the general level of political participation of the urban population) and the electoral success of the currently-ruling Justice and Development Party (Adalet ve Kalkinma Partisi, AKP). The reason for the choice of focusing on the AKP is that it is the dominant party

in the Turkish party system, and also that it is the latest to come in the line of pro-Islamist parties that are believed to have benefited the most from the existing living conditions of the urban population, especially in the metropolitan areas. Our ultimate goal is to produce empirical findings that provide foresight on future political outcomes under various assumptions regarding education levels, birth rates, and migration patterns.

Micro and Small Enterprises (MSEs) in Urban Economies: A Comparative Study of Egypt, Lebanon, Morocco and Turkey at the Province level, *Fatma El Hamidi and Cem Baslevent*

The objective of this study is to expand the knowledge of the economic and social characteristics under which the MSEs operate in urban regions with special attention to four countries: Egypt, Lebanon, Morocco and Turkey. In this context, the study examines the sectors' current status, existing constraints and potential for growth. This better understanding is expected to lend refined policy prescriptions and programs that would allow this sector to realize its potential growth. This study will seek to provide first-time comparative estimates of the performance of MSEs in urban cities (at the governorate/province level) of four countries in the MENA region; the determinants of their growth, success, and types of activities showing promises of development and reinforcement.

Alternative Finance Mechanisms for Infrastructure in Egypt: Will Users and Developers Pay? *Hesham Osman, Tamer El-Diraby, Magued Osman, and Matthew Turner*

This research aims to investigate the use of Special Levies, Utility Models, and Development Fees as a viable alternative for infrastructure financing. Specifically this project aims to identify the willingness-to-pay for improved infrastructure services that support the implementation of special levies and utility models (where appropriate). In addition the project aims to document the application of development fees as a financing mechanism and policy instrument and propose a road map for the systematic utilization of development fees in Egypt.

Urban concentration, poverty and infrastructure, *Khalid Sekkat*

Urban concentration and poverty are two prominent characteristics of many developing countries; including the MENA. Both represent serious challenges for the development process. Moreover, these characteristics are interrelated. A good understanding of their determinants and of the nature of their relationship is important for taking decision that could enhance the development process. Therefore, the project seeks to investigate these issues for MENA countries in a comparative perspective with other developing countries. Specifically, the two following questions will be addressed: What is the relationship between urban concentration and poverty? What are the main drivers of urban concentration and poverty with a special focus on infrastructure?

Young People and the Digital Divide in Egypt, *Mona Farid Badran and Antonio Rodríguez Andrés*

This research focuses on the access and use of the Internet of the poor in rural areas compared to the youth in urban areas in Egypt. Thus, economic policies for the social inclusion of the rural poor will be provided and outlined in the recommendation section of the paper. This research intends to examine the source of inequalities in the use and access of young people in Egypt. For that purpose, we use survey data from the SYPE survey for the year 2009. The idea is to examine inequalities by age, gender, and urbanization in relation to the access and use of the Internet. This research is conducted to answer the following research questions: What are the factors that impact digitalization level of the youth population in Egypt? How does digital divide index reflect the digital divide between urban and rural population?

SMEs and Public Procurement Policies in Egypt: The Case of Small and Medium Pharmaceutical Industries, *Lobna Abdellatif, and Mohamed Zaky*

This research's main objective is to provide "An integrated governance framework that should be developed to create a better economic environment for pharmaceutical sector SMEs; and thus a comprehensive assessment of their behavior in the tender market is seen as rather crucial." It should be noted that

this implies an implicit analysis to general specifications of SMEs, to those of the tender market. More precisely, the current research aims to answer the following questions: What is the framework governing pharmaceutical SMEs industries in Egypt? And What is its impact on SMEs capacities and abilities to compete for public tenders? What is the governing framework of the public tender market; in what way or to what extent is it designed in favor of SMEs participation? What are the parallels and divergences of the situation in Egypt to general findings? Do SMEs activities show any interdependence between the two markets; private and public tender markets? and if so, what are the possible implications of such interdependence on the three key stakeholders: Public sector; private distributors and SMEs?

Autocratic heterogeneity and democratic transition: lessons from and for Arab oil-rich economies, *Ibrahim Elbadawi and Phil Keefer*

The Arab Spring has exposed the narrow limits of knowledge about the incentives of newly democratic governments to pursue policies that favor development and the collective interests of citizens. In particular, research is less clear about the effects of natural resources on political incentives during the democratic transition. Clearly, natural resource rents raise the stakes for government control but what prompts some leaders, as in Algeria, to use rent-sharing to curb revolutionary fervor, and others to avoid it? Is there an association between rents and the nature of political competition and political incentives in democracies? If there is, is this association a direct consequence of the rents, or is it rather a consequence of the autocratic legacy that was a product of those rents? The research should provide answers to above questions contrasting between the experiences of Algeria and Libya

Egypt Labor Market Panel Survey (ELMPS), *Ragui Assaad*

In its efforts to make micro datasets available to researchers, ERF has cooperated with the Central Agency of Public Mobilization and Statistics (CAPMAS) on this project. It aims to revisit those households that were previously interviewed in the last labor market panel survey and to trace the evolution of their work and unemployment trajectories. Additionally, a new refresher sample of households oversampling areas with current and return migrants is added.

The preparation phase of the survey—setting up the questionnaires, enumeration of the previously interviewed households, sampling and the pre-test—have already been held between November 2011 and January 2012. Training of the field teams took place in February 2012, and fieldwork is slated for early March 2012. Data entry and processing are to be carried in parallel with the data collection. The clean tape of the data is to be ready for ERF's research team by the end August 2012.

Structural Transformation and Industrial Policy in Selected Southern Mediterranean Countries (*FEMISE project*)

Despite the importance of structural transformation in the process of economic development, there is no consensus on how to achieve this objective and what is the appropriate role for government. In the Euromed region, this debate is compounded by the scarcity of systematic assessment of past industrial policies and the role of the EU-Med partnerships. This project is intended to contribute to this debate, especially with respect to selected countries in the Southern Mediterranean region (Egypt, Morocco, Tunisia and Turkey). The objective of this project is thus to undertake a detailed assessment of the their experience in using active industrial policies to achieve structural transformation and economic diversification. This project is co-funded by the facility of the Euro-Mediterranean Investment and Partnership (FEMIP) of the European Investment Bank and the European Commission, and FEMISE.

ERF News

Research Fellows Elect their Representatives on the Board of Trustees

ERF Research Fellows elected seven new members to the Board of Trustees (BOT) last January. The new members will serve on the board for five years starting March 2012. The Board appoints an additional two members to ensure regional and gender balance. Mona Zulficar has been reappointed as one of these two members. The Board decided to defer the appointment of the second member to the coming BOT meeting. The remaining four members represent ERF's largest donors bringing the total BOT members to 13. Warmest congratulations to the newly elected members for the vote of confidence they earned from their colleagues.

ERF newly elected members are:



Hassan Aly,
Ohio State
University



Ragui Assaad,
University
of Minnesota



Mouna Cherkaoui,
Mohamed V
University



Hadi Esfahani,
University
of Illinois



Samir Makdisi,
American Univer-
sity of Beirut



Aysit Tansel,
Middle East
Technical University



Subidey Togan,
Bilkent
University

MEDJ Listed in EconLit

When the Middle East Development Journal (MEDJ) was established three years ago, ERF had high hopes for it. Its goal was to provide a solid analytical and empirical base for the promotion of good policy of the challenges facing the region.

The hard work of MEDJ's editorial team is beginning to pay off. The journal has been gaining widespread recognition, has seen a growth in subscribers and is now about to take its place among firmly established academic publications.

The Journal of Economic Literature (JEL) has confirmed that MEDJ will appear in its June 2012 issue. And, it's about to be listed in EBSCOhost online database for refereed journals, in the EconLit section. It is awaiting a decision on inclusion in the Social Sciences Citation Index (SSCI).

ERF Recent Events

Workshop on Understanding and Avoiding the Oil Curse in the Arab World

October 8-9, 2011, Cairo, Egypt

Building on the research agenda of the natural resources and economic diversification theme, ERF has initiated a project on Understanding and Avoiding the Oil Curse in the Arab World under the RIAD initiative. The project seeks to produce quality research work on avoiding the oil curse in the Arab region. Research in this area is not only critical to its development but also extremely challenging for its public policy and institutions. The primary objective of this workshop was to help both thematic and case study authors to present the first drafts of their research work. Six thematic papers were presented, addressing implications of oil dependency on:

- (i) Oil optimum savings-investments decisions
- (ii) Economic growth
- (iii) Financial sector development
- (iv) Exchange rate and monetary policy issues
- (v) Fiscal issues
- (vi) A final paper tackling the political economy of oil rents and governance.

Five case studies were presented including Saudi Arabia, United Arab Emirates, Sudan, Yemen and Algeria. The case studies are expected to address oil-related issues taking into account that depending on the country in question, some issues are more relevant than others, in terms of the degree of oil dependence and implications for long-term diversification. In addition, a paper addresses the implications of the region's oil on for the non-oil or labor-exporting Arab economies. These countries are indirectly impacted.

Toward a Research Agenda on the Environment

November 19, 2011, Beirut, Lebanon

In light of the current pressing need to address environmental concerns in MENA, the Economic Research Forum organized a workshop on Environmental Challenges in MENA: Toward a Research Agenda for ERF. The workshop was held in Beirut, Lebanon on November 19, 2011. The purpose of the workshop was to define a research agenda for ERF that will help identify a research gap in the area of Environmental economics research in the Arab World. The project also falls under the Research Initiative for Arab Development (RIAD) research program. This initiative aimed at enhancing the quality of economic research in the Arab World in order to bridge the knowledge gap and ultimately help reform efforts in the region.

Conference on Migration in the Arab Region: Determinants and Consequences

November 20, 2011, Beirut, Lebanon

ERF has carried out a structured research project analyzing the economic and non-economic consequences of intra-Arab and extra-Arab migration. The draft papers were presented and discussed in a workshop, which was held in Istanbul on April 16 & 17, 2011. This conference was a follow-up to present and to disseminate the results and the outcomes of the research to policymakers, researchers and the media. The issues presented regarding the economic impacts cover remittances and return migration. As for the non-economic impacts, the research focused on the relationship between the Diasporas, brain

drain and the quality of institutions at home. All these issues were examined from both the efficiency and redistributive angles and situated in the context of the global and the Euromed contexts.

Conference on Inequality in the Arab Region

December 10-12, 2011, Cairo, Egypt

Three years ago, ERF made it its business to tackle issues surrounding inequality in the Arab world, both in terms of inequality of outcomes and inequality of opportunity. A serious effort has been made to collect and harmonize household survey data for as many countries in the region as possible and over as many years also as possible. Various research projects were initiated, engaging researchers from the region and abroad. This regional conference intended to share the findings of this work with a wide audience. Not only does the coverage of the conference span measurements of inequality, but also the policies that may be used to ameliorate its intensity without penalizing hard work.

Conference on Arab Passenger Airlines' Framework and Performance

December 19, 2011, Casablanca, Morocco

This conference is under the theme of regional integration, under the RIAD initiative which began in 2009. The purpose of the conference was to disseminate the results of the paper produced in the context of this structured research project analyzing the impact of the current Arab passenger airlines frameworks on the performance of the industry in selected Arab countries (Egypt, Jordan, Morocco and UAE) to various stakeholders including policymakers and researchers.

Understanding and Avoiding the Oil Curse in the Arab World

January 15-16, 2012, Kuwait

Organized jointly by the Economic Research Forum and the Arab Fund for Economic and Social Development, the conference has convened around 100 regional and international researchers. Bringing together renowned academics and policy makers, the primary objective of this conference was to initiate discussions on the macroeconomic challenges posed by oil dependency in Arab countries, and of policies for harnessing the power of natural resources. The conference was preceded by a workshop, which was held in Cairo on October 7- 8, 2011 to discuss draft papers.



L to R: Ibrahim Elbadawi, Ahmed Galal and Abdlatif Al-Hamad



Participants at Conference on Arab Passenger Airlines' Framework and Performance

Latest ERF Publications

The Middle East Development Journal (MEDJ)

The Economic Research Forum is proud to announce the publication of the third issue of the Middle East Development Journal (MEDJ).



Vol. 3, No. 2. December 2011

Moroccans' Assimilation In Spain: Family-Based Versus Labor-Based Migration

Núria Rodríguez-Planas And Raquel Vegas

Determinants of Inflation in GCC

Magda Kandil And Hanan Morsy

Firm-Level Data in The MENA Region: Research Questions, Data Requirements And Possibilities

Izak Atiyas

Welfare Effects From Reforming Agricultural Policies in Rich Countries in A Spatially Small Heterogeneous Agricultural Economy

Mohamed Chemingui

Spatial Dependence of Income Inequality Among Trading Partners

Fadi A. Fawaz

Assessing Subsidies and Indirect Taxes in Iran: A Social Welfare Perspective

Khosrow Pirae and Mohammad Reza Shahsavari

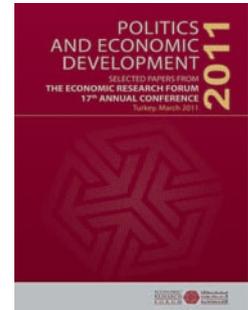
Book Review: "Democracy in The Arab World — Explaining The Deficit" Ibrahim Elbadawi and Samir Makdisi"

Jean-Philippe Platteau

Proceedings Volume

ERF's Seventeenth Annual Conference: Selected Papers

This volume contains seven papers related to the theme of politics and economic development, which was the common thread of all plenary sessions in the 17th Annual Conference of the Economic Research Forum (ERF).



Working Papers Series

Since the last issue of Forum, 25 working papers have been published and disseminated electronically. All papers can be downloaded from the ERF website: www.erf.org.eg. The recently published papers are listed below:

Demographics, Labor Force Participation and Unemployment

Nader Mryyan

Working Paper 670

Egypt Airline Passengers Market: Competition and Performance

Noha S. Omar and Khalid Sekkat

Working Paper 669

Trends and Differentials in Jordanian Marriage Behavior: Marriage Timing, Spousal Characteristics, Household Structure and Matrimonial Expenditures

Rania Salem

Working Paper 668

Willingness to Pay for Improving Land and Water Conditions for Agriculture in Damietta, Egypt

Hala Abou-Ali

Working Paper 667

Return Migration and Entrepreneurship in Morocco

Bachir Hamdouch and Jackline Wahba

Working Paper 666

Inequality of Opportunity in Child Health in the Arab World and Turkey

Ragui Assaad, Caroline Krafft, Nadia Belhaj Hassine and Dajavad Salehi-Isfahani

Working Paper 665

Regulating Traffic to Reduce Air Pollution in Greater Cairo, Egypt

Hala Abou-Ali and Alban Thomas

Working Paper 664

What Drives the Global Land Rush?

Rabah Arezki, Klaus Deininger and Harris Selod

Working Paper 663

Commodity Windfalls, Polarization, and Net Foreign Assets: Panel Data Evidence on the Voracity Effect

Rabah Arezki and Markus Brückner

Working Paper 662

On Capital Flows and Macroeconomic Performance: Evidence Before and After the Financial Crisis in Turkey

Nergiz Dinçer, Magda Kandil and Mohamed Trabelsi

Working Paper 661

The Relative Volatility of Commodity Prices: A Reappraisal

Rabah Arezki, Daniel Lederman and Hongyan Zhao

Working Paper 660

Assessing the Global Effect of Trade Facilitation: Evidence from the MIRAGE Model

Chahir Zaki

Working Paper 659

International Capital Mobility and Factor Reallocation in a Multisector Economy

Sirin Saracoglu and Zeynep Akgul

Working Paper 658

Institutional Evolution and Economic Development in Iran and Turkey

Esra Ceviker Gurakar and Emin Koksal

Working Paper 657

Residential Water Demand: A Panel Cointegration Approach and Application to Tunisia

Ben Zaied Younes & Mohamed Salah Matoussi

Working Paper 656

Stock Market Liquidity: Comparative Analysis of The Abu Dhabi Stock Exchange and Dubai Financial Market

Ghassan Omet

Working Paper 655

Fiscal Regimes in and Outside the MENA Region

Ibrahim Elbadawi and Raimundo Soto

Working Paper 654

Stock Prices and Inflation: Evidence from Jordan, Saudi Arabia, Kuwait, and Morocco

Adel A. Al-Sharkas and Marwan Al-Zoubi

Working Paper 653

Climate Change Impacts on Wheat Yields in the North-West of Tunisia

Faïcel Gasmî, Mounir Belloumi and Mohamed Salah Matoussi

Working Paper 652

Did the Global Financial Crisis and Recession Contribute to the Uprisings in North Africa?

Hassan Aly and Mark Strazicich

Working Paper 651

Local Employment Growth in the Coastal Area of Tunisia: A Dynamic Spatial Panel Approach

Mohamed Amara and Mohamed Ayadi

Working Paper 650

An Analysis of the Mobile Telephone Sector in MENA: Potential for Deregulation and Privatization

Sam Hakim and Simon Neaime

Working Paper 649

How Stock Exchange M&As Affect their Competitors' Shareholder Value? Evidence from the World and MENA Region

Iftekhâr Hasan, Nada Kobeissi and Liang Song

Working Paper 648

Political Institutions and Sovereign Credit Spreads

Narjess Boubakri, Jean-Claude Cosset and Houcem Smaoui

Working Paper 647