

Would Higher Intra-Regional Trade intensity for MENA Countries be Attained, when they are More Democratic and Less Bureaucratic?

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Abstract

The main motivation behind this paper is to consider the presence of higher intra- regional trade intensity among Middle East North African countries (MENA); once we control for the presence of democratic institutions and trade freeness measures. It sheds light on the transformation of MENA countries from autocratic to mixed or democratic regimes, and how this eventually leads to greater effectiveness in their trade policies and above all in reducing cost of trade among the region's countries. The empirical methodology adapted the 'Bilateral Trade Gravity Model'; to estimate MENA's intra-regional trade intensity of manufactures. Five scenarios were developed to introduce democracy and trade freeness measures proxied by categories of the 'Polity IV Index and 'Trade Freeness Index' respectively. After testing all possible scenarios and robustness checks, it has been evident that the highest trade intensity between MENA countries resulted from the interaction term of countries showing a "Mixed Regime" on the Polity IV and "High Degree of Trade Freeness". The interaction term had shown a highly significant coefficient which increased MENA's intra-regional trade by 104 percent. Furthermore, results suggested the inclusion of an additional measure capturing the 'Rent Seeking Groups' which play an inherent role in conditioning the region's trade policies.

Keywords: Intra-Regional Trade Intensity - Middle East and North Africa, Bilateral Trade Gravity Model, Polity IV and Trade Freeness Indices

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