

The Euro-Mediterranean Partnership: The Convergence Debate

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Abstract: *We all dream of a sustainable future for the Mediterranean. Here comes the question. Do poor countries or regions tend to converge toward rich ones to make this dream a reality? Although some economic theories predict convergence, the empirical evidence has been a subject of debate for years. The convergence process currently underway between the European Union and southern Mediterranean countries are a major issue. The assumptions of comparing growth prospects formulation allow determining the time period for catching-up of living standards for each country. We just need convergence to connect everything together and make the world closer and shaped for development, partnership and communication technology. The aim of my research is to provide a comprehensive background in the context of which future growth and convergence research can be pursued and understood.*

Keywords: North-South, Trade, Investment, Cooperation, Convergence.

1. Introduction

The idea of convergence in economics (also sometimes known as the catch-up effect) is the hypothesis that poorer economies' per capita incomes will tend to grow at faster rates than richer economies. As a result, all economies should eventually converge in terms of per capita income. Developing countries have the potential to grow at a faster rate than developed countries because diminishing returns (in particular, to capital) aren't as strong as in capitalist rich countries. Furthermore, poorer countries can replicate production methods, technologies and institutions currently used in developed countries. In this context, diverse approaches have been used to analyze the hypothesis of convergence between countries and regions.

In achieving this goal, the paper builds on the previous surveys, extends and updates them, and offers some different assessments of the contribution of the convergence literature to the understanding of economic growth. Our purpose is not to discuss the theoretical aspect of convergence/divergence processes, but to adopt an approach we consider may help in better understanding the evolution of disparities in some Mediterranean countries.

The issue revolves around the following questions: Given the persistent regional disparities and a still further economic integration, what says the economic theory? Are there alternatives to neoclassical thinking? Political and commercial links between these countries do they tend to strengthen over the past years? Can we expect more rapid growth of the poorest regions? Do Mediterranean regions converge, at least in the long term, to the same level of per capita income?

It is hoped that as with the advancement of our study, we can provide some answers to the questions raised.

This paper begins by laying out different definitions of convergence and by showing the link between the

convergence issue and the growth theory debate. The paper then follows the evolution of the Barcelona process in which committed the Mediterranean partners. This process is a source of inspiration for the construction of the criteria used in our analysis. A third section discusses the methodology that tests the convergence hypothesis. Following this application, we try to answer our initial question, namely measuring the degree of convergence of Mediterranean countries. The final section goes behind the challenges and prospects for the Euro-Mediterranean economic integration.

2. What We Have Learnt from the Convergence Debate

The economic convergence exists when two or more economies tend to reach a similar level of development and wealth. The study of convergence is an important topic because besides being useful for the debate between different theories, it can respond several inquiries such as if the distribution of income between economies has become more equal over time and if poor economies are catching up with the rich.

Whether income levels of the poorer countries of the world are converging to those of richer countries is by itself a question of paramount importance for human welfare. However, interest in this question has been fueled further by the fact that it became linked with the issue of validity of alternative growth theories. It has been generally thought that convergence was an implication of the neo-classical growth theory (NCGT), while the new growth theories (NGT) did not have this implication. Accordingly, it was believed that by testing for convergence, one could test for the validity of alternative growth theories. Given this connection, it is not surprising that the convergence issue has drawn the attention of many outstanding minds of the economics profession. A useful way to start reviewing the convergence literature is

therefore to provide a brief introduction to these different concepts of convergence.¹

The study of convergence plays a central role in the comparison of growth paths of economies of different countries (Baumol, 1986; Mankiw, Romer et Weil, 1992; Barro et Sala-I-Martin, 1995; Henin et Le Pen, 1995; de la Fuente, 1997; Tavera, 1999a et 1999b; Laskar, 2000). Treating the problem of convergence, we note that there are two large divergent currents, on the one hand, the optimistic theories of automatic convergence, and on the other side, pessimistic theories. When it comes to optimistic theories of automatic convergence we find that these theories advocate convergence as a matter of time and to bring favorable conditions.

According to Eli Heckscher (1919) and Bertil Ohlin (1933), and under some restrictive conditions, the exchange between countries allows automatic improvement of economic convergence and a price equalization of production factors. Differences in production costs between countries which explain the comparative advantages of international trade are derived from different staffing inputs of the countries.

This specialization of factors will lead to a tendency to equalize prices of factors of production in different countries, since the abundant factor in a country will be more demanded and its price will rise, while the scarce factor, unless requested, its price will fall.

Furthermore, Neoclassical of international trade would thus tend to equalize the levels of development between countries. Both economies would then attend the convergence of their marginal productivities and income as well as a general improvement in well-being.

Technology is viewed as an economic good, accessible to all and has consistent returns². However, this model is based on some restrictive assumptions. This is particularly the case for the assumptions of full employment, uniformity of production factors, production factors identical or perfect competition³. So that the results provided by this theory are far from being observed in reality.

The neoclassical growth model, also known as the Solow-Swan growth model or exogenous growth model, is a class of economic models of long-run economic growth set within the framework of neoclassical economics. Neoclassical growth models attempt to explain long run economic growth by looking at productivity, capital accumulation, population growth, and technological progress.

¹ Despite efforts to be inclusive, some works are only briefly discussed here and others remain outside the purview. This however does not mean that these works are not important.

² The assumption of non-increasing returns to scale is essential for the equalization of marginal productivity of factors and therefore their remuneration

³ Gazon J. 2001-2002, « Economie Internationale », lecture notes, University of Liege, Faculty of Economics, Management and Social Sciences.

Based on the assumptions of diminishing returns to capital and exogenous technical progress, Solow (1956) showed that each region will converge to a growth rate of per capita income of long-term rate steady state. "The steady state is an important phenomenon in two ways [...] an economy that has reached does not move [...] and an economy that has not reached out to him. The steady state equilibrium is the long period of the economy"⁴.

The formations of labor and savings rates are key determinants of the capital stock of the steady state since the technical progress being applied exogenously⁵.

As returns of capital are decreasing, the principle is that a transitional dynamic economy lying below its steady state temporarily knows a growth rate higher than that which would prevail in steady state.

This steady state is not necessarily the same for all economies. Indeed, it depends on the fundamental characteristics of the economy in question.⁶ Nowadays Technology gap has big impacts on the economy too.

The hypothesis of the technological gap is about how technological progress bringing technological superiority led to international trade. Kravis (1956) was the first to show the importance of technological difference in trade. Fagerberg & Varspagen (1996) suggested a clearer analysis. As the characteristics of the public good of knowledge can play in less developed economies, it is easier to copy than to invent: the poorest regions can thus adapt, imitate and use developed technologies in richer regions without to reinvent themselves. In other words, the more a region has an important technological backwardness; it has more opportunity to catch up. The convergence process is automatic. The only possible interventionist policy would be to promote local technological progress and invest in high-level research to support the exploitation of technologies developed elsewhere.

These theories predict economic polarization and more divergent levels of development of regions. Thus, proactive regional policy is absolutely essential if we want to achieve a more balanced distribution of wealth between regions.

However, Myrdal (1957) considered the cumulative growth as a spatial process may increase regional disparities and leading to a spatial polarization of the economy. Indeed, the effects of agglomeration and increasing returns to scale leading to a cumulative growth process creating differences between regions and generating a vicious circle. This process of building wealth or poverty gives rise to: a swirl effect⁷ and

⁴ Mankiw, 2001, p101.

⁵ Solow captures indeed the technical progress as exogenous to the model, as a "manna from heaven".

⁶ For example, more human and physical capital investment rate will be greater and the the rate of population growth will be lower; more steady-state level of income per head will be high.

⁷ Centripetal forces or "backwash effect" resulting mainly positive technological externalities, effects of the labor market or commercial relations.

propagation effects of growth⁸ would benefit to peripheral regions.

Endogenous growth theory holds that economic growth is primarily the result of endogenous and not external forces⁹. Endogenous growth theory holds that investment in human capital, innovation, and knowledge are significant contributors to economic growth. The theory also focuses on positive externalities and spillover effects of a knowledge-based economy which will lead to economic development. The endogenous growth theory also holds that policy measures can have an impact on the long-run growth rate of an economy. For example, subsidies for research and development or education increase the growth rate in some endogenous growth models by increasing the incentive for innovation.

Romer (1986, 1990), Grossman and Helpman (1991) and other theorists of endogenous growth believe that economic integration widening economic divergences between countries and regions.

They include the neoclassical economic forces that induce technical progress. Technical progress is considered the engine of economic growth and the profit that entrepreneurs hope to gain from innovation.

This time, the rate of return on capital is non-decreasing because the concept of "capital" is extended to human, technological or public capital. Thus, disparities in economic growth in the long term can be explained by unequal efforts in R & D and technological innovation. This is particularly important when one considers that the rate of return of knowledge and technology is growing. The implication of this is that the gap between deprived areas and the more developed regions will always tend to increase; the richest regions are probably more likely to inflate their technology stock. Policy efforts should be concentrated primarily in the development of new technologies in disadvantaged regions. Establish infrastructure and an enabling environment for economic development, including researchers and entrepreneurs to take advantage of innovations and investments. Also the new economic geography leads to this development.

Economic activity is often polarized around some "clusters" and this economic concentration affects the distribution of income between regions. In this perspective, Williamson (1965) suggests that economic growth is initially driven by the dynamics of a number of major urban areas. Thus, in a first time, strong growth is accompanied by greater regional disparity, but after a certain period of time, the steam would tend to reverse in particular because of additional costs due to congestion of these economic centers. After an initial period of economic divergence is then attend a convergence

in per capita income. The problem of "the spillover effect" is also introduced.¹⁰

For his part, Krugman (1991) showed that economic integration increases trade and factor mobility, which generates new opportunities for economies of scale and specialization. This leads to a "center-periphery" close enough to the vicious circle of Myrdal schema¹¹.

3. The Euro-Mediterranean Integration and Cooperation

Europe and the Mediterranean countries are bound by history, geography and culture. At the cross roads of the European, African and Asian continents, the Mediterranean region presents political and economic challenges that have recently re-launched the debate on Euro- Mediterranean integration and cooperation. Several factors led to the consolidation of the reports of the European Union (EU) and the countries of the South Mediterranean (SMC): reintegrating the countries of Central and Eastern Europe (CEE) in the international trading system and the prospect of membership in the community, and the advanced multilateral liberalization (signature of the GATT (WTO)), which will erode the preferences that the EU traditionally granted to the SMC. In order to be consistent with the objectives imposed by the current economic conditions, reconciling globalization and regionalization, the Mediterranean countries have decided to bypass their disputes in favor of North-South cooperation. To this end, a partnership between 27 countries with a shoreline along the Mediterranean Sea was officially launched in November 1995 in Barcelona. The main objective is to form a free trade and economic prosperity on the one hand, a space for political stability and social well-being, on the other hand. The problem of large differences in living standards between these countries leads to many fears: there have been concerns about increased immigration from countries with lower labor costs or relocation of industrial activities (in South) are concerned about the ability of their countries to resist the economic competition.

3.1 Levels and patterns of development of Mediterranean countries

3.1.1. The south Mediterranean countries are experiencing low capital accumulation

Examination of the rate of investment in the various SMC since the ninety indeed shows the intermediate position of these countries on the one hand, of the main Latin American countries (Argentina, Brazil, Mexico and Venezuela), and on the other hand, of the four New Industrial Asia countries (South Korea, India, Malaysia and Thailand).

Table 1. The investment rate

⁸ These centrifugal forces or "sped effect" come essentially from the effects of congestion, pollution and competition for immobile factors (land cost).

⁹ Romer, P. M. (1994). "The Origins of Endogenous Growth". *The Journal of Economic Perspectives* 8 (1): 3.

¹⁰ Spillover effects are externalities of economic activity or processes that affect those who are not directly involved.

¹¹ Myrdal published his major work in 1931, the Monetary Equilibrium, where he develops the analysis of cumulative causation (vicious or virtuous circles).

	1990	1995	2000	2005	2012
ALGERIA	26,97	29,13	20,67	22,33	38,32
EGYPT	26,94	19,16	18,93	17,92	15,95
ISRAEL	19,11	23,97	18,78	16,56	20,43
JORDAN	26,00	29,58	21,10	30,62	25,20
MOROCCO	23,99	21,43	25,98	27,52	31,35
TUNISIA	24,36	24,16	25,16	21,33	22,65
AVERAGE	24,56	24,57	21,77	22,71	25,65
ARGENTINA	13,99	17,93	16,19	21,45	21,77
BRAZIL	4,28	6,01	7,13	4,45	4,54
MEXICO	17,87	16,12	21,35	19,99	20,70
VENEZUELA	14,13	16,48	21,01	20,29	53,21
AVERAGE	12,57	14,14	16,42	16,55	25,06
S.KOREA	37,08	37,31	29,96	28,85	26,71
INDIA	23,82	24,05	22,83	30,33	29,58
MALAYSIA	33,04	43,58	25,29	22,30	25,62
THAILAND	40,38	41,06	21,96	28,89	28,53
AVERAGE	33,58	36,50	25,01	27,59	27,61

Source: Author's calculations the WDI.

Taking into account significant increases in investment resulting in the during 1990-2012, rising prices for primary products (hydrocarbons in Algeria, Egypt, Mexico and Venezuela; phosphates in Morocco and Tunisia), it shows that investment rates in the SMC have no significant increase over the period. SMC are faced with the need to address in a meaningful way their rate of accumulation to perform their economic takeoff. This investment effort will be in a changed environment, both with regard to external sources of financing (lower financing creating debt, increased importance of foreign direct investment), the role of public authorities (who sees decrease its productive role by widespread privatization programs), and the degree of openness of economies.

3.1.2. Development strategies: The primacy of the State

Until the eighties, the State held a dominant economic position in all SMC, due to the weak entrepreneurial layers added to the fragility of nations themselves. All SMC adopted in sixty to seventy years a development strategy based on import substitution, which have sheltered behind high tariff protection and have been an important productive public sector. Given the initial conditions, this strategy, backed by massive financial transfers of various kinds¹², has been uneven but positive results in terms of education, infrastructure and birth in most SMC: Morocco, Tunisia, Egypt and Algeria, with the occasional massive oil revenues for the last one.

However, although it has declined in almost all countries as a result of demographic policies, population growth remains high.

¹² Whether it is the ease of access to international loans with sovereign guarantees (Morocco, Tunisia, Jordan, Turkey, Egypt from the late seventies), the financial, commercial and technological support for the USSR Algeria, Syria, Egypt, or "strategic" financial transfers from the United States (Israel, plus funds from the diaspora, Egypt after the signing of the Camp David, Jordan) or Gulf oil countries (Jordan, Egypt, the Occupied Territories, Syria, Lebanon).

During the eighties, the self-centered development model has exhausted its debt crisis (Morocco, Egypt, Algeria, and Tunisia), effects against oil shock (Algeria, Egypt), depletion of oil subsidies monarchies (Egypt, Jordan), and reduction of opportunities given to the camp (Egypt).

It was followed by a general movement of openness and economic liberalization initiated more or less late and at different speeds. All these countries have undertaken to reduce the influence of the state on the economy, whether as a result of the implementation of Structural Adjustment Plans in exchange programs rescheduling of external debt (Morocco in 1983, Egypt in 1987 and 1990, Jordan in 1988 and in 1992 and Algeria in 1994 and 1995) or by their internal dynamics (Israel in 1985, Tunisia in 1986).

The first phase of the liberalization movement focused on restoring global macroeconomic balances, according to the classical scheme of structural adjustment to reduce excess demand: reduction of public and current deficits, lower rate of inflation. The results of this first step have been uneven.

The evaluation of the overall review of the privatization in Tunisia in 2011 shows that the services sector ranks first in terms of number of companies sold (54%) and in terms of privatization receipts (84.5%), followed by industry with 37.9% of total divested businesses and 18% of total revenues. Its effect usually is favorable on performance of the undertakings concerned by improving average rate profitability, productivity and coaching further decline in the debt ratio. However, and socially, privatization seems to have adversely affected employment.

In Jordan, rapid privatization of previously state-controlled industries and liberalization of the economy is spurring growth in urban centers like Amman and Aqaba.

In the 1990s a series of International Monetary Fund arrangements, coupled with massive external debt relief, helped Egypt improve its macroeconomic performance. Since 2000, the pace of structural reforms, including fiscal, monetary policies, privatization and new business legislations, helped Egypt move towards a more market-oriented economy and prompted increased foreign investment.

Most authors do not hesitate to characterize the results of privatization in Algeria as mixed results. This observation is justified both by the slow pace and low number of privatization transactions carried out compared with the objectives set in the programs.

The Israeli economy is a modern capitalist system of a young country and is characterized by a relatively large public sector and a sector of high-tech fast growing. The economy of Israel is a market economy¹³. The opponents of privatization in Israel argue that companies would also be able to be effective under government ownership. Privatization affects employees and leads to the discharge

¹³ Economy of Israel" in CIA 2011 World Factbook, web :CIA-IS.

of employs, leads the workers to choose to get early pension and salary cutbacks

3.1.3. The importance of external debt

With the exception of Israel, backed by a strong loan granted to him by the United States guarantee, the economies of SMC are weakened by the importance of the external debt. In 2012, it represents 76.4% of GDP in Egypt, 58% in Morocco, 66.8% in Jordan and 47% in Tunisia. Israel's external debt accounts for 73.5% of GDP, but given the country's claims, net debt represents a smaller percentage of GDP. The IMF together with the World Bank ranked Algeria under the least indebted of the 20 countries in Middle East and north Africa countries for the year 2012, in a special report on the economic outlook for the MENA. Indeed, the Fund indicates that the gross external debt of Algeria only represent 2.4% of gross domestic product in 2012 and will continue at the same rate in 2013 against 2.8% in 2011.

3.1.4. Deepening of structural reforms butts everywhere on power resistors

All these countries must now commit in the second part of structural reforms to stimulate supply by reducing barriers to development. This is essentially the opening of the economy to internal and external competition should encourage the removal of these obstacles. But each of these countries encounters difficulties in reaching this step. Indeed, the macro economic adjustment of the first phase has focused efforts on the entire population (lower subsidies on commodities, slowing wage and job creation in the public service, introduction of Value Added Tax, reduced public investment in the social sectors, etc.). Conversely, the phase began, which requires a real opening of the productive competition, reached the high interests of society directly. These are annuities immune protection of all kinds (political, monopoly, customs, etc.) that are threatened: loss of public monopolies in the context of privatization, loss of border protection in the context of customs barriers, but as loss of tax exemptions of all kinds. Socio-economic rigidities are there at work, hindering the progress of reforms.

3.2 The Opening Degree

Mediterranean trades are multiple in natures, commercial, but also human and financial. Aid flows to weave SMC also close links with Europe, but also with the United States and the Gulf countries. In commercial matters, one of the characteristics common to all SMC is the relatively high degree of openness¹⁴ of their economies.

In the Mediterranean countries, it is the least populous countries like Jordan (116.82%) and Tunisia (104.98%) are the most open. Conversely, the most populous, such as Egypt and Algeria, have a lower opening degree (47.48% and 52.33%).

¹⁴ The degree of openness is measured by the average of the share of imports and that of exports in GDP.

3.3 The Level of Protection

Under the bilateral Association Agreements between the EU and the SMC, all manufactured products from SMC now have access to the EU market free of customs duties. Conversely, SMC has established a process of gradual dismantling their tariffs which spreads averaged over a dozen years¹⁵.

We can distinguish a group of countries that still have high industrial tariffs (Algeria, Morocco, and Tunisia), countries with low customs duties (Israel, Lebanon, Turkey) and intermediate countries.

In addition, compared to countries in Latin America and in Asia, the SMC still have high tariff protection: so the average tariffs in the industry, weighted by trade, is 15% for all SMC, against 9.4% in South-East Asia and 10.6% in Latin America.

This opening is nevertheless accompanied by a level of protection which remains high despite the onset of liberalization initiated in the eighties. The average tariff protection is 23% to 34% in Morocco to Egypt. These rates are significantly higher than those of Argentina (12%), Mexico (13%) and South Korea (10%), Malaysia (14%).

3.4 Trade exchange are doubly asymmetric

By volume, the EU-15 achieves 7% of its exports and imports with the SMC while the EU-15 is about 34% of exports and 42% of imports of SMCs. This difference in relative importance of each area relative to the other can be explained by the economic weight of the EU, and therefore its greatest attractiveness, as well as a significant gap in terms of development. Engaging in trade with the EU is further differentiated by country. Thus, the Maghreb countries share widely with the EU while the Mashreq countries have increased their trade relations with the United States. In addition, trade with Europe is not very dynamic: between 1995 and 2006, the share of SMC in trade in the EU-15 remained almost stable at around 7%. Comparatively, in 2003, on the eve of their entry into the EU, the share of new EU Member States amounted to 15%. Finally, the trade remains unbalanced. The commercial position of SMC has continued to deteriorate significantly, the trade deficit excluding oil products SMC with the EU-15 passes from 15.6 billion in beginning of the decade ninety more than \$ 32 billion in 2004.

Trade relations between the EU and the SMC grow by a North-South classic model. Despite an improvement of technological level of their exports, SMC especially exports natural products or manufactured goods that use intensive and low-skilled labor as well as low-tech; product diversification (apprehended through intra-industry trade) gradually increases. By comparison, a regional intra-branches

¹⁵This scheme replaces the previous device which was based on a system of trade preferences guaranteeing SMC access to the EU market without compensation in terms of reduction of customs duties for imported European goods.

productive system has formed, especially in the automotive, electrical appliances, computers or telecommunications industry, the source of dynamism economic integration of the region.

4. Hypothesis of Convergence

In this section, we look at the process of real convergence between the Western countries of the northern shore of the Mediterranean and the SMC.

The level of GDP per capita is an indicator of production and thus there is a way to measure and compare the degree of economic development of different countries. Hypothesis testing of convergence adopted in this section will specifically focus on the persistence of deviations of GDP per capita. An initial examination shows that the level of average per capita GDP in the SMC is currently reduced by less than half of the North.

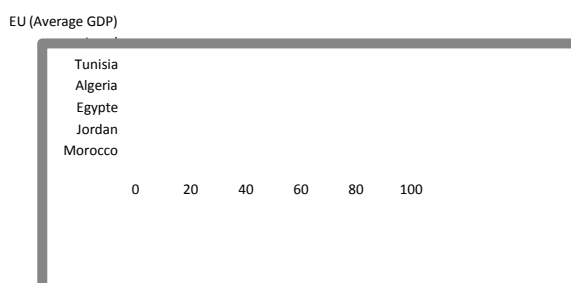


Figure 1: Disparities in GDP per capita between the North and SMC in 2012

In the previous figure was expressed per capita GDP of each SMC as a percentage of average per capita GDP of the EU. Calculation results show that the differences are large. In 2012, GDP per capita was 98% of the EU15 average in the case of Israel of 16% of the average EU-15 for Morocco. However, Figure 1 shows the situation of disparity at a specific time. So it would be interesting than this static analysis can have a dynamic perspective. Should thus calculate the time required for these countries to catch up with the average per capita GDP of EU.

To make some assumptions about growth prospects compared to GDP and the populations of these countries are needed. Assume that the population remains constant in all countries so that the growth of GDP per capita is determined only by the growth of total GDP in each country.

As regards growth prospects compared countries of SMC and EU, we consider two alternative scenarios. The first scenario is to assume a constant growth rate of 4% per year for the GDP of the SMC ($g_S = 3\%$) and zero growth for the EU ($g_N = 0\%$). Such a scenario can be considered as a framework to assess the time required for the countries of SMC to reach the average standard of living in the EU15 in 2004. The second scenario is to assume constant growth rate of 1% per year in EU ($g_N = 1\%$) and a constant rate of 4% per year in the SMC ($g_S = 5\%$).

These scenarios posed, it is possible to calculate the time required for each of the SMC to achieve the level of GDP per capita of EU from 2012, that is to say the period of real convergence process. The results of these calculations are presented in Figure 2.

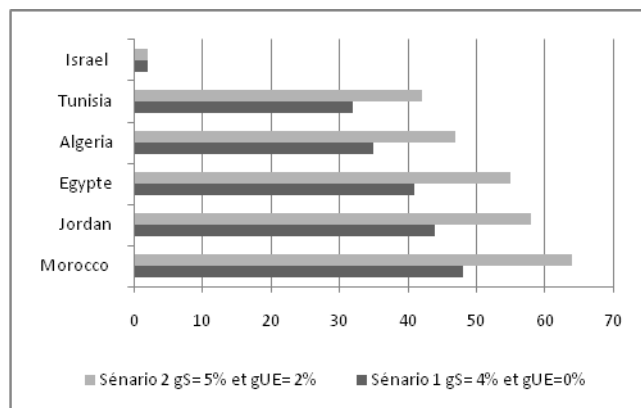


Fig.2 Time needed to achieve the average GDP of the EU from 2012 (years)

It is noted that the process of real convergence can be a very long process. The periods in question could range from more than 64 years in the case of Morocco in the case of the less favorable growth compare to 2 years for Israel in the most favorable hypothesis. Prospects of real convergence and appear much longer to Egypt, Jordan or Morocco or Tunisia for example Israel.

In addition, it should be noted that these delays were calculated under the assumption of a constant optimistic pace of relatively strong growth throughout the period of catch-up. This could mean that the actual time could be longer still.

5. Economic Development: North-South Disparities

5.1. Macroeconomic overview

SMC has made steady progress in macroeconomic management. The majority of SMC have significantly reduced their budget deficits. Thus, with the exception of Algeria (which is distinguished by a high budget surplus, corresponding to 11.9% of GDP in 2006 due to oil revenues), the average deficit for the region was 6.3 % of GDP in 2006, against 15.3 in 1995.

Meanwhile, due to vigilant monetary policies, the level of inflation fell from over 41% to 7% in 2006, GDP-weighted average. This evolution of inflation is in a context of greater central bank independence SMC. However, it should be noted that the level of central bank independence remained in SMC nearest registered in developing countries than in emerging countries level.

5.2. North-South convergence not obtained

Despite this progress, the SMC are failed to drive sufficient momentum to initiate a convergence with the EU and are out of the category of middle-middle income countries. Economic growth stood at around 6% between 1995 and

2006. It is therefore insufficient remained to significantly improve the standard of living of the population. The average GDP per capita in the SMC remains more than 5 times lower than the EU-27 although widened during this period, to middle-income countries. Overall, GDP per capita remained stable compared to countries in the euro area since 1995. Other indicators of development, such as the Human Development Index (HDI)¹⁶ calculated by the United Nations, also show a weak overall performance.

We can nevertheless note a strong heterogeneity of results between different SMC. Thus, the HDI of Israel stood at a high level comparable to that of the EU-27, while the six SMC level is within the second half of world rankings.

Table 2. Rows of human SMC development, business climate and transparency

	HUMAN DEVELOPMENT	BUSINESS CLIMATE	TRANSPARENCY
ISRAEL	23	29	30
JORDAN	86	80	53
TUNISIA	87	88	61
ALGERIA	102	125	99
EGYPTE	111	126	105
MOROCCO	123	129	72
AVERAGE SMC	88,66	96,16	70
AVERAGE EU-27	26	34	31

Sources: ONU, PNUD (2004), World Bank report, Doing Business (2007), and International Transparency (2007).

5.3. Challenges for the Euro-Mediterranean economic integration

The main difficulties encountered in achieving the business objectives of Barcelona take to the dilution of agreements between the EU and the SMCs and the marginal changes in South-South trade. More generally, the mixed results of the Euro med partnership in terms of growth is explained by the slow structural adjustment of MPC economies as well as the weakness of productive investments.

5.3.1. Proliferation of free trade agreements

The EU has extended its free trade agreements, which lessened the impact of those established with the SMC. Meanwhile, the SMC contracted agreements with the United States with civil aid, sometimes supplemented important military aid (Israel, Egypt), and up to significant amounts. The United States were to sign free trade agreements with Israel (1985) and Jordan (2000).

The signing of such an agreement with Morocco in 2004 is a milestone in the creation of an area much larger free trade (Middle East Free Trade Area). In addition, the emergence of large Asian countries like India and China has shifted the

center of gravity of European trade at the expense of SMC. The entry of China into the WTO and competition from India, accompanied, since 1 January 2005, the abolition of the Agreement on Textiles and Clothing, which followed the MFA facing industries and especially Morocco Tunisia.

5.3.2. Weakness of the South-South integration

SMC know, between them, a relatively low regional integration yet. Intra-regional trade remains around 8% of total trade in PPM, one of the lowest for an economic unit of this size figures (intra-regional trade accounts for 25-30% of total trade in the countries of ASEAN and MERCOSUR) and is particularly concentrated in the hydrocarbon sector. In fact, most commercial agreements between the MPCs have hardly materialized due to political differences (fragmentation of the Arab world, Israel-Palestine and Western Sahara conflict).

Different economic and institutional reasons are put forward to explain this limited integration between SMC: the strong similarity of the structures of production and export, the virtual absence of harmonization of regulatory frameworks in commercial matters, restrictions on the conversion of their respective currencies, the persistence of non-tariff and tariff barriers and lack of regional infrastructure, especially transportation.

Various studies¹⁷ confirm that, beyond the area of free trade, the success of the integration process depends, inter alia, the ability of SMC to ensure:

- A reconversion of the productive apparatus parallel to the opening up to competition, involving the effective implementation of structural and institutional reforms and improving the business climate;
- An increase in domestic and foreign productive investment.

5.3.3. Insufficient structural reforms and business climate

Overall, the pace of structural adjustment in the SMC was significantly slower than in other regions (markets for goods, labor and capital weakly competitive dynamics of insufficient demand, difficulty of governments to control and reduce economy and informal employment).

In many SMC, a corporate governance generally hostile to the opening of capital, lack of collateral (the property rights, the security of transactions, market transparency on the quality of goods and services on the suppression of the abuse of social welfare or unfair competition) constitute obstacles to the productive sector, innovation and risk-taking industry, pushing companies to follow a logical SMC' annuity.

The persistence of regional conflicts in the PPM also weighs, of course, on the prospects for development, and particularly on the behavior of investors.

5.3.4. Low level of domestic and foreign investment

¹⁶The HDI measures the human development and thereby to evaluate the average progress of a country according to three criteria: life expectancy, education and literacy, and standard of living.

¹⁷ See Kebabdjian 1995; Cogneau and Tapinos 1995; Top, Devlin and Safadi, 2001.

In this context, since 1995, investment rates have remained stable or even degraded, reduced public sector investment in SMC in conjunction with the marketization of the economy has not been offset by an increase of the private business investment.

Regarding foreign investment, PPM received in the early 2010s, three to four times less foreign direct investment (FDI) than other comparable emerging economic fundamentals. These flows were also lower than those received by the CEEC. Most FDI in the region was limited to the energy sector or privatization and concession of public assets: they did so little in the modernization of the industrial sector as a whole. In addition, the weakness of the economic integration between PPM accentuates the core-periphery¹⁸ encouraging businesses to locate in Europe rather than in the MPC to have access to the entire Euro-Mediterranean regional market.

Certainly, among the regions neighboring the EU, PPM remain the main recipients of financial flows of migrants. However, these funds are intended primarily for consumption (education, health, housing) and only a small portion is directed towards productive investments.

5.3.5. Low technology transfers

Free trade does not always favor the convergence of incomes in developed countries and developing countries. In fact, according to recent studies, the impact of outward absolutely depends on initial allocations of economies and the importance of international technology transfers.

The southern region is also plagued by a lack of infrastructure, a poorly-educated workforce and high unemployment. International and internal migration, terrorism, money laundering, organized crime, environmental degradation and human trafficking are but a few of the problems of the region.

These impediments to the region's security and economic growth can neither be confronted independently nor be viewed in isolation from one another.

6. Conclusion

The research on convergence has established new stylized facts regarding cross-country growth regularities. It has brought to fore the existence of large technological and institutional differences across countries and has given rise to new methodologies for quantifying and analyzing these differences. This is providing a new information base for analysis of technological and institutional diffusion and for

¹⁸ Trade agreements are called type "center-periphery", when given region (center) runs a number of bilateral trade agreements with other countries or regions (periphery), tariff barriers between them remain unchanged. This type of agreement generates, all things being equal, a higher relative demand businesses in the center region, which encourages companies to come locating (see Puga and Venables, 1997).

further development of growth theory in general. NC approach underline the existence of convergence, generally of the conditional type, while critical approach point out a marked trend to awards polarization or to an evident heterogeneity of behaviors by regions, where convergence and divergence are present.

In macroeconomic terms, the Mediterranean region is characterized by a major fracture that divides the north from the south. Globalization has not bypassed the south of the Mediterranean but its impact is thwarted by an over dependency on Europe and slow integration. The major gap identified in terms of north-south divergence is the difference in GDP.

The Mediterranean basin is naturally, politically and strategically linked to the rest of Europe. In this respect, interregional cooperation in Euro-Mediterranean perspective could be instrumental in enhancing economic cooperation and integration in the Mediterranean. Sector-based cooperation and integration, however, provides an opportunity to strengthen the economic governance of the entire region. all that Despite , Convergence still has many challenges to fight against poverty and to create a sustainable society. As all success stories countries and leaders etc, have been succeeding. It's all been up to innovation and hard working that's what convergence needs today in both developed and developing countries. It's about the innovative convergences to reduce poverty and inequalities. Today more than ever, the traditional boundaries between politics, culture, technology, finance, national security and ecology are disappearing. You often cannot explain one without referring to the others, and you cannot explain the whole without reference to them all.

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