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Working Paper

EMU and the Mediterranean Area

Nota di Lavoro, No. 90.1998

Provided in Cooperation with:

Fondazione Eni Enrico Mattei (FEEM)

Suggested Citation: Giovannetti, Giorgia (1998) : EMU and the Mediterranean Area, Nota di Lavoro, No. 90.1998, Fondazione Eni Enrico Mattei (FEEM), Milano

This Version is available at:

<https://hdl.handle.net/10419/154948>

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EMU and the Mediterranean Area

By

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1998-10-20

First Version March 1998[^]

Abstract

This paper analyses the impact of European Monetary Union on outside countries, with emphasis on countries of the Mediterranean Area (MED12). After discussing the possible "eurization" of bilateral trades between EMU countries and countries with close economic and geographical links; the possible "eurization" of existing debts, today denominated in dollars, and the closely connected increase of direct investment and private capital flows to the area, the paper argues that the advent of EMU is likely to have a positive, though small, effect on MED12. As a related issue, the paper also discusses the stability of the demand for euro and some possible implications of EMU for the international monetary system.

JEL classification numbers: F15, F49

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* I would like to acknowledge financial support by MURST.

[^] A first draft of this paper was presented at the Conference L'Europa del Trattato di Amsterdam e dell'euro, EURIT, Firenze, 20 marzo 1998.

I) Introduction:

January 1st 1999 the third phase of the European Monetary Union (EMU) will start. The eleven participating countries will adopt fixed exchange rates and, from 2002, the euro will completely substitute domestic currencies. This involves a profound change in international finance and certainly is a very important change in regime.

The start of EMU will have important consequences not only for participating countries but also for "outsiders", in particular for all those countries, in Europe and outside, with strong trade and financial links with EMU participants (namely, countries of the Mediterranean Area, Central and Eastern European Countries, Countries of the French CAF zone, as well as UK, Switzerland, Denmark, Greece and Sweden). These consequences are likely to be stronger, the more the euro will be used as international currency.

In the following I will not enter the argument of the relationship between EMU participants and European countries such as Greece, Denmark and UK, which do not participate in this phase of the Union either because not fulfilling the convergence parameters (Greece) or for choice (UK and Denmark) (cf. IMF, 1997). I concentrate on the links between EMU and true "outsiders", with particular emphasis on countries of the Mediterranean Area which, because of geographical reasons as well as composition of trade flows, will be particularly sensitive to evolution of EMU (Section 3). In order to do this, however, I have to deal, briefly, with the issue of the use of euro as international currency (Section 2) and its challenging the dollar dominance. The more the euro will be used internationally, the higher are likely to be the consequences for EMU trade partners.

In the conclusion I shall consider some possible implications for the International Monetary System of the fact that Europe is, for the first time, considered a big player on the world scene, with a size and a role similar to that of the US (and Japan).

II) Euro as international currency and the possible consequences for the International Monetary System.

The demand of euro as international currency will depend on many different factors: from the relative size of domestic market to the stability of monetary policy of the European Central Bank (ECB), and will be subject to uncertainty, linked to cyclical fluctuations in countries of EMU as well as possible effects of a single monetary policy on countries characterised by different financial structures and with very different debt level at the start of the union (Cf. Giovannetti, Marimon and Teles, 1998).

Let me start with some data. With 374 millions of population (288 for EU11), European Monetary Union has more inhabitants of US (268 millions in 1997). European GDP in 1996 is higher than that of US

not only in absolute size but also as share with respect to OECD production: in 1996 EU15 share is 38.2% while the US share 32.5%. Also the share of world trade is higher in Europe than in the US (38.3% versus 32.5%, Cf. Table 1).

Table 1 here

Hence, Europe (with 15 but also with 11 members) has a dimension that justifies an important role on the international scene.

Furthermore, while individual European countries are very open to international trade, peaking at above 50% for Ireland and Belgium, EMU as a whole can be considered "closed" (Cf. Table 2). If intra-European trade is excluded, EU15 is even less open to international trade than the US, typically a big closed economy (in 1995 the share of imports over GDP was 8.7 for EU15 and 10.2 for US). EU11 stands more or less at the same level than the US (10.9). Of course this low degree of openness has important consequences on the one side for monetary policy decisions of the ECB and therefore for the exchange rate policy and, on the other hand, for the amount of reserves¹. As for the monetary policy, EMU, being closer than its members is more likely to put forward internal targets, i.e. price stability, versus external targets and therefore follow a policy of strong exchange rate without caring too much about competitiveness problems. Hence, the ECB will target inflation and this represents a big change for most European countries (in fact, all but Germany), since they were actually monitoring exchange rates, even if in the attempt to control inflation.

Table 2 here

As for reserves, the 1 January 1999 the EU11 reserves will be very high when compared to imports. In fact, EMU reserves will be given by the sum of present reserves of EU11 countries, which are tuned on imports including intra-European imports. I shall go back to this issue later, however it is not likely that the ECB will reduce drastically its reserves in a short period. If it were to do it, the offer of dollars would increase (dollar overhang) with possible serious implications for the external value of the dollar and a decrease of the value of reserves, mainly in dollars at the moment. On the other hand, there could even be a shift of reserves into dollars, mainly from countries trading predominantly in dollars (such as most developing countries) for reasons linked to risk aversion (of course the Swiss Franc, the UK pound or the yen could also benefit from these developments).

¹ It must be noted that the lower degree of openness it is not the only source of a lower sensitivity with respect to exchange rate fluctuations. This will also depends on the fact that there will be no tensions between European currencies. Traditionally, the dollar developments have affected the intra European bilateral exchange rates, in particular those between DM on the one side and Italian Lira and UK pound on the other, which were synchronized to the dollar and were following more closely its developments.

In order to have a complete picture of the present situation, which I believe is a good starting point for the following analysis, let me examine in detail data on the use of US dollars, yen and European currencies for different purposes, i.e.:

- trade invoicing;
- official reserves;
- international assets;
- debt denomination.

Previous studies (Benassy-Querè, 1996, Artus, 1997, Bergsten, 1997), examining changes in the use of international currencies as payment mean, unit of account and reserve of value, have pointed to a possible diversification in the adoption of a strong currency from third countries as reserve and transaction. As we have seen, EMU will create a very large currency area, with a weight similar to that of the US, with a unique and very large financial market, in fact the largest world financial market. Euro can therefore be taken as a strong currency. Furthermore, new bond emissions by EMU members will be quoted in euro, which will further extend the market. These characteristics should induce a development of the euro as international currency. But let us now examine each issue separately.

Can the Euro become a Vehicle Currency?

The present situation of currency invoicing of international trade is reported in Table 3 (and Table 9 for MED12). As easily seen, the dollar is the main invoicing currency² and effectively the only currency used to trade between two other countries (strictly speaking vehicle currency). As a result, the share of world trade invoiced in dollars, about 48% in 1992, is much larger than the share of US exports on world trade (which was about 12.2% in 1992). So, effectively, the dollar is used to denominate trade about 4 times the value of US trade. European currencies, on the other hand, are used in about 35% of trade, including the intra-European trade (amongst the European currencies the DM is most used at about 15% against 6% of the FF). One of the reasons brought about to explain the large use of dollar is that commodity and energy prices are quoted in dollars. Even the small decline in the use of dollars since 1980 seems due to the decline in the share of oil trade.

Table 3 here

It is interesting to note that the relative situation of invoicing currencies does not seem to have changed much in the last 20 years, despite large changes in the bilateral exchange rates. A more

² The dollar emerged as international currency after the first world war. Between 1914 and 1931 the dollar gained space with respect to the British pound, and the process was accelerated when Britain suspended the convertibility of the pound in 1931, see Tavlas, 1997 on this point.

disaggregated analysis, however, shows slightly different developments. Table 4 indicates that the share of imports in dollars has decreased in all developed countries but the US (in Germany by 45% in 15 years, in Italy by 38%) in the last two decades. Hence, industrial countries have been able to increase the use of domestic currencies for their imports (cf. Table 4); most likely, with the advent of the euro, they will further reduce the use of the dollar. Intra-European trade will have to be netted out, becoming domestic (so the share of intra-European trade invoiced in dollars will vanish), and EU firms will have more incentives to invoice their imports in euro. Furthermore, exports of a big country (EMU) are more likely to be invoiced in euro than exports of individual (small) EU countries. At the moment, however, it is very difficult to find a common trend for export invoicing in the past. Contrary to what theory will suggest, in Germany, UK and France ("big" EU countries), exports invoiced in dollars have increased (respectively by 33.3%, 29.4% and 40.9%) while in Italy and Japan they have decreased (23.3% and 19.8%). However, only in Japan the share of domestic currency invoicing has substantially increased, from 29% in 1980 to about 40% in 1992³. Fewer disaggregated data are available for countries other than industrial countries and they seem to indicate that the dollar is effectively the most used currency (Cf. Table 9 and the discussion related to selected countries of the Mediterranean Area). The low total weight of the yen (around 5% only in 1992) also seems to confirm this view.

Table 4 here

So far we have considered the current situation (use of European currencies). An issue is whether euro will be used more than the sum of European currencies. Different views exist with this respect. According to the European Commission (1997a) the euro will be used more than the sum of the European currencies and will develop in time as an international currency, mostly in those countries having stronger links with the EMU. The underlying explanation is that already now major trade partners of EU countries (e.g. Eastern European countries) have linked their currencies to the DM (or to baskets including EU currencies, as most MED12) and they will link them to the euro. At the world level, on the other hand, despite a long period trend to devaluation of the dollar, it is likely that the use of euro will be only gradual, due to inertia and hysteresis to use the dollar since the end of the Bretton Woods system, which in turn is due to the high liquidity of the US financial markets and the low transaction costs of the dollar (Cf. Benassy-Queré, 1996). McCauley (1997) claims that the euro will carry more weight than the DM does

³Japanese exporters have actually succeeded to impose the use of yen as international currency in emerging countries of the South East Asia which are important trading partners and have increased

now, but less than the sum of European currencies. Portes and Rey (1998) picture three scenarios and claim that "the scenario in which the euro shares international currency status more or less equal with the dollar is plausible" (p.331). This possible development can have important consequences for the International Monetary System, which I shall briefly discuss in the conclusion.

An important point to note when discussing the likelihood that euro will challenge the dollar as international currency is that if trade flows polarize into regional blocs, there will be more incentive to have at least three vehicle currencies, one for each area. But in so far as trade is multilateral, the dollar has the first comer advantage (even if the euro could be favored by the fact of being by constitution a low inflation currency)⁴.

Will the Euro be used as Reserve Currency?

It is not only trade to be invoiced in dollars. Central banks reserves are presently mainly in dollars (Cf. Table 5). In the seventies, after the advent of flexible exchange rates, which has involved a huge and somehow unexpected increase of volatility between the major currencies, Central banks started to diversify their portfolios (at least partially). In 1973 the dollar accounted for more than 75% of official reserves (76.1% Cf. EC 1997a). It then declined till 1990. This decline was reversed by 1993 and the share has remained relatively stable since then. The yen and the DM, effectively the other two major reserve currencies mirrored this development. At the end of 1996, the US dollar accounted for 58.9% of official reserves. In the same time lag the yen has increased from 0.1% in 1973 to 6.0% in 1996 and the DM (European currencies) from 7.1% (14.3) to 13.6% (20.1%) (Cf. IMF, annual report 1997). As a matter of facts, the share of US Dollars is still three times that of DM and yen together.

Table 5 here

In the present situation European currencies constitute about 20% of total reserves. It is, however, likely that the reserves in euro will be higher than those in European currencies, even if the role of the UK pound, which accounted for 2.9% of official reserves in 1980 and 3.5% in 1995, has still to be clarified. In fact, that Central Banks of "outsiders", especially in Europe, may decide to hold euro to back their commitments under the ERMII in the transition phase (Cf. McCauley, 1997). Of course the exact amount of euro in reserves is strictly linked to its success as invoicing currency and its use as intervention instrument on exchange rate markets. It will therefore depend crucially on the economic and monetary policy followed by the ECB.

their imports from Japan. These developments may be negatively affected by the current South East Asia crises.

Many existing studies point to the fact that the US market is very liquid and has very low transaction costs; Central Banks have also preferences for Tbills; this therefore biases their preferences in favour of the dollar. For sure the Japanese yen is underused as a reserve currency because of liquidity problems of the Japanese markets (and low share of Tbills). The euro should not suffer these shortcomings, so that is more likely to challenge the dollar as international currency.

The euro bonds and securities markets

The share of the US dollar in private portfolios has been declining throughout the 80s and 90s: in 1985 the share of dollar denominated assets was around 62% while in 1996 stood at around 38%. The European capital market is (almost completely) unified and very large. Prati and Schinasi (1997), in a detailed analysis of capital markets, emphasise the implications of the use of euro for international portfolios adjustments and international capital movements. They argue that, despite the uncertainty, it is reasonable to expect that, with the lower segmentation of markets due to the use of euro⁵, capital flows to and from the euro area are likely to increase, even substantially, and that as a consequence, the euro will tend to be used more than the sum of the European currencies. Private capitals are likely to keep shifting towards the euro, because the European Central Bank will have to establish credibility; therefore, market participants could trust, at least in the early phase of ECB, a tighter monetary policy and a higher interest rate (McCauley, 1997). Also, there could be a bias in favour of the euro due to the fact that European investors, which currently tend to invest mainly in domestic assets (except in the UK stock exchange where 95% of foreign assets trade in Europe in traded) may have incentives to invest in European assets, effectively avoiding any exchange rate risk (one of the reasons brought about to explain the domestic bias).

Euro as debt denomination currency

The denomination of external debt of indebted countries is at present mainly in dollars (cf. Table 6). This is a crucial aspect for our analysis because there are many highly indebted countries amongst countries with stronger trade links with EMU, which are the more likely to adopt euro as invoicing currency. These countries will be particularly affected by the developments of the bilateral exchange rates between dollar and euro. In particular, consider a country invoicing its exports in euro and paying the service of debt in dollars. If the euro devaluates versus the dollar, this country will be negatively affected, may not be able to pay the service of debt and eventually could be limited in the access to international

⁴ To discuss the issue of globalization versus regionalism is outside the scope of this paper. Cf. Cable and Henderson, 1994 for a good survey.

⁵ Currently the segmentation is mainly due to the different currencies.

capital markets. In the long run, it could try to limit the risks from exchange rate fluctuations, either by modifying the currency composition of debt service or the currency of invoicing of its exports, in both cases with important implications.

Table 6 here

It is interesting to note that the currency composition of long term debt is actually more diversified than that of trade and reserves. In most countries the percentage of dollars is still higher than 30%, sometimes substantially; however, after 1980 the weight of DM has substantially increased. Even though it still represents only 15% of the total debt, its rate of growth has been of about 40% in 15 years.

Tables 1-6 show the present situation and the relative developments of dollar, yen and main European currencies, as invoicing currencies, as official reserves, and as currencies of bonds and debt denomination. It is clear that any forecast on the use of euro can only be speculative. Even though the euro will be from the start the second world currency, its developments will not match one to one the use of main European currencies. Many estimates of the demand for euro exist (Cf. for all Hartman, 1996), but EMU is a change of regime difficult to account for in an econometric estimate and therefore the existing estimates are not particularly reliable. Most commentators (e.g. EC, 1997a and Hartman, 1996) seem to agree on the fact that euro will be used more than European currencies at present, though not reaching the level of the dollar and not being therefore a threat for it. It is common opinion that euro developments will depend largely on the ability of EMU to establish a unique capital market, able to contrast the hegemony of the US one. With respect to this issue it must be said that the yen has not been able so far to contrast the dollar hegemony despite a very large liberalisation of capital markets after 1984, supposedly because transaction costs in Japan were still too high with respect to the US and because the Tbill share on assets was too low. Of course, to better understand the relative developments of the euro and the dollar, a more thorough analysis of the largest and more efficient European capital market, the UK, should be done but this is outside the scope of this paper.

The use of euro will be affected not only by the liquidity of markets but also by the volatility of the bilateral exchange rate euro/dollar. In particular, the more stable the euro will be, the more it will be used by third countries, especially those with strongest links to countries in EMU and those that for different reasons (e.g. political) want to be outside the jurisdiction of US (as for instance the Arab countries during the oil crises). If the euro is actually used, then the European Central Bank could get some benefits in terms of international seigniorage (the ability to obtain real resources in exchange for

almost cost-less notes) as does the Federal Reserve in the US, e.g. in the order of 0.01% of GDP (or less according to different estimates)⁶.

In summary, the euro could develop as an international currency in a scenario of stability within the EMU. If the euro will develop enough to threaten the hegemony of the dollar, this could have important implications for the developments of the International Monetary System. If this is more symmetric, with three similar players, the likelihood of a reform in the direction of having some sort of Target Zones is increased. If it is true that the volatility can increase, as some studies maintain⁷, because trade imbalances between US, Japan and Europe persist and because the volatility of the exchange rates depend also on the degree of co-ordination of monetary and trade policies at world level, the probability of misalignment are actually lower with symmetric players. But the negative effect on trade flows and investments depend on misalignment rather than volatility, which is mainly a short-term phenomenon. Hence, to summarise, it is very likely that the incentives for co-operation are larger than in the past. The more so, the more the world tends to polarise in regional trade areas.

III) Consequences of EMU on "Outsider countries" .

The consequences of EMU for the world economy depend crucially on the extent the euro will be used in international transactions, which in turn will depend on the stability of the new currency.

Amongst the countries more affected by the developments of the euro there are the external European countries, in particular UK and Switzerland which have important capital markets (Cf. IMF 1997 on this point) with respect to which the unique European market could be a dangerous competitors and which in any case will have to come to terms with huge flows of euro capitals.

While it is likely that at first US and Japan will only be marginally affected by EMU, developing countries and transition economies will be more affected by the change in regime. In particular, countries that in the near future could join EMU, as some Central and Eastern European countries and some "external" Mediterranean countries, together with those African countries of the CAF, which historically have very strong connections with France, will be more sensitive to developments in European countries. These countries have currencies often anchored to European currencies (in particular DM, FF or baskets including the major EU currencies) and most likely they will invoice their trade flows in euro, even if they still tend to have about half of their debt denominated in dollars. Their official reserves seem to be divided

⁶ Portes and Rey (1998) point out that in the past Central Banks outside the US have tried to avoid internalization of their currencies. Also many structural reforms should be introduced for the euro to really pick up. We do not pursue these issues here, Cf. Portes and Rey, 1998.

⁷ On this issue there are differing opinions, Cf. Cohen, 1997.

roughly half-and-half between dollar and DM, which also seem to suggest the appropriateness of euro as an anchor.

In what follows, I do concentrate on "external countries" of the Mediterranean countries but many of my conclusions can be extended to Central and Eastern European countries as well as African (CAF) countries.

"Outside" countries of the Mediterranean Area.

By "external" Mediterranean countries I mean 12 countries: Algeria, Morocco and Tunisia (i.e. the Magreb), Jordan, Lebanon, Syria, Egypt, Cyprus and Malta⁸, Turkey, Palestine, for which, however, data are hardly distinguishable from those of Israel, and Israel itself (MED12 from now). Israel, amongst those is certainly the country with highest cultural and economic linkages with the dollar area, even if recently has intensified links with EMU countries, with who in 1993 has signed a free trade agreement. "External" countries of the Mediterranean area have very strong trade and financial links with EMU members (Cf. Graphs 1a and 1b and Tables 2, 7 and 8).

Graph 1a and 1b here.

Graphs 1a and 1b show how important MED12 are as trading partner for EMU countries. As matter of facts, with 60 billions ECU of exports to the EU15 and 44.8 billion ECU from EU15, MED12 is the main trading partner of EU15 among developing countries (total exports to developing countries are 212.5 billion ECU and total imports from EU15 198.5 billion ECU in 1995).

Despite large differences amongst the economic structure, the degree of development, the international position, the institutional and religion characteristics of these countries, for all of the MED12 the links with euro area are crucial: the EU is the dominant partner for all of them but Jordan. However, the asymmetric nature of the trade relationship stands up. While it is true that imports of EMU countries from "external" Mediterranean countries account for a large share of extra-EU imports of EMU members, in 1996 about 8.5% of total extra-EU imports, and that EMU exports to MED12 are even higher, about 12% in 1996 and have been growing about 30% in 10 years, overall MED12 account for around 7% of EU external trade: EU countries trade mainly with each others and with other industrial countries (about 20% of both imports and exports are with US). For EU countries the share of intra-regional trade is indeed substantial. On the other hand, MED12 are very little integrated with each other (about 6% on average in 1996, cf. Table 7) while trade with EMU accounts for more than 50% of their imports and exports. It is worth noting that although MED12 are small economies (their size is on average much smaller than EU

⁸ With Cyprus and Malta EMU countries have actually custom Union relationships at the moment. Egypt, Jordan, Syria and Yemen are the so-called Mashreq countries.

countries, apart from Turkey) their degree of openness (on average 33%) is not too different from that of individual EU countries (cf. Tables 2 and 7)⁹.

Table 7 here

There is a discussion on whether EMU is an optimal currency area, as far as MED12 are concerned, they are far from being an optimal currency area, the region is not homogeneous and each individual country tries to protect itself. For instance, they have different degrees of tariff protection against EU imports, though being granted free access for industrial goods in EMU and preferential access for agricultural products (with unilateral asymmetric agreements). As matter of fact, only 7 of the MED12 countries have so far adhered to WTO (World Trade Organisation) and tariffs and non-tariff barriers are still very high, on average, in these countries. As an example consider that tariff revenues account for 10% of overall tax revenue in Egypt and Syria, 18% in Morocco, 28% in Tunisia and 36% in Jordan, compared to a mere 1% on average in EU countries.

It is important to note that the emergence of the Central Eastern European countries as one of EU major trading partners (Cf. Graphs 1a and 1b), the likelihood of a free trade area between EMU and CEEC and their future adherence to EMU constitute a serious threat for the MED12, which risk to lose their privileged role of geographically close market. CEEC countries already in 1991 have substituted MED12 as main source of imports of manufacturing and as destination countries of direct investments and this has obvious consequences for financial flows to MED12. This "dangerous" situation, however, has so far had positive effects in that it has prompted a discussion on a free trade area between EMU and MED12 (Euromed Conference, Barcelona, 1995, cf. European Economy, 1997a). It is certainly a priority of EMU to modernize "external" economies belonging to the Mediterranean area and favor their growth. Against this background, it is for instance important that Malta and Cyprus (which however are the only MED12 with a level of GDP and development comparable to that of EMU) are amongst the first countries in the list of next EMU enlargement and that EMU explicitly think of a Mediterranean policy.

My aim in this paper is to provide some data and elements of discussion to examine the current situation from the point of view of trade links as well as direct investment, other capital flows, currency composition of trade flows, debt and reserves and to sketch the possible positive consequences of EMU on MED12 (and vice-versa), taking account of the heterogeneity of MED12.

⁹ This is so when we account for intra EU trade, while when this is netted out, on average, EU11 is much less open.

Trade Flows

A striking feature of the MED12 is how little these countries trade with each other: only 6% of their trade is intra regional and the share of exports within the area ranges from none for Malta and a mere 1% of Israel to a maximum of 20% for Syria, the more integrated country within the area (Cf. Table 7). About two third of all their trade is with industrial countries and European Union certainly represents their main trade partner. If we consider EU15, trade flows between EU15 and MED12 have grown from 32.6 million dollar in 1988 to 52.7 million dollar in 1994, with an increase of about 40%. Flows from MED12 to EU15 increased from 20.4 million dollar to 33.7 million dollar in the same period. It is interesting to point out that the flows within the MED12 in the same period pass from 1.8 million dollar to 3.3 and those within Europe from 758 to 987 million dollar, not only emphasising an asymmetric weight in the bilateral relationship but also the fact that while Europe has privileged the intra-European flows, MED12 has been more oriented towards Europe than inside the area. This could be partly due to the composition of regional import and exports but also to the policies adopted by different countries (for instance, Egypt which could have met at least partially the region demand for food and manufacturing, has followed import substitution policies and reduced supply). The expectation of demographic developments in "external" countries of the Mediterranean area, especially if it will be accompanied by a development process, will make MED12 an interesting partner for EMU, which is actively looking for new export markets, and is likely to induce a further increase of relative trade flows to/from EMU in the near future. A worrying aspect is that most of the MED12 – EMU flows is of the North-South type, while horizontal trade, contrary to the intra-European case, is very low¹⁰. Furthermore, countries of the MED12 import from EU more than they export to EU and they tend to depend more on developments in EU economies while the opposite is not true (of course, as said above, EMU is "the" major trade partner for MED12, while EMU countries have much more diversified links). Since EMU exports (mostly manufacturing) are substantially and systematically higher than imports (concentrated in agricultural and energy products) EMU has with time accumulated a relevant trade surplus with respect to MED12. The big deficit in fuel products (around 16.5 billion ECU in 1995) have always been more than offset by large surpluses in manufacturing products. The individual country pattern is however quite diversified: for instance, Syria has a surplus of almost half a billion ECU versus EMU (in 1995 0.4 billion) while Israel has a huge deficit.

¹⁰ Between 1991 and 1995 however the Grubel Lloyd intra industry intensity index of all MED12 but Lebanon has increased, indicating a move towards more equal trade (cf. Eurostat, Statistics in focus, n.13, 1996). In Malta, for instance, this index, widely used to measure the product structure of trade partners for international comparisons, has reached 60.8. Amongst the less developed countries of MED12, the highest index is recorded by Tunisia (32).

As we said, for all countries in the Mediterranean Area except Jordan, trade links with EMU are above 40% of total (Cf. Table 7). Trade links with EMU are particularly strong for the Magreb countries: in Tunisia more than 70% of total trade is with countries belonging to EMU. However, from an institutional point of view, the trade links between EMU and MED12 are different, ranging from free trade zone to custom union to agreements on specific products (or groups of products). Still there are many constraints to trade both on agricultural products, mainly due to the Common Agricultural policy (CAP)¹¹ and on manufactures (in Egypt, for instance, tariffs on manufacturing products are about 30%, in Tunisia 28%, in Algeria and Morocco 25%, Cf. De Rosa, 1997). Even if in the last twenty five years the diversification of exports from MED12 has increased substantially, exports are still concentrated on a limited number of raw materials (traded and quoted in dollars in international markets), clothing and other manufactures, traditionally considered low tech (the so-called traditional products, with high labour intensity) (Cf. Table 8). This seems to reflect the fact that many Mediterranean countries had and still have comparative advantages in agricultural production (mainly fruit and vegetables) and have now acquired some advantages in clothing. Israel is the only country in MED12 that is competitive in a wider range of manufacturing.

Table 8 here

It is interesting to note that a sector very important for the majority of Mediterranean countries is the provisions of services, whose share in overall value added ranges from 25% of Algeria to 55% for Cyprus. Tourism is particularly important, especially because it allows Mediterranean countries to get foreign exchange. The EU is the most important partner at the moment (in 1997 87% of tourists to Malta were coming from EU, 68% of tourists to Cyprus, 50% to Tunisia; only in Syria and Jordan the percentage of EU tourists was low, cf. Table 7). A study of the growth pattern of MED12 (Cf. De Rosa, 1997) shows that those country with a better performance in terms of growth have diversified their exports in the last 20 years and that tourism accounts for a large part of the improvement in growth.

EMU exports to MED12 are largely high tech manufacturing (79% of total exports is indeed constituted by manufacturing), even if food exports still constitute on average 10% of aggregate EMU exports (ranging from a minimum of 5% in Israel to a peak of 29% in Syria). Finally, as far as trade is concerned, it is interesting to analyse the currency of invoicing of imports and exports. The share of exports to EU and imports from EU is significantly higher than the share of the EU currencies with respect to invoicing in all the countries considered but Morocco (Cf. Table 9). In Egypt, for instance, EU15 account for more than 50% of Egypt exports and 40% of imports are from EU15, but

¹¹ Cf. European Economy, 1997 b and IMF, 1997 on these issues.

about 10% of these flows are invoiced in EU currencies. In Israel 70% of imports are invoiced in dollars but only 20% are coming from US. Even Tunisia and Turkey have very imbalance composition. However, the advent of EMU could change things with this respect. As matter of fact all the trade between a small EU15 country (say Portugal) and a MED12, now invoiced in dollars (according to theory, trade between a large and a small country is invoiced in the currency of the large country, while trade between two small countries in a international currency, usually dollars) will become trade between a large (EMU) area and a small country and are likely to be invoiced in euro. Hence, the MED12 demand for Euro is expected to increase significantly.

External Debt

The external debt of most MED12 is fairly high, due to the economic policies followed by these countries in the seventies and eighties (mainly policies were inward looking), reaching levels of above 100% of GDP for Syria and Jordan and of around 75% for countries such as Algeria, Morocco, Egypt. Also in absolute terms MED12 countries are highly indebted: Turkey, Israel, Egypt and Algeria are amongst the 15 major debtor countries in the world in 1996 (and were also in 1995, Turkey furthermore is in the first 10, Cf. OECD, 1997). Only Malta and Lebanon are characterised by low external debt (around 30%, of GDP, Cf. Table 10) both in absolute and relative terms.

Table 10 here

While trade is mainly versus EU countries, most of the financial liabilities are denominated in US dollars. Table 11 shows that the currency composition of debt is quite diversified both across countries and time, but the dollar is used to denominate more than 30% of external debt in all the countries considered, with peaks of over 80% for Syria, 65% for Lebanon and 40% for Turkey. In the period 1980-1996, which covers the debt crisis of the 80s, there is no unique pattern in the currency denomination of MED12 debt, a part from a generalised increase in the share of yen (in Turkey, the share of yen passed from a mere 4% to 22%, in Jordan from 1% to 23%, in Malta from none to 14% and so on, Cf. Table 11) and a downwards trend for the UK pound. Egypt, Morocco and Jordan, all countries with a high dollar denominated share of debt, have decreased it between 1980 and 1996. But for instance Lebanon and Malta have increased it substantially. The lowest share of dollar denominated debt is found in Tunisia (16.3%), which, for historical reasons has French Franc denominated debt. In Morocco, for similar reasons, debt is denominated in Pesetas and French Francs (cf. also Arjona and Steinherr, 1998). The currency denomination of external debt point to the importance of a stable euro/dollar bilateral exchange rate for most MED12 countries which will be paying their debt in dollars

but are likely to invoice their exports in EU currencies and increase their trade links with EMU countries.

Table 11 here

Direct Investments and Capital Inflows

In terms of capital flows MED12 is one of the least integrated region of the world. However, "external countries" of the Mediterranean Area during the 90s have started attracting direct investment and they attract more European direct Investment than other developing countries.

In particular MED12 attract more European than US and Japanese funds (also because of geographical proximity, historical ties and recent trade agreements). Foreign Direct Investment are however concentrated in few countries (Cf. Table 12): Egypt, Morocco, Israel and Turkey account for more than 80% of direct investment in the area; Turkey in particular, account for over 40% of total direct investment in MED12 (Cf. World Bank, 1997). The advent of EMU can influence decisions on FDI in MED12 only marginally, in that if the trade links increase and free trade agreements are established because of EMU, then the area is likely to be stable and growing and therefore attract foreign private capital.

Table 12 here

Table 13 shows that Western Europe is the main source of FDI to the four main recipients of funds in MED12, France and the UK accounting for 88% of EU investments in the period 1990-95, against a mere 15% of the US, mainly directed towards Israel.

Table 13 here

In 1995-96 FDI to MED12 have substantially increased, reaching a relevant percentage of GDP in Malta (34.9%), Egypt (23.3%), Israel (23.3%), Tunisia (22.8) and Cyprus (18.9%). This growth trend, however, has started in the early 90s and Europe has always been a major provider of funds. It could be interesting, but outside the scope of this paper, to examine in detail the sector of destination of FDI¹², in the light of the privatization processes in the 90s. For instance in Morocco, the privatization program and an extensive liberalization of the FDI regime have contributed to making the country attractive to foreign investors, so much so that the total revenue from privatization between 1993 and 1996 has been 1130 million dollars. Mainly as a result of privatization, FDI inflows in Morocco increased almost fivefold from an average of 83 million dollar a year in the period 1985-90 to an

⁸ Most FDI are in the hydrocarbon industry because of the oil discovery in Algeria, the gas pipeline between Spain, Portugal and Morocco, etc. however in Egypt 48% of funds are directed towards the manufacturing sector and in Algeria 25% and 70% to the service sector.

average of 419 million dollar a year in the period 1991-96 (with over 300 million dollar inflows in 1996, Cf. Table 12).

The role of FDI is particularly important in a country like Turkey, not only for the size (40% of FDI in the area, i.e. around 700 million dollar in 1996) but also because Turkey is highly integrated with the so-called Mediterranean countries of EMU, and has always kept close links, in view of adhesion to EMU. The privatization process has brought 3135 million dollar into Turkey between 1990 and 1996, the highest amount amongst MED12. Furthermore, Turkey has a better-developed capital market than most other MED12 countries. The stock market is evolving fast, the daily turnover being very high: it has reached 380 million dollar traded per day at the end of 1997. With this respect, it must be noted that in Turkey there are no restrictions on foreign ownership and the influence of foreign owners has increased substantially (reaching about 50% of the free float, up from less than 10% at the beginning of the 90s, in 1996 total bonds represented 17.2% of GDP and domestic bonds 10.9%, CF Global Development Finance, 1998).

For most countries in the area, however, privatization policies carried out in the last 10 years have been successful and the increase of FDI brings new capital that can favor the process of development. Two further countries are worth mentioning: Egypt, with revenue from privatization of 1923 million dollars in the period 1993-96 and Tunisia, around 200 million dollars in the same period. Of course the development of FDI is closely linked to developments of trade links and liberalization policies. If countries in the MED12 go further in the direction of trade liberalization, it is likely that their credibility will increase, which in turn can imply higher FDI, higher growth and so on.

An interesting, though worrying, point to note is that still few of the FDI go to the private sector, (the World Bank estimates that out of 130 billion dollar going towards Magreb, Mashreq and Israel between 1970 and 1995 only 20% has gone to the private sector), possibly because of political tensions in the area and low rates of growth in the last years. At the same time, in some of the MED12, there were massive outflows of private capital (again according to World Bank estimates in the range of 5% of GDP for the period 1985-89), which left a legacy of a high stock of external public debt and of private assets invested abroad. This trend, however, seems reversed in the 90s, where most MED12 have actually capital inflows (Cf. Table 14).

Table 14 here

It must be pointed out that regional economic integration may also induce foreign direct investment, by expanding markets. The examples of FDI going to Spain and Portugal just before their entry into EMU

as well as the FDI going to Mexico before NAFTA represent a strong incentive for MED12 to integrate themselves further both with EU and amongst themselves.

Labor and migration

It is very difficult to assess the scale and composition of bilateral flows of workers between EMU and MED12 because of the absence of reliable data. The only reliable data is those on the size of population and the projections of demographic growth in MED12. It is, however, interesting to note that there is a high level of migration amongst MED12 countries (i.e. intra regional migration) and also between MED12 and Middle Eastern countries (for instance, in the early 90s there were 1.25 million Egyptian workers in Iraq and a substantial number in Jordan). Labor flows and remittances of capital associated to migration have been one of the most important feature of regional integration in MED12 (contrary to the developments in Europe, where labor movements is the more controversial feature of integration while goods and capital move without limits). Workers remittances (including net private transfers) increased from 8.5 billion dollar in the period 1970-80 to 21.5 on average for the period 1980-89 in Maghreb countries, from 10.5 to 43.5 in Mashreq (excluding Lebanon because of data inadequacy) in the same period and from 7.8 to 12.9 in Israel (Cf. also Table 7). Despite the country specific characteristics, therefore, MED12 is very little integrated as far as trade and capital are concerned and more as far as labor is concerned. However, there are substantial flows of labor also towards EMU with important consequences on the sustainability of the welfare state in Europe.

Summarizing, in theory the start of EMU is likely to have a relevant impact on MED12, because of the size and composition of the trade links between the two areas. Since it is common practice to invoice trade flows between a small country and a large country in the currency of the large country and trade between two small countries in dollars because the dollar is the main world currency, part of the trade flows between MED12 and EMU, now invoiced in dollars, is likely to be invoiced in euro in the future because individual EU countries (small and at least partially invoicing in dollars) will be substituted by EMU (large and invoicing in its own currency, euro). Furthermore, the introduction of the euro will affect the relative importance of the dollar and therefore even some intra regional trade (trade between small countries) could be invoiced in euro, which can become more important at the international level.

Also the euro/dollar exchange rate volatility will affect MED12 countries because of their trade links with EMU countries and the currency composition of their external debt. These effects will be stronger in those countries with closer links, but presenting a mismatch between origin of trade and currency denomination of payments, such as Israel, where 50% of imports are from EU (20% from US)

but only 25% are invoiced in European currencies (70% are invoiced in dollars), or Egypt, with 40% of imports from the EU and only 17% invoiced in European currencies and more than 50% of exports to EU but less than 10% receipts in European currencies. This pattern is common to most MED12 countries, mainly because MED12 have large share of raw material and agricultural exports, which are quoted in dollars in international markets. These countries are expected to increase their demand for euro, especially for imports from EU, but could also start using euro for their (limited) intra regional trade. However, the introduction of euro will not change the denomination of the existing debt and these countries mostly pay for the debt service in dollars (e.g. Syria, Lebanon, Algeria). If the euro devaluates with respect to the dollar these countries, especially Algeria, Jordan and Syria who tend not to have free access to capital markets will be penalized. On the other hand, countries with free access to capital markets will be able to finance themselves on more liquid markets, which will most likely be less expensive. The effects of EMU on "external" countries of the Mediterranean Area will therefore depend crucially on the development of the euro/dollar exchange rate, which will in turn depend on the exchange rate policy followed by the European central Bank and its credibility. While there is no agreement on whether the euro dollar volatility will be higher than the DM dollar volatility (cf. Cohen, 1997), there is no convincing argument for increased volatility in the transition period. Stability of the euro will benefit EMU as well as trading partners.

It is important that the EMU favor actively growth in the Mediterranean area and that it includes this objective amongst the common economic policy aims. Europe has an interest in enlarging its markets towards the Mediterranean, especially because of the emergence of regional trade blocs such as NAFTA (North American Free Trade Association) and ASEAN (Association of South East Asian Nations). Furthermore, an increase of integration between MED12 and EMU could induce a higher integration between MED12 themselves and could also attract more foreign investment and start a virtuous circle in which higher growth in the MED12 stimulates exports growth of EMU and so on.

IV) Conclusions

Far from examining in detail the international consequences of EMU – on purpose I did not deal with consequences for those European countries not adhering to the Monetary Union, such as Greece, UK, Denmark and Sweden (EU15 which do not participate in the first phase), Switzerland, Russia etc.- this paper aims at summarising some of the effects of EMU for the International Monetary system, for the use of euro as vehicle currency, and for the growth prospect of some of the major (and dependent) trade partners of EMU countries. Given the strong trade links, the geographical location and the structure of trade, countries of the MED12 and of CEEC are those more affected by developments in Europe and from

the use of euro, also because it makes sense for them to anchor their currencies to the euro and/or invoice their trade flows in euro (they will also be pressed to do so by EMU countries). Of course, if it is difficult to say to what extent these countries will actually use euro and with which timing. It is, however, likely that MED12 will invoice more imports in euro, especially in view of a growing integration with EMU countries which will be actively searching for new markets for their exports and also possibly of a future adhesion to EMU itself in a not too far future. It is however similarly likely that MED12 continue to pay the service of debt mainly in dollars, as presently, because of hysteresis in these behaviour and the costs of switching currency (and because the existing debt is not renegotiated). Developments of the exchange rate between euro and dollar are therefore crucial to evaluate the effects of EMU for "external" countries, in particular if indebted. To a certain extent, the success of the euro as an international currency will depend on its stability with respect to the dollar, but its stability will depend on its success and the use in third countries and so on. It is clear that devaluation with respect to the dollar can have very negative effects on economies of highly indebted countries, which pay the debt service in dollars and have problem of access to international capital markets. If the euro succeed in being relatively stable and the economic policy of the European Central Bank credible, the euro could trigger the dollar as dominant currency. In a scenario of this type, there could be important consequences also for the US. It will be very difficult to sustain the present huge US trade deficit without serious consequences for the external value of the dollar and a vicious circle could start. Also US seigniorage could be reduced with consequences on public deficit.

The consequences of EMU should be positive for "external" countries of the Mediterranean Area (and for CEEC), because they entail a possible (likely) increase of trade flows and FDI in the aim of enhancing the links with geographically close countries. As for US and Japan, EMU should not induce major changes in imports nor exports (in 1994 US were importing and exporting about 20% from EU15, while Japan was importing 11% and exporting about 6%) even if the bilateral trade balance development will depend respectively from the developments of the exchange rate euro/dollar and euro/yen. As far as the US is concerned, however, the start of EMU could induce problems of debt financing and also of reduction of seigniorage. At the same time, the introduction of euro and the consequent increase in liquidity should cut the cost of financing on markets for all countries with free access, including the US and therefore benefit debtors.

Finally, I want to emphasise two aspects that I believe are relevant to assess the consequences of EMU.

- 1) To consider EMU as a unique entity should allow discussing a reform of the International Monetary System. With three fairly similar players in terms of international weight it is easier to agree on target

zones between euro, yen and dollar than before, when the rules were decided by the strongest (US). Furthermore, EMU countries have never succeeded to have a homogeneous behaviour with respect to the dollar because the strengthening of the DM with respect to the dollar was inevitably creating tensions amongst the ERM of the EMS (Cf. Del Giovane e Pozzolo, 1998). Now, with EMU, this is no longer an issue. Only the external value of the euro versus the dollar should matter and European countries are likely to behave in a more homogeneous way. Furthermore, it is in everyone's interest to limit the fluctuations of bilateral exchange rates and also in the interest of third countries, which can therefore try to anchor their domestic currency to one or the other of the three main currencies depending on the geographical location and the size and typology of trade links, without having "bad surprises". Finally, each of the three "big" from a selfish point of view gains from the stability of its own currency. I see EMU as enhancing the likelihood of co-operation.

- 2) EU countries will have to make efforts to enhance growth and welfare in geographically close countries, in particular CEEC and MED12. In fact, as the example of Mexico and US teach us, EMU gains from the stability in the area and from a larger use of its currency at the world level. Also, in every country in Europe one way or the other there is some form of welfare state, which most obviously makes it more unsustainable to have a prosperous area (EMU) confining with a poor area. The alternatives Europe faces are mainly two: either to incentive development of depressed area or modify, in a selective way, social security. Though emphasising the existence of flows of workers from MED12 to EMU, I did not deal explicitly with migration issues. It is however clear that the globalisation process itself implies movements of workers and that migration from EEC and MED12 constitutes one of the crucial issues Europe has to address and solve and it is closely linked to the reform of the social security system. Countries in the MED12 have extremely different factor endowments, Egypt and Morocco, for instance have substantial agricultural potential and low wage labour but lack capital, Lebanon and Jordan have surplus of skilled labour, Algeria, being a more diversified economy, could benefit from imports of capital and labour from abroad (cf. Shafik, 1996). But there are substantial flows of workers into Europe. Only a clear-cut reform of labour markets and social welfare can help a "more equal" relation among these two areas.

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Table 1: Main Economic Indicators of US, Japan and EU

	Population (mil) 1997	GDP mil \$ 1996	Share of world trade, 1996	GDPEU/ GDPOECD, 1996
US	268	7575	19.6	32.5
Japan	126	4377	10.5	20.5
EU-15	374	8504	20.9*	38.3
EU-11^	288	6743	-----	-----

*Excluding intra-european trade, ^ 1995 EU-11 =EU-15 excluding Greece, UK , Denmark and Sweden.
Source: European Economy, 1997b, Funke and Kennedy, 1997 and EC, 1997a.

Table 2: Degree of Openness and trade links of EU15 to MED12

	% esports to MED12, 1995	% imports from MED12, 1995	Imports/GDP, 1997
US	na	Na	10.2
Japan	na	Na	6.6
Canada	na	na	29.1
France	21.0	18.9	22.0
Belgium	8.5	6.1	72.5
Neth.	5.1	5.8	49.7
Germany	21.9	22.8	24.0
Italy	19.4	23.3	21.5
UK	9.3	8.3	28.6
Ireland	1.0	0.4	59.1
Denmark	1.1	0.6	29.8
Greece	1.7	2.0	26.4
Portugal	0.6	1.4	40.8
Spain	6.1	8.1	25.6
Sweden	2.0	0.6	33.8
Finland	1.1	0.2	31.1
Austria	1.1	1.5	43.0
EU15	100.0	100.0	28.3
EU-11*	na	Na	10.9
EU-15*	Na	na	8.7

* excluding intra-european trade. Source: Eurostat, Statistics on Focus, External Trade, 1996 n 13 and European Economy, 1998, Table 40.

Table 3: Invoicing currency for world exports

	1980	1987	1992
Currency	%	%	World, %
US dollar	56,1	47,9	47,6
Yen	2,1	4,0	4,8
US\$+JY	58,2	51,9	52,4
Tot main Eu currencies:	31,1	34,1	33,5
Of which: DM	13,6	16,1	15,3
FrFr	6,2	6,5	6,3
UK£	6,5	5,5	5,7
ItLit	2,2	3,2	3,4
Fl	2,6	2,8	2,8

Source: Hartman, 1996

Table 4: Invoicing currency in main industrial countries (percentage values)

Imports							
1980							
	Dollars	DM	Yen	UK £	FF	It lit	others
US	85.0	4.1	1.0	1.5	1.0	1.0	6.9
Germ.	33.1	42.8	1.5	3.1	3.3	2.4	13.2
Japan	93.1	1.4	2.4	0.9	0.9	0.2	1.9
UK	29.0	9.0	1.3	38.0	5.0	1.7	16.0
France	33.1	12.8	0.1	3.8	34.1	3.0	13.1
Italy	45.0	14.0	0.5	3.2	9.0	18.0	10.4
1992-96							
US	88.8	3.2	3.1	-	-	-	4.3
Germ.	18.1	53.3	1.5	1.9	4.4	-	20.8
Japan	70.4	2.8	22.5	-	-	-	4.2
UK	22.0	11.9	2.4	51.7	5.3	2.2	4.5
France	23.1	10.1	1.0	2.9	48.4	3.7	10.8
Italy	28.0	13.0	-	-	8.0	37.0	14.0
Exports							
1980							
US	97.0	1.0	-	1.0	1.0	-	-
Germ.	7.2	82.3	-	1.4	2.8	1.3	4.8
Japan	65.7	1.9	29.4	1.1	0.6	0.1	1.2
UK	17.0	3.0	0.1	76.0	2.0	0.5	2.4
France	13.2	9.4	-	3.2	62.5	-	11.7
Italy	30.0	14.0	-	-	8.0	36.0	12.0
1992-96							
US	98.0	0.4	0.4	0.3	-	-	9.0
Germ.	9.8	76.4	0.6	2.4	2.8	-	8.0
Japan	52.7	-	35.7	-	-	-	1.6
UK	22.0	5.0	0.7	62.0	3.5	1.7	5.1
France	18.6	10.6	1.0	4.2	51.7	3.1	10.8
Italy	23.0	18.0	-	-	7.0	40.0	3.0

Source: Tavlas, 1997.

Table 5: Currency composition of Official Reserves

% di:	1973	1983	1996
Dollars, all countries	76.1	71.5	58.9
• Dev. Countries	na	na	62.5
• Eastern Europe	na	na	51.0
Yen, all countries	0.1	4.9	6.9
• Dev. Countries	na	na	6.2
• Eastern Europe	na	na	0.0
Main European Curr	14.3	15.8	20.0
(£, DM, FF, Fl), all countries			
• Dev. Countries	na	na	13.6
• Eastern Europe	na	na	31.2
DM only, all countries:	7.1	11.7	13.6

Source: Funke and Kennedy, 1997, EC, 1997a and IMF, 1997.

Table 6: Currency Composition of Developing Country Debt, in %, at end 1996

	US dollar	yen	EU Curr.	Others*
Latin Am.	67.4	10.6	11.5	10.5
Asia	46.3	32.7	9.6	11.5
Eastern Europe	37.0	11.4	27.3	24.3
Total (+Africa)	50.2	18.1	15.8	15.9

*Includes unidentified.

Source: World Bank and BIS, Table 11 in McCauley, the euro and the dollar, BIS, 1997.

Table 7: Links between MED12 and EU15, 1995

	% of Exports to EU	% of Imports from EU	% of Exports within MED12, 1994	% Tourism from EU15	Degree of openness	Population millions, 1996 mid year est.	Exchange rate regime
Algeria	62.5	66.8	3	Na	27,5	29.17	Managed float
Cyprus	29.2	48.6	19	65.7	48,1	.74^	Pegged to bask
Egypt	52.5	40.5	13	37.2	22,0	60.60	Managed Float
Israel	32.3	51.7	1	41.4	32,4	5.70	Managed Float
Jordan	8.3	39.6	10	19.6	71,7	5.44^	Pegged to bask
Lebanon	17.7	43.6	13*	26.8	8,8	3.01^	Flexible
Malta	57.1	68.5	0	87.2	93,3	.37	Pegged to bask
Morocco	61.4	54.1	5	44.1	26,9	27.62	Pegged to bask
Syria	58.1	30.1	20*	4.2	30,4	14.19^	Pegged to US\$
Tunisia	80.1	72.3	6	50.2	44,7	8.92^	Managed Float
Turkey	49.6	52.6	8	43.8	19,5	62.69	Managed Float
MED12	na	Na	6^^	Na	33.3	Na	Na
EU	na	na	na	na	28.3	na	na

Source: International Financial Statistics Yearbook, 1997; IMF, Direction of Trade Statistics, Yearbook 1997 and EE, 1997. * Data for 1992 instead of 1995; ^ refers to 1995; ^^ total intra regional trade as percentage of total trade (equivalent to 3 billion ECU).

Table 8: Shares of different products in exports of MED12, 1995

	Agriculture, %	Minerals, %	Manufacturing, %
Algeria	1	94	5
Cyprus	22	1	77
Egypt	9	51	40
Israel	22	4	74
Jordan	8	20	66
Lebanon	16	5	91
Malta	1	5	91
Morocco	27	16	57
Syria	2	84	14
Tunisia	11	8	81
Turkey	17	4	74

Source: European Economy, 1997

Table 9: Invoicing currency of trade in some MED12, 1996:

	Imports invoiced in:				% Imports from EU15
	\$	Val EU15	Yen	others	
Egypt	79.7	17.1	2.2	1.0	40.5
Israel	70.4	25.3	2.5	1.8	51.6
Morocco	46.5	49.7	1.2	2.6	
Tunisia	36.5	56.8	0.7	6.0	72.2
Turkey	60.0	32.0	2.0	6.0	52.5
	Esports invoiced in:				% Esports to EU15
	\$	Val EU15	Yen	others	
Egypt	91.4	6.9	0.1	1.6	52.5
Israel	81.2	16.7	1.1	1.0	32.4
Morocco	41.4	52.0	0.5	1.5	61.4
Tunisia	38.0	50.6	0.9	10.5	80.1
Turkey	57.0	40.0	0.0	3.0	49.5

Source: IMF, DOTS and Central Banks.

Table 10 : External Debt of main debtor countries

	Total Debt Stock (EDT)%GDP		% long term debt over total debt	% of Tourism from EU	Remittances, Million US dollar
	1980	1996	1996	1995	1995
Algeria	47.1	76.7	93	Na	350
Cyprus	na	Na	Na	65.7	88
Egypt	89.2	46.3	46	37.2	3107
Israel	na	Na	Na	41.4	2729
Jordan	48.4^^	114.3	65	19.6	1544
Lebanon	29.7**	30.1	30	26.8	350
Malta	8.8	29.2^	23*	87.2	10
Morocco	50.7	61.1	97	44.1	2010
Syria	27.1	130.5	78	4.2	385
Tunisia	41.6	53.6	90	50.2	680
Turkey	27.4	43.4	73	43.8	3542

^ Data referred to 1993; * Data referred to 1991;** 1989, first available year;^^1988 first available year.

Sources: Global Development Finance, 1998, country tables, World Development Report, 1997, IMF Balance of Payments Statistics yearbook, 1997 and European Economy, 1997.

Table 11 : Currency Composition of Long term debt (%)

	US dollars		DM		FF		Yen		UK pound	
	1980	1996	1980	1996	1980	1996	1980	1996	1980	1996
Algeria	41.5	38.8	9.9	7.0	10.9	16.9	13.4	12.4	2.2	1.0
Cyprus	na	na	na	na	na	Na	na	na	na	na
Egypt	73.0	35.6	4.8	11.1	5.6	19.7	4.0	12.2	1.2	1.5
Israel	na	na	na	na	na	Na	na	na	na	na
Jordan	59.6	28.6	10.6	6.9	2.0	9.1	1.1	23.5	6.4	7.5
Lebanon	53.7	65.0	0.7	2.7	6.0	6.2	0.0	0.0	0.0	0.1
Malta	10.8	30.1	23.2	7.0	3.4	0.0	0.0	14.3	6.6	1.5
Mor.	54.2	31.9	3.9	7.1	22.1	18.0	1.9	3.5	0.4	0.1
Syria	70.0	82.7	1.5	2.2	3.6	0.7	0.3	3.1	0.2	0.7
Tunisia	33.4	16.3	10.8	6.5	21.1	13.2	1.7	14.3	0.2	0.0
Turkey	43.5	41.3	17.0	16.8	5.6	1.6	4.0	22.0	3.8	1.0

Source: Global Development Finance, 1998, country tables.

The remaining share of debt is denominated in other currencies, such as Swiss Franc, Italian Lire etc or in multiple currencies.

Table 12: Foreign Direct Investments (inflows)

	Annual av 85-90, US million dollars	Annual av 91-96, US million dollars	1996, US million dollars	FDI as % gross fixed Capital formation, 1995	FDI as % GDP, 1995
Algeria	6	12	4	0.1	3.3
Cyprus	69	na	100	6.8	18.9
Egypt	1086	612	636	7.2	23.3
Israel	155	na	2016	7.4	23.3
Jordan	25	2	16	2.0	9.9
Lebanon	4	10	80	1.9	1.9
Malta	33	102	300	13.3	34.9
Mor.	83	414	311	4.1	9.2
Syria	62	105	89	0.6	2.0
Tunisia	80	382	320	6.1	22.8
Turkey	340	757	722	2.2	3.9

Sources: Global Development Finance, Vol. 2, 1998; Unctat, World Investment Report, 1997, Table B.5 and B.6 Annex

Table 13: Foreign Direct investments in the four largest recipients in MED12, 1995

% of FDI to: from:	Egypt	Morocco	Israel	Turkey
Austria	0,007	0,05	0,03	1,29
Belg-Lux	-0,96	-2,08	-2,68	1,4
Den.	0,18	0	3,06	0,16
France	40,76	-29,36	2,54	18,57
Germany	4,43	-0,38	9,64	15,29
Italy	8,04	0,99	1,43	3,86
Neth	Na	-1,68	5,19	21,81
Norway	-0,27	0,43	0	Na
Portugal	0	0	Na	Na
Spain	-7,31	27,71	0,05	Na
UK	3,45	0,9	16,87	6,28
USA	-8,28	6,45	63,08	9,01
Japan	2,41	Na	0,78	11,08
Switzerland	40,23	95,90	Na	10,53
Korea	17,24	1,08	Na	0,7

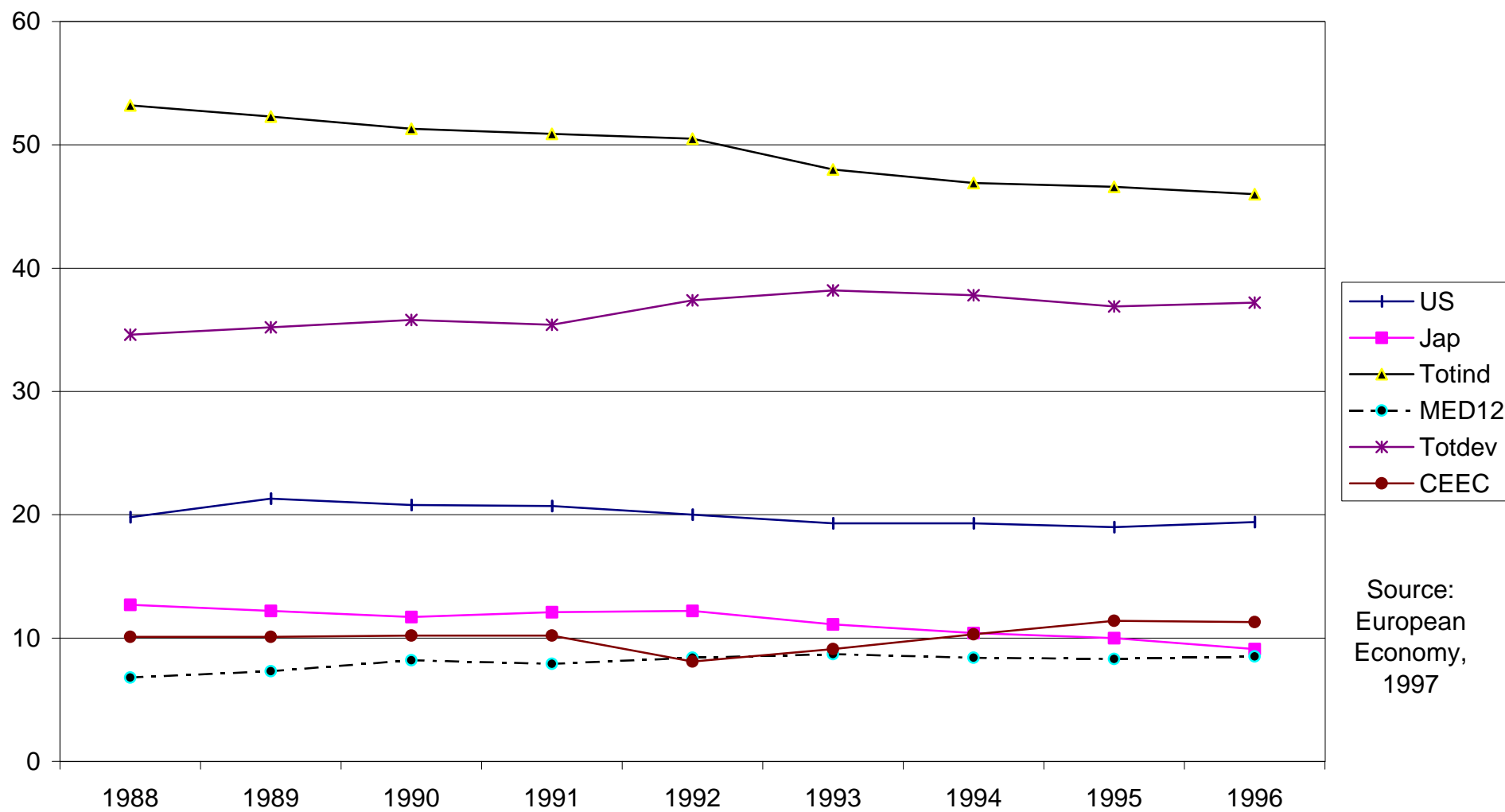
Source: OCSE: International Direct Investment Yearbook (1997), the sign minus means disinvestment

Table 14: Estimates of Capital flight as %GNP

	1990	1994
Algeria	3.4	Na
Morocco	-3.8	-2.0
Tunisia	-0.4	-3.8
Maghreb	1.0	-2.6
Egypt	-0.8	5.3
Jordan	-17.5	-6.8
Syria	6.6	Na
Mashreq	-0.1	4.7
Israel	Na	Na
MED12	-1.8	1.3

Source: European economy, 1997, Table 63. Positive number indicates capital outflows.

Graph 1a: EMU imports from external countries



Graph 1b: EMU exports to external countries

