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Impact of the crisis for the Mediterranean

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Abstract

This paper provides a prospective view of the economic future of Southern Mediterranean countries (MED countries), based on ANIMA and Invest in Med experience (EU programmes for the 2002-2011 period). It focuses on the impact of the current financial crisis, the economic perspectives offered to the region and its strategies for creating wealth or jobs.

The MED economic situation is mixed. On the one hand, the challenges ahead are huge in terms of social needs, job creation, governance issues. The economic fabric is still weak and dominated by a few sectors and gigantic projects (energy, real estate, tourism, telecoms, textile, agri-business). SMEs do not receive the needed support, especially in terms of financing. On the other hand, the reforms implemented in most countries are starting to pay off. A positive growth differential has now been established vis-à-vis Europe, even in terms of GDP per capita. A significant increase in foreign investment has been observed over the last decade. Private equity funds are flourishing. The region is suffering from the ongoing financial crisis, but less than other parts of the world.

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Unless otherwise specified, the MED countries are defined as Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria, Tunisia and Turkey (or MED-10).

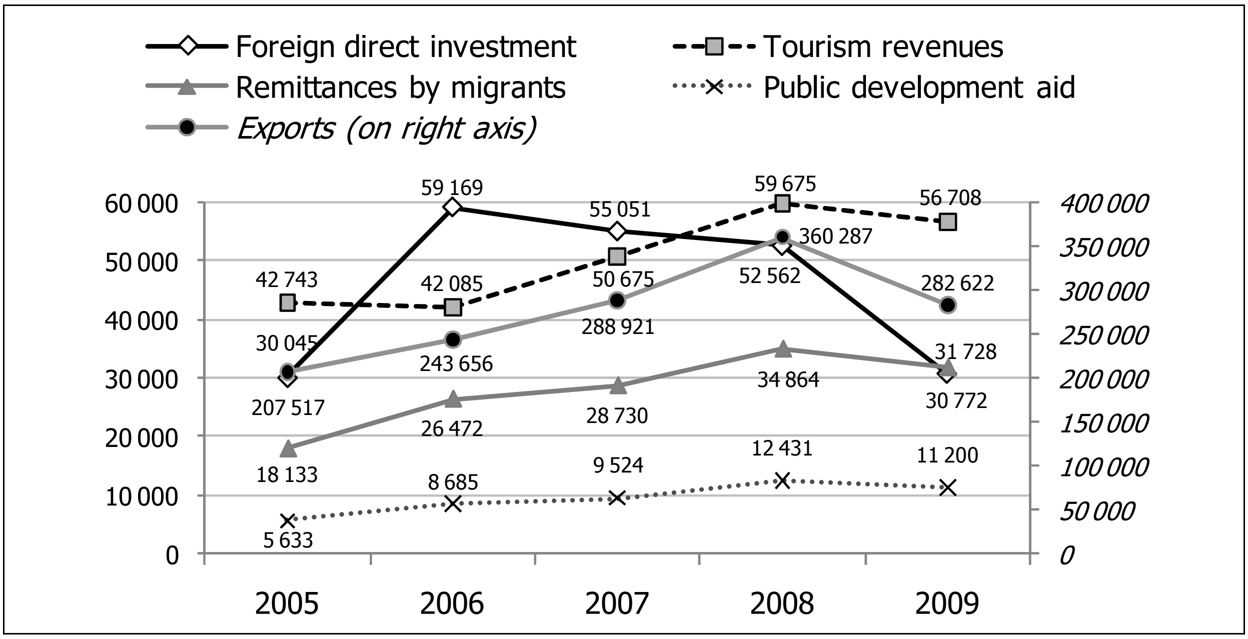
1. The impact of the global crisis on the Mediterranean

1.1. A relatively protected region

Thanks to their specific situation (less developed financial markets, insulation from the sophisticated instruments existing in Europe or America, strong domestic demand, competitive advantages in terms of costs and logistics at the border of Europe etc.), the Southern and Eastern Mediterranean (MED) countries maintained relatively solid growth and investment records in 2008 and 2009. According to FEMISE, growth dropped by 1.5 to 2% on average in 2009, against -4% in Europe; inward investment flows decreased by 14% in 2009, against -35% at global level. These effects could have been even lower, had the MED countries kept their trade protection system of the 90s – but they have experienced a remarkable opening of trade in recent years (the average ratio of trade to GDP increased from 38% in 1995 to 53% in 2008).

The MED countries were mostly hit by second round effects on four external sources of revenues, mainly linked to the drop in external demand: exports (the most important), FDI (second), then tourism revenues, rather resilient, finally transfers by migrant workers. Figure 1 below shows the 2005-2009 evolution of these four sources. In addition, public development aid, which could play a role of shock absorber during the crisis, is represented (ANIMA extrapolation for 2009).

Figure 1. Main sources of external revenues, MED-10 countries, in million US$[1]
Sources: FDI: UNCTAD, UN/ANIMA estimates for 2009; Tourism: WTO, ANIMA; Remittances: World Bank; PDA: OECD (ANIMA estimate for 2009); Exports: UN ComTrade (CIA WFB for 2009)



In fact, the crisis started for MED with foreign direct investment (FDI) as early as 2007, with a decrease in projects originating from the Gulf States. FDI into MED culminated in 2006 (almost $60 bn for UNCTAD and $80 bn for ANIMA), under the impetus of a newcomer, the Gulf States, in a context reminiscent of the "gold-rush" (the hike in oil prices, very attractive opportunities linked, for example, to the privatisation of the telecom markets, the need to diversify investments for petrodollars, which found a haven in real estate, tourism and banking).

From 2008, a limited recession appeared among the megaprojects, which met with various difficulties (market saturation, hostility of the local business environment, warnings about the environment and the social aspects, the start of the liquidity crisis). Europe became once again the No. 1 investor, a long term, more reliable partner, albeit with a smaller purse.

The drop in exports came later (2009). It was mainly due to the decrease in oil prices, after the peak of 2008 (Brent crude price at US $45 per barrel in May 2009, down from around US $120 per barrel in September 2008).

The (limited) decrease in tourism revenues was often compensated by an increase in numbers of visitors (+6.5% on average) - as for FDI, the proximity of MED to Europe was an advantage.

The remittances from migrants dropped mostly in Syria (an effect of Gulf problems?) and Turkey (impact of EU crisis?), but globally, the change is not dramatic (at least in 2009 - the crisis is continuing in 2010) in the other countries, for instance the Maghreb. The flows of

[1] This diagram uses consistent records in US$ by Governments and UN agencies (except for aid: OECD and sometimes for 2009). The FDI data are those of UNCTAD, not ANIMA (except for a few countries in 2009) in order to keep a strict *financial* approach (registered transfers from foreign countries). If ANIMA data were used for FDI, they would show a peak in 2006 ($79 bn), followed by an earlier drop in 2007-2009 (respectively $54 bn, 35bn and 30 bn). ANIMA focuses on companies' announcements, which anticipate the reality recorded by UNCTAD (central banks' figures).

public development aid stayed at around $10 bn per year and were rather on the upside before the recent acceleration of the economic crisis.

1.2. A global loss of over US$ 100 bn for the region?

All in all, the MED region fared relatively well during the first part of the crisis, with a few exceptions (Israel and Turkey for FDI, oil/gas exporters and Turkey for exports, Turkey and Israel for income from tourism, Turkey, Syria and Egypt for migrant transfers - see Figures 2 and 3).

However, the crisis is not necessarily finished, at least in this *soft* part of the world represented by Euro-Med (as compared to the more energetic America and Asia blocs...). The MED countries may at the same time suffer from the lack of momentum in EU economies and appear as a useful recourse in sectors where delocations seem inevitable.

The more globalised countries (Israel and Turkey) are the most hit. Some countries are even winners for some type of revenues: Lebanon (out of a war) for FDI and tourism, Syria for tourism (remarkable opening). Several countries have limited the negative impact (Egypt, except for remittances, or Tunisia until recently).

Figure 2. Changes (%) in external revenues, 2009 compared to 2008 (same sources)

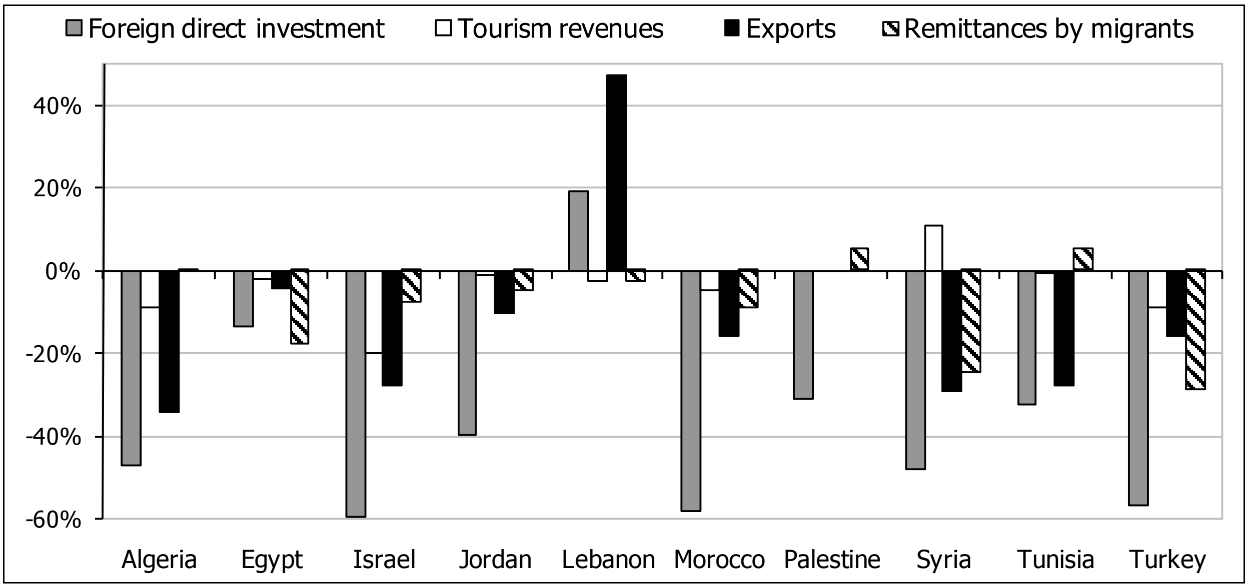
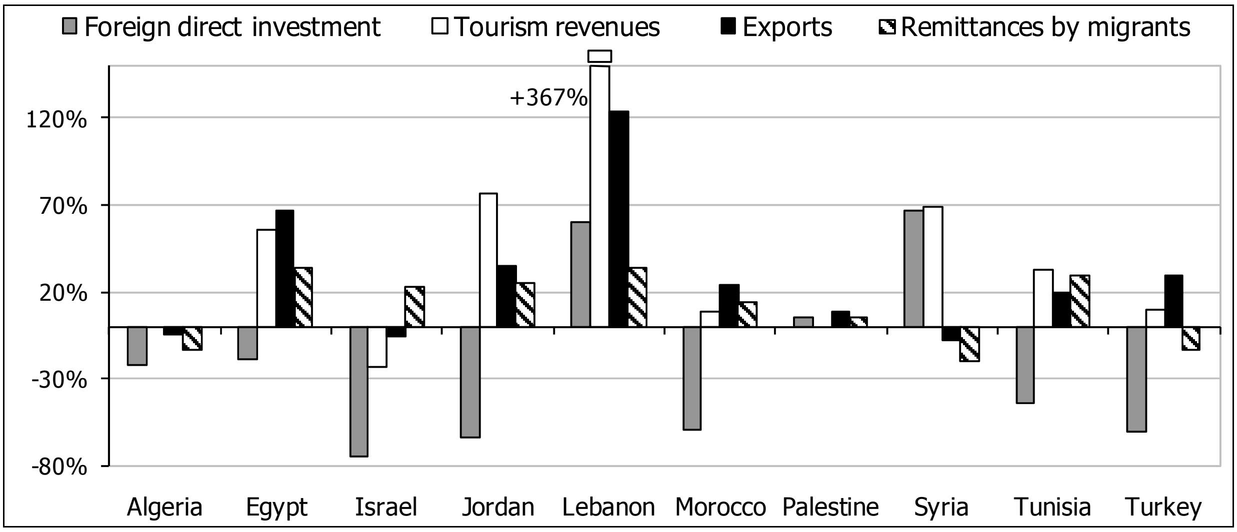


Figure 3. Changes (%) in external revenues, 2009 compared to 2006 (same sources)



In financial terms, the crisis seems to have written off *over US $100 bn in external resources destined for MED countries in 2009* (Figure 4). However, this statement is rather hazardous and depends on the reference point. When comparing with 2006, the balance is disastrous in terms of FDI, but favourable for all the other revenues - because the region experienced a strong upward trend in 2007 and 2009.

Figure 4. Change in external revenues, MED-10 countries, in million US$ (Same sources)

	FDI (ANIMA data)	Tourism revenues	Remittances by migrants	Exports	Total external revenues
2009/2008	-4.7 bn $	-3.0 bn $	-3.1 bn $	-77.7 bn $	-106.8 bn $
	-14%	-5%	-9%	-22%	-21%
2009/2006	-49.9 bn $	+14.0 bn $	+5.3 bn $	+39.0 bn $	+33.0 bn $
	-64%	+35%	+20%	+16%	+9%

Even these figures are approximate and questionable. For instance, the drop in FDI is only measured (when known) for direct capital and employment flows, but indirect impacts are ignored (suppliers, local spillovers). The crisis is also an opportunity, as was mentioned in the ANIMA report about FDI into Med in March 2009 (Figure 5) - whether it is distance working, greentechs, near-shoring, short-fashion etc. - all activities in which MED countries may excel.

Figure 5. Crisis, the opportune moment?

In 2008, the countries to the South and East of the Mediterranean started to be affected by the world economic and financial crisis, a little later than elsewhere and with a certain attenuation of its effects. The 13 countries (...) monitored by ANIMA received a little less than 40 billion euros of foreign direct investment (FDI) in 2008 (-35%), against 61 billion in 2007 and 68 billion in 2006. The number of projects (778 projects) only dropped by 6% - the largest projects (except those in the energy domain) and investments coming from the Gulf States being the most affected. This is a worldwide situation (...). Second round effects are possible, with the drop in consumption in developed countries, the reduction in migrant transfers, the drop in crude oil income and more difficult access to credit.

A good number of projects, particularly in the automobile sector, have already been scaled down (for example, the participation of Nissan in the global plant at Tangiers-Med next to Renault), when they have not purely and simply been cancelled (for example, in the real estate sector, projects coming from the Gulf States).

There remain, however, good reasons for hope. The World Bank forecasts growth of 3.9% in 2009 for the countries of the South and East of the Mediterranean. Certain of the more autarkic countries, such as Algeria, are less exposed to the crisis. Cheaper oil and low inflation will benefit other MED countries. Finally, for European industry, the Mediterranean often appears as a solution, a possible recourse in terms of market, cost control or partnerships. (...) In certain aspects, the crisis also has a salutary effect. In Greek, κρίσις, the crisis, means 'the opportune moment'. A speculative bubble is bursting in the tourism and high-end real estate sectors. It is now time for the countries concerned to think of ways of attracting more sustainable and more socially useful projects.

(*Foreign direct investment in the Med countries in 2008. Facing the crisis.* March 2009. ANIMA)

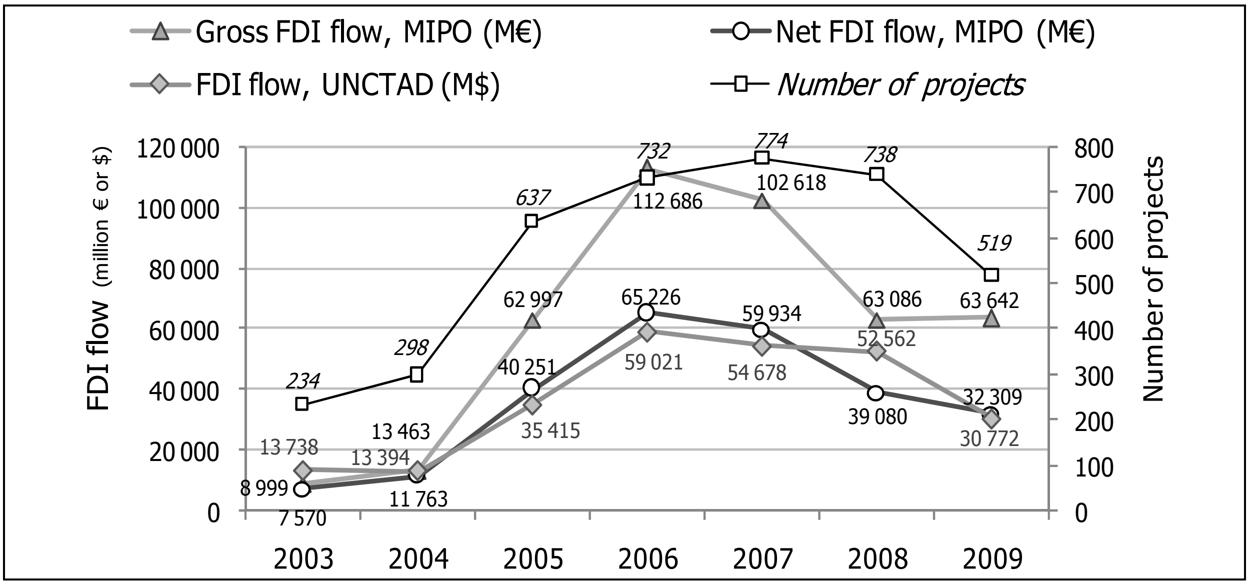
1.3. Focus on Foreign Direct Investment (FDI)

Depending on the MED countries' reliance on external operators, FDI creates roughly between 7 and 50% of the gross capital formation in the region. For some dependent countries, FDI drought would mean almost no industrial future.

Some very large projects continued to be cancelled in 2009, especially those coming from the Gulf States. On the contrary, the proximity to Europe and the need for companies interested in the Euro-Mediterranean market to be competitive, worked in favour of the MED region. In their search for diversification, even small and medium-sized enterprises (SMEs) consider the not too distant South as a possible outlet, with fewer linguistic, legal or logistical obstacles than with Asia. Finally, all the talk about the Union for the Mediterranean would seem to be having some effect, especially in France, Spain, Italy, Germany, where this initiative has found political support (which is less present in northern or Eastern Europe).

All these reasons, when compared to global trends, may help to explain the attenuated drop in FDI in the MED region (Figure 6). It is more especially the large projects which are suffering. The average size of investments has been reduced to 62.3 million euro (against 75 in 2008, 77 in 2007 and above all 89 million euro in 2006). The announcements of gross FDI[2], at 63 billion euro in 2009, are no longer in decline. The net investment flow has regressed again, but at a slower pace and with a marked about-turn at the end of the year.

Figure 6. FDI inflows and number of projects in the MED region
(Sources: ANIMA-MIPO, amounts in million euro; UNCTAD in million USD, 2003-2009[3])



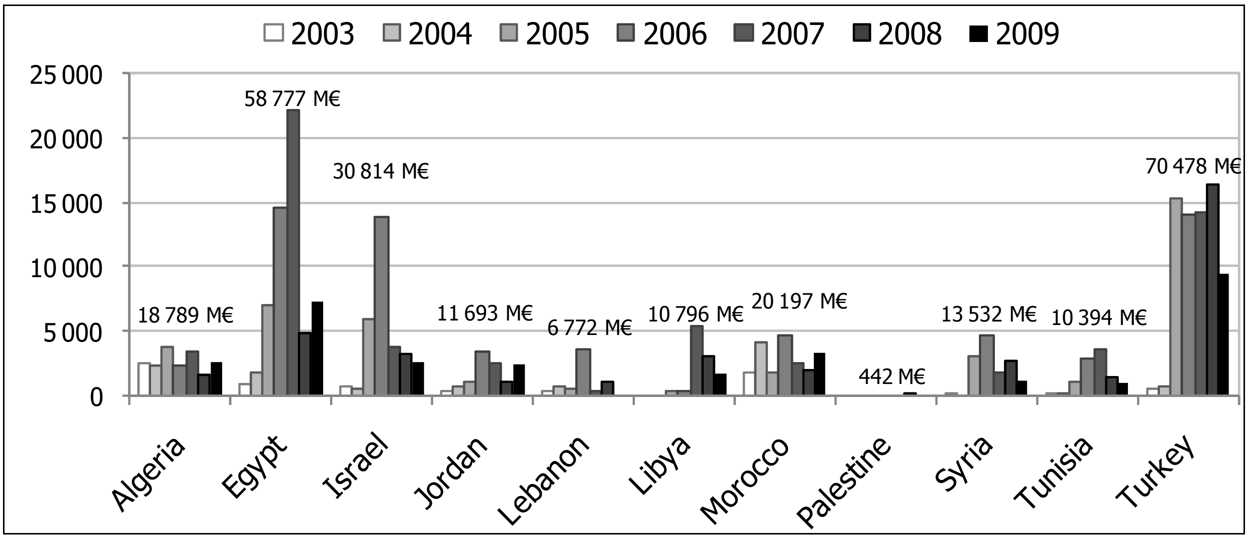
With an amount of inflows of thirty or so billion euro annually in the very middle of a global recession, the MED region has probably reached a threshold which is markedly greater than the level achieved during the previous crisis of 2002-2003 (between 7 and 9 billion euro). It retains a level of attractiveness of around 3% of global FDI (a little more than 1,000 billion dollars for UNCTAD, against 1,697 in 2008). Moreover, Israel and Turkey, more globalised and hence more affected by the crisis, account for the entire drop observed in 2009. The amount of FDI has, on the contrary, slightly increased for the Arab countries, in the Maghreb as for the Mashreq (where it had dropped heavily from 2008, a consequence of the serious deceleration in Gulf State projects). The Arab countries of the region continue to benefit from strong domestic demand (especially in the oil and gas producing countries) and from the positive effects of the crisis, such as the relocation of highly labour-intensive activities (textiles, automobile), or the transfer of activities which are hardly profitable in the euro area (the case of aerospace, since airplanes are paid for in dollars).

[2] For large projects, the ANIMA-MIPO observatory distinguishes between the "gross" announcements (total indicated by the operator, often with several phases) and the net amounts, more realistic for they only cover the certain 1st phase.

[3] These net ANIMA flows (the sum of the company announcements) are close to the UNCTAD flows (transfers recorded by the central banks), but they express a different reality (tangible investments announced by foreign operators vs. payments made from abroad) and are expressed in euro.

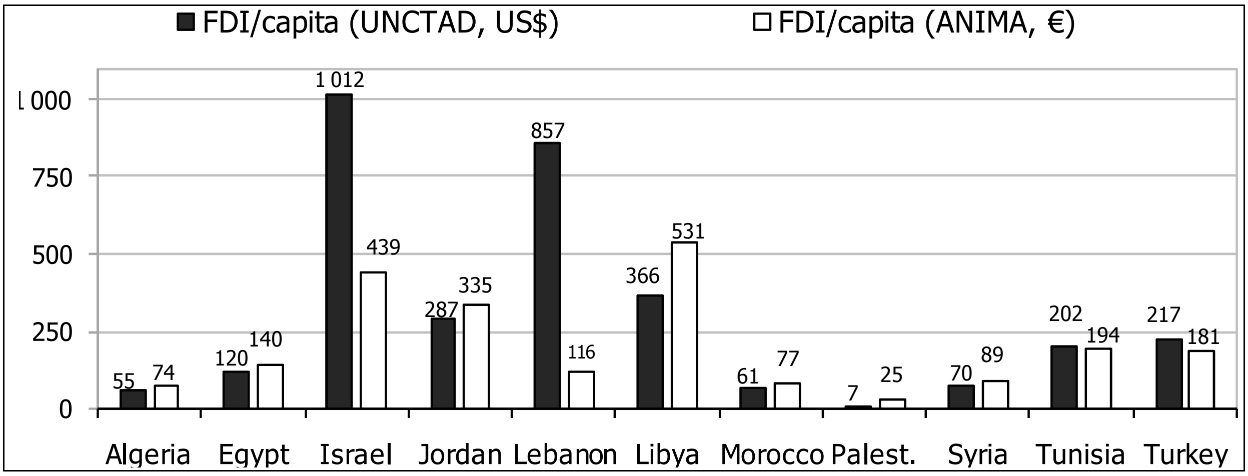
In terms of country attractiveness (Figure 7), the MED region comprises two heavyweights, Turkey and Egypt, which received more than 50 billion euro between 2003 and 2009, 3 major countries (together between 15 and 30 billion euro, Israel, Morocco, Algeria), 4 intermediate countries (between 10 and 15 billion euro, Syria, Jordan, Libya, Tunisia) and two countries which attractiveness was limited by the conflicts (Lebanon and Palestine).

Figure 7. Evolution of FDI by country and net amount announced
(Net amounts in million euro. Source: ANIMA-MIPO 2003-2009)



The real performance is better measured when account is taken of the size of each country, as is illustrated by the per capita of population in Figure 8 with the amounts of FDI annualised over the past 3 years (2007-2009). Whatever the source (ANIMA or UNCTAD), the flows of FDI per capita are close, that is respectively an average of 152€ or $163 (the world average being $235 per capita). Using this criterion, only Israel really comes out well, with the other countries sharing either an average performance (Libya, Jordan, Tunisia, and Turkey) or a weak performance (Egypt, Syria, Morocco, Algeria). Lebanon (which attracts a good number of financial transfers, but few industrial projects) and Palestine (a really homeopathic flow, even in relative value) are special cases.

Figure 8. Performance of FDI per country and capita (ANIMA-MIPO and UNCTAD)



1.4. Focus on trade

Despite the gaps in services and agriculture, an important opening of trade with Europe (by far the major client and supplier) has been possible for MED countries in recent years. The average MED tariffs have been reduced to 13% in 2007, down from 20% in 2000. However a true free trade area is still a project (non tariff barriers, new obstacles put by countries of both rims, etc.). According to the CEPS study on Economic Integration in the Euro-Mediterranean Region (September 2009), "*a deeper integration between the EU and MED countries could lead to a significant growth of exports from the Mediterranean region to the EU. Some estimates indicate that exports to the EU and imports from the EU could triple or quadruple if Euro-Med countries could reach the levels of integration typical for the EU-15*".

The external trade of MED countries has suffered from the recent crisis, according the CIA World Fact Book estimates (Figure 9), especially Algeria, Syria, Israel and Tunisia for exports. This is obviously linked to hydrocarbons. Concerning imports, with the exception of Lebanon (recovery of stocks?), the high level maintained by Algeria might explain the measures taken by the Government to tighten the import conditions. Some products (cars, agrifood, drugs) were heavily imported, justifying various restrictions (prohibition of consumer credit for cars, technical control for imported vehicles and project of automobile plant with Renault; cancellation of imports for a list of almost 400 medicines to be produced locally; need for importers to have a local associate etc.).

Figure 9. External trade of MED countries, 2006-2009 (sources: UN Comtrade, CIA WFB)

Exports in US$m	**2006 (UN)**	**2007 (UN)**	**2008 (UN)**	**2009 (CIA, estimates)**	**Change 2009/2008**	**Change 2009/2006**
Algeria	52 760	60 208	79 147	52 030	-34%	-1%
Egypt	13 694	16 200	26 246	22 910	-13%	67%
Israel	46 789	54 065	60 825	44 350	-27%	-5%
Jordan	5 175	5 725	7 788	6 989	-10%	35%
Lebanon	2 283	2 817	3 479	5 113	47%	124%
Morocco	12 744	13 864	18 525	15 610	-16%	22%
Syria	10 919	11 546	14 300	10 130	-29%	-7%
Tunisia	11 513	15 029	19 319	13 990	-28%	22%
Turkey	85 535	107 136	132 003	111 100	-16%	30%
MED	**241 413**	**286 591**	**361 633**	**282 222**	**-22%**	**17%**
Imports in US$m						
Algeria	20 985	27 707	39 181	39 510	1%	88%
Egypt	20 722	27 063	48 775	43 980	-10%	112%
Israel	50 334	59 039	67 656	47 400	-30%	-6%
Jordan	11 447	13 511	16 764	12 310	-27%	8%
Lebanon	9 401	11 819	16 142	15 780	-2%	68%
Morocco	23 977	30 149	40 566	31 830	-22%	33%
Syria	11 488	14 655	18 320	13 100	-28%	14%
Tunisia	14 865	18 980	24 612	17 370	-29%	17%
Turkey	139 576	169 792	201 823	134 200	-34%	-4%
MED	**302 795**	**372 715**	**473 839**	**355 480**	**-25%**	**17%**

The trade patterns between MED countries and the rest of the world resemble FDI patterns (Figure 10). Globally, the MED countries are tied to the EU, mainly for their exports (almost 50%) and a little less for their imports (40%). North America absorbs a good share of Algerian, Israeli and Jordanian exports. The GCC bloc represents only around 3% of both exports and imports, but is significant for Mashreq (exports from Jordan, Lebanon and Syria).

Maghreb has a strong trade orientation towards Europe, especially Tunisia and Morocco, less for Algeria; the trade relationships with the Gulf are very limited. Mashreq is less dependent on the EU for its trade and relies more on the Gulf (especially Jordan, Egypt, Syria, Lebanon).

Figure 10. Breakdown of external trade of MED countries, 2007 (source: CASE, UN Comtrade)

EXPORTS	**Share of external trade in 2007**				
	EU-25	GCC	NAFTA	Intra-MED	Rest of World
Algeria	**43.6%**	0.0%	**38.0%**	5.4%	13.0%
Egypt	**28.8%**	4.1%	7.1%	**12.3%**	47.8%
Israel	**29.0%**	0.1%	**36.8%**	3.0%	31.1%
Jordan	3.2%	**17.1%**	**27.8%**	**15.3%**	36.7%
Lebanon	**17.1%**	**20.5%**	2.8%	**23.4%**	36.2%
Morocco	**71.9%**	0.8%	3.5%	3.5%	20.3%
Palestine	5.2%	1.5%	1.0%	**92.0%**	0.3%
Syria	**43.0%**	**16.3%**	2.6%	**23.8%**	14.2%
Tunisia	**79.2%**	0.6%	1.2%	9.6%	9.3%
Turkey	**51.9%**	5.2%	4.4%	7.1%	31.5%
MED countries	**46.6%**	3.3%	**18.3%**	6.9%	24.9%

IMPORTS	**Share of external trade in 2007**				
	EU-25	GCC	NAFTA	Intra-MED	Rest of World
Algeria	**51.1%**	0.8%	**10.1%**	5.8%	32.2%
Egypt	**22.3%**	**14.1%**	**10.1%**	5.3%	48.3%
Israel	**36.2%**	0.0%	**14.7%**	3.1%	45.9%
Jordan	**24.2%**	**24.9%**	5.2%	**12.3%**	33.4%
Lebanon	**35.0%**	8.6%	**10.1%**	**13.5%**	32.7%
Morocco	**51.4%**	6.4%	7.0%	7.4%	27.9%
Palestine	7.8%	0.2%	1.0%	**78.4%**	12.6%
Syria	**24.4%**	9.9%	2.6%	**12.2%**	50.9%
Tunisia	**64.3%**	1.2%	4.1%	9.5%	20.9%
Turkey	**37.4%**	1.9%	5.5%	3.1%	52.1%
MED countries	**39.9%**	3.2%	7.3%	5.8%	43.8%

The intra-MED trade is extremely limited. MED is trailing other economic blocs in this respect, despite a recent positive trend (Figure 11). Although significant efforts have been pursued during the last 5 years to reduce trade barriers among MED countries (bilateral agreements, signature of the Agadir Agreement in 2004 between Tunisia, Morocco, Egypt and Jordan), a lot remains to be done. Trade between the Agadir or Arab Maghreb Union signatory countries remains low (maximum of 3% of total trade for Jordan with Agadir partners and 7% for Tunisia with Maghreb Union partners). Narrow local markets prevent local SMEs from specialising their industry and thus becoming competitive in regional and international markets.

Figure 11. Intra-bloc exports as a share of total exports among prominent regional integration agreements (source: World Bank, IMF)

Economic bloc	**2000**	**2005**	**2007**
Intra-MED trade	4.5%	6.2%	6.9%
PAFTA (Pan Arab FTA)	7.2%	9.9%	10.6%
ASEAN	23%	25.3%	25.2%
MERCOSUR	16.4%	11%	12.8%
SADC (Southern Africa)	9.5%	9.3%	10.1%

1.5. Some responses to the global crisis

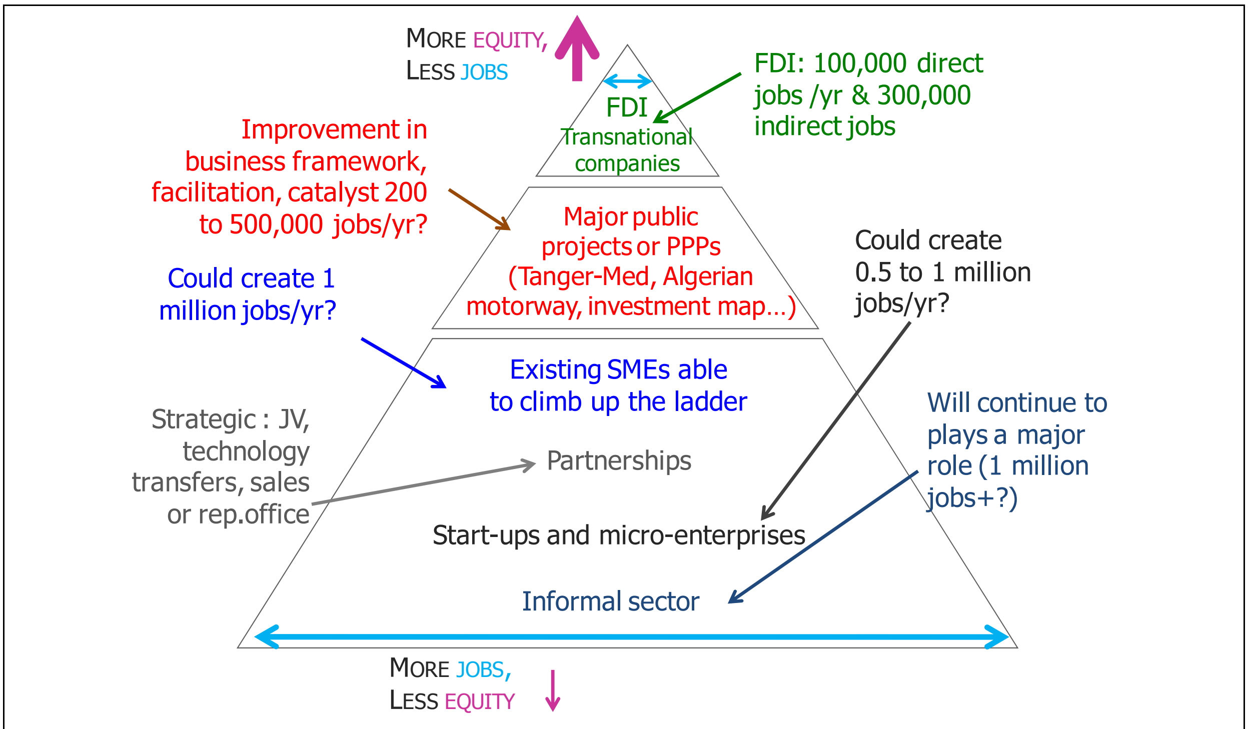
1.5.1 The State as an answer

Facing a depleting external demand, most MED countries found a natural recourse in the support of the domestic demand (hence the increase in public deficits) and structural strategies by public actors. On a longer time scale, the ANIMA report "Mediterranean Investment Map" illustrates the numerous *emergence* programmes developed at national level to build infrastructure, encourage SMEs, empower women or minorities, develop innovation, alleviate poverty etc. (e. g. in Maghreb, Tanger-Méditerranée hub, Moroccan Human Development Initiative, Tanger-Rabat high speed train, Algerian East-West motorway, Tunisian technopoles etc.). In fact, most support policies were defined in the 2000-2005 period, but accelerated in 2008-2009. Though useful and positive, these plans do not address the regional integration issue, in a *balkanised* space where both intra-trade (6 to 7% of total trade) and intra-FDI (5% of total inward FDI) are clearly insufficient.

On the budgetary front, despite the higher cost of imports (hydrocarbons and agrifood for most Arab countries of the region), the pre-crisis surpluses enabled the implementation of adequate budgetary responses. However, in 2010 most countries are under bigger pressure – higher unemployment, lower revenues, less comfortable debt service. The countries with floating exchange rates (Egypt, Maghreb) benefit from more margins of manoeuvre that those with exchange pegged to hard currencies (Jordan, Lebanon, Syria).

The usefulness of public policies does not mean that the role of the private sector is secondary. Of course, most of the jobs, value creation and wealth will come from enterprises. In the pure economic field, Governments should restrain their role to providing a satisfactory business environment for firms (infrastructure, legal and regulatory framework, fiscus and incentives, Customs etc.) and launching pilot or seed projects able to mobilise or organise the market forces. Tanger-Méditerranée represents such a success story, initiated by the State but implemented under a privately-managed organisation (special agency).

Figure 12. The pyramid of economic development and job creation (Job estimates: ANIMA)



According to FEMISE and other sources (see below), 3 to 5 million additional jobs are needed each year in the MED countries to provide employment for the newcomers on the labour market. Most of these jobs will be supplied by the informal sector and by small and medium enterprises (SMEs) or start-ups (Figure 12). At the top of the economy, FDI projects and major public-private initiatives are strategic as driving forces to pull the bulk of the operators, but these large projects are often more capital-intensive than labour-intensive.

1.5.2 Small as an answer?

The ANIMA-MIPO observatory shows that SMEs are remarkable creators of employment (Figure 13). On average, they create twice as many jobs per euro invested than the major companies and the multinationals. The (rare) American and Arab (Gulf) SMEs create very few jobs, in contrast to those coming from Europe and especially the emerging countries ("Other countries", MED-11 with Libya). It is simply a question of business culture, which exists even on the scale of large projects - Indians or Brazilians prepared to manage large numbers of personnel, compared with Europeans and Americans, who would seem to prefer investing in capital and technology...

Figure 13. Jobs created per € amount invested (Source: ANIMA-MIPO)

Origin / Type of company	*Europe*	*Gulf*	*USA/ Canada*	*Other countries*	*MED-11*	*All origins*
Transnational	1.1	1.8	1.3	2.4	1.3	1.4
Major company	3.1	1.7	0.3	1.9	2.1	1.8
SME	2.7	0.5	0.8	5.8	14.7	2.8
All companies	**1.7**	**1.7**	**0.8**	**2.3**	**2.7**	**1.6**

A rough estimate shows that at least 1 million new micro and small enterprises have to be created in the MED region every year (more or less 5% of the existing stock of 20 to 25 million SMEs; unfortunately, all will not be successful). In addition, thousands of existing small enterprises have to be transformed every year into medium enterprises, some of them internationalised. This wish means overcoming numerous challenges: financing of industry (insufficient in MED countries, especially for emerging enterprises), education, facilities for companies, coaching, retention of brainpower, removal of red tape, better governance, transparency, dissemination of standards and success stories etc.

The main financing gaps are the lack of capital in the €0.1m /€1.5m range (linked to the cost of due diligence when appraising small projects), the short supply in loans (especially for long maturities, local currency), the cost of transfers, the insufficient guarantee schemes (problems in land registration or the registration of assets hinder SMEs from mobilising collateral), the weakness of credit information. Globally, the cost of financing represents a competitive disadvantage for SMEs.

Looking again at FDI, the SMEs would seem less affected by the crisis than the multinationals and above all the major companies, whose projects have almost been reduced by half since their peak in 2006. The SMEs, as could be expected, make small size investments, especially in the Maghreb (10 million euro on average), which attracts 51% of their projects (Figure 14).

Figure 14. Average size of FDI (projects €m) for the period 2003-2009 (Source: ANIMA-MIPO)

Host region	Transnational	Major company	SME	Total
Maghreb	54.3	34.7	9.9	36.4
Mashreq	120.1	70.7	19.5	84.4
Other MED	111.6	80.6	44.0	88.0
MED	**91.4**	**58.6**	**21.9**	**65.2**

1.5.3 Reforms should continue in the MED countries

The World Bank report *Doing Business 2010* classifies the countries of the MENA region among the best *reformers* in 2009 (90% of the region's countries have undertaken at least one reform to facilitate business), even though no progress is recorded in terms of *facility to do business* compared to other regions of the world, with an average regional rating of 92nd out of 183 countries.

This positive observation on the determination for reform in the MED-11 countries is a little tarnished by that of the *Global Investment Promotion Benchmarking 2009* (GIPB 2009) from the same institution, which analyses the capacity of the Economic Development Agencies to promote investment (evaluation by mystery clients and data available via the web). The MENA region has been overtaken by all the regions in the world, with the exception of Sub-Saharan Africa. Israel and especially Turkey, which occupies the 15th world rank, are exceptions in the MED region, where despite the improvements in certain internet sites, *a bureaucratic approach stifles interaction with potential investors* (GIPB).

In terms of competitiveness, the *Global Competitiveness Report 2009-2010* of the World Economic Forum, which covers 134 countries, puts Israel and Turkey in the top half of its classification, along with Tunisia and Egypt, which made good progress in 2009. The other Maghreb countries (except Tunisia), then Syria, follow in the second half of the classification (the remainder of the Mashreq are not to be found in the WEF analyses), and are especially penalised by the poor operation of their financial and labour markets. The case of Algeria, which has the means for an endogenous strategy, thanks to its oil resources, is quite specific. In 2008-2009, the country deliberately made it more difficult for foreign companies considered insufficiently civic to settle there. However, the difficulties encountered, as an example, on the East-West motorway have shown that Algeria would gain from opening up to FDI, not so much because of the need for capital, but rather to enable transfers which could profit national companies, establish a business climate favourable to entrepreneurs (foreign and national), and enable it to rub shoulders with global competition.

2. The structural implications of the crisis

2.1. Return to strong growth?

According to the World Bank, the growth of GDP will temporarily decelerate in 2009 and 2010. In 2011 and after, the region should recover its past pace of 5 to 7% growth (Figure 15). This is much higher than the EU forecasts (concerning countries which have already achieved a high level of development). However, the MED region will trail some emerging competitors, especially Asia and its average growth performance of close to 10%.

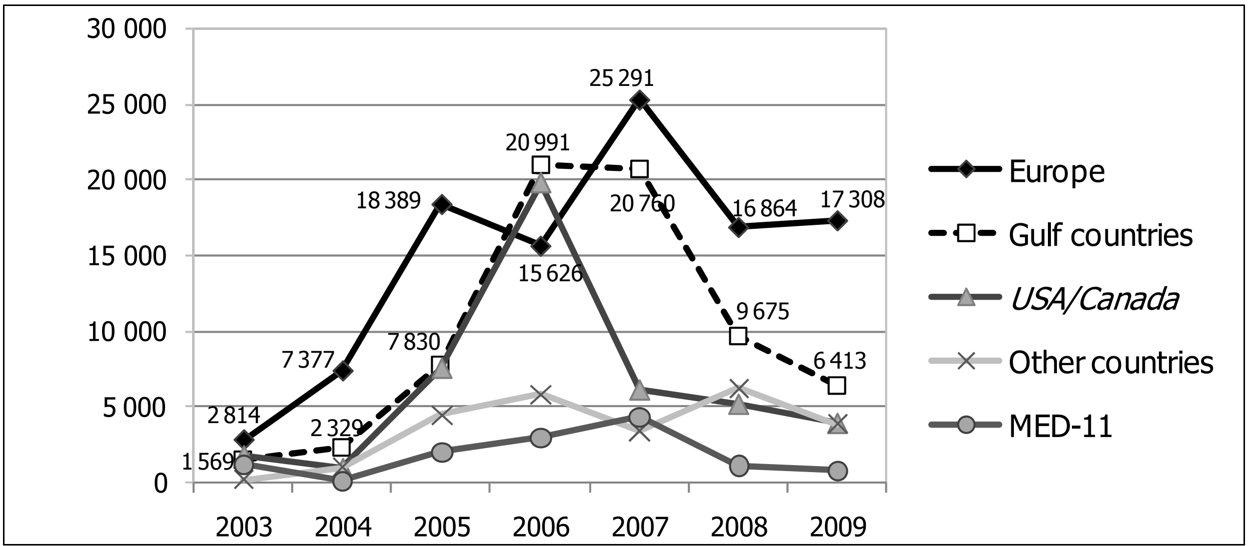
Figure 15. GDP growth of in some MED countries (in %. Source: World Bank)

Country	1996-2005	2006	2007	2008	2009	2010	2011
Algeria	4.0	2.0	3.0	3.0	2.1	3.9	4.0
Egypt	4.4	6.8	7.1	7.2	4.7	5.2	6.0
Jordan	4.7	8.0	8.9	7.9	3.2	3.9	4.5
Lebanon	3.3	0.6	7.5	8.5	7.0	7.0	7.0
Morocco	4.5	7.8	2.7	5.6	5.0	3.0	4.4
Syria	3.3	5.1	4.2	5.2	3.0	4.0	5.5
Tunisia	5.0	5.7	6.3	4.5	3.3	3.8	5.0

2.2. Changes in FDI patterns

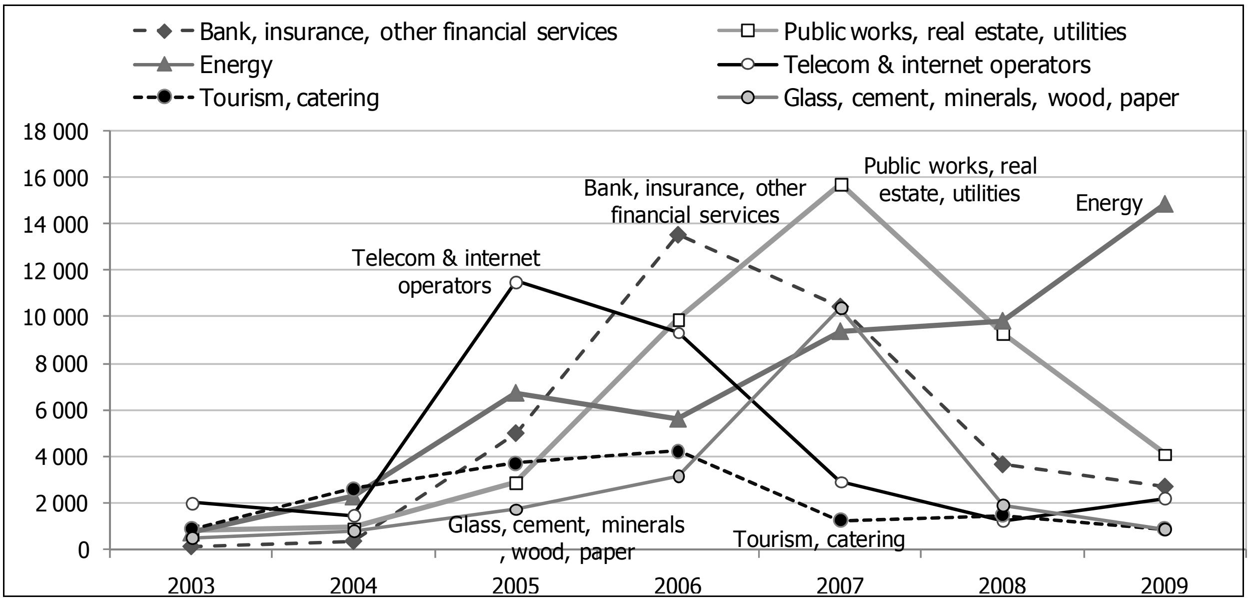
The crisis of 2008-2009 has not only been financial, it has also been *ecological*. Companies increasingly integrate energy and logistic costs into their decisions of where to locate and this results in a *bonus for proximity*. Hence (Figure 16), in 2009 European investments started to rise again in the MED region, whereas North America and "Other countries" are regressing. The drop in investments from the Gulf, the neighbour of the Mashreq, is more particularly due to specific problems in Dubai.

Figure 16. Origin of FDI in MED region, 2003-2009 (Net amounts in €m. Source: ANIMA-MIPO)



Another type of change may be observed, a certain sectoral rotation, with momentaneous (but comprehensible) crazes featuring one sub-sector or another. Building and Public Works had its hour of glory in the MED region (with the cement plants which go side by side with it), but should continue to remain a major sector because of the needs in infrastructure. In a context of rising prices and concern for supply, agribusiness is gaining in attractiveness. A sector such as distribution would today appear to be strategic, for there are positions to be taken in those countries which are liberalising their retail trade and opening up to Western-style consumerism (Turkey, Egypt, Morocco, etc.). Figure 17 illustrates the diverse fortunes of some of the larger sectors, with energy probably benefitting from the most constant (and ever-growing...) attention.

Figure 17. Evolution of FDI flow in some large sectors -all MED countries
(Net amounts in million euro. Source: ANIMA-MIPO, 2003-2009)



In addition to FDI, more than 1,000 partnerships associating MED companies have been detected over 7 years (Figure 18). Company partnerships have never been so numerous (300 in 2009, against 203 in 2008 and a hundred or so previously). They would seem partially to be a substitute for FDI, in the same way as other less "committed" ways of entering the South-Mediterranean market (JV, financial stake, extension of existing plant, etc.). In addition to this boom in partnerships, since 2005 one out of two foreign projects in MED countries is a "partial investment" (Figure 19): extension of an existing unit (brownfield), joint-venture, partial acquisition or concession.

Figure 18. Partnerships by type and year (Source: ANIMA-MIPO 2003-2009)

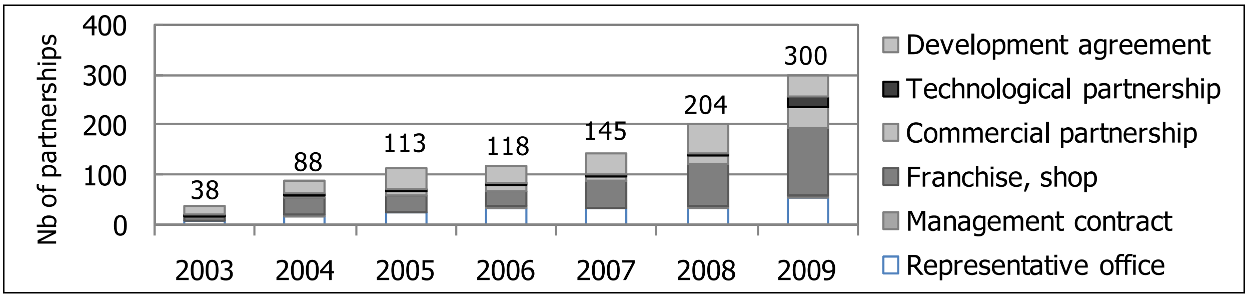
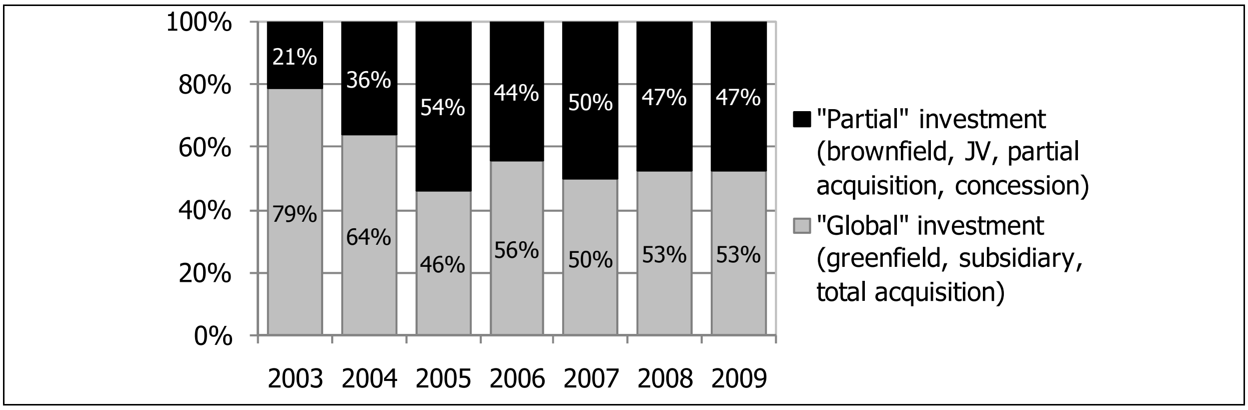


Figure 19. Evolution of projects according to the risk taken by the promoter (Number of projects. Source: ANIMA-MIPO, 2003-2009)



2.3. Channels for an international positioning of the Mediterranean

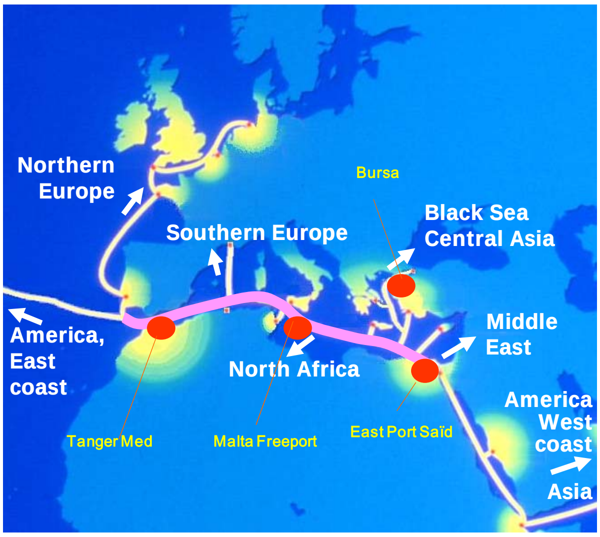
2.3.1 An intermediate and well-located producer

The Mediterranean is not intended to become the world's factory. The region cannot specialise in low tech/low cost products as China can, nor in high-end outputs (except Israel, sometimes Turkey or Tunisia), with some exceptions (energy, aeronautics, IT specialties etc.). The industrial fabric is lacking depth, integration and international size (beyond a few metropolitan or polarised areas -Tanger Med, Arzew, Southern Tunis, Alexandria etc.).

The MED positioning is indeed *intermediate*, characterised mainly by mid-size enterprises with a specialisation in low-tech or mid-tech sectors, such as agrifood, textile and clothing, footwear, furniture, mechanics, automobile etc. A strong dependency vis-à-vis foreign operators is frequent. Other than a few exceptions (Orascom, hydrocarbons, construction holdings), domestic companies are not global champions and often do not match international standards. Entrepreneurship, innovation, university-industry relationships are limited. This situation is quickly evolving (global competition awareness, search for excellence etc.).

Among the most important assets, the positioning of several MED countries on the edge of the most highly frequented world maritime channel is a real opportunity for world industrialists willing to establish their production in locations (i) benefiting from good logistics, (ii) close to the EU market (and the future Euro-Med FTA), (iii) with affordable labour costs. Around 25% of world oil traffic and 30% of container traffic are shipped through Gibraltar and the Suez Canal. Places such as Bursa-Istanbul, Port Said, Enfidha-Sousse, Cap Djinet (Algeria), Tanger-Méditerranée are remarkably well located (Figure 20).

Figure 20. Mediterranean positioning on the major container routes



This example of logistic flows also illustrates the opportunities lost by the Mediterranean: only one third of the maritime traffic transiting through the Mediterranean has an origin or destination in a Mediterranean port.

Beyond the attractiveness of certain clusters, the MED region continues to benefit from the general improvement in the investment climate and the upheaval in economic dynamics (the growth and the needs of the emerging countries). Other advantages are less than glorious: it is for example very complicated today to try and undertake heavy industrial projects on the North rim, for environmental reasons. The South, always less circumspect, recuperates a good number of projects or activities which Europe has more trouble in accommodating (sub-contracting, distance working, P2P services, etc.).

2.3.2 Continual upgrading of the infrastructure

The MED countries have been committed for several years to the implementation of infrastructure investment policies designed to facilitate their economic development: transport networks, upgrading of the ports, creation of business and technological parks, development of telecommunications, etc. These investment programmes, often promoted by the Government, have also been the opportunity for privatisation or concession, thus introducing some major international and regional operators to local markets, with varying degrees of success (see the ANIMA report "Mediterranean Investment Map" and www.medmaps.eu for more details and mapping).

This upgrading process is ongoing. In telecommunications for example, where many licences have already been granted (between 2002 and 2006 nearly 30 billion euro have been invested, including Turkey), 2 licenses were awarded in Jordan and Tunisia in 2009. A qualitative leap has to be made in logistics or retail. It would be worth European investors taking a position in markets where the domestic transport infrastructure has progressed well thanks to public investment, local markets are often solvent and demand continues to grow even in this period of global recession. Above all, most countries are in demand for projects in the field of water management, waste treatment and housing development, particularly for social accommodation.

2.3.3 Some value chains are anchoring in the Mediterranean

The declining birth rates, the increasing number of young graduates and the initiatives in favour of the education of people in countries that suffer particularly from illiteracy, such as Morocco, may augur the movement of economic convergence towards which the two rims of the Mediterranean are tending. The region intends to position itself in providing activities with high added value, rather than fight solely on reducing factor costs.

The MED countries are also competitive for activities with high energy needs or for some activities requiring a competitive and often specialised workforce. This is particularly the case in Algeria or Syria that, through their own production of hydrocarbons, attract the metallurgical and chemical industries, which are highly energy-intensive. Chemistry is growing in countries with local raw materials, such as Jordan and Morocco (phosphates), and mining activities in Jordan, Israel or the Palestinian territories.

Southern Mediterranean countries sometimes experience difficulties in differentiating themselves from each other, often due to comparable market sizes and equivalent comparative advantages. However, in a certain number of sectors, a de facto positioning of the Mediterranean region relatively to other regions of the world is becoming apparent, for instance in:

- **Agri-business** (large producers, industrialists and technologies): the Southern rim of the Mediterranean has important strengths to stand out in the agri-business sector, to start with its excellent culinary reputation, Lebanon, Morocco and Syria in the lead. First of all, this region has significant producers such as Egypt (8th position in the world in terms of fruit and vegetable production, targeting the 3rd position), Morocco (where 60% of the population makes a living thanks to this sector), and Syria (where agriculture represents 25% of GDP and Nestlé has been established for more than a century...). Increasingly, countries in the region are increasing in added value by developing the processing industries (Jordan, Tunisia, Morocco, Syria, Egypt) and packaging for export development (Egypt, Morocco, Lebanon). Moreover, countries like Israel are at the forefront of technology in the fields of processing and irrigation. Other countries in the region follow suit. Nonetheless, better cooperation with Israel would be beneficial for the whole area. Besides, land rental is beginning to expand for major operators (e.g. Morocco).
- **Automotive industry and aeronautics**: starting with sub-contracting, for instance in electrical cabling for cars (Tunisia) or low-cost models (Turkey, Morocco), the vehicle industry is now thriving in the Bosporus region or in Tanger-Méditerranée, with the full assembly of important automobile lines. Aeronautics is developing in Tunisia (cluster dedicated to Airbus partners), Morocco (links with software and electronics), Turkey (helicopters etc.).
- **Euro-African logistics hub**: several factors make the Southern rim potentially essential in the supply chain of companies targeting the Euro-African plate and the Middle East. First, the existence of raw materials, particularly agricultural and fishing products, minerals and hydrocarbons. The Mediterranean has a significant number of ports already equipped to receive the largest shippers (Port Said, Tangiers, Malta, future Enfidha or Cap Djinet), with industrial estates adapted to process industries (automotive, for example) nearby. Moreover, the Southern countries have domestic markets where demand is still growing, unlike the Northern rim.
- **ICT sector**: the MED countries are important markets for the upgrading of SMEs in all fields of ICT (Web, ERP, IP telephony, etc.). In general, these markets are well treated by local and foreign players and are supported by government incentive policies. In the ICT sector, the MED countries have already demonstrated their ability to skip steps. The

low performance landline phone has for instance been wiped off by the recent flood of mobile phones. For the same reason, the region is now forced to undergo a technological leap with the wireless internet (Wimax - 3G/4G). From East to West, the Southern rim of the Mediterranean is producing engineers and innovative start-ups. Pioneer markets are emerging, as well as a technological know-how tailored to the economic realities of the countries. Moreover, the professionalisation achieved in the main ports of the region, the opening of airspace and the expertise developed in relationship with foreign customers makes the Southern rim a possible rear base for e-commerce operators from the Northern rim. Especially since governments are now taking on board incentive policies for e-commerce. After customer relationship management centres yesterday, today software and voice over IP, tomorrow mobile Internet and E-commerce... and after tomorrow, the Mediterranean as the pioneer of the M-commerce (electronic commerce on mobile devices)?

- **Fast fashion and special textiles**: most MED countries are positioned in this traditional sector in the region. Except for local crafts, the region has rather positioned itself on the dyeing, the assembly of ready-made-garments for export and the spinning industry. All major European brands specialising in short series (Zara-Inditex, Mango, Benetton) have production capacities in the South of the Mediterranean but design activities generally remain in the North. Some brands, especially Moroccan jeans or Turkish garments, have nevertheless managed to penetrate the markets of the Northern rim. Two areas seem promising for the development of the sector in the years to come. Firstly, the medium and upmarket for small series of "fast fashion": the short distance between Southern Mediterranean countries and the European continent allows restocking in record time which Asian competitors cannot beat. Secondly, the technical textiles bound for new sectors developing in the region: textiles and gauze for pharmacy, public works applications of tissues and textile packaging for logistics
- **Specialist tourism offer**: the Mediterranean is one of the top tourism destinations in the world. Moreover, tourism is one of the main providers of foreign exchange for Southern countries. Today the industry is moving towards a greater specialisation in the products offered to travellers worldwide. The Mediterranean is accompanying this movement by greatly diversifying its offer: medical tourism in Tunisia, business tourism in Jordan, golf in Morocco, diving and nature in Egypt, relying on more skilled staff. But the seaside tourism and the heritage or religious tourism still attract the bulk of tourists to the region. Large "resorts" have emerged or have been announced all around the Mediterranean coast, posing at the same time the issue of the environmental compliance of these projects, which are not always commercial successes either. Domestic tourism is a new source of opportunity that could assist the development of the hinterland, which represents an important issue for MED countries.

3. The future role of Mediterranean countries in the world economy

3.1. Population: 77 million more dwellers to accommodate by 2030

According to specialists, the population of MED countries will increase by 26% between 2010 and 2030 (Figure 22), under the effect of lower infant mortality and the increase in life expectancy, while that of the countries of Latin Europe will grow only by 4% (2% on average in the EU-27). In the long run, when Europe will gains one new inhabitant, the MED countries will count 10 newcomers. Until 2030 the MED countries will enter in a "demographic bonus" stage: the productive population, able to work, will reach 60-70%, while at the same time the non-active population will decrease (the young people representing 20-30% and old people under 10%).

Figure 22. MED population prospects 1950-2030 (UN -Medium variant, in thousands)

Year	Alg.	Egy.	Isr.	Jord.	Leb.	Lib.	Mor.	Pal.	Syr.	Tun.	Turk.	MED
1950	8 753	21 514	1 258	472	1 443	1 029	8 953	1 005	3 536	3 530	21 484	72 977
1975	16 018	39 599	3 358	1 937	2 737	2 466	17 305	1 255	7 537	5 668	41 211	139 091
2000	30 506	70 174	6 084	4 853	3 772	5 346	28 827	3 149	16 511	9 452	66 460	245 134
2010	35 423	84 474	7 285	6 472	4 255	6 546	32 381	4 409	22 505	10 374	75 705	289 829
2020	40 630	98 638	8 307	7 519	4 587	7 699	36 200	5 806	26 475	11 366	83 873	331 100
2030	44 726	110 907	9 219	8 616	4 858	8 519	39 259	7 320	30 560	12 127	90 375	366 486
Δ 2030/2010	26%	31%	27%	33%	14%	30%	21%	66%	36%	17%	19%	26%

3.2. Jobs: between 34 and 95 million jobs to create by 2030

At the same time, the MED countries will have to absorb up to 95 million additional potential workers, i.e. much more than the formal jobs now offered. This depends on the job scenario used (see for instance on Figure 23 three different IPEMed scenarios: 1. keeping the current activity and unemployment ratio; 2. keeping the job creation ratio observed in 2005-2007; 3. maintaining a number of non-active population at the current level or 94.2 millions). The result shows that a job creation rate of respectively 1.5, 2.7 and 4.0 million jobs per year is needed in the MED countries -the best scenario able to buy some social peace being of course the most optimistic or between 3 and 54 million jobs per year.

A contrario, Europe will lose potential workers (up to 20 million by 2030). In the best scenario (joint-development, complementarities, migrations and delocations accepted), the problems of the some could offer a solution to others. In fact, unemployment could continue in Europe despite the loss of workers, major deficits in formal jobs are probable in MED countries (fuelling emigration) and shortages of labour in certain sectors. A cross-sector, cross-region adjustment of labour will not necessarily come naturally via market forces.

Figure 23. MED employment prospects 2007-2030 (in "Quel avenir pour la Méditerranée en 2030?" IPEMed, March 2010)

PM 2007-2030	Nb. jobs created 2007 -2030	Job creation ratio	Annual job creation needed	Active pop.	Jobs	Un-employ ed	Non active	Activity rate	Unemployt. rate
1. Similar job & activity ratios	34.2 m	1.7%	1.49 m	121.7 m	109.0 m	12.7 m	152.7 m	44.4%	10.4%
2. 2005/2007 ratio	62.6 m	2.7%	2.72 m	150.8 m	137.4 m	13.4 m	123.5 m	55.0%	8.9%
3. Constant nb. of unemployed	95.0 m	3.7%	4.13 m	180.2 m	169.8m	10.4 m	94.2 m	65.7%	5.8%

3.3. Is the Mediterranean just a concept?

At least for Southern Europe, any future is highly linked to the Southern and Eastern Mediterranean countries, on several grounds:

- The time has come for economic blocs (cf. the theory of orange slices by Jean-Louis Guigou of IPEMed – each Northern bloc has to deal with the pieces of land on the same meridians, N. America with S. America, Japan with China and Asean, Europe with N. Africa or all Africa);
- For the first time in history, in 2009 the emerging countries surpassed the output of developed countries in terms of global output (GDP);
- When considering the Euro-Med pairing, and despite the challenges that MED countries are facing, Europe is on a declining trend and MED is on an upward trend, in terms of population, growth, dynamism;

- For geographical, historical, cultural, political reasons, Europe and the Mediterranean obviously share a common destiny.

Three scenarios may be envisaged for the economic future of this "global region":

- **The worst case scenario, or Atlantide scenario**. The whole region, on both rims, has strong *patrimonial assets* (civilisations, culture, landscape, weather, sites, resources, cuisine, etc.) and *weak entrepreneurial strength*, at least compared with the 2 other major blocs of America (ALENA + Comasur) and Asia (China + ASEAN + India). The current IMF head, Dominique Strauss-Kahn, sometimes explains that, "*when the Middle-West professor will teach geopolitics to his students in 2050, he will probably talk about the Greater American market, here, and its big Asian competitor, beyond the seas. Not sure he will mention Europe, unless a strong Euro-Med or Euro-Africa alliance emerges some time in the early decades of the century*". Of course, Europe will not disappear as a lost continent (the Atlantide…), but could fade away and be marginalised in the global contest.

  The obvious flaws, discrepancies, lack of leadership in the EU model on one side, the lack of integration, possible conflicts, difficult challenges among MED countries on the other side could seriously limit the competitiveness of the whole area. In this scenario, the potential synergies between the two rims are wasted. The existing divides (economic, religious, political…) are exacerbated. This is, in a way, a "do-nothing" scenario – Europe unable to adopt a full pro-active vision of its relationship with its South, MED rulers more interested in keeping power than in developing their country, elites and capital fleeing home, lack of brave and prophetic decision-makers committed to stopping several endless conflicts, societies resigning in the face of extremism or populism.

- **The "continuation" scenario** –Euro-Med dialogue continues, but not without stop and go episodes. The political process is trailing business breakthroughs. Companies are co-operating, but they are not fully freed from the various obstacles (visas, imbalances in the trade agreements, red tape, fastidious implementation of common standards etc.). Some commitments emerge at times of crises, but no real long term *determination* prevails – hence delays (as for the Free Trade area planned for 2010), insufficient funds (the famous 1 to 40 ratio between MED allocation and Eastern European country structural funds[4]).

  In this case, the effective MED future will be a mix of several patterns: a few areas of excellence (capital cities, logistics and industrial poles, prime service locations) able to retain the best of MED activities and citizens; the outer circles of these metropoles, for "urban servants" living in difficult conditions; the "average" territory (suburbs, small cities) of the growing middle class; rural spaces either exploited (traditional villages, agrifood, plantations) or semi-abandoned (desert, mountains, reserves), with numerous tourism enclaves. Beyond a few exceptions (national oil companies, some efficient holdings), most of the industry will still depend on transnational companies from OECD and more and more from emerging countries (Tata, Mittal, CNPC, Bunge, Emaar etc.). Neither MED, nor in fact Europe, will have real control of the economic situation, with both experiencing a relative decline compared to Asia and America.

- **The dream scenario** – all conflicts are solved (maybe because they suddenly appear as secondary compared to the Earth challenges...), a MED-15 organisation, full partner of the EU-35, is created as early as 2015, these 50 States are all part of a thriving Union for

[4] Or the difference between the €200 bn package for Greece 2010-2012 - short maturity loans, this is true- and the mere €10bn attributed over 6 years for the MED leg of the ENPI policy –mostly grants and technical assistance.

the Mediterranean. The Euro-Med partnership is encouraged in terms of the movement of goods and persons. A Euro-Med development bank accompanies the multiplication of projects and business partnerships. A Treaty is signed to make the Mediterranean a world laboratory for novel industrial approaches based on innovation, corporate social responsibility, environmental care etc. Most MED countries solve their governance problems via a peaceful transition to democracy. A wide access to Internet facilitates the implementation of a knowledge economy (see for instance the example of Tunisia in Figure 21 – to a certain extent, Jordan, Egypt, Morocco and of course Israel have adopted a similar strategy).

Obviously made of millions of individual decisions, this scenario would also imply a set of collective choices based on long-term rationality: systematic preference for sustainable projects, development of subsidiarity and local accountability, commitment to sound regional co-operation, priority to education and training, real economic chances given to entrepreneurs, youth, women and diasporas. Awareness and intelligence will be decisive to avoid wasting the sometimes limited available resources (for instance seashore space, for which urbanisation, logistics, tourism, agriculture are competing fiercely).

Figure 21. The Tunisian success story in the knowledge economy field (extract of a FEMISE report, Crisis management in MED countries, April 2010, Ahmed Galal et Jean-Louis Reiffers)

Tunisia is, among the MED Countries, the country which best succeeded in upgrading its mode of growth (the contribution of the productivity of factors to the growth is about 2% vs. 0.5% in Egypt and in Morocco and a negative contribution in Algeria). This is due to the turn taken in the middle of 90s, i.e.: (i) opening of the industrial trade with the EU, (ii) strategy based on knowledge economy. This strategy concerned, in particular, the implementation of technology poles, the development of the ICT sector, many institutional reforms aiming at a better welcome of foreign investors and a reform of the educational system. In the industrial field, the directing framework of PIM (Programme of industrial modernisation 2003-2009) paid a special attention to the immaterial investment. This orientation was followed by the companies following the initial impulse of the State (at the end of 2009, more than 3,000 companies concerned). (...) The future orientations tend to extend and amplify this momentum, with an objective directed towards international trade (with a focus on facilitation of the access to the markets over the period 2010-2013, an infrastructure for quality assessment and a tentative mutual recognition agreement with EU in the field of the industrial conformity, covering first the mechanical and electric engineering sector).

The Union for the Mediterranean project comes at the right moment to bring new energy to a Euro-Mediterranean partnership which probably lacked ambition and political support. Companies, the business community, the civil society can perhaps make this integration process a success given the difficulty of it being conceived merely from a strictly political point of view. However time is of the essence and other world regions are sometimes moving more quickly. Often split, despite its apparent unity, the Mediterranean family would need champions (the likes of Schuman, Monnet, Adenauer, De Gasperi, Spaak etc. for the EU). Europe and MED countries are now facing their common responsibility: development or relative decline; synergies or disunion; co-operation or mistrust; peace or war.

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