



Thinking Ahead
for the Mediterranean



MEDPRO - Prospective Analysis for the Mediterranean Region

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Seminar on the Euro-Mediterranean Region

Summer school organized in collaboration with CUIMPB - Centre Ernest Lluch Thursday
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WELCOME SESSION

Prof. Joan Fuster Sobrepere (Consorcio Universidad Internacional Menéndez Pelayo de Barcelona, CUIMPB - Centre Ernest Lluch, Spain) welcomed participants to the MEDPRO Seminar on the trends, tensions and prospects in the Euro-Mediterranean region. After Andreu Bassols (Institut Europeu de la Mediterrània, IEMed, Spain) and Prof. Joaquin Arango (Universidad Complutense de Madrid, Spain) recalled the Southern Mediterranean's strategic importance, its current situation and social sciences' difficulties in predicting future changes, Dr. Rym Ayadi, (Center for European Policy Studies, CEPS, MEDPRO Coordinator) presented the MEDPRO project. MEDPRO - Mediterranean Prospects is funded under the EU's 7th Framework Programme and coordinated by the Centre for European Policy Studies (CEPS), based in Brussels. Its aim is to contribute to the reform process in the political, economic and social agendas by broadening the knowledge on the interplay between the economic, financial, social, environmental and international challenges faced by the Southern Mediterranean region while providing deep insights into the policy options seeking to meet them as well as their outcomes. To do so, MEDPRO has adopted an interdisciplinary approach to foresight analysis bringing together highly qualified researchers from both shores of the Mediterranean with diverse backgrounds, regional expertise and proven track records in the fields of geopolitics and governance; demography; management of environmental resources; energy and climate change; economics and finance; human capital, social protection, inequality and migration. By undertaking an inclusive analysis of the main development issues for the Mediterranean, the project will provide new evidence on the long term outlook, the cohesion between the different aspects of socio-economic development and the resulting challenges for public policy in both the EU and the Southern Mediterranean.



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SESSION 1: GEOPOLITICS AND GOVERNANCE

Dr. Silvia Colombo (Istituto Affari Internazionali, IAI) referred to the concept of State sustainability to analyze the uprisings in the Southern Mediterranean, which key feature is the need for the State to safeguard its own interests while ensuring access to social rights to its population*. The lack of civil liberties coupled to ill governance standards and poor socioeconomic opportunities have triggered uprisings in the region; but one year after, the Southern Mediterranean's geopolitical outlook is fragmented between violent regime change (Libya, and Syria); regime sponsored reforms (Algeria, Jordan, Morocco) as well as election-based transition (Egypt, Tunisia). Furthermore, there is also growing fragmentation inside countries notably as regards the role of the army and religious based political parties. These developments have urged the EU and other external actors to revisit their approach towards the region. First, the importance of democracy promotion activities has been reaffirmed, allowing the west to foster change in the region. Second, despite questions about its optimality and double standards, political conditionality has been reaffirmed. Third, in the face of the challenges ahead of the Mediterranean, external actors need to revive both new and old cooperation structures such as the Union for the Mediterranean (UfM) and the 5+5 Dialogue.

SESSION 2: LONG TERM STRUCTURES, TRENDS AND PROSPECTS

Prof. Marek Dabrowski (Center for Social and Economic Research, CASE, Poland) gave an overview of Southern Mediterranean Countries' (SMCs) economies focusing on macroeconomic conditions, trade liberalization and foreign direct investment (FDI). On the macroeconomic side, SMCs represent 3% of world's GDP and with the exception of Israel all SMCs are middle income countries, with per capita incomes ranging from 4,500 \$ in Morocco to 15,168 \$ in Lebanon. Since the 1990s, income levels have started a convergence process and are negatively affected by inflation and fiscal instability**, whereas trade openness and FDI inflows exert a positive influence. As regards trade liberalization, SMCs have concluded a variety of trade agreements*** but tariff and non tariff barriers remain high****. Simulating scenarios of shallow and deep integration shows that decreases in tariff and non tariff barriers would spur SMCs trade both with the EU and within themselves. In a scenario of deep integration, the highest increase is witnessed in imports from the EU (on average 50% from current levels), the exports' increase being substantially lower (40%). Turning to FDI, MEDPRO's research has shown that the region has significantly improved its performance: from 0.8% in 1995, the FDI/GDP rose to 3% in 2008. FDI inflows are found to be influenced by good governance, trade openness as well as good infrastructure and have decreased over the last 3 years due to the economic and financial crisis****. Dr. Ibrahim Saif (Middle East Centre of the Carnegie Endowment for International Peace, Lebanon) followed the session by presenting

*For an analysis of the Southern Mediterranean's State Sustainability, see Colombo: "The Southern Mediterranean: Between Changes and Challenges to its Sustainability", MEDPRO Technical Report n°1, November 2010. Available at: <http://www.medpro-foresight.eu/publication/southern-mediterranean-between-changes-and-challenges-its-sustainability>. Readers can find country analysis on state sustainability in the region here: <http://www.medpro-foresight.eu/publications-wp2>

**See: Coutinho: "Determinants of Growth and Inflation in Southern Mediterranean Countries", MEDPRO Technical Report n°10, March 2012. Available at: <http://www.medpro-foresight.eu/publication/determinants-growth-and-inflation-southern-mediterranean-countries>

*** These include among others the Global Arab Free Trade Area, Euro-Mediterranean Association Agreements, the Agadir Agreement.

**** For an analysis of SMCs tariff and non tariff barriers, see: Ghoneim, Péridy et al.: "Shallow vs. Deep Integration in the Southern Mediterranean: Scenarios for the region up to 2030", MEDPRO Technical Report n°13, March 2012. Available at: <http://www.medpro-foresight.eu/publication/shallow-vs-deep-integration-southern-mediterranean-scenarios-region-2030>

***** See: Sekkat: "Manufactured Exports and FDI in Southern Mediterranean Countries: Evolution, Determinants and Prospects", MEDPRO Technical Report n°14, April 2012. Available at: <http://www.medpro-foresight.eu/publication/manufactured-exports-and-fdi-southern-mediterranean-countries-evolution-determinants-and>



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Dr. Ibrahim Saif (Middle East Centre of the Carnegie Endowment for International Peace, Lebanon) followed the session by presenting the economic drivers of the Arab Spring and their developments in its aftermath. Over the past decades pre Arab Spring, SMCs adopted a series of reforms aimed at opening their economies and stabilize their external positions but which negative side effects were to reinforce inequalities and create concentrated market structures at the expense of broader inclusive participation. Wealth concentration and repressive political structures eventually led the 2011 uprisings. The political instability triggered by regime change has resulted in a poor economic performance, inflationary risks and important demand for subsidies; further constraining governments' already restrained fiscal space. Arab countries' woes are further exacerbated by a relative absence of economic vision among current rulers. Against this bleak picture, positive signals nevertheless emerge. First, decision making processes started to change and are more open than they ever were. Second, media are increasingly open. Third, youth and women are more engaged than they were a year before. The challenges SMCs' government will have to meet are to reduce policy uncertainty, limit government intervention –especially in credit markets–, create fiscal space by decreasing subsidies; curb corruption and increase stakeholders' engagement.

SESSION 3: DEMOGRAPHY AND EMPLOYMENT

Prof. Joaquin Arango (Universidad Complutense de Madrid, Spain) remarked that although SMCs have entered in a process of demographic transition and convergence with EU countries, large imbalances exist between the northern and Southern shore of the Mediterranean. Children and young adults are predominant in SMCs while in the EU the population is ageing rapidly, discrepancies that will translate into shifts in both regions labour force. Over the medium to long term, EU countries will face population decline and labor shortages whereas SMCs will have to generate strong and sustained growth rates in order to create 55 million jobs by 2050 to absorb the growing labor force. These demographic imbalances make migration strategically relevant but to ensure a win-win cooperation with the EU important obstacles need to be overcome such as the globalization of migration flows, a hostile political environment and skills mismatches between both shores. Provided these three elements are addressed, the EU and the Southern Mediterranean could engage in circular migration formulas targeting relevant needs in immigration countries; reduce illegal migration and brain drain while providing valuable additional income to households in emigration countries.

SESSION 4: WATER, ENERGY AND ENVIRONMENT

Prof. Rafael Rodríguez Clemente (Consejo Superior de la Investigación Científica, CSIC, Spain), recalled a series of environmental imbalances in the Southern Mediterranean. On the one hand, the region represents 5.7% of the world's continental surface and hosts 7% of world's population. On the other hand, 60% of people on the Southern Mediterranean are "water stressed" (i.e. they do not have access to enough water resources to cover their needs); the region is responsible for 8% of worldwide CO₂ emissions; 10% of species living in the region are in danger of extinction and 7% of marine species could also disappear. Growing urbanization, the importance of tourism in the region's economies as well as ill suited energy and water management policies are partly responsible for these trends. In the years to come, climate change impacts on water and biodiversity will raise risks of conflict and instability, calling for the development of alternative energy sources such as solar power, the adoption of water policies and based on demand control, hydrological plans and increased public awareness.



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SESSION 5: MAJOR ACTORS IN THE REGION: EGYPT, ISRAEL AND TURKEY

Prof. El Mahdi gave an update on countries' political transition in Egypt in comparison with Libya and Tunisia. Even though the three countries witness a rise of religious based parties, they differ widely. Contrary to Tunisia and to some extent Libya, the Egyptian youth groups who spearheaded the revolution disappeared from the political scene. Of the few independent/revolutionary groups present in the Parliament, most of them have signed an "entente cordiale" with the Muslim Brotherhood and put their personal interests ahead. Second, Tunisia managed to quickly move towards elections whereas Egypt's process was and perhaps is far longer and un-transparent. Third, in the Egyptian case, the new president's delays in choosing his cabinet could be interpreted as signs of inefficiency to deal with the current turbulences in the country.

Dr. Roby Nathanson (Israel Macro Center, Israel) followed the discussion focusing on Israel's internal dynamics. The country also went through a phase of unrest during the summer 2011 however, unlike their Arab neighbors, Israeli protesters did not seek to overthrow the regime but to push for more inclusive social policies. Indeed, since 2000 the country adopted tight fiscal and monetary policies while curbing social spending and passing flexible legislation to increase labor force participation. These policies coupled with socio-cultural characteristics have translated into labor market segmentation and a worsening income distribution. In response to the unrest, Prime Minister Benjamin Netanyahu appointed the Trajtenberg Committee, a group of economists tasked with providing guidelines to solve the country's socioeconomic problems. The Committee gave its recommendations in September 2011 and called for decreasing military spending in favor of active social and labor market policies; competition policy reforms; and the creation of a housing rental market among others.

The session was concluded by Prof. Bahri Yilmaz (Sabanci University, Turkey) who gave an overview of the Turkish economy and its relations with other SMCs. Over the last decades, Turkey has proved to be one of Europe's fastest growing economies: per capita income 2.7 times in 8 years to reach 10,000 \$ in 2010. Growth is mainly driven by private consumption and investment; official unemployment is at 12%; inflation has stabilized at 6% falling from 11% levels between 2002 and 2008; and, exports have increased threefold since 2002. These achievements notwithstanding, the Turkish economy remains vulnerable: total unemployment is estimated to be higher than 12% (20% or more); the current account deficit is not covered by FDI inflows as it used to be; and the EU crisis has urged the country to diversify its export markets. To diversify its trade partners, the share of Middle East and North Africa in Turkey's exports rose from 13% in 2002 to 20% in 2010. The country's economic success, symbolized by a new class of entrepreneurs able to conciliate capitalist values with religious ethics, -the so-called "Anatolian Tigers"- gave rise to speculations about the country's potential role model for emerging Arab democracies. According to Prof. Yilmaz, such perception is ill-founded for at least two reasons: first, Turkey's example shows that economic success was built upon secularist principles; and, second, over the next years, the country will have to focus on solving its internal problems.



SESSION 6: EURO-MEDITERRANEAN RELATIONS

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European Commission's Scientific Officer Dr. Domenico Rossetti Di Valdalbero gave a brief presentation of EU's forward looking activities, their history and MEDPRO's positioning within these initiatives. In 1989, E.C. President J. Delors created the "Cellule de Prospective" an interdisciplinary "think tank" composed of Member States' (MS) representatives tasked with conducting prospective studies on diverse aspects of EU integration in collaboration with research centers and organizations specialized in long term planning. E.C. Presidents R. Prodi and J.M Barroso successively renamed the body- today known as the Bureau of European Policy Analysts (BEPA)- and expanded its mandate to include wider economic, political and societal foresight analyses. These activities translate into long term policy orientations such as the EU Budget, the EU 2020 Strategy and Commission Communications such as the Transport 2050 Communication. 7th Framework Programme Social Sciences and Humanities Program (FP7 SSH) including foresight analyses are also key components of EU's forward looking activities*.

As far as the Mediterranean is concerned, besides MEDPRO, the region has been the focus of the EUROMED 2030 Expert Group. Published weeks before the onset of the Arab Spring, the report** called for a unified policy towards the region and highlighting that socioeconomic development was an imperative for the Southern Mediterranean countries to reduce risks for the neighboring countries. As entrenched authoritarianism and poor socioeconomic conditions are at the roots of the Arab Spring, EU's policies towards the region are now questioned and the design of future policy options for mutual benefit requires going beyond conventional thinking more than before, a challenge MEDPRO strives to meet.

Dr. Rym Ayadi (CEPS, MEDPRO Coordinator) followed the discussion presenting MEDPRO's scenarios for the future of Euro-Mediterranean relations. Under the business as usual scenario which characterized cooperation Euro-Mediterranean relations until 2011, cooperation between the EU and SMCs was fragmented across countries and funded initiatives. Since the enactment of the Barcelona Process in 1995, the EU provided a total of 17 Eur. bn for assistance to the Southern Mediterranean with a questionable impact on recipients' commercial, socioeconomic, and governance standards. As the Arab Spring events rule out the continuation of past trends, three transitions may arise based on SMCs progress towards sustainable patterns of development and Euro-Mediterranean cooperation, each leading to a different future:

1. The Green Transition scenario foresees the EU and the MED11 creating a common market and framework of action on a wide range of issues such as R&D, migration, trade, environment etc. Under this scenario, SMCs will eventually become members of the European Economic Area (EEA) of which Switzerland and Norway are part.

2. On the other hand, the Blue Transition will result in a set of multilateral and differentiated agreements between Mediterranean countries and the EU. SMCs will have fostered integration between themselves and with the EU leading to a future based on co-development in a number of areas such as trade, migration, etc. The region will have anchored in sustainable patterns of development and Southern Mediterranean countries will have developed relations with both the EU and other geopolitical actors such as GCC countries, Russia, China etc.

* For more information on FP7 SSH research projects, see: <http://cordis.europa.eu/fp7/ssh/>

** For a copy of the report, which was published in December 2010, see ftp://ftp.cordis.europa.eu/pub/fp7/ssh/docs/euromed2030-long-term-challenges_en.pdf.



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3. Under the Red Transition (Q4), no sustainable pattern of development will be reached, and Euro-Mediterranean relations will be disregarded. Cooperation and political dialogue will first stagnate to then vanish and the lack of interest of the EU in its southern shore will gradually transform the Mediterranean into a border between two clashing civilizations. Under this “threats” scenario, tensions will be rife and could potentially lead to conflicts.

Current signals rule out the Green Transition scenario and point rather at the Blue or Red Transition. For example, since the upheavals, the EU has implemented a differentiated policy with SMCs. On the one hand, it stepped up its support in favor of Egypt, Jordan, Morocco and Tunisia and is currently moving forward towards concluding new generation free trade agreements addressing extensively legislative approximation. Based on its new emphasis on political conditionality, Brussels vows to ease migration rules and conclude mobility partnerships with these countries once they have adhered to certain standards. On the other hand, the EU started to develop relations with Libya by opening a Commission Representation in Tripoli and starting to develop cooperation with the new authorities. While these characteristics point at the Blue Transition, the civil war in Syria and its consequences on neighboring Lebanon as well as repeated incidents and tensions at the Israeli-Egyptian border coupled with a deteriorating economic and social situation in Palestine could raise tensions and lead to conflicts. Taken together, these two sets of signals could eventually lead the EU to create sub-regional policies based on different realities faced by Maghreb (Algeria, Morocco, Tunisia), and Mashrek countries (Egypt, Jordan, Lebanon, Palestine and Syria).

CONCLUSION

After thanking participants and discussants for their respective inputs, Andreu Bassols (IEMed, Spain), concluded the meeting highlighting that the foresight difficulties notwithstanding, the trends at play in the Southern Mediterranean were unquestionable and required sustained engagement as well as well informed policy. However, in as far as Euro-Mediterranean relations are concerned, the current economic and financial crisis in Europe asks the question whether the EU will be able to change, deepen and sustain its engagement in its Southern neighborhood or whether it will turn increasingly inward looking, despite the numerous opportunities it enjoys in the region.