Preface

The study defines 'competitiveness' as the degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long run. According to this definition, a country is competitive if it can sell its products in world markets, if it maintains external equilibrium in the context of an open free-market economy, if it realizes a high level of employment, and if it achieves sustainable increases in real wages over time.

Concentrating on the countries' abilities to sell their products in world markets we note that an essential requirement for increasing exports is the existence of favorable market access conditions represented by low tariff rates and non-tariff barriers in the rest of the world. We therefore start with a study of the market access conditions for Middle Eastern and North African (MENA) exports in major industrial countries.

Since an open trade regime boosts the allocative efficiency in the economy by removing distortions in the price system, lowers prices by spurring efficiencies via better exploitation of scale economies in an increased market, and offers a larger variety of products, it is said to increase the welfare of the society. In addition, it is emphasized that the heightened efficiency makes the country a better place in which to invest. Increases in investments lead to further gains from trade. Since openness leads to an optimum allocation of resources in production and consumption we turn to consideration of issues related to openness in the MENA economies.

Considering the real exchange rate as a determinant of the country's ability to sell its products in world markets we show that the real exchange rate depends on relative unit labor costs, exchange rates, and relative profit margins. We therefore continue with an analysis of issues related to exchange rates, wage rates, profit margins, and labor productivities in MENA countries. We note that in order to stay competitive a country should try to hold down its unit labor cost measured in terms of foreign currency relative to that in the rest of world. Since this may be achieved through wage restraint, productivity enhancement, and/or exchange rate devaluations, we concentrate on the analysis of labor market flexibility as a determinant of average wage levels as well as of employment. Next, we refer to the profit margin as the mark-up over labor costs. Since an increase in the profit margin relative to that in the rest of the world implies a decline in competitiveness, we study the capital markets, and more specifically the role of investment incentive schemes and taxation policies in determining the cost of capital, and also place emphasis on the analysis of market structure. Finally, we turn to questions related to determinants of the productivity of labor, macroeconomic stability, and to issues related to sustainability of fiscal policy and of current account.

The volume of essays provides readers with a comparative analysis of issues related to competitiveness in MENA countries with emphasis on Egypt, Tunisia, and Turkey. We hope that the study will inspire further work on similar comparative studies.

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