Location of Services in Mediterranean countries and NMS[1]

Hugues JENNEQUIN & Isabelle RABAUD[2]
LEO – University of Orléans

ABSTRACT:

Based on New Economic Geography theory, this paper aims at highlighting location of services industries in Mediterranean Partner Countries (MPC) at comparing it with the location of these services in the EU15 and NMS and at assessing whether or not agglomeration economies were its cause. Therefore, we rely on Gini coefficient to measure the degree of concentration and analyse the actual and potential effect of the Euro-Mediterranean Partnership. Services appear more evenly distributed inside trade areas (EU15, NMS and MPC) than within the Euro-Mediterranean zone: convergence is much slower there. Concentration is time-decreasing when the EU is included. Financial intermediation and business services are the most agglomerated activities. Location of services diverges between the EU and NEPC (Neighbourhood European Policy Countries). Labour-intensive business services predominate within the NEPC, whereas high value-added services are still poorly implemented there. The MPC have not yet begun to catch up with the EU15 or with the NMS. Insofar as key enabling services develop by waves, some southern Mediterranean countries may lag behind others. The EC should carefully seek to avoid such increases in inequalities within the MPC.

Keywords: Euro-Mediterranean Partnership – Location/concentration of services activities –Regional migration – Economic integration – Relationships between location of services and trade in goods

JEL codes: F14, R12, R23, F15, F16

1. INTRODUCTION

While absent from traditional trade theories, issues of location and spatial distribution of activities were brought back to economists' attention in the early 1990s by the seminal article on the New Economic Geography (NEG) of Krugman (1991). In this paper, he highlighted the spatial unevenness of the real economy, drawing on US experience. He emphasised that, although the US is generally sparsely populated, the bulk of American population resides in a few clusters of metropolitan areas: densely populated manufacturing belts contrast with thinly populated farm belts, and specific industries are highly concentrated such as in Silicon Valley. Moreover, small changes in the characteristics of an economy, in particular due to industrial revolution (transportation costs, economies of scale, share of non-agricultural activities) may have important consequences: '*population will start to concentrate and regions to diverge. Once started this process will feed itself. [...] The details of the geography that emerges – which region ends up with the population – depend sensitively on initial conditions.*' (Krugman, 1991, p. 487). Regions and countries do not have the same ability to attract economic activities. A specific and active policy can thus be implemented, allowing economic development or catching up, depending on geographical and economic characteristics. Puga and Venables (1998) thus underline that: '*the industrializing countries have high wages, but the positive pecuniary externalities created by inter-firm linkages compensate for the higher wage costs. Trade liberalization changes the attractiveness of countries as a base for manufacturing production and can trigger - or postpone - industrial development.*'

In this paper, integration is meant in its economic meaning: fall in transaction costs (*i.e.* the extra costs linked to selling a product in a foreign country over the cost of selling it in the domestic market). It differs both from shallow integration: '*actions to eliminate discrimination between foreign and domestic firms*' (Hoekman, 1998, p. 9) and deep integration: '*explicit actions by governments to reduce the market segmenting effect of differences in national regulatory policies that pertain to products, production processes, producers and natural persons.*' (Hoekman, 1998, p. 9).

As far as the EU15 is concerned, between the 1980s and the 1990s, half of EU regions have become more specialised, while the remaining half has become less specialised. Integration matters for concentration (Combes and Overman, 2004). Are the factors driving concentration in services the same as for manufacturing? The growing share of tertiary activities points to the role of services in the catch-up process of developing countries. Does development necessarily depend on the emergence of a performing manufacturing sector? Or can efficient high-technology services provide the impetus needed to boost growth and development? Let it be said in passing that more and more services links are needed to coordinate and organise the core business of a company since manufacturing production has become more and more fragmented and geographically dispersed (see Rabaud and Montalieu, 2006). Thus, business services and manufacturing are becoming increasingly interrelated. Therefore, the location of services activities and the relationships between economic integration and regional concentration of services have become crucial questions for developing countries.

The paper aims at highlighting location of activities, in particular services industries, in the Mediterranean partner countries (MPC), at comparing it with the location of these services in the EU15 and New Member States (NMS) and at assessing whether or not agglomeration economies were its cause. Therefore, we rely on Gini concentration coefficient to analyse the actual and potential effect of the Euro-Mediterranean Partnership. We inquire as to whether the MPC are passing from a specialisation in agriculture to a specialisation in services or whether an industrialisation process is necessary. Is concentration of services activities also at stake in Middle East and North African (MENA) countries as in the EU15 or in the NMS? In terms of services location, does the Euro-Mediterranean Partnership favour improvements in territorial attractiveness, which then generate a sustainable growth process?

Our article is organised as follows: In the next section, to clarify our purpose, we assess how NEG models deal with the specific situation of the MPC. In the third section, we present and assess concentration of services activities. Policy recommendations are proposed in the fourth section, while the fifth one concludes.

2. TRADE, INTEGRATION AND LOCATION: THE THEORETICAL FRAMEWORK

Economists identify two different sources of potential benefits from economic integration: an improvement in the allocation of resources and the accumulation of extra resources (Baldwin, 1994). However, the overall effects of further integration on national economies are more ambiguous and depend more on regional characteristics than on tariff cuts. In traditional theory, diverging economic development is based on uneven distribution of natural resources and endowments. However, as relevant it may be in some specific cases (agricultural, mining or fishing activities), this analysis cannot explain the main features of location and specialisation patterns in other activities, for which modern approaches appear more appropriate.

The NEG, ensuing from the standard location theory, formalises economic forces that inflect geographical distribution of activities. In such models, economic integration implies falling 'transaction costs'. This latter notion not only includes lower physical transport costs, but also greater trade openness, smaller linguistic and cultural differences or less specific norms. Accordingly, insofar as Free Trade Association Agreements (FTAA) between MENA countries and the EU deal with deeper integration, NEG models are very suitable for the analysis of the current Euro-Mediterranean Partnership. Can convergence among MPC and core EU countries occur following economic integration? Which sectors are the most crucial to fostering economic development and call for more attention? NEG theoretical conclusions give some answers to these questions.

In this section, we present the mechanisms include into NEG models in three steps. After a short depiction of the seminal models, we display its applications to trading agreements. Finally, we stress how such representations can apply to services location.

2.1. The original NEG Models

Such models usually include: two sectors, a traditional one with constant return to scale and unskilled workers and a modern one with scale economies and skilled labour and

two similar geographical areas. The equilibrium location of firms is caused by interactions between centrifugal and centripetal forces depending on the level of transaction costs. The centripetal (centrifugal) forces include all economic relations promoting concentration (dispersion) of economic activities. The centripetal forces can be self-sustaining: a change in a variable (one more firm) induces an adjustment in another variable (more consumers), which afterwards reinforces the first change (other firms move). A cumulative causation then appears (Myrdal, 1957).

Concentration and dispersion forces result from interactions between imperfect competition, economies of scale and agglomeration externalities. Firms and workers trade off the advantages of agglomeration economies and drawbacks of transaction costs. Regional integration (assimilated to a fall in transaction costs) encourages firms to concentrate in order to benefit from economies of scale. Increasing-returns-intensive sectors ('modern' sectors) will be disproportionately present in region with good market access (home market effect - Krugman, 1980). Moreover, associated with this home market effect, NEG models show that the market size increases when manufacturing agglomerates. Consequently, a positive cumulative causation can occur in the region, which now becomes the core.

Two main kinds of NEG models explain this agglomeration process based on two different mechanisms. In the Core-Periphery model (CP model), workers' mobility induces firms' agglomeration (Krugman, 1991); while in the Vertical-Linkage models (VL models), firms' agglomeration can occur even without labour mobility thanks to input-output, inter-firm relations (Krugman and Venables, 1995; Venables, 1996)..

Specificities of the European experience moderate the probability that such an agglomeration process occurs in the Euro-Mediterranean area. The assumption of geographical mobility of workers used in Core-Periphery models is first mostly irrelevant between European countries. These CP-like models are more suited to regional analysis within nations than to study international integration among different nations. Without labour migration, concentration of firms cannot induce any agglomeration in these models. The Core-Periphery cumulative causation disappears.

In the VL models, the interrelation between integration and concentration is non-monotonic. Manufacturing agglomeration causes a regional wage differential. Henceforth, the immobility of the workforce cannot equalise the regional remuneration, and wage competition becomes a centrifugal force. At low transaction costs, firms become more and more sensitive to cost differentials, so that the 'modern' sector may expand (Puga, 1999). When the first stages of integration occur, the manufacturing clustering is self-sustaining. A core-periphery pattern appears and entails differences in regional wages (unlike in CP models where real wages are assumed to be equal). This wage differential is a sufficient condition to justify peripheral location in the last stages of integration. Symmetry takes place again when the labour-intensive activities relocate in low-cost regions. In other words, while demand determinants explain location with high transaction costs, cost considerations dominate with low transaction costs, *i.e.* with further integration.

As for the VL models, a shallow Euro-Mediterranean partnership would induce an amplified core-periphery pattern. However, further integration could increase the probability that manufacturing spread out as a result of wage differentials among nations. MPC would then attract low-skilled labour-intensive industries while the highly skilled labour-intensive activities would remain in the core EU. To sum up, in a first step, integration leads to international divergence in income (a core-periphery pattern); in a second step, sectoral divergence follows across the Euro-Mediterranean countries.

2.2. NEG Models, Trading Arrangements and Location

Other models include multi-country schemes to analyse the impact of trading arrangements on location and development. In a four-country model (two northern-core and two southern-periphery economies), Puga and Venables (1998) analyse several sets of trade-policy experiments. Assuming exogenous technical progress, they suppose an initial core-periphery pattern[3] and refer to the North as a single policymaker (identical tariffs) to focus on the South.

As a global result, when tariffs decrease, corresponding with trade liberalisation, the price of imported intermediate goods falls easing access to the large northern market. The last two forces, combined with the initial wage gap, explain industrial development in the southern economies when trading arrangements are deep enough. However, this development is uneven. When wage differentials are sufficiently important, one manufacturing firm spreads over another country (from North to South) to benefit from low labour cost and economies of scale. This setting up of a first firm increases incentives for other firms to locate in that country rather than in the other nation in the South. Thus, only one of the developing countries benefits from manufacturing agglomeration, and spreading industrialisation occurs in a series of waves, from country to country (Puga and Venables, 1999).

Regarding trade liberalisation, on the one hand, unilaterally liberalising import of manufactures can promote development of local manufacturing industry. On the other hand, the gains coming from liberalisation through preferential trade agreements (PTA) membership are likely to exceed those that can be obtained from unilateral action. More precisely, PTA will be sensitive to the market size of member states, and so North-South PTA seem to offer better prospects for southern economies. However, in this case, North and eventually excluded countries would suffer from this arrangement insofar as lower labour cost activities could locate in southern integrating economies.

In a similar work including tariff revenue and considering an initial even distribution of manufacturing activities, Puga and Venables (1999) show that a rise in tariffs in southern economies offers incentives to local firms to stay in the country and to continue supplying local demand. In the meantime, firms originating from other

---

[3] This core-periphery pattern involves no manufacturing activities in the South. This extreme assumption, even if it does not alter theoretical conclusions, modifies the scale of economic development coming from trading arrangements. Indeed, integration can increase the incentives for southern firms to locate in northern economies in the first stage of integration, as shown by CP and VL models. Therefore, these NEG North-South models cannot study potential negative effects at the beginning of integration.

countries have an incentive to locate in this country. Such a trade policy is similar to an import substitution policy. Comparing this policy with trade liberalisation indicates that while the latter leads to a presence in a wider range of sectors (manufacturing concentration), the former yields a higher level of welfare (increasing tariff revenue).[4]

These models bring further conclusions concerning economic development and catching up for MENA countries. In terms of location, the Euro-Mediterranean Partnership would permit the attraction of more low-cost intensive firms. This move induces both a rise in (absolute) concentration of these sectors and a higher specialisation of these countries. Economic growth and catch-up risk to depend strongly on 'footloose' activities as is observed in the new EU Member States. Besides, this specialisation does not permit both the attraction of more value added activities and higher sustainable economic growth, in a second phase (Dupuch *et al.*, 2004). Consequently, if the Euro-Mediterranean Partnership can promote southern economic development and raise welfare, the long-run sustainability of this trade policy needs support policies. In their models, Rieber and Tran (2002a, 2002b) emphasize that strong international technology diffusion changes the attractiveness of countries for manufacturing production and can trigger industrial development. Cancelling North protectionist impediments extends positive technological externalities for southern economies and can generate huge beneficial effects. In the same way, in the South, an active industrial policy towards strategic sectors promotes South development, fostering location of high value added activities. NEG models including service sectors strengthen and sharpen these theoretical recommendations.

2.3. Tertiary Sectors and Economic Development

Catin (1993, 1995) distinguishes between four stages of development: a pre-industrialisation followed by prevalence of low value-added industries; then technological activities emerge, and finally advanced services appear and expand. These successive steps of regional economic development draw attention to the role of services as an engine of growth in the North. NEG models do generally not take tertiary activities into account. They consider services as invisible goods, while service firm location just follows manufacturing location. Nevertheless, some economists have established formal empirical (Francois and Reinert, 1996) and theoretical (Markusen, 1989; Francois, 1993, 1995; Jayet, 2005; Jennequin, 2005) links between economic growth and advanced services.

More specifically on the subject of location, Catin and Ghio (1999) show that advanced services play a significant role in explaining global geographical distribution of activities. In a three-sector model, Jennequin (2005) associates manufacturing and Knowledge-Intensive Business Services (KIBS), which are supposed to have increasing returns to scale and to produce differentiated output. An input-output structure between them is assumed. The model shows that upstream service activities employing highly skilled mobile workers play a significant role in the design of international economic geography. When integration occurs, KIBS activities located in

---

[4] Such models assume an initial core-periphery scheme (i.e.: all industries are located in the North). Therefore, an increase in tariff does not engender relocation of manufacturing activities from South to North.

6

a country are more favourable to the location of new manufacturing activities than the latter are to attracting more KIBS. In other words, a more efficient development policy consists in promoting KIBS location rather than just attracting manufacturing. Moreover, a raising share of these activities in the southern economies permits the reduction of the dependence of economic growth on cost considerations. Structural advantages would be more efficient to attract firms than wage differentials, in particular in MENA countries, since income gaps narrow with economic development and thus cannot represent a sustained source of growth.

Policies aiming at developing KIBS activities can be either direct or indirect. Fiscal policy or specific European programs promoting KIBS implementation are direct instruments. Indirect instruments are illustrated by improvements into infrastructures or production factors used by KIBS. For instance, in developing countries, telecommunications infrastructures are essential to growth (Röller and Waverman, 2001; Mezouaghi, 2005). In the same way, a highly skilled workforce constitutes a strong characteristic of KIBS activities. Thus, attracting, keeping or training employees with high-level qualifications is essential to ensuring development in MENA countries. These goals could be difficult to attain. Indeed, according to NEG conclusions, integration and facilitation of trade induces a higher probability of mobile workers concentration in the core regions, and highly skilled workers are precisely the most geographically mobile. MENA countries could suffer in this way from future migration of their highly skilled workforce and experience strong relocation of activities in favour of core countries, both in the KIBS and in the manufacturing production that follows. For these reasons, some MENA countries could be marginalised.

Finally, NEG models bring out some important indications about the impact of integration on location and regional divergence. If integration allows a real revenue rise for MENA countries, reducing transaction costs for goods and services coming from core European regions, some major risks exist and have to be taken into account to ensure efficiency and success of the Euro-Mediterranean Partnership. Two main conclusions can be stressed in this framework. Firstly, economic development will not be even. Catching-up will occur by *waves* as integration becomes effective. Secondly, advanced services growth is a condition for a *sustainable* economic development, associating not only services but also manufacturing. Political authorities have to take into account the need to attract KIBS activities. Therefore, in practice, measures of KIBS concentration become a means both to *ex post* assess the ability of MENA countries to catch up and to evaluate the impact of economic integration.

Thus, in the next section, complementarily with manufacturing based studies, calculations of services concentration indexes permit a first evaluation of services geographical distribution. We have therefore compiled information from the EU25 and the nations involved in the Neighbourhood European Policy (NEP), including the MENA countries.

3. CHANGES IN CONCENTRATION OF SERVICES ACTIVITIES

3.1. Survey of past studies mainly focusing on the EU and manufacturing

Lack and inconsistencies in data are usual when dealing with services. Only few papers have analysed the evolution of services concentration. Some studies use both manufacturing (more statistics) and tertiary activities to offer a more exhaustive picture of economical agglomeration. In such a framework, and using French regional employment data, Houdebine (1999) shows average decreasing concentration in services from 1978 to 1992. However, these national analyses do not permit the study of integration.

Based on European regional data of value added, Hallet (2000) associates five service sectors with twelve manufacturing sectors from 1980 to 1995. He finds that business services and financial activities have an increasing and higher concentration level than the other services. This result underlines the significant role of tradable tertiary activities in the global geographical distribution of activities. In a more general approach, Gaulier (2003) limits his analysis to the three main sectors: agriculture, industry and services, in Europe. He demonstrates that services activities became more dispersed between 1980 and 1996, while their concentration level surprisingly appeared only slightly lower than in manufacturing.

Midelfart-Knarvik *et al.* (2002) offer a more exhaustive view since they differentiate five services sectors at a national level in Europe. Results differ from those of Hallet (2000). Transport, the only activity showing a rise in concentration, appears at the same time actually dispersed. The highest degree of agglomeration occurs in financial activities and business services, while decreasing from 1980 onward. Adopting the same characteristics as Midelfart-Knarvik *et al.* (2002), Jennequin (2005) confirms these conclusions for a more detailed breakdown of 21 services. He shows that European integration positively influences the concentration level of business services. However, these studies are still too rare to give a clear picture of services agglomeration. Moreover, regarding services concentration within MENA countries, no descriptive work exists to date. The purpose of this article is to file this gap.

3.2. Methodology and data

To see how concentration has changed inside the Euro-Mediterranean area during the last ten years, we use Gini geographical concentration coefficient for each services sector, based on the Krugman relative index. Aiming initially at measuring national specialisation, this indicator can be modified to measure sectoral concentration. The Krugman concentration index is calculated as follows:

$$KRUG_k = \sum_i \left| \frac{N_k^i}{N_k^{\cdot}} - \frac{N_{\cdot}^i}{N_{\cdot}^{\cdot}} \right| \tag{1}$$

where $N_{\cdot}^i$ is the number of employees in all services in country i ($N_{\cdot}^i = \sum_{k=1}^{n} N_k^i$) with a

total of n sectors and, $N_{\cdot}^{\cdot}$ indicates the total number of employees in all countries. In this way, we obtain for each services sector, the gap between the k-sector employment share in country i relative to all countries and the share of total services employment in country i relative to all sample. Hence, we call it a *relative* index.

8

We prefer including this index in a Gini coefficient, which makes it possible to create graphs based on a relative index. If the activity is divided equally between the different areas, the coefficient will assume value 0; while conversely, it will take on value 1 in the maximum inequality case, when all the production is concentrated in only one area. Finally, the Gini coefficient for each tertiary sector k is obtained from the following expression:

$$G_k = 1 - \sum_{I=1}^{m} \left[\sum_{i=1}^{I+1} \frac{N_\bullet^i}{N_\bullet^\bullet} - \sum_{i=1}^{I} \frac{N_\bullet^i}{N_\bullet^\bullet} \right] \times \left[\sum_{i=1}^{I} \frac{N_k^i}{N_k^\bullet} + \sum_{i=1}^{I+1} \frac{N_k^i}{N_k^\bullet} \right] \qquad (2)$$

where 'I' represents the cumulative employment share of the first i^{th} geographical area considered.

We use United Nations Statistics Common Database (UNSCD). More specifically, we rely on the *Yearbook of Labour Statistics* of the International Labour Organisation (ILO). Data are in ISIC3 nomenclature. Statistics are broken down into 17 sectors (12 services). Nevertheless, data are lacking for some MENA countries. In particular, there is no employment data for Jordan, Lebanon, Syria or Tunisia. Moreover, Turkish data are only available from 2000 on. As a substitute for missing information, we have drawn on statistics from the OECD's database STAN (STructural ANalysis).

3.3. Concentration of services activities assessment

We have calculated Gini coefficient for employment in services of the now 27-EU Members, one candidate country (Croatia), five MENA countries (Algeria, Egypt, Israel, Palestine and Turkey) and four other Neighbourhood European Policy Countries[5] (ONEPC): Azerbaijan, Georgia, Republic of Moldova and Ukraine.

We have deduced two ratios from our concentration coefficient. First, for total services, we have calculated the variation of index between 1999-2000 and 2003-2004. Second, for several group of countries, we have calculated the ratio of each service sector concentration to the degree of concentration of total services for each period.

Regarding total services, Gini coefficients have fallen between 1999-2000 and 2003-2004. This reflects a more even distribution of activities inside the EU15, NMS and MENA countries (left side of Graph 1). However, when it comes to heterogeneous groups (right side of Graph 1), the reduction of concentration is more fragile. In other words, differences in degrees of concentration remain, and thus convergence is much slower than for the previous individual zones, each of which corresponding to a distinct regional trade area. This is particularly true when comparing the NMS either to MENA or to ONEPC.

---

[5] Other Neighbourhood European Policy Countries (ONEPC) include economies belonging to NEP but non-MENA countries.

Graph 1: Variation in Gini coefficient - tertiary sector - 99-00 to 03-04
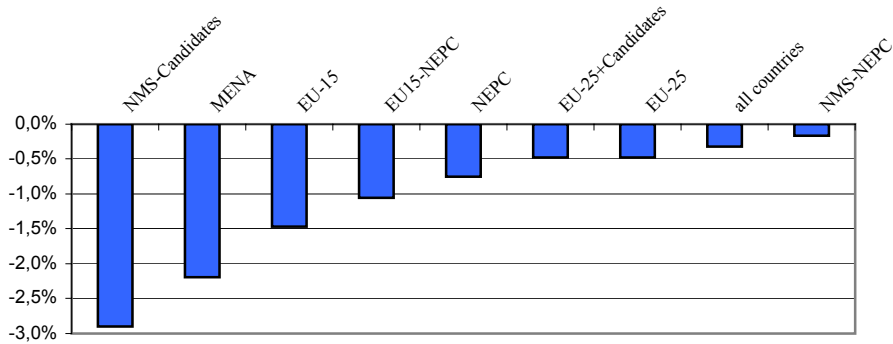
As for the second ratio (the gap between each service activity and average service concentration), we compare heterogeneity in sector concentration and not the level of concentration (Graph 2). Distribution of services activities appears more homogeneous inside the EU15 than within all countries of our sample taken together. For the widest group, financial intermediation and 'real estate and business services' appear to be the most concentrated activities. Changes between the two time-periods turn out to be weak, except for education.

**Graph 2: Gini coefficient - average gap - all countries - EU15 - 99-00 03-04**
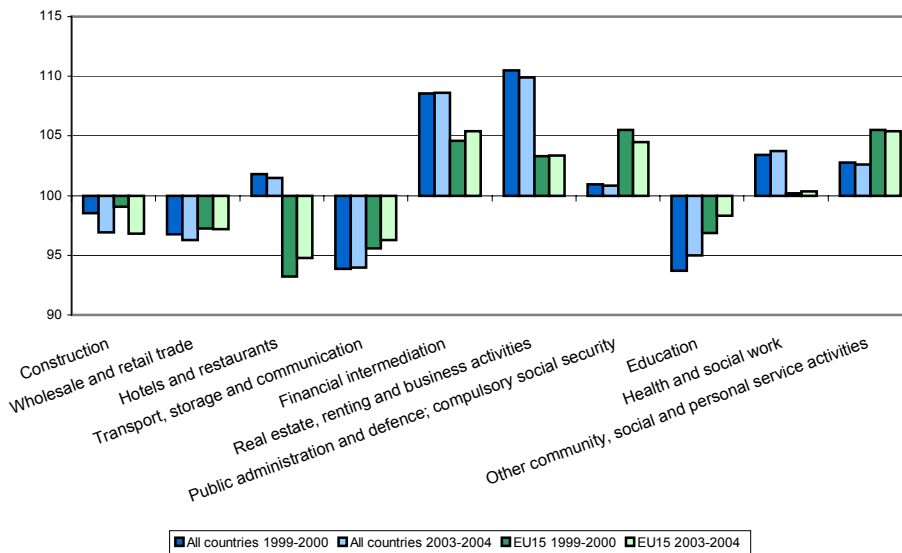
Within the group of 'EU15 + NEPC (Neighbourhood European Policy Countries)' relative concentration appears the highest in financial intermediation and 'real estate

and business services', while geographical distribution in those activities is more homogeneous inside the EU25. Thus, these two enabling services' concentrations are really heterogeneous between the NEPC and the EU. The NEPC countries do not seem to converge inasmuch as this concentration gap remains stable. The Euro-Mediterranean region is still characterised by a core-periphery scheme (see section 2). Compared to the EU25, 'hotels and restaurants' show a stronger relative concentration inside the group 'EU15 + NEPC'. This outcome is partly linked to the important share of these activities in the MPC which increases concentration. The second result illustrates sectoral divergence in location of services activities between the NEPC and EU. Traditional (labour-intensive) services predominate inside the NEPC, whereas high value-added services are still poorly implemented. This result contrasts with the growing share of high value-added business services observed within the EU. (See Graph 3).

Graph 3: Gini coefficient - average gap - EU15-NEPC - EU25 - 99-00 - 03-04
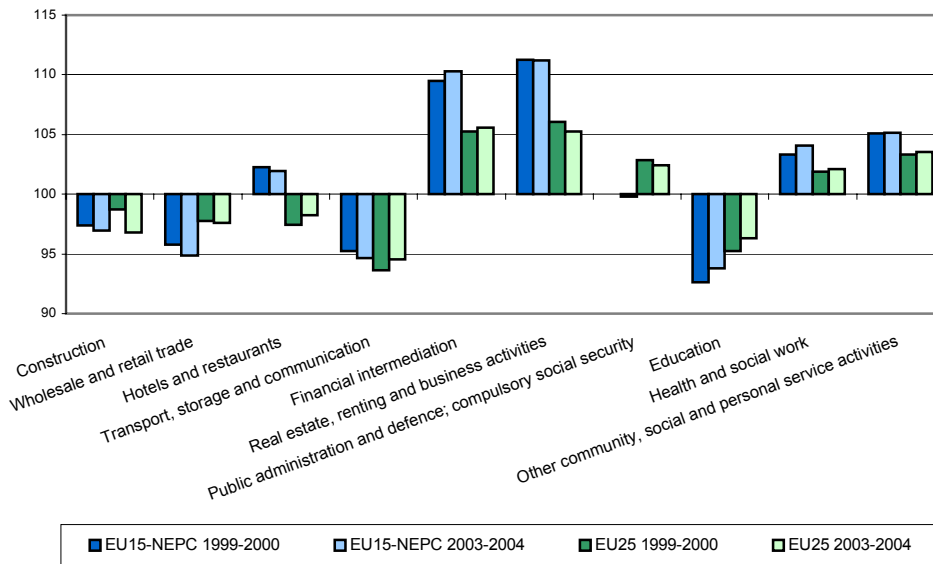
Source: Authors' calculations, from UNSCD and STAN

Relative concentration strongly diverges in NMS compared to MENA countries. More specifically, while financial intermediation exhibits a sharp (though decreasing) relative degree of concentration inside the NMS, it appears to be dispersed in the NEPC. The converse holds for 'hotels and restaurants', where the contrast is even more marked and may reflect an important element of MPC heterogeneity. (See Graph 4).

Graph 4: Gini coefficient - average gap - ENPC - NMS+Candidates - 99-00 03-04
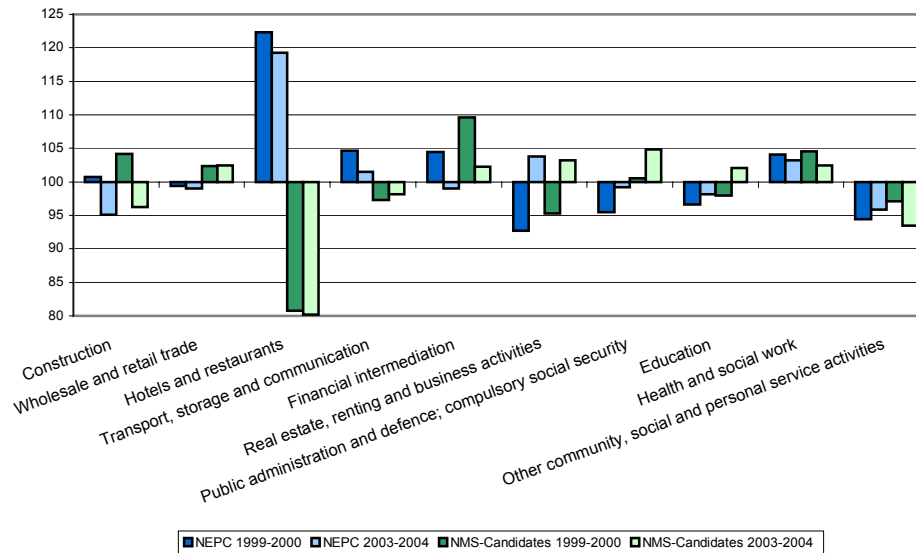
Source: Authors' calculations, from UNSCD and STAN

4. CONCLUSIONS

Beginning only in early 1990s, analyses of the New Economic Geography theory (NEG) offer many insights for dealing with the need of the MPC to build strong enabling infrastructure services. Associated with falling coordination costs, not only do such activities foster international fragmentation of production in manufacturing, but also the implementation of a strong network of knowledge-intensive increasing-returns business services (KIBS), gendering agglomeration economies that attract foreign manufacturing firms.

Currently, services activities appear to be more evenly distributed inside trade areas (the EU15, NMS and MPC) than within the Euro-Mediterranean zone, where levels of concentration still differ: convergence is much slower there than inside the individual zones. Concentration is time-decreasing when the EU15 is included, reflecting mostly intra-EU15 convergence.

Financial intermediation and business services are the most agglomerated. In 'hotels and restaurants', relative concentration is stronger inside the groups NEPC and 'EU15 + NEPC' than within the EU25 or NMS, illustrating sectoral divergence in location of services activities between the EU and NEPC. This outcome is particularly well founded for MENA countries where these hotels and restaurants are exceptionally important industries. Traditional (labour-intensive) services predominate inside the NEPC, whereas high value added services are still poorly implemented. Thus, insofar as spatial distribution of industries differs between the NMS and MPC, concentration occurs by waves when economic integration deepens. Then, some southern Mediterranean countries may lag behind others.

When it comes to enabling services, growth in such highly skilled labour-intensive and increasing-returns activities is a precondition for a sustainable economic development insofar as they provide an incentive to agglomerate, not only for other services firms but also for manufacturing industries. Indicators of services concentration show that, despite increased economic integration, the MPC have not yet begun to catch up with the EU15 or with the NMS. Consequently, the EU should support MPC efforts to strengthen their services sector, in particular in enabling services. The southern Mediterranean partners should remain a priority in the Neighbourhood European Policy (NEP).

REFERENCES

Baldwin, R. (1994), *Towards an Integrated Europe*, Centre for Economic Policy Research, London.

Catin, M. and Ghio S. (1999), Les étapes du développement régional : un modèle d'économie géographique, in Catin M., J.Y. Lesueur and Y. & Zenou Y. (Eds.), *Emploi, Concurrence et concentration spatiales*, Paris, Economica, chapter 10, pp. 245-277.

Catin, M. (1993), Performances à l'exportation, structures de production et niveaux de développement des régions, *Revue d'Economie Régionale et Urbaine*, No. 4, pp. 633-647.

Catin, M. (1995), Les mécanismes et les étapes de la croissance régionale, *Région et Développement*, 1, pp. 11-28.

Combes, P.P. and H. Overman (2004), The spatial distribution of economic activities in the European Union, (chapter 64), in: J.V. Henderson and J.F. Thisse (Eds.), *Handbook of Urban and Regional Economics*, Volume IV. Amsterdam, North Holland, pp. 2845-2909.

Dupuch, S., H. Jennequin and E. M. Mouhoud (2004), EU enlargement: what does it change for the European economic geography?, *Revue de l'OFCE*, special Issue No. 29, April, pp. 241-274.

Francois, J. (1993), Imperfectly Competitive Financial Markets and Financial Market Integration, *Research Division Working Paper U.S. International Trade Commission*, No. 92-08-a.

Francois, J. (1995), Dynamic Effects of Trade in Financial Services, *International Economic Journal*, Vol. 9, No. 3, Autumn, pp. 1-14.

Francois, J. and K. Reinert (1996), The Role of Services in the Structure of Production and Trade: Stylised Facts from a Cross-Country Analysis, *Asia-Pacific Economic Review*, Vol. 2, No. 1, May.

Gaulier, G. (2003), Spécialisation et productivités des régions européennes, *Région et Développement*, No. 17-2003, pp. 161-180.

Hallet, M. (2000), *Regional Specialisation and Concentration in the EU*, Economic Paper n°141, DG for Economic and Financial Affairs, European Commission.

Hoekman, B., (1998), Free Trade and Deep Integration: Antidumping and Antitrust in Regional Agreements, *World Bank Policy Research Working Paper*, July, No. 1950, 49 p.

Houdebine, M. (1999), Concentration Géographique des Activités et Spécialisation des Départements Français, *Économie et Statistique*, n°326-327, pp. 189-204.

Jayet, H. (2005), Évolutions sectorielles et évolutions géographiques, *Les Cahiers du Plan*, No. 5, May, pp. 49-58.

Jennequin, H. (2005)*, La localisation des activités tertiaires : un enjeu économique majeur*, PhD thesis in economics, Paris XIII University, December, 333 p.

Krugman, P. and Venables A. (1995), Globalization and the Inequality of Nations, *The Quarterly Journal of Economics*, Vol. CX, Issue 4, 11/95, pp. 857-879.

Krugman, P. (1980), Scale Economies, Product Differentiation and the Pattern of Trade, *American Economic Review*, Vol. 70, pp. 950-959.

Krugman, P. (1991), Increasing Returns and Economic Geography, *Journal of Political Economy*, Vol. 99, pp. 483-499.

Markusen, J. (1989), Trade in Producer Services and in Other Specialized Intermediate Inputs, *American Economic Review*, Vol. 79 No. 1, pp. 85-95.

Mezouaghi, M. (2005), Libéralisation des services de télécommunications au Maghreb : transition institutionnelle et performances, *Notes et Documents, Agence Française de Développement*, No. 23.

Midelfart-Knarvik K.H., H. Overman, S. Redding and A. Venables (2002), The location of European Industry, *European Economy*, No. 2, pp. 216-273.

Myrdal, G. (1957), *Economic theory and under-developed regions*, Duckworth, London.

Puga D. (1999), The rise and fall of regional inequalities, *European Economic Review*, (43)2, pp. 303-334.

Puga, D. and A. Venables (1998), Trading arrangements and industrial development, *The World Bank Economic Review*, Vol. 2 No. 2.

Puga, D. and A. Venables (1999), Agglomeration and Economic Development: Import Substitution versus Trade Liberalization, *Economic Journal*, Vol. 109, No. 455, pp. 292-311.

Rabaud, I. and T. Montalieu (2006), Trade in services: how does it work for MENA countries?, *Working paper Go-EuroMed project*, November 2006, DR LEO 2006-30, 26 p.

Rieber, A. and T. Tran (2002a), Technology diffusion, North-South spillovers and industrial location, *Journal of Economic Development*, Vol. 27 No. 1, June, pp. 25-40.

Rieber, A. and T. Tran (2002b), Stratégies de politique commerciale pour une sortie de la trappe de sous-développement, *Revue Economique*, Vol. 53 No. 2.

Röller L. and L. Waverman (2001), Telecommunications infrastructure and economic development: a simultaneous approach, *American Economic Review*, 91 (4), p.909-923.

Venables, A.J. (1996), Equilibrium Locations of Vertically Linked Industries, *International Economic Review*, Vol. 37, pp. 341-359.