THE DETERMINANTS OF TRADE AND TRADE DIRECTIONS OF ARAB MAGHREB UNION (AMU)

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THE DETERMINANTS OF TRADE AND TRADE DIRECTION OF ARAB MAGHREB UNION (AMU)

By

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ABSTRACT

The Arab Maghreb Union (AMU) comprising Algeria, Libya, Mauritania, Morocco, and Tunisia have established a framework to enhance regional cooperation on trade facilitation. Today, the AMU countries have increased their trade integration into the world economy. Despite the effort of trade openness in the AMU, the economic growth, intra-trade and inter-trade are still lagging behind other developing countries in the Middle East, Asia, and Latin America. The objectives of this study are: 1) to examine the determinant of intra-regional trade in the AMU countries; 2) to examine the bilateral trade flows between AMU countries with selected European Union (EU) and Middle East (ME) countries; and 3) to investigate a long-run relationship between the trade and its determinants for a group of selected AMU, EU and ME countries. Using a data set of 1989-2009; the standard gravity model is used to measure the pattern and trend of bilateral trade. Overall, the results are consistent with those found in previous study where in all cases, parameters for the variables are found to be correctly signed and highly significant. A higher GDP increases trade while a longer distance inhibits trade. Larger population also results in higher trade. In terms of trade openness, the results show that the trade barriers are found to be positively and significantly correlated with openness. In short, the trade barriers are fairly effective for increasing trade. In analyzing the inter-trade of AMU with selected EU countries, namely Italy, Spain and France and selected ME, namely Egypt, Lebanon, and Syria, the results show that an increase in home GDP and partner’s countries GDP cause an increase in AMU’s trade. Population size, AMU’s real exchange rate, and trade openness are found to be positively related to trade.

Keywords: Intra-trade, Bilateral Trade, GDP, Trade Openness, Gravity Model
ABSTRAK


Kata Kunci: Intra Perdagangan, Perdagangan Dua-Hala, KDNK, Keterbukaan Perdagangan, Model Graviti
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TABLE OF CONTENT

PERMISSION TO USE i
ABSTRACT ii
ABSTRAK iii
ACKNOWLEDGMENT iv
TABLE OF CONTENT vi
LIST OF TABLES x
LIST OF FIGURE xiii
LIST OF ABBREVIATION xiv

CHAPTER 1: INTRODUCTION

1.1 Background of the Research 1
1.2 Statement of the Problem 7
1.3 Research Questions 11
1.4 Objectives of the study 12
1.5 Significance of the Study 12
1.6 Scope of the Study 15
17 Research organization 15
### CHAPTER 2:
**OVERVIEW ON ARAB MAGHREB UNION (AMU)**

2.1 Introduction 17
2.2 Background of AMU countries 19
2.3 Establishment of AMU 21
2.4 Trade activities and growth of AMU countries 23
2.5 Tunisia 27
2.6 Libya 42
2.7 Algeria 48
2.8 Mauritania 55
2.9 Morocco 60
2.10 Conclusion 66

### CHAPTER 3:
**LITERATURE REVIEW**

3.1 Introduction 67
3.2 Theories on International trade 67
3.3 The Research model (The Gravity Model) and trade 72
3.4 The limitations of the gravity model 86
3.5 Exchange rate volatility and trade flows 91
3.6 Econometric analysis of the potentialities of regional blocs 93
3.7 Tariffs, other trade costs and the gravity model 96
3.8 Conclusion 105
<table>
<thead>
<tr>
<th>CHAPTER 4: METHODOLOGY AND DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Introduction</td>
</tr>
<tr>
<td>4.2 The Standard Gravity Model</td>
</tr>
<tr>
<td>4.2.1 Research Model and Specification</td>
</tr>
<tr>
<td>4.2.2 Estimation Procedure</td>
</tr>
<tr>
<td>4.3 Extension of the model</td>
</tr>
<tr>
<td>4.3.1 Panel Unit Root</td>
</tr>
<tr>
<td>4.3.2 Levin, Lin and Chu (LLC; 2002)</td>
</tr>
<tr>
<td>4.3.3 Im, Pesaran and Shin (IPS;1997)</td>
</tr>
<tr>
<td>4.4 Cointegration Tests</td>
</tr>
<tr>
<td>4.4.1 Panel Cointegration Tests</td>
</tr>
<tr>
<td>4.4.2 Fully Modified Ordinary Least Squares (FMOLS) Estimation</td>
</tr>
<tr>
<td>4.5 Data and Choice of variables</td>
</tr>
<tr>
<td>4.6 Conclusion</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER 5: RESULTS OF GRAVITY MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Introduction</td>
</tr>
<tr>
<td>5.2 Analysis of Intra-Trade among AMU Countries</td>
</tr>
<tr>
<td>5.3 Analysis of Inter-Trade among Arab Maghreb Union With Selected European Union and Selected Middle East Countries</td>
</tr>
<tr>
<td>5.4 Conclusion</td>
</tr>
</tbody>
</table>
**CHAPTER 6:** ANALYSIS OF LONG RUN RELATIONSHIP BETWEEN THE TRADE AND ITS DETERMINANTS FOR A GROUP OF SELECTED AMU, EU AND ME COUNTRIES.

6.1 Introduction 175
6.2 Results of The Panel Unit Root Tests 175
6.3 Cointegration Test 185
6.3.1 Panel Cointegration Tests 185
6.4 Cointegration Estimation Results – FMOLS 189
6.5 Conclusion 211

**CHAPTER 7:** CONCLUSIONS AND POLICY IMPLICATIONS

7.1 Introduction 212
7.2 Summary 212
7.3 Conclusions 218
7.4 Policy Implications 220
7.5 Limitations of the Study 222
7.6 Suggestion for Further Studies 223

REFERENCES
LIST OF TABLES

Table 1.1  Trade in the Arab Maghreb Union (% of GDP)  9
Table 1.2  Trade of the Arab Maghreb Union to EU (% of total)  10
Table 4.1  The distance between the Arab Maghreb Union and the most important trading partners  110
Table 4.2  Total Export and Import between AMU Countries with EU Countries from 1989-2005  111
Table 4.3  Total Export and Import between AMU Countries with ME Countries from 1989-2005  112
Table 5.1  Algeria – Dependent variable: lnY_{ijt} (Trade)  142
Table 5.2  Libya – Dependent variable: Trade  152
Table 5.3  Mauritania – Dependent variable: Trade  155
Table 5.4  Morocco – Dependent variable: Trade  160
Table 5.5  Tunisia – Dependent variable: Trade  163
Table 5.6  AMU to EU – Dependent variable: Trade  167
Table 5.7  AMU to ME – Dependent variable: Trade  170
Table 6.1  Algeria: Panel Unit Root Tests  178
Table 6.2  Libya: Panel Unit Root Tests  179
Table 6.3  Mauritania: Panel Unit Root Tests  180
Table 6.4  Morocco: Panel Unit Root Tests  181
Table 6.5  Tunisia: Panel Unit Root Tests  182
Table 6.6  EU: Panel Unit Root Tests  183
<p>| Table 6.7 | ME: Panel Unit Root Tests | 184 |
| Table 6.8a | Panel cointegration tests for heterogeneous panel - Constant | 187 |
| Table 6.8b | Panel cointegration tests for heterogeneous panel - Constant + Trend | 188 |
| Table 6.9a | Algeria - FMOLS (Individual) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 192 |
| Table 6.9b | Algeria - FMOLS (Group) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 194 |
| Table 6.10a | Libya - FMOLS (Individual) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 196 |
| Table 6.10b | Libya - FMOLS (Group) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 196 |
| Table 6.11a | Morocco - FMOLS (Individual) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 199 |
| Table 6.11b | Morocco - FMOLS (Group) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 199 |
| Table 6.12a | Mauritania - FMOLS (Group) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 202 |
| Table 6.12b | Mauritania - FMOLS (Group) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 202 |
| Table 6.13a | Tunisia - FMOLS (Individual) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 205 |
| Table 6.13b | Tunisia - FMOLS (Group) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 205 |
| Table 6.14a | European Union (EU) - FMOLS (Individual) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 207 |
| Table 6.14b | European Union (EU) - FMOLS (Group) Results, With Time Dummies Dependent variable: Trade ((lnY_{ijt})) | 208 |</p>
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.15</td>
<td>Middle East (ME) - FMOLS (Individual) Results, With Time Dummies Dependent</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td>variable: Trade ($lnY_{ijt}$)</td>
<td></td>
</tr>
<tr>
<td>6.15b</td>
<td>Middle East (ME) - FMOLS (Group) Results, With Time Dummies Dependent</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td>variable: Trade ($lnY_{ijt}$)</td>
<td></td>
</tr>
<tr>
<td>7.1</td>
<td>Summary of the sign of impact effect (Fixed and Random Effects Model)</td>
<td>217</td>
</tr>
<tr>
<td>7.2</td>
<td>Summary of the sign of long run effect Fully Modified OLS (FMOLS) Among AMU</td>
<td>219</td>
</tr>
<tr>
<td>7.3</td>
<td>Summary of the sign of long run effect Fully Modified OLS (FMOLS): EU &amp; ME</td>
<td>218</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

Figure 2.1 Structure of GDP and rate of increase 29
**LIST OF ABBREVIATION**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMU</td>
<td>Arab Maghreb Union</td>
</tr>
<tr>
<td>ATC</td>
<td>Agreement on Textiles and Clothing</td>
</tr>
<tr>
<td>CENSAD</td>
<td>Community of Sahel-Saharan States</td>
</tr>
<tr>
<td>CPCM</td>
<td>Conseil Permanent Consultatif du Maghreb</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>EFTA</td>
<td>European Free Trade Association</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GAFTA</td>
<td>Greater Arab Free Trade Area</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GSTP</td>
<td>Global System of Trade Preferences</td>
</tr>
<tr>
<td>ME</td>
<td>Middle East</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
</tr>
<tr>
<td>PAFTA</td>
<td>Pan-Arab Free Trade Area</td>
</tr>
<tr>
<td>PTA</td>
<td>Preferential Trade Arrangements</td>
</tr>
<tr>
<td>TPR</td>
<td>Trade Policy Review</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
CHAPTER 1

OVERVIEW OF THE STUDY

1.1 Background of the Research

The Arab Maghreb Union comprising Algeria, Libya, Mauritania, Morocco, and Tunisia have established a framework to enhance regional cooperation on issues of common interest, focusing initially on trade facilitation. Over the last decade, the Arab Maghreb Union countries have increased their trade integration into the world economy, including in the context of the Association Agreements between the European Union and Arab Maghreb countries. However, there is a debate that, whether the Arab Maghreb countries achieve the goals of this regional cooperation or not. In addition, there were an opposite views that, the Arab Maghreb countries were affected by this regional integration. According to Brenton, Baroncelli and Mahouchel (2006) the Maghreb countries have experienced lacklustre growth rates during the last decade. Tunisia was the best performer with growth at 4.8 per cent, but even this was only average for developing countries; the other two countries grew substantially less at 3.2 per cent. While Maghreb exports of goods and services have grown at global averages in the last decade, they have not fully realized the growth potential associated with their location advantages of close proximity to the European Union (EU). Their exports have grown at less than half the rate of Turkey, Poland and Hungary in the last decade. However, according to the
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230


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