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Guest Editors' Introduction

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Guest Editors' Introduction

There have been unprecedented changes in the global economy during the past two decades, as economic linkages between developed and developing countries have become much stronger. First, there has been a significant increase in the amount of financial flows between these two groups of countries. Second, trade linkages have risen dramatically, as developed and developing economies have entered into a variety of integration arrangements to facilitate the flow of goods and services across their borders. During this period, several emerging market economies in Asia and Latin America have undergone significant financial integration while attracting substantial capital flows. Although these flows have been associated with high growth rates in some of these countries, their integration experience has also been accompanied by major financial crises. Moreover, increased trade and financial linkages appeared to be instrumental in the rapid spread of these crises across borders.

Recent crises in emerging market economies have shown that understanding the sources and transmission channels of business cycle fluctuations and economic crises, which could be regarded as particularly dramatic episodes of cyclical volatility, is critically important in an increasingly integrated world economy. The recognition that the effectiveness of macroeconomic stabilization policies designed to mitigate the severity of economic crises ultimately depends on the success in diagnosing their underlying causes. This has led to the emergence of a rapidly growing literature analyzing various properties and possible sources of business cycle fluctuations and economic crises in different parts of the world. However, this literature has seriously lacked studies addressing these issues within the con-

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text of the economies of the Middle East and North Africa (MENA) and Mediterranean regions and their interaction with Europe.

Most developing countries in the MENA and Mediterranean regions have not participated actively in the globalization process, as have the emerging market economies in Latin America and Asia. Nonetheless, some countries in the region have implemented macroeconomic stabilization and structural reform programs after the mid-1980s and liberalized their trade and foreign investment regimes. Moreover, they have signed bilateral and regional trade agreements to further increase trade flows, including the Euro-Mediterranean Partnership (EMP), which was launched in 1995 with the objective of establishing a free trade area between the European Union and 12 MENA countries by 2010. This was particularly significant, because Europe has always been one of the major destinations for exports as well as migrant workers from the MENA and Mediterranean countries, with economic linkages becoming even stronger during the past decade due to the expansion of trade and financial flows. With the EMP initiative under way, the role of Europe in driving short-term macroeconomic fluctuations in the MENA and Mediterranean countries could become more important in the future. It is likely that developments in the European economies would have a bearing on the long-term growth prospects of the countries in the MENA and Mediterranean regions, as trade and financial linkages get stronger over time.

This special issue of *Emerging Markets Finance and Trade* contains a collection of papers that analyze the dynamics of business cycles in various MENA and Mediterranean countries. As such, the issue contributes to filling the gap in the literature by putting together a number of papers investigating the sources and characteristics of macroeconomic fluctuations in these regions and analyzing the channels through which fluctuations in Europe are transmitted to the MENA and Mediterranean countries. Preliminary versions of the papers in this issue were presented at a workshop organized by the guest editors ("Business Cycle Characteristics and Transmission of Crises in a Globalized Economy: The Case of MENA and Europe") and held at the Fourth Mediterranean Social and Political Research Meeting (MSPRM) of the Mediterranean Programme at the European University Institute in Florence, March 2003.

The first three papers in the issue focus on various stylized facts, including volatility and comovement, associated with business cycle fluctuations in selected countries within the MENA and Mediterranean regions, by using different econometric methods. The fourth paper considers the role of worker remittances in transmitting business cycles from Germany to Turkey. In the fifth paper, the role of foreign direct investment (FDI) as a channel of business cycle transmission is examined using data for European countries and Jordan. The last paper focuses on the degree of comovement across various sectors in Turkey.

In the first paper, Süssmuth and Woitek analyze various properties of business cycles in eleven MENA countries using a frequency domain approach. The authors present estimates of the lengths of business cycles, which helps fill a major

gap in the literature created by the lack of information about the cycle length for many of the MENA economies. They find, in particular, that the countries in their sample have major business cycle lengths of three to five years. Süssmuth and Woitek also document that there are differences, as well as similarities, in the properties of business cycles across countries. In addition, they find that business cycles in the MENA region are influenced by the fluctuations in European countries.

The second paper, by Gallegati, Gallegati, and Polasek, investigates business cycle characteristics of various macroeconomic aggregates in fifteen Mediterranean countries over the past four decades. The results concerning the persistence, volatility, asymmetry, and synchronization properties of business cycles point to various regularities in the characteristics of fluctuations experienced by countries that are structurally similar and/or geographically close to each other.

In the third paper, Hirata, Kim, and Kose study the temporal evolution of volatility of macroeconomic fluctuations in the emerging market economies of the MENA region. The authors also compare these countries' experience with global integration to that of the Asian emerging market economies. They document that the volatility of business cycle fluctuations in the MENA economies has remained substantially higher than that in the Asian countries, whereas countries in the MENA region and Asia have witnessed a decline in the amplitude of fluctuations since the mid-1980s. In addition, they study the evolution of the changes in the structural characteristics of these two groups and analyze the impact of these changes on the dynamics of business cycles.

In the fourth paper, Sayan considers the case of remittances transferred to Turkey by Turkish workers in Germany to examine the presence (or the lack) of empirical regularities between fluctuations in remittances and the business cycle characteristics in these two countries. His analysis reveals that the real remittances sent home by Turkish workers abroad are procyclical with output in Turkey, implying that they could potentially magnify the effects of economic crises but would provide an additional boost to economic activity during expansionary periods. Although Sayan places less confidence on its validity, his findings also include a lack of comovement or acyclicality between real remittances and German output.

In the fifth paper, Lucke uses a dynamic business cycle model to examine the transmission channels of business cycles from Europe to Jordan. He argues that productivity fluctuations in Europe spill over to Jordan only if embodied in FDI flows, but that a positive productivity shock in Europe would have a negative impact on the Jordanian economy, because it would increase world interest rates. His model is able to produce business cycle moments that are consistent with the main properties of cyclical fluctuations in Jordan.

The last paper, by Filiztekin, considers the behavior of business cycle fluctuations in different sectors in Turkey and analyzes whether there are differences in the various properties of sectoral cycles. He uses cointegration and cofeature methods, and he documents that sectoral cycles are highly correlated. In addition, he

finds that most of the variation at the sectoral level is due to permanent shocks, implying that real factors play an important role in explaining sectoral cycles.

We are thankful to the Mediterranean Programme of the Robert Schuman Centre for Advanced Studies at the European University Institute in Florence, which provided the venue and the travel grants for participants at the workshop where preliminary versions of the selected papers in this issue were first presented. Imco Brouwer, Scientific Coordinator of the MSPRM, and his staff were most helpful during the preparatory stages of the workshop and during the meetings in Florence. We are grateful to Ali M. Kutan, the editor of this journal, for his support and encouragement. All papers in this issue have undergone a blind review process. We would also like to express our appreciation to all colleagues who contributed to this issue as discussants at the workshop or referees during the review process.

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