Economic Development in Southern Mediterranean through EU-Mediterranean Cooperation: Migration and Remittance Substitutes for FDI

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Abstract: The Euro-Mediterranean Partnership, that is formerly known as the Barcelona Process, whose one of the main objectives is aimed at eventual economic development of the developing Southern Mediterranean with the assistance of the developed European Union (EU). Since its launch in 1995, EU-Mediterranean relationship has unquestionably improved. Despite so, economic growth in the Southern Mediterranean has remained unimpressive. FDI undoubtedly compensates the failure of the governments in implementing effective economic development policies that require large sum of capital to actualise. Despite an increase in FDI, Southern Mediterranean still remains very vigilant over excessive foreign ownerships that may threaten its sovereignties. Its overall political stability is one of the most important sources of the meagre FDI being one of the most polemical region in the world.

The alternative to these issues that Southern Mediterranean are facing is migration. Outward migration is the next most adequate substitute for FDI that can be used as both economic and political tools. Migration, first of all, helps relieve the pressure on the government to solve the stubbornly high unemployment rate, particularly youth unemployment. Provided migrants eventually return home, they will become the most important source of knowledge transfer and technology diffusion in Southern Mediterranean. Meanwhile, remittance has become one of the most vital sources of economic development for Southern Mediterranean. Remittance sent to home country increases the generally low purchasing power of the household that allows better condition of living by importing better quality goods and services, invests in small business or in other productive investments. While migrants remain resided in the host country act as actors to help explore potential markets in the foreign while the returning migrants act as promoters promoting the benefits of trade openness and world trade integration.

This paper primarily accesses the economic development of Southern Mediterranean through the EU-Mediterranean cooperation. This process will also be compared with that of Southeast Asia where the Japanese “flying geese paradigm” has played a very important role in its economic development through trade and FDI; while in Southern Mediterranean, trade and migration are the more important motors behind its economic development.

Keywords: Trade, Foreign Direct Investment, Migration, Remittance, EU-Mediterranean Partnership, Economic Growth, Regional Development, Southern Mediterranean and Economic Integration.

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Introduction

Despite the evident improvement in the relation between the European Union (EU) and the Southern Mediterranean since the launch of the Process of Barcelona in 1995 until its relaunch of Union for the Mediterranean initiated by the French President Sarkozy, the progress and results have remained unimpressive.[1] Although generally higher than that of the EU, growth rate in Southern Mediterranean remains inferior; from 1995 to 2005 its annual average growth rate of real gross domestic product (GDP) is 3.56 per cent compared to that of Southeast Asia's 4.60 per cent.[2]

Southern Mediterranean has been widely known for its lack of economic freedom, openness and world economic integration and this has possibly become the source of its meagre share of 6.24 per cent (US$39 billion) of world total foreign direct investment (FDI) inward flow into developing economies at an average annual rate of 28.17 per cent over a span of 18 years between 1990 and 2008.[3] This is definitely an impressive improvement given that Southeast Asia received a slightly smaller share of the world FDI inward flow into developing economies (5.87 per cent or US$36 billion in 2008) at an annual growth rate of only 13.21 per cent over the same period of time.[4]

Despite the higher FDI inward flow growth rate, in terms of absolute value, FDI inflow flow into Southern Mediterranean is only US$2 billion compared to Southeast Asia's US$15 billion. However, if this growth rate were to continue, by the end of 2010, FDI inward flow into Southern Mediterranean will surpass that of Southeast Asia.[5]

However, accumulated FDI inward stock in Southern Mediterranean remains inferior to that of Southeast Asia: Southern Mediterranean accounted for 6.28 per cent (US$268 billion) of world total FDI stock in developing economies at an annual growth rate of 12.03 per cent between 1990 and 2008 and Southeast Asia accounted for 7.47 per cent (US$320 billion) at an annual growth rate of 15.77 per cent over the same period of time.[6]

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1 Although currently there are 27 member countries in the EU, in this paper only 25 members states are included and they are Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland , Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom. The Southern Mediterranean refers to Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Occupied Palestinian Territory, Syria and Tunisia. The Southern Mediterranean is further divided into to sub-regions namely Maghreb and Machrek. Maghreb includes Algeria, Libya, Morocco and Tunisia; while Machrek includes Egypt, Jordan, Lebanon, Occupied Palestinian Territory and Syria; and Israel is studied independently In most parts of this study. Libya and Occupied Palestinian Territory are sometimes excluded in some parts of this paper due to lack of data representation.

2 Southeast Asia in this paper refers to Cambodia, Indonesia, Malaysia, Philippines, Thailand and Viet Nam.

3 FDI inward flow refers to the FDI value received by the host destination in the stipulated period of time. For example, country A commits a FDI of US$3 billion in year 2008 in country B. In another words, country B has a FDI inward flow of US$3 billion from country A in year 2008.

4 Percentages are authors' own calculations based on UNCTAD FDIStat database (2010).

5 Ibid.

6 FDI inward stock refers to the value of the FDI that is invested in the host country. For example, country A currently has got US$5 billion worth of FDI n country B in 2008. In another words, apart from what country B is going to receive from country A as FDI, the former has a US$5 billion worth of FDI inward stock from the latter.

Contrary to FDI inward flow growth, although the annual average growth rate of FDI inward stock in Southern Mediterranean is higher than that of Southeast Asia, when speaking in terms of absolute value the former is growing at an annual average of US$127 billion while Southeast Asia at US$101 billion. This is also to say, with lower FDI inward stock endowed and inferior growth rate, Southern Mediterranean still has a long way to reach the level of FDI inward stock that Southeast Asia has as the former will continue to fall behind by 58.69 per cent (US$131 billion) of FDI inward stock in Southeast Asia by year 2015.[7]

Majority of the governments in Southern Mediterranean embrace little or no democracy (more commonly known as autarky), perhaps except for Israel. Government in non-democratic state tends to bend towards nationalism, protectionism or even isolation from world economy and political affairs. This also means that the government tends to take steps to restrict foreign influence and controls of any forms, from participating in foreign trade to playing host to FDI.

However, Southern Mediterranean are not as “closed” as what is described above. Since the launch of the Process of Barcelona, EU-Southern Mediterranean trade has improved tremendously, as well as FDI, although the latter still has a long way to achieve a satisfactory result. After all, trade asserts less foreign influence and control than FDI since the latter requires greater participation in the host economy. It is precisely through greater participation knowledge transfer and technology diffusion become more effective and these contribute to economic growth. To restrict the foreign influence and control would mean to restrict FDI and limit on knowledge transfer and technology diffusion, therefore limits economic growth. Besides, FDI also becomes a co-development tool as it does not only create the very much needed jobs to bring down the high unemployment rate, it also tends to enhance trade especially through intra-firm trade.

However, FDI is not the only source of effective tool for development. Instead of “inviting” the foreign into its territory, Southern Mediterranean has seemed to “encourage” outward migration. First of all, outward migration will relieve the pressure on Southern Mediterranean government to create jobs to counter the plague of high unemployment rate. Secondly, provided the migrants return to their home countries eventually, these migrants will become a very important source of knowledge transfer which, in turn, is an important source effective tool for development. Thirdly, even if the migrants do not return, the home countries will continue to enjoy economic development through the remittances sent home by the migrants. With this remittance, the household income of the migrant's family in his home country increases and therefore higher purchasing power. Whether how effective these remittances are to economic development, it is hard to determine. If most part of the remittance is used for daily basic needs and leave little to savings or to productive investments, the effect on economic development could be limited. Lastly, majority of the non-returning migrants tend to maintain contacts with their home countries. These contacts act as opportunities for both the home and host countries in exploring markets for their produces through trade.

7 Percentages are authors' own calculations based on UNCTAD FDIStat database (2010).

These benefits brought upon by outward migration have seemed to be a “quasi-perfect” substitute for FDI for Southern Mediterranean; minimal threat to sovereignty yet economic growth and development observed.

Nevertheless, the disadvantages of outward migration still persist. In the short-run, the migrant sending country (home country) may face with “brain drain” problems as a good part of the migrant population is made up of fairly highly educated and skilled workers. This problem will persist in the long-run if the home country government continue to fail to improve the economic situation favourable to the migrants who return. Economic development will still be observed, however the growth will not be to its full potential. Besides, majority of these educated and skilled migrants fill up jobs of low-skilled, low productivity and low paid that the local people in developed countries shunned. In this way, it ends up in a lose-lose game whereby neither the home country nor the host country benefits fully from these “talents” and this is what we call “wasted potentials”.

While the EU has welcomed migrants from Southern Mediterranean with open arms as the former is facing a severe ageing population problem and it needs migrants to maintain its production level as well as the contributions to social security provide for the retirement and pension payouts.

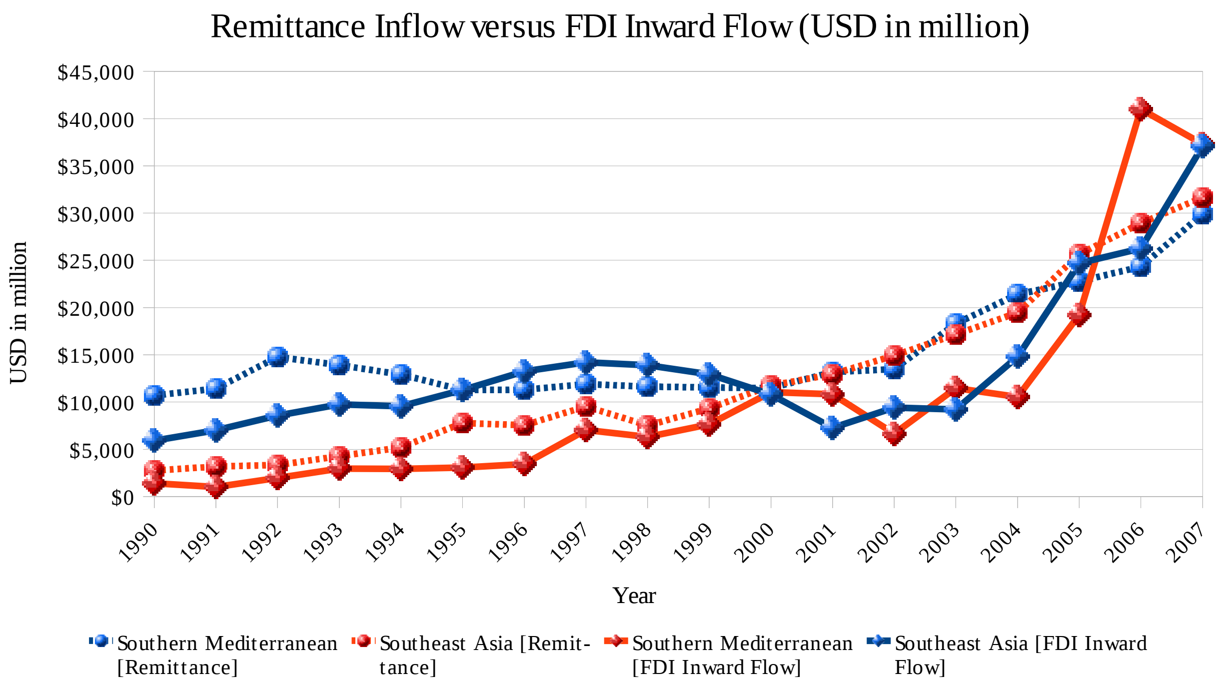
With the “guest worker” policy employed in many developed countries that encourages temporary migration, on one hand, this will guarantee the return of the migrants upon their termination of their work contracts that will somewhat solve part of the problem of “brain drain” in Southern Mediterranean, on the other hand, it also helps the developed countries to risk facing “over-migration” that may threaten the national identities of their countries.

FDI Inflow versus Remittance Inflow

Between 1990 to 2005, the annual remittance inflow into Southern Mediterranean had been greater than its annual FDI inflow received, except for year 2000 when FDI inward flow (US$11 billion) had slightly surpassed remittance inflow (US$10.5 billion). This has also shown tradition importance of remittance had been for Southern Mediterranean. However, the trend has since taken a dramatic turn in 2006 when its FDI inward flow has decisively surpassed remittance inflow by 70 per cent. (See graph 1, 2 and 3)

In spite of the sudden upsurge in FDI inward flow in 2007 that had decisively surpassed that of of Southeast Asia (US$37.3 billion and US$37.1 billion respectively), FDI inward stock in Southern Mediterranean remains inferior: FDI inward stock in Southern Mediterranean is worth some US$238 billion while that in Southeast Asia is worth some US$395 billion in 2007 although the gap between the two developing regions in FDI inward stock has narrowed to US$51 billion in 2008 from US$57 billion in 2007. (See graph 1)

Graph 1.



Source: UNCTAD Statistic and FDIStat database (2010).[8]

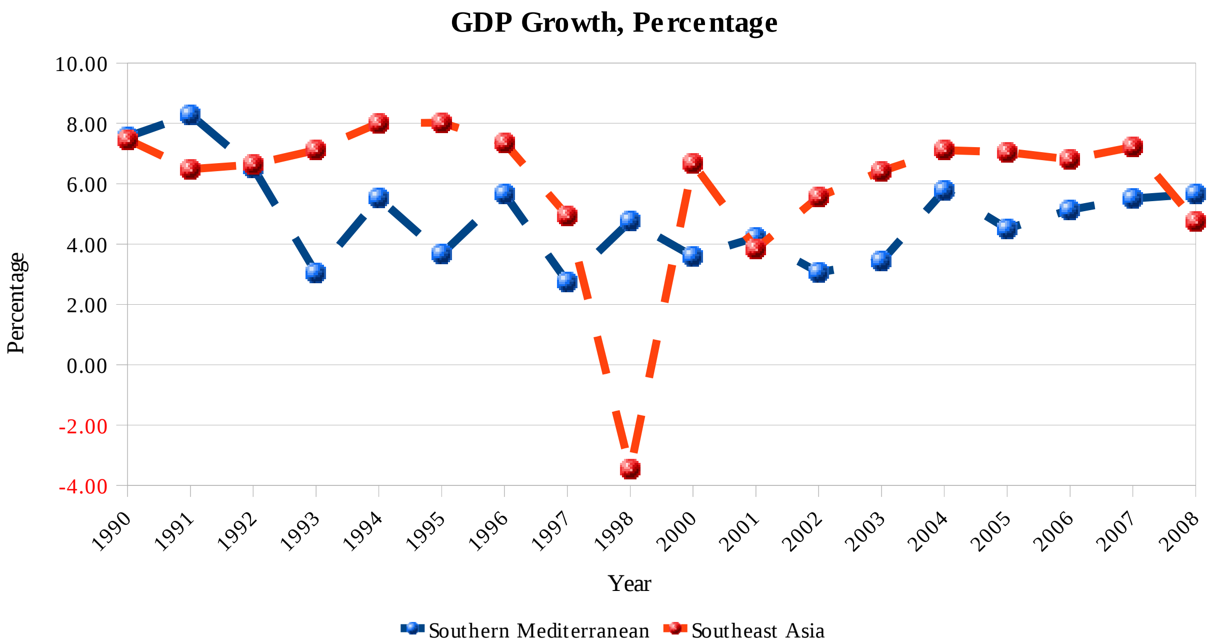
Note: Southern Mediterranean includes Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria and Tunisia and Southeast Asis includes Cambodia, Indonesia, Malaysia, Philippines, Thailand and Viet Nam.

8 All graphs and tables of Southern Mediterranean in this study (unless specified) includes Algeria, egypt, Israel, Jordan, Lebanon, Libya, Morocco, Occupied Palestinian territory and Tunisia and those of Southeast includes Cambodia, Indonesia, Malaysia, Philippines, Thailand and Viet Nam.

Meanwhile, remittance inflow into Southern Mediterranean has grown steadily at an annual average rate of 7.13 per cent (US$1 billion) over a span of 18 years from 1990 to 2008. However, remittance inflow into Southeast Asia has grown even faster at an annual average rate of 16.50 per cent (US$1.9 billion) and in 2003 it has surpassed that of Southern Mediterranean by US$3 billion in 2005 and by US$4 billion in 2008. (See graph 1)

Despite these efforts and improvements, economic growth in Southern Mediterranean has remained unimpressive. Southeast Asia has had experienced several economic setbacks; the infamous 1997 Asian Financial Crisis when a shape negative growth rate of -3.47 per cent was reflected in 1998, the aftermath of the September 11 terrorist attach in New York when a drop in growth rate by almost 3 per cent (from 6.68 per cent in 2000 to 3.84 per cent in 2001), and the current global crisis that was triggered by the United States in 2007 where yet another drop in growth rate to 4.75 per cent in 2008 from 7.22 per cent in 2007. In spite of these setbacks, Southeast Asia has managed maintained an annual average GDP growth rate of 6.00 per cent, slight more than one percent higher than that of Southern Mediterranean (4.93 per cent). (See graph 2)

Graph 2.



Source: The World Bank (2010); based on the average of the annual GDP growth rate of the available data.

Note: Southern Mediterranean includes Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria and Tunisia and Southeast Asis includes Cambodia, Indonesia, Malaysia, Philippines, Thailand and Viet Nam.

While the difference in economic growth rate between Southern Mediterranean and Southeast Asia could possibly be explained by the initial FDI inward stock endowed. Although the impressive economic growth has made Southeast Asia a good example to follow (to be more integrated into world economy), it also implies its volatility to external shocks. In comparison to Southeast Asia, year-to-year economic growth in Southern Mediterranean has been more stable. This could act as a caveat to Southern Mediterranean that the more integrated it is into world economy, more volatile its economy would be to external shocks, and the more Southern Mediterranean would be unwilling to integrate into world economy.

Inward FDI as Sources of Economic Development

FDI is a vital source of foreign capital inflow into the home country that promotes economic development in developing countries, so are they to Southern Mediterranean and Southeast Asia.

FDI, as Akamatsu (1962) and Ozawa (2005), postulated that FDI has been one of the important sources of the impressive economic growth in the East Asia. In fact, FDI has come a long way for Southeast Asia. In 1980, FDI inward stock in Southeast Asia (US$8.5 billion) was about 2.5 times lesser than that of Southern Mediterranean (US$21 billion).[9] However, by 1993, FDI inward stock in Southeast Asia (US$45 billion) has comfortably surpassed that of Southern Mediterranean (US$41 billion), thanks to the rapid annual average growth rate of 23 per cent (US$656 million) in FDI inward flow between 1980 and 1993. In effect, in the same period of time, FDI inward flow annual growth rate in Southern Mediterranean was 40.91 per cent (US$215 million).[10]

Since then, FDI has become a steady and an increasing important source of economic growth for Southeast Asia. In 1990, FDI inward stock accounted for 13.52.per cent (US$25 billion) as a percentage of GDP (at current price) to 27.05 per cent (US$295 billion) in 2007. Although by 2007, it was endowed with less stock (US$238 billion), FDI inward stock has played an increasing important role in economic growth in Southern Mediterranean accounting for 14.54 per cent as a percentage of GDP (US$36 billion) in 1990 to 34.86 per cent (US$238 billion) in 2007. However, Southeast Asia has had a lower FDI inward stock per capita (US$581 in 2007) than Southern Mediterranean (US$1,171). These results imply that (1) FDI inward stock has become increasingly important to Southern Mediterranean, even more than that to Southeast Asia and (2) Southern Mediterranean is, in fact, more open to and endowed more with FDI inward stock speaking in terms of per capita. (See table 1)

FDI inward stock is unevenly distributed. FDI inward stock in Southern Mediterranean is heavily concentrated in Egypt (22.34 per cent of the total FDI inward stock in Southern Mediterranean or US$60 billion in 2007), Israel (21.42 per cent or US$57 billion) and Morocco (15.27 per cent or US$41 billion). Despite so, FDI inward stock has not been as important as a GDP component for Egypt (37.80 per cent as a percentage of GDP in 2007), Morocco (52.59 per cent) and Israel (37.80 per cent) as it is for the smaller Southern Mediterranean countries (more than 70 per cent).

9 Figures are authors' own calculations based on UNCTAD FDIStat database (2010). FDI inward stock in Southeast Asia does not include that of Indonesia due to data available.

10 Ibid.

Strong increasing importance of FDI inward stock is found in Jordan and Lebanon where FDI inward stock as a percentage of GDP grew from 36.47 per cent in 1990 to 102.12 per cent in 2007 for the former and from 1.89 per cent to 83.46 per cent for the latter. These two percentages have grown by 65.66 per cent and 81.57 per cent respective between 1990 and 2007. While to a lesser extent, a considerably strong growth in the importance is observed in Morocco where FDI inward stock as a percentage of GDP grew from 13.91 per cent in 1990 to 52.59 per cent in 2007. Comparatively, although no trace of such strong growth, FDI inward stock has always formed an important GDP component for Tunisia where it accounted for 74.82 per cent as a percentage of GDP. Despite the importance, FDI inward stock per capita remain lower (US$2,703 for Jordan, US$4,940 for Lebanon,US$1,237 for Morocco and US$2,602 for Tunisia) than that of Israel (US$8,065).

Table 1. FDI Inward Stock, as Percentage of GDP and per Capita in USD

	FDI Inward Stock									
	1990		1995		2000		2005		2007	
	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD
Algeria	2.46%	$60	3.88%	$58	6.38%	$115	8.16%	$254	8.92%	$349
Egypt	28.02%	$191	21.32%	$230	20.04%	$284	29.37%	$374	37.80%	$631
Israel	7.86%	$992	6.23%	$1,097	18.66%	$3,707	27.20%	$5,334	34.51%	$8,065
Jordan	36.47%	$451	21.95%	$343	37.06%	$646	104.90%	$2,377	102.12%	$2,703
Lebanon	1.89%	$18	1.26%	$40	29.91%	$1,322	70.31%	$3,714	83.46%	$4,940
Libya	2.35%	$155	3.00%	$158	1.32%	$84	4.72%	$341	14.06%	$1,414
Morocco	10.43%	$121	13.91%	$190	23.86%	$307	35.20%	$680	52.59%	$1,237
O. Palestinian territory	-	-	3.81%	$47	22.64%	$296	22.16%	$285	20.53%	$279
Syria	53.39%	$468	47.97%	$445	37.04%	$441	30.03%	$441	21.91%	$401
Tunisia	61.84%	$927	60.83%	$1,227	59.38%	$1,221	58.01%	$1,705	74.82%	$2,602
Southern Mediterranean	**14.54%**	**$245**	**14.76%**	**$290**	**20.05%**	**$466**	**28.39%**	**$769**	**34.86%**	**$1,171**
Cambodia	2.69%	$4	10.74%	$31	43.09%	$124	39.27%	$178	44.24%	$267
Indonesia	-	-	-	-	-	-	14.41%	$188	13.66%	$263
Malaysia	22.57%	$570	31.15%	$1,395	56.24%	$2,266	32.23%	$1,734	41.03%	$2,885
Philippines	10.22%	$73	13.69%	$145	23.92%	$234	15.17%	$175	13.84%	$225
Thailand	9.66%	$145	10.53%	$294	24.38%	$480	34.24%	$916	38.62%	$1,415
Viet Nam	25.49%	$25	34.48%	$98	66.07%	$262	58.93%	$370	56.59%	$468
Southeast Asia	**13.52%**	**$116**	**17.87%**	**$273**	**37.58%**	**$483**	**25.68%**	**$394**	**27.05%**	**$581**

Source: Authors' own calculations based on UNCTAD FDIStat and UNCTAD Handbook of Statistics (2010).

Note: (a) The percentage of GDP is derived from the following equation: $\frac{\text{FDI Inward Stock of Country (I) in Year (A)}}{\text{GDP of Country (I) in Year (A)}}$

(b) The value per capita is derived from the following equation: $\frac{\text{FDI Inward Stock of Country (I) in Year (A)}}{\text{Total Population of Country (I) in Year (A)}}$

Although FDI inward flow by itself does not contribute significantly to economic growth, it is through increasing growth FDI inward flow that adds on to the accumulated FDI inward stock and the growing base that is vital for economic growth.

Not only has FDI inward flow also grown faster, so has its importance, in Southern Mediterranean than in Southeast Asia; FDI inward flow grew on an average of 29.60 per cent (US$2 billion) annually in Southern Mediterranean over a span of 17 years between 1990 and 2007 and 14.09 percent (US$1.8 billion) in Southeast Asia. Egypt (31,02 per cent or US$11.6 billion of the total FDI inward flow into Southern Mediterranean), Israel (24.17 per cent or US$9 billion), Libya (12.56 per cent or US$5 billion) and to a lesser extent Morocco (7.51 per cent or US$3 billion) were the biggest FDI inward recipients in Southern Mediterranean in 2007.[11] Egypt (US$638 annually), Israel (US$523) and Libya (US$266) were where FDI inward flow grew fastest between 1990 and 2007.[12]

Table 2. FDI Inward Flow, as Percentage of GDP and per Capita in USD

	FDI Inward Flow									
	1990		1995		2000		2005		2007	
	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD
Algeria	0.00%	$3	0.00%	$0	0.80%	$14	1.06%	$33	1.25%	$49
Egypt	1.86%	$4	0.86%	$9	1.24%	$18	5.47%	$70	8.67%	$145
Israel	0.24%	$11	1.67%	$293	4.90%	$973	3.26%	$638	5.57%	$1,301
Jordan	0.94%	-$3	0.20%	$3	9.63%	$168	14.07%	$319	12.40%	$328
Lebanon	0.23%	$1	0.32%	$10	5.78%	$256	12.17%	$643	11.08%	$656
Libya	0.55%	$21	-0.35%	-$18	0.41%	$26	2.42%	$175	7.56%	$760
Morocco	0.57%	$13	0.90%	$12	1.14%	$15	2.80%	$54	3.82%	$90
O. Palestinian territory	0.00%	$0	3.81%	$47	1.51%	$20	0.96%	$12	0.52%	$7
Syria	0.64%	$5	0.74%	$7	1.37%	$16	2.07%	$30	3.31%	$61
Tunisia	0.72%	$21	2.09%	$42	4.01%	$82	2.70%	$79	4.62%	$161
Southern Mediterranean	**0.56%**	**$7**	**0.96%**	**$19**	**2.66%**	**$62**	**3.63%**	**$98**	**5.47%**	**$184**
Cambodia	0.00%	$0	4.55%	$13	4.05%	$12	6.06%	$27	10.04%	$61
Indonesia	-	-	-	-	-	-	2.92%	$38	1.60%	$31
Malaysia	5.71%	$217	6.30%	$282	4.04%	$163	2.95%	$159	4.50%	$316
Philippines	1.24%	$9	1.97%	$21	2.95%	$29	1.88%	$22	2.02%	$33
Thailand	3.02%	$36	1.23%	$34	2.73%	$54	4.56%	$122	4.58%	$168
Viet Nam	2.78%	$6	8.59%	$24	4.14%	$16	3.83%	$24	9.47%	$78
Southeast Asia	**3.23%**	**$32**	**3.15%**	**$48**	**3.30%**	**$42**	**3.26%**	**$50**	**3.41%**	**$73**

Source: Authors' own calculations based on UNCTAD FDIStat and UNCTAD Handbook of Statistics (2010).

Note: (a) The percentage of GDP is derived from the following equation: $\frac{\text{FDI Inward Inflow of Country (I) in Year (A)}}{\text{GDP of Country (I) in Year (A)}}$

(b) The value per capita is derived from the following equation: $\frac{\text{FDI Inward Inflow of Country (I) in Year (A)}}{\text{Total Population of Country (I) in Year (A)}}$

11 Ibid.

12 Ibid.

FDI inward flow in Southern Mediterranean represented 0.56 per cent as a percentage of GDP in 1990 to 5.47 per cent in 2007. In comparison to that in Southeast Asia where FDI inward flow has grown from 3.23 per cent to 3.41 per cent only, it has shown that FDI inward flow is indeed becoming more important to Southern Mediterranean tremendously over the years. Significant increasing importance of FDI inward flow is found in Jordan (12.40 per cent as a percentage of GDP in 2007), Lebanon (11.08 per cent), Libya (7.56 per cent) and Egypt (8.67 per cent). Despite so, Israel remained to be the most opened to FDI inward flow (US$1,301 per capita), followed by Libya (US$760 per capita) and Lebanon (US$656 per capita). (See table 2)

Despite Egypt and Morocco receiving bigger shares in FDI inward stock and flow, their growths have been slow and they are not, in reality, as important (as a GDP component) as it is for the smaller Southern Mediterranean countries like Jordan, Lebanon and Tunisia that are also very open to FDI. Although they have not been important for as GDP components, Israel has always been open to FDI with the highest per capita in FDI inward stock and flow.

Remittance Inflow as a Source of Economic Development

As it is widely know how Southern Mediterranean is resistant to open to inward FDI in general, remittance is perhaps an ideal alternative. This is reflected in the different degree of importance of remittance inflow in Southern Mediterranean and Southeast Asia, as a contribution to GDP: total remittance inflow, as a percentage of GDP, accounted for 4.39 per cent in the former and 2.91 per cent in the latter.

Although remittance inflow, as a percentage of GDP, was 4.39 per cent and was lower than that of FDI inward flow (5.47 per cent) in Southern Mediterranean in 2007 generally, this is not a true reflection. In fact remittance inflow plays a more important role in GDP (as a percentage of GDP) than FDI inward flow in most of the Southern Mediterranean countries: in 2007, Algeria (1.60 per cent against 1.25 per cent), Jordan (21.84 per cent against 12.40 per cent), Lebanon (23.41 per cent against 11.08 per cent), Morocco (9.17 per cent against 3.82 per cent), Occupied Palestinian territory (10.96 per cent against 0.52 per cent) and Tunisia (4.90 per cent against 4.62 per cent). These same trends are also reflected in their total remittance inflow and FDI inward flow per capita in the same year (2007): Algeria (US$63 against US$49), Jordan (US$578 against US$328), Lebanon (US$1,386 against US$656), Morocco (US$216 against US$90), Occupied Palestinian territory (US$149 against US$7) and Tunisia (US$170 against US$161). (See table 2 and 3)

Table 3. Total Remittance Inflow, as Percentage of GDP and per Capita in USD

	Total Remittance Inflow									
	1990		1995		2000		2005		2007	
	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD	% of GDP	per Capita in USD
Algeria	0.57%	$14	2.66%	$40	1.44%	$26	2.01%	$63	1.60%	$63
Egypt	10.87%	$74	4.68%	$51	2.86%	$41	5.10%	$65	5.73%	$96
Israel	1.43%	$180	0.74%	$130	0.33%	$66	0.65%	$127	0.64%	$150
Jordan	12.42%	$153	21.41%	$335	21.81%	$380	19.82%	$449	21.84%	$578
Lebanon	64.66%	$611	11.17%	$351	9.49%	$419	22.84%	$1,206	23.41%	$1,386
Libya	-	-	-	-	0.03%	$2	0.04%	$3	0.03%	$3
Morocco	6.95%	$81	5.34%	$73	5.83%	$75	7.78%	$151	9.17%	$216
O. Palestinian territory	-	-	18.08%	$222	20.86%	$273	12.34%	$159	10.96%	$149
Syria	3.45%	$30	2.50%	$23	0.92%	$11	2.93%	$43	2.20%	$40
Tunisia	4.47%	$67	3.77%	$76	4.09%	$84	4.80%	$141	4.90%	$170
Southern Mediterranean	4.93%	$77	3.83%	$71	2.77%	$64	4.30%	$116	4.39%	$147
Cambodia	-	-	0.35%	$1	3.29%	$9	3.17%	$14	4.08%	$25
Indonesia	-	-	-	-	-	-	1.90%	$25	1.43%	$27
Malaysia	0.71%	$18	0.78%	$35	1.05%	$42	0.93%	$50	0.91%	$64
Philippines	3.31%	$23	7.23%	$77	9.17%	$90	13.74%	$159	11.30%	$184
Thailand	1.14%	$17	1.01%	$28	1.38%	$27	0.67%	$18	0.67%	$24
Viet Nam	-	-	-	-	6.42%	$25	7.57%	$48	7.73%	$64
Southeast Asia	1.58%	$20	2.30%	$48	3.59%	$46	3.38%	$52	2.91%	$62

Source: Authors' own calculations based on UNCTAD Handbook of Statistics (2010).

Note: (a) The percentage of GDP is derived from the following equation: $\frac{\text{Total Remittance Inflow of Country (I) in Year (A)}}{\text{GDP of Country (I) in Year (A)}}$

(b) The value per capita is derived from the following equation: $\frac{\text{Total Remittance Inflow of Country (I) in Year (A)}}{\text{Total Population of Country (I) in Year (A)}}$

Nevertheless, further observations were made: (1) in Lebanon and Egypt, as the importance of FDI inward flow increases, that of remittance decreases drastically (between 1990 and 2007) with Jordan following the same trend but less dramatic and; (2) Morocco and Tunisia see parallel gradual increasing importance in both remittance inflow and FDI inward flow.

FDI Inward Flow versus Remittance Inflow as Sources of Economic Development

Measuring remittance relatively to overall FDI would appeared inappropriate for making comparisons of the importance of these two sources. It is also true to argue that the FDI inward stock remains productive as the capital is still kept within the boundary of the economy, investing or re-investing in productive economic activities, further FDI inward flow will be unquestionably beneficial to economic growth while the effectiveness of remittance in contributing to economic development is still at discretion.

Previously shown, remittance inflow has been an important and a traditionally stable source of foreign capital for Southern Mediterranean (4.39 per cent, as a percentage of GDP), more than it is for Southeast Asia (2.91 per cent). Remittance inflow is higher than FDI inward flow in six out of 10 Southern Mediterranean countries (Algeria, Jordan, Lebanon, Morocco, Occupied Palestinian territory and Tunisia).

Remittance has become an effective tool for economic development when it is used as a source of savings or investment (both public and private). This is also provided that these remittances are used in productive investments such as small and medium size enterprises (SMEs) that help create jobs. This is particularly important for Southern Mediterranean given its FDI unfriendly environment, SMEs are important sources of job creations to relieve its unemployment rate without its sovereignty being threatened. Another good example is that a household investing a good part of the remittances received in housing. As the demand for houses increases, the demand for construction services increases, therefore the demand for construction workers. The demand for housing has a positive effect on economic development through job creation.

A somewhat productive investment could also be investment in education, health and physical and telecommunication infrastructures although such investments are often considered as unproductive. These productive investments may not reap immediate or even direct effects on economic development, they are nonetheless important social sources of overall development. Better education better fit for high-skilled jobs; better health condition allows a worker to be more productive (being sick less often) and; better infrastructure has direct positive effects on the overall efficiency.

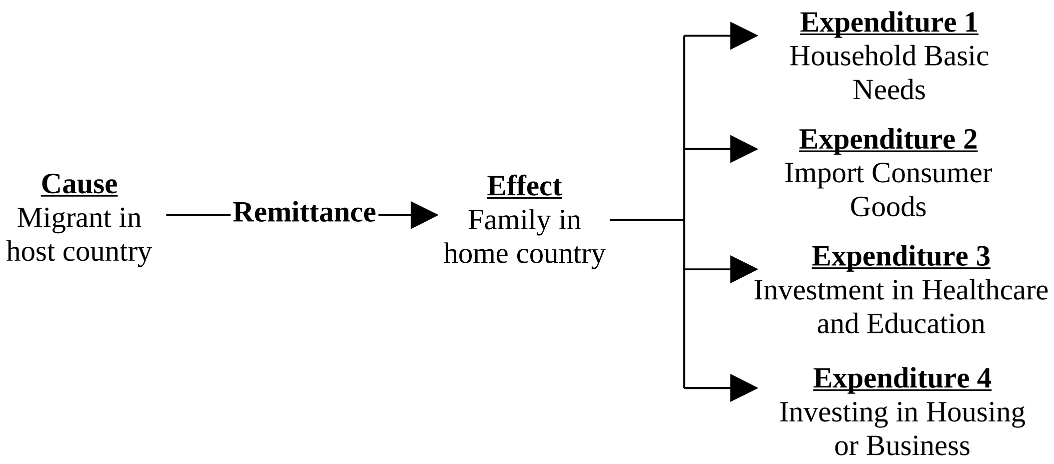
However, if remittance is used mainly as a source to allow households to purchase daily basic needs, it will then become a lot less effective as a tool for economic development. Unless these basic needs are cheap to afford, so to leave more for the household to invest in more productive economic activities. Less democratic countries like those in Southern Mediterranean, perhaps except for Israel, governments tend to control the prices of consumer products. Besides, being less open to foreign trade and FDI that result in limited market competition that will allow consumer products to be maintained at high prices. This “artificially high” fixed pricing will have negative effects on the overall social welfare of the consumers, paying more for low quality.

FDI inward flow adds on to the accumulated FDI inward stock that has already been used on productive investments. This is also to say that FDI inward flow simple continues to add higher productivity onto the already productive investments. While how productively will the remittance inflow be used is still a question.

Productive Uses of Remittance

The basic cause and effect of remittance is migration being the cause and effects on household income of the family in home country through remittance sent from migrant in the host country. (See figure 1) The fundamental cause of making a decision to migrate, most frequently among middle class or low income families (or households) in developing countries is due to high unemployment rate in the home country. Southern Mediterranean is not excluded from such predicament and consumer behaviour.

Figure 1. Cause and Effect of Remittance on Economic Development



Traditionally remittance is a form of household income. Like any household income, it is used on covering basic household daily needs such as food and clothings. Remittance is also a source of investment in education and housings. If so, how can it be an effective source of economic development if most part of the remittance is used on basic needs?

Firstly, spending on household basic needs, in effect, has direct positive effects on domestic economy. The demand for household basic items increases as more families can afford such more variety of food items, clothings or even furniture. Domestic economy will benefit only if the demand is of domestic produces. Higher the demand for domestic produces, more people will be needed to meet the demand, therefore it indirectly creates jobs. However, most of these domestic produces are of low-value add, thus low productivity. If the economy depends too much or even too long on such economic activities, its productivity will remain low and will never be able to catch up with the rest of the developed countries.

Secondly, it is very common that demand for imported consumer goods increases as household income increases in developing countries. Primarily, to a household, being able to afford imported consumer goods is a sign of promotion of social class or perhaps prestige. Secondarily, when domestic produces are perceived as of inferior quality, this gives households a reason to purchase imported consumer goods. Such consumer behaviour, often, does not contribute to domestic economic growth at all.

Thirdly, investment in healthcare and education is another common form of remittance use. Although, such investments are not perceived as productive investment, at least not in the short-term, they have positive effects on economic development in the long-term. Better health minimises absenteeism and improve individual's productivity. Better education improves individual's qualification therefore improves productivity. However, the latter (investment in education) does not necessarily guarantee economic development because very often highly qualified individuals (highly educated individuals) are not spared from the predicament of high unemployment rate.

Unable to find a suitable job, these highly qualified individuals will choose to migrate to where there are more opportunities to find a suitable job. It is provided these educated population do not become potential outward migrants. To brake or to slow down the speed of the outward migrants, the government has had a very important role to play in not only creating jobs but creating "appropriate" jobs so as to avoid structural unemployment. Investment in education has a long-term effect on economic development and its benefits remains debatable.

Lastly, investment in housing and businesses most possibly have the most favourable direct effects on domestic economy. Demand for housing will increase the number of jobs needed to meet it. Construction is considered a productive economic activity given the skills and knowledge required to do so. It has indirect positive effects on economic growth through creating jobs in the construction sector to meet the housing demand. Besides, as it provides a secure and permanent shelter for the family and this adds up to the overall social welfare of the individuals. For example, numerous studies on the economic effects of remittance in Morocco have shown that a good part of the remittance received is invested in real estate (basically housings) in Morocco itself. This phenomenon closely reflected to Moroccan immigrants' attachment to their homeland. Similar investment behaviour is also found in Egypt. (Torres and Lorca, 2006)

Investing in businesses that are often small family-run businesses that are commonly called SMEs have multiplier effects on overall economic development particularly through employment although the effects vary according to the type of businesses invested in. Traditional trades like small businesses that provide direct consumer services (taxi services, small-scale or family-run hotels, restaurants and *salon de té* and *café*) are common in most Southern Mediterranean countries that possibly yield limited positive effects on economic development. (Torres and Lorca, 2006) As these enterprises are of small-scale, job creation is also limited. Besides, such small enterprises normally do not demand for high entrepreneurial and managerial capability and; creativity and innovativeness play very limited roles. Nevertheless, were remittances invested in economic activities of larger scale and skill and technologically demanding, effects on economic development would have been much more beneficial. Not only would there be more jobs created, overall productivity will improve too. Instead of investing in businesses that provide direct consumer services, business-to-business (B2B) enterprises along supply- and value-chain productions will possibly be more effective expanding the job market through creating a wider range of jobs and maintaining a more sustainable economic development. In fact, of recent, Morocco has observed an increase investment in such economic activities such as food-processing, supplying of building materials. (Sorensen, 2004) The interest in such investments are also found in Egypt, Jordan and Tunisia. (Torres and Lorca, 2006)

In order to actualise investment in housings and businesses, private savings is required. Savings behaviour is very much depended on how household perceived the future. Households that perceived short-term well-being more important tend to spend most of the household income and leaves little for savings and such behaviour will have immediate effects on domestic economy (provided income is spent on domestic produces) in the short-term, however it may not be sustainable and remain unproductive in the long-term. While those that perceived future in the long-term to be favourable will restrict their expenses and save a good part of the household income may not have immediate effects on domestic economy in the short-term rather it supports a long-term sustainable productive economic growth.

In comparison, remittance has been considerably less important to Southeast Asia (2.91 per cent as a percentage of GDP compared to 4. 39 per cent of Southern Mediterranean) generally, except for Philippines (11.30 per cent), the uses of it do not seem to differ adversely from that of Southern Mediterranean. Remittance is used for savings, food and investment in education and housings. (Asian Development Bank, 2006)

Besides, Southern Mediterranean migrants have also followed the example of Mexico's Hometown Associations (HTAs) where migrants from the same town in the come together and invest collectively in development related activities in the home country. (Orozco, 2000) Southern Mediterranean migrants can contribute to the development of their home countries as much as they want, at the end the government still have the biggest part to play to make development happened. Migrants in Algeria, Morocco and Syria have set up various associations in EU to support economic development activities in their home countries. Migrants from Morocco support the building of small dam and irrigation system and roads; those from Algeria support development projects through mobilising human and financial resources and; those from Syria have supported the construction of private universities and factories. (Torres and Lorca, 2006) These investments trigger economic growth through job creation and better infrastructures to ameliorate efficiency and productivity.

Short-term Effects of Migration on Economic Development

As vulnerable as FDI, remittance is subjected to external shocks such as economic crisis. The global economic crisis started in late 2008, FDI outward flow has since reduced, unemployment rate in developed countries has also sky-rocketed. Although remittance has no trace of falling in volume by the end of 2008, it is still expected to fall in the following year.

Remittance is one of the most immediate and effective ways to fuel economic growth in the home country in the short-term. Remittance helps households to meet immediate needs such as food. While it is also argued that remittance being a source of growing purchasing power, if used on purchasing imported foreign goods, the multiplier effects on economic growth will be limited. (Gallina , 2006)

However, what the country has lost on the other hand are the “potential” workers who could have otherwise contributed to the home economy that have migrated away. This outward migration may have fitted well in the government's agenda to relieve the its pressure on creating enough jobs to alleviate the high unemployment rate but this is not going to solve the problem in the long-run. Short-term “brain drain” is inevitable while the government is in the transition of revamping or restructuring its economic and political policies. The government, however, would have to be able to transform the economy into one that is favourable to returning migrants in the near future, otherwise “brain drain” will become a permanent problem and this will definitely have a negative effects on economic development in the long-run.

Long-term Effects of Migrations on Economic Development

Firstly, remittance only has positive long-term effects on economic development if it is put into productive uses. Remittance can only be put into productive uses if there is enough leftover for savings after spending on daily basic needs.

Secondly, the lack of incentive to save will encourage households to spend all the remittance received. Perhaps, some may save a very part of the remittance privately (at home) that yields no interest if there is no incentive to save in a bank or rather people are not made aware of such savings services. Besides, financial institutions in Southern Mediterranean are generally less-developed and also rarely offer productive investments services on savings.

Remittance is not the only source of long-term economic growth. In fact, it is the migrants themselves who determine the long-term growth of their home countries. On one hand, migrants from Southern Mediterranean normally return to their home countries when their work contract tenures are up because of the strong attachment they have with their home countries or rather the strict requirements of host countries to allow extended stays, particularly in the EU countries. On the other hand, provided the government has made conditions welcoming, migrants will thus return. Otherwise, Southern Mediterranean migrants will still be forced to leave the host countries, mostly developed countries and particularly the EU countries, often contract ¨guest workers¨ where migrants are contracted strictly for work and they have to return to their home countries when their work contracts tenures are up.

Returning migrants have become the main sources of knowledge transfer and technology diffusion. They often set up businesses upon their return to their home countries. Regardless of the type of businesses, job market will be expanded through job creation. Again, on one hand it is expected that returning migrants have cultivated some sort of entrepreneurship spirit although it is not necessary so in reality, yet on the other hand government has to work on making the condition favourable to doing business.

Even without the returning migrants, the home countries will still be able to enjoy economic growth. The strong attachment between the migrants and their home countries forms important networks for the export of their home countries' produces. This could only be possible if the home countries become more open to foreign trade. This is very well exemplified by the case of rapid economic development in China with the assistance of foreign network in Hong Kong, Singapore and Vancouver where there are prominent presence of Chinese immigrants. (Lorca and Hong, 2009)

However, the main issue of actualising productive investment is very much about how the government can create a pro-doing business environment. In the case of Morocco, the impediments to potential productive investments are basically institutional such as lack of information on investment opportunities, inefficient bureaucratic system and corruption and; economical and political insecurity. (Gallina, 2004)

Are Foreign Direct Investment and Migration Perfect Substitutes?

Most of the undemocratic states perceive FDI as a threat to their sovereignties. However, many scholarly literatures have shown that FDI is indeed a very important motor to economic development. FDI is a ¨sure¨ productive investment, otherwise it will not be actualised at all. The fundamental reason to commit FDI is based on the comparative advantages the ¨potential¨ host country possesses that unquestionably includes productivity, low production cost and adequate workforce in terms of skills. Besides, not only is FDI is form of foreign capital inflow but also create jobs that will compensate what the government has failed to do so. Besides, FDI takes a lot more of strategic planning and normally requires local employees' expertises and customs knowledges to run the enterprise on the administrative level, while foreign employees from the enterprise's home country focus more on knowledge transfer and technology diffusion to the local employees on an operative and competitive level.

Migration, however, is more of a long-term approach to economic development. Although migration does yield almost immediate and effective economic development to a certain extent through remittance, the largest contribution of it still requires a longer time frame to evaluate its effectiveness on economic growth. Remittance allows immediate increase in purchasing power and it is beneficial to the home country´s economy provided the increase of demand of local produced consumer goods.

From these basic arguments, FDI has unquestionably come in as the more important source of economic development than migration. Rather, instead of being substitute for one another, if both FDI and migration can work hand-in-hand, the effects on economic development will be robust.

Impediments to Doing Business in Southern Mediterranean

Besides, although being one of the most undemocratic regions in the world, Southern Mediterranean surprisingly one of the most internal political stable states in the world speaking in terms of the probability to drastic change. Undemocratic state means minimal changes, and minimal changes in laws, rules and regulations would mean minimal transitional or unexpected instability. (Feng, 2003)

Muammar al-Gaddafi has ruled Libya since 1969; Muhammad Hosni Sayyid Mubarak has headed Egypt since 1981 and; Zine El Abidine Ben Ali has led Tunisia since 1987. Many of these Southern Mediterranean countries operate under partly democratic (partly free) political regime or not democratic (not free) under the pretext of pro-democracy proceedings to prevent backlash from pro-democracy developed countries. In 2009 Algeria, Tunisia, Libya, Egypt and Syria were considered not democratic; Jordan, Lebanon and Morocco were considered partly democratic and; Israel fully democratic. (Freedom House, 2009) Similarly, or perhaps more democratic, in Southeast Asia, only Indonesia is considered fully democratic; Malaysia, Philippines and Thailand are considered partly democratic and; Cambodia and Viet Nam not democratic. (Freedom House, 2009)

The main difference between these two regions is that in Southeast Asia there is a periodical change of hand in the government and ruling elites while the leaders in Southern Mediterranean tend to hold on to power for as long as they can. In both cases, political regime can be authoritarian, however, with the change of leaders even within one-party state at least stimulates changes (for good or for bad it can be) through different opinions and perspectives from the older and younger generations without changing the fundamental political ideologies.

Besides, Southern Mediterranean remains to be one the most polemical regions in the world despite often being grouped together in economic studies. The long-standing conflicts between Israel and the Arab and Islamic countries, the traditional political rivalries for leadership between Egypt and Syria and, Algeria and Morocco and the sudden emerge of Islamic extremism and movements in the Maghreb (for example Al Queda) have threatened the political stability internally and externally has made Southern Mediterranean a destination unfavourable not only to attract FDI but also for local businesses. With this political certainty, being an employee in a private enterprise or a civil servant possibly seen as a less risky way to live and survive. Southern Mediterranean countries simply have not made economic development their top priority rather the establishment of their individual's political power over one another.

In comparison, although similar political rivalries do exist, Southeast Asia countries have remained cooperative and have collectively in accord to put economic development above all and they are less distracted by political differences. Southeast Asia also witnessed a surge in islamic extremism and movements in the recent years, from Muslims attacking Thai Buddhists in southern Thailand in 2007 to Islamic terror organisation Jemaah Islamiah (also commonly known as JI) that was responsible for the Bali Bombing in 2002 and Abu Sayyaf a military Islamic separatist in Philippines. Most recently, despite the religion clash between Muslims and Christians over the use of “hallah”, Malaysia has managed to keep the situation stable without any negative impact on its economy and cooperation with the rest of the countries in the region.

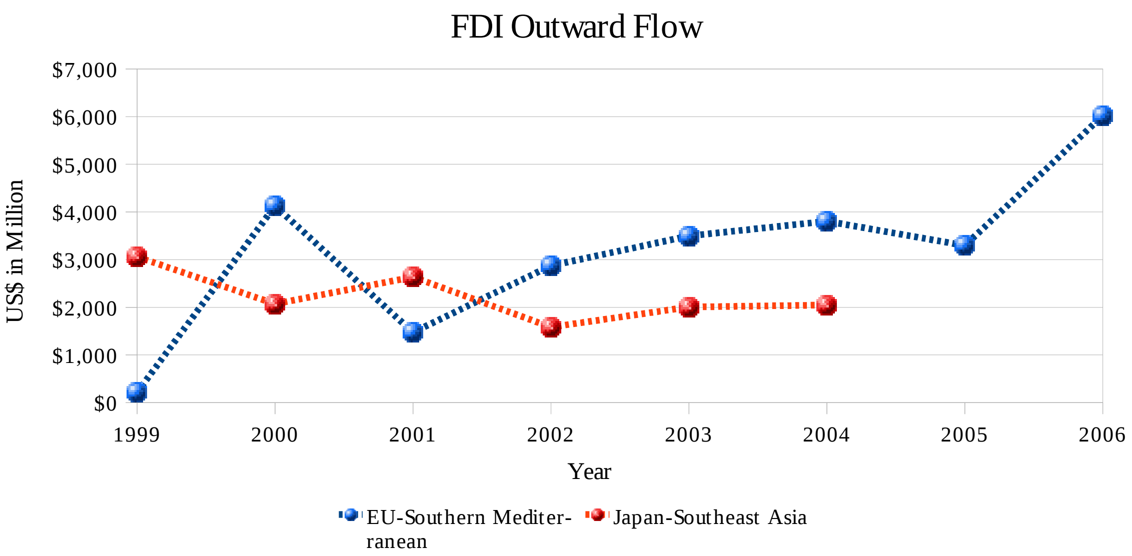
Corruptions, lack of infrastructure and information are some other concerns could negatively affect the confidence of not only foreign investors but also local “potential” businessmen. Therefore, instead of investing in the home countries, Southern Mediterranean migrants either chose to invest in the host countries or other investment-friendly foreign countries or not invest at all.

EU-Southern Mediterranean Versus Japan-Southeast Asia

Hataekeyama (2008) claimed that “FDI has contributed a lot to the enhancement of the technological levels of the East and Southeast Asia whose economic development was termed the “East Asian miracle”. This unquestionably true. The average GDP growth of Southeast Asia between 1995 to 2005 was 4.60 per cent which is one per cent higher than that of Southern Mediterranean (3.56 per cent) despite a steep negative growth in the aftermath of the infamous Asian Economic Crisis in 1997 and the 911 terrorist attack.

Although it is true that FDI has contributed tremendously to the economic development of the Southeast Asia, Japan's participation has found to be less impressive as it is thought to be. Since 1999, Japan's FDI outward flow into Southeast Asia had been in steady decline, from US$3 billion in 1999 to US$2 billion in 2004. On the contrary, EU's FDI outward flow into Southern Mediterranean had increased tremendously from US$213 in 1999 to US$6 billion in 2006. (See graph 3 and 4)

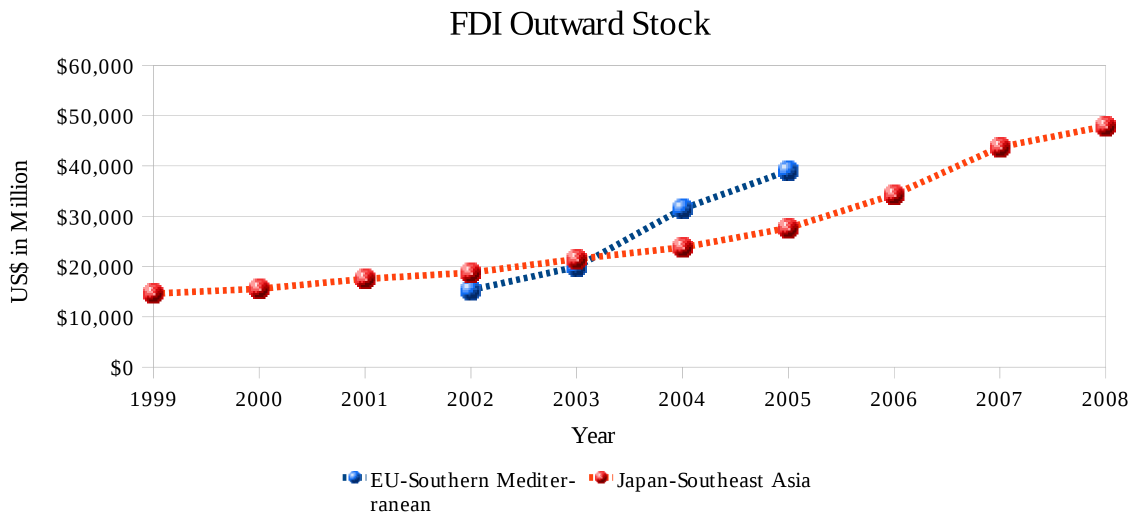
Graph 3.



Source: Authors' own calculations based on data from European Union Foreign Direct Investment Yearbook (*various years*) and Japan External Trade Organization.[13]

13 The figures in European Union Foreign Direct Investment Yearbook (*various years*) are quoted in euros, however authors have converted the figures in euros to U.S. dollars based on European Central Bank Bilateral Annual Exchange rate of the corresponding year.

Graph 4.



Source: Authors' own calculations based on data from European Union Foreign Direct Investment Yearbook (*various years*) and Japan External Trade Organization.[14]

Neither Japan's FDI outward stock in Southeast Asia was impressive. By 2004, EU's outward stock in Southern Mediterranean (US$31 billion) has surpassed that of Japan's in Southeast Asia (US$24 billion). However, it has to be taken into account that Southeast Asia has long employed a more open approach in its economic policies and has long integrated into the world economy.[15] It is therefore reasonable to evaluate the benefits. By now, the working population has got used to adapting new technology and moving towards knowledge convergence with the developed countries. This has been simple because all that has to be done was to “copy and paste” the technologies invented or improved by the developed countries and “absorbing” their knowledge and applied to their own contexts and this has been exactly what had been done to “catch up” with the developed countries. It is also way easier for the developing countries to grow and developed economically than the developed countries were before.

While most of the Southern Mediterranean countries have only recently, or at most in the past 10 years, and gradually opening up their economies although it is considered as one of the most “closed” economic regions in the world. Whether it is fair or unfair to judge how Southern Mediterranean is doing now economically it is definitely difficult to say.

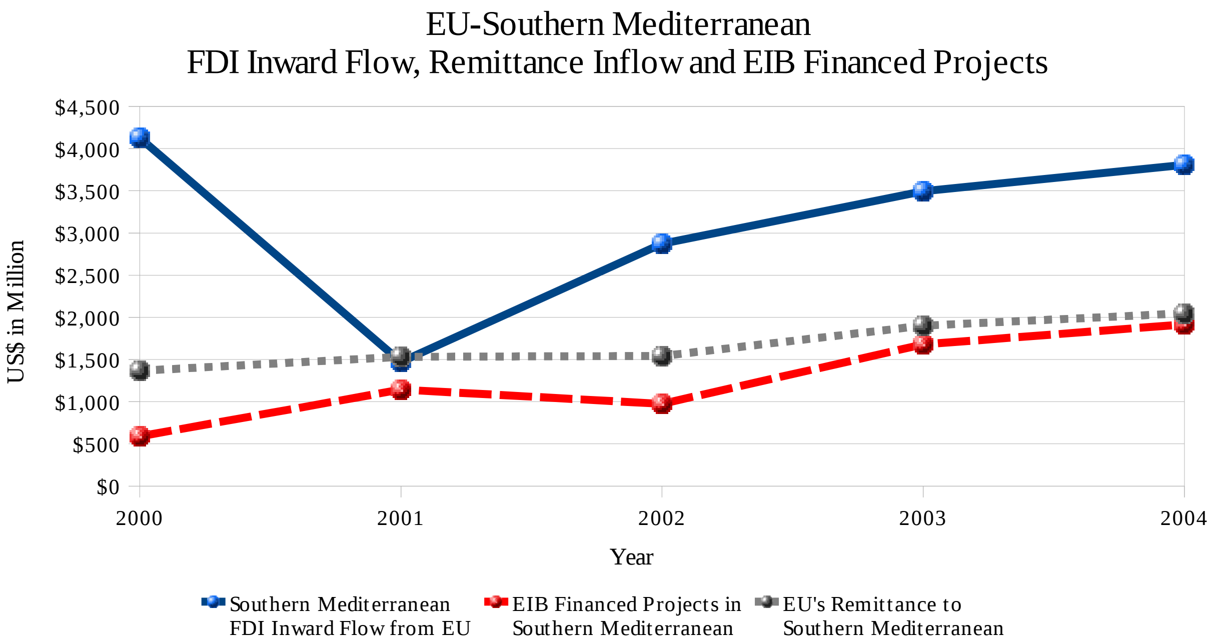
14 Ibid.

15 Southeast Asia is considerably integrated into the world economy, if not regional economy, is proven by how badly these countries were hit by the infamous 1997 Asian Economic Crisis and to a lesser extent the 911 terrorist attack.

Remittance being one of the most important sources of foreign capital income for Southern Mediterranean has about 41.04 per cent (US$8.6 billion) of its total remittance received from abroad coming from the EU in 2006 and this is an amount higher than that of EU's FDI outward flow into Southern Mediterranean (US$6 billion).[16]

Similarly, remittance is considerably important to Southeast Asia as a source of foreign income, Japan represents on 3.21 per cent (US$675 million) of total remittance received by former in 2006. This is nevertheless logical given Japan's traditional attitude being less open to foreigner influences or even foreigners.

Graph 5.



Source: Authors' own calculations based on data from European Mediterranean Foreign Direct Investment Yearbook (*various years*), European Investment Bank and European Commission's Survey on Workers' Remittance from the EU to Third Countries 2006.

Official Development Assistance (ODA) aside, EU has set up the European Investment Bank (EIB) in 1958 under the Treaty of Rome whose main objective is to help integrate the member states through project funding and this has, nevertheless, extended to its partner countries like Southern Mediterranean countries. For fear of sovereignties being threatened, Southern Mediterranean governments tend to restrict FDI and EIB's project funding is definitely an alternative source of foreign capita to FDI. (See graph 5)

16 The figures of remittance and FDI outward flow are collected from two different sources. The former are estimated figures compiled by University of Sussex and the World Bank (2010) and the latter are collected from the Eurostat's European Union Foreign Direct Investment Yearbook of various years (from 2005 to 2008). Although the comparable figures are collected from two different sources, the authors deem the sources reliable and therefore reasonable to make such comparison.

In 2009, the EIB has managed to raise some US$111 billion, however only a meagre US$2 billion went to Southern Mediterranean countries. The biggest benefactors are Egypt (US$3.4 billion), Tunisia (US$3.3 billion) and Morocco (US$3.2 billion) in the period between 1999 to 2009. These investments have mainly go to sectors such as micro-credit services, energy, water treatment and industrial.

Besides, unlike FDI, it has not allowed direct and greater participation of the EU players in this case despite the projects financed by EIB are of value-added components that are unquestionably beneficial to economic development.

Although remittance had always been the most important source of foreign capital inflow for Southern Mediterranean until 2005, FDI has, all along, been the most important source of foreign capital inflow and on top of that, an important source of knowledge transfer and technology diffusion from EU. In effect, on one hand EU welcomes migrants from Southern Mediterranean: firstly migrants can help relieve the pressure of the ageing population to keep up with its production level and; secondly, migrants can help foster greater EU-Mediterranean integration. While on the other, migration to EU helps Southern Mediterranean governments to relieve the pressure of the high unemployment rate by creating more jobs. However the importance of remittance from EU is only limited to the maghreb countries (Algeria, Libya, Morocco and Tunisia) and much of the remittance received by machrek countries (Egypt, Jordan, Lebanon, Occupied Palestinian Territory and Syria) comes from the oil-rich countries in the Arabic Peninsula. (See table 3 and 4)

Table 4. EU-Southern Mediterranean Remittance Flow, 2006 (in %)

		Remittance-receiving country					
		Southern Mediterranean	Morocco	Algeria	Lebanon	Tunisia	The Rest of Southern Mediterranean
Remittance-sending country	EU	100%	43.34%	19.37%	18.82%	11.49%	6.99%
	France	47.99%	15.85%	17.52%	4.06%	9.79%	0.77%
	Spain	15.78%	14.02%	0.81%	0.49%	0.07%	0.39%
	Germany	12.59%	2.24%	0.30%	7.32%	0.87%	1.86%
	Italy	8.10%	5.87%	0.31%	0.61%	0.22%	1.09%
	The Rest of EU	15.54%	5.37%	0.42%	6.34%	0.53%	2.88%

Source: Authors' own calculations based on the estimated figures compiled by University of Sussex and the World Bank (2010)

Note: EU-Southern Mediterranean Total Remittance is equal to 100 per cent. The percentage is derived from the following equation: $\frac{\text{Total Remittance Inflow of Country (I)}}{\text{Total Remittance Flow between EU and Southern Mediterranean}} \text{ X } 100$

Morocco represented 43.34 per cent (US$3.7 billion) of the total remittance from EU to Southern Mediterranean, of which, 15.85 per cent (US$1.4 billion) came from France and 14.02 per cent (US$1.2 billion) came from Spain. Algeria, the second largest recipient, received 19.37 per cent (US$1.7 billion) of the total remittance from EU to Southern Mediterranean, of which 17.52 per cent (US$1.5 billion) came from

France. The third largest recipient, Lebanon, is also the largest recipient of machrek countries received 18.82 per cent (US$1.6 billion) of the total remittance from EU to Southern Mediterranean, however, unlike the traditional remittance sending sources of maghreb countries, its largest source is from Germany (US$0.63 billion) and only to be followed by France (US$0.35 billion). Remittance from Sweden and the United Kingdom are also considerably important to Lebanon too.

Table 5. Arabic Peninsula and the United States-Southern Mediterranean Remittance Flow, 2006 (in %)

		Remittance-receiving country					
		Southern Mediterranean	Egypt	Jordan	Lebanon	Syria	The Rest of Southern Mediterranean
Remittance-sending country	Arabic Peninsula	100%	54.76%	20.42%	15.44%	7.32%	2.06%
	Saudi Arabia	96.56%	52.87%	19.25%	15.36%	7.25%	1.82%
	Oman	2.79%	1.67%	1.13%	0.00%	0.00%	0.00%
	The Rest of Arabic Peninsula	0.65%	0.22%	0.04%	0.07%	0.07%	0.24%
	United States	100%	10.02%	11.70%	62.42%	6.09%	9.77%

Source: Authors' own calculations based on the estimated figures compiled by University of Sussex and the World Bank (2010)

Note: (a) Arabic Peninsula-Southern Mediterranean Total Remittance is equal to 100 per cent. The percentage is derived from the following equation: $\frac{\text{Total Remittance Inflow of Country (I)}}{\text{Total Remittance Flow between Arabic Peninsula and Southern Mediterranean}} \text{X } 100$

(b) The United States-Southern Mediterranean Total Remittance is equal to 100 per cent. The percentage is derived from the following equation: $\frac{\text{Total Remittance Inflow of Country (I)}}{\text{Total Remittance Flow between the United Stated and Southern Mediterranean}} \text{X } 100$

While remittance from Arabic Peninsula to Southern Mediterranean represented 15.47 per cent (US$3.2 billion) and 96.46 per cent (US$3.1 billion) came from Saudi Arabia alone in 2006. On the contrary, the largest recipients of this remittance from Arabic Peninsula are Egypt (54.76 per cent of the total remittance from Arabic Peninsula to Southern Mediterranean or US$1.7 billion), Jordan (20.42 per cent or US$0.66 billion) and Lebanon (15.44 per cent or US$0.5 billion); and to much lesser extent Syria (7.32 per cent or US$0.24 billion). The United States is also an important source of remittance that accounted for 8.65 per cent (US$2 billion) of the total remittance received in Southern Mediterranean, however, 62.42 per cent (US$1 billion) of this remittance received from the United States went to Lebanon. (See table 5)

Conclusion

Migration and remittance have not convincingly proved to be perfect substitutes for FDI. First of all, the fundamental motivation to commit FDI is considerably different from that of the reasons to migrate and how remittance is used. FDI involves a series of careful considerations such as comparative advantages (for example productivity, efficiency, low cost, infrastructure and etc.) of the host country and the viability of the investment. Although some FDI do not take off and end up in eventual withdrawal, FDI is nevertheless actualised based on productive investment concept. FDI also requires higher participation of the foreign investors, through such interactions, knowledge transfer and technology diffusion are facilitated.

Contrary to the traditional belief that Japan has been the most important source of economic development in Southeast Asia through FDI has been threatened by the fact that FDI from the former to the latter has amounted less than that of EU to Southern Mediterranean in the recent years. South-to-north migration in EU-Southern Mediterranean is also more intensive than that of Japan-Southeast Asia, nevertheless so is remittance. Besides, EU's financing assistance for projects in Southern Mediterranean through EIB provides additional support for economic development in the latter. Despite these, economic growth rate has remained unimpressive in Southern Mediterranean and what could have gone wrong?

To begin with, a good part of migration is triggered by high unemployment rate at home, such as that in Southern Mediterranean. Highly-skilled migrants tend to send lesser remittance home than lowly-skilled migrants. (Lahlou, 2000) Since most of the remittance will come from lowly-skilled migrants, it is unlikely that their remittance will be used on productive investments. In fact, a good part of this remittance are used for purchasing daily basic needs and usually little is left even for savings, not to mention for investments. Although remittance spent on other investments such as education and healthcare undoubtedly have positive effects on economic development, it takes a long time to evaluate their effectiveness and to yield the fruits of these investments.

Similarly, returning migrants as important sources of knowledge transfer and technology diffusion, however it is not as certain and immediate as it is in FDI. The former will take a longer time to yield positive results while the FDI is more direct and effective. Although Southern Mediterranean will inevitably face brain drain problem in the short-term, it can only be hoped that ¨brain drain can be transformed to brain circulation¨. (Soubbotina, 2006)

Besides, it should not be expected that all returning migrants to be entrepreneurial and set up businesses. Minor businesses such as grocery shops, *salón de té* or *café*, family-run or small scale hotels and taxi, where managerial skills and technologically are less demanding, it may have limited positive effects on economic development.

On one hand the government should implement policies that favours returning migrants. On the other hand, most developed countries, including those in the EU, have employed strict migration laws that migrants are solely invited to their countries to work and this is also what it is common called ¨guest workers¨ that migrants have to return to their home countries when their work contract tenures are up. Therefore, long-term brain drain problem may not be as serious as it is perceived.

Nonetheless, both migration and remittance and FDI are complementary for trade. FDI has a more direct effect on trade as trade, particularly intra-firm trade, increases. While migration and remittance have a longer-term and less immediate effect on trade since it is required the migrants in the host country and the household in the home country to save enough money to invest. Besides, the traditional types of business the migrants and their households in the home country will invest in are mostly of less productive. The only immediate positive effects on trade would be when households spending their remittances more on imported goods, however this consumption pattern will not help boost local production and therefore will not have a long-term positive effects on economic development.

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