



Co-Sourcing in the Mediterranean

A response to the global crisis ?

Minutes of 6 December Meeting

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IPEMED

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JEUNE AFRIQUE



On 6 December 2012, IPEMED partnered with Jeune Afrique and La Tribune to organize a major debate entitled “Co-sourcing in the Mediterranean: a Response to the Crisis?” at the La Poste Headquarters. The debate gave a number of business leaders and institutional representatives an opportunity to share their experience and give concrete meaning to the concept of co-sourcing.

Following a precise overview of co-sourcing in the world today, and an analysis of the differences between co-sourcing, offshoring and relocation by El Mouhoub Mouhoud, Professor of Economics at Paris Dauphine University, the debate continued along three major themes: “What is co-sourcing?”, “Why is it time for co-sourcing in the Mediterranean?” and “What conditions need to come together for co-sourcing to succeed?”.

The event also provided an occasion to inject new energy into the business leaders’ initiative, the Euro-Mediterranean Competitiveness Confederation. The EMCC was created in 2009, aiming at gathering leaders from the main companies active in the Mediterranean to give them a voice and use economics to build a sustainable, socially responsible region.

EMCC, the voice of business in the Mediterranean

To open the session, Marc-André Feffer, Executive Vice President of La Poste group, which hosted the event, began with a reminder of La Poste group's interest in the Mediterranean, and then went on to talk about the concrete North-South Mediterranean partnership project embodied by the Union des Postes pour la Méditerranée, a genuine regional framework that fosters cooperation between postal operators in the Mediterranean.

JEAN-LOUIS CHAUSSADE, Chief Executive Officer of Suez Environnement and Chairman of IPE-MED's Supervisory Board, insisted on the role played by business leaders, not just in bringing the two sides closer, but in giving new impetus to the European and Mediterranean economy. As an example of successful co-sourcing, he mentioned the partnership between Suez Environnement and the Société des eaux et de l'assainissement d'Alger, which involved training Algerian teams.

The conviction that business leaders play a crucial role in Euro-Mediterranean construction was at the origin of the creation of the EMCC initiative (Euro-Mediterranean Competitiveness Confederation), whose ambition is to "carry the voice of business" through a "federating, international initiative that is equally balanced and open", and which meets once a year. Jean-Louis Chaussade made an appeal for large numbers of businesses leaders to come and join the initiative.

Giving companies a central place means recognizing their structural role: to this end, **NASSIM KERDJOUJ**, CEO of NetSkills and Vice-President of the Algerian Business Leaders' Forum (FCE), pointed out that in Algeria in 2009, the private sector was the biggest employer in the country and represents 80% of the economic sector's added value.

However, recognizing the role of companies also means listening to the demands of a new generation of entrepreneurs who, according to Nassim Kerdjoudj, do not just speak French, but are also mobile and no longer want to be considered as potential customers. As **RACHID SEKAK**, Managing Director of HSBC Algeria, highlighted, it also involves recognizing that companies play a crucial role, acting as "driving forces in building an area of socially responsible, sustainable growth", and constituting "the ground floor of the economy". For **TARIK SJIJMASSI**, Chairman of the Board of Groupe Crédit Agricole Morocco, the focus should not just be on countries in the CAC 40 or major investors, who have less difficulty in working in both North and South, but should concentrate on SMEs/SMIs.

What is co-sourcing?

For **JEAN-LOUIS GUIGOU**, the co-sourcing model is "both simple and complicated". It is different from offshoring ("offshoring means leaving"), and is inspired by the Japanese example of integrating production systems (which created the "dragons" and then the "tigers" following the inevitable "flight of the wild geese"), and by the German model in the CEECs.

To avoid any risk of confusion, **EL MOUHOUH MOUHOUH**, Professor of Economics at Paris Dauphine University, ran over the basic principles, including the differences between horizontal offshoring, vertical offshoring, and coproduction.

The notion of "horizontal offshoring" refers to companies that access markets through FDI. In the face of this strategy, compartmentalized markets in the South are badly positioned.

"Vertical offshoring" involves breaking up the value chain, with parts of the production process being relocated and the final product brought back to Europe for consumption. This system corresponds to "offshoring through sub-contracting", which does not allow the South to move up the value chain and destroys jobs in the North.

A "coproduction" model, on the other hand, implies a change in the nature of contracts and a long-term vision. Co-sourcing, in El Mouhoub Mouhoud's view, is a way of "charting out real, absolute ways for better productive integration between the South and the EU".

For **TARIK SJIJMASSI**, Chairman of the Board of Crédit agricole Morocco, these distinctions are essential because they involve using "acceptable meanings" in the place of "outrageous meanings", where "unregulated" offshoring is associated with "mercenary" enterprises and strategies. Countering this opinion, **PHILIPPE DE FONTAINE VIVE**, Vice-President of the European Investment Bank, made it clear that he is not "convinced by co-sourcing" and that it would be "better to move towards co-production to avoid the offshoring debate, regulated or otherwise".

“Coproduction” is essential for [NASSIM KERDJOUJ](#), Vice-President of the Algerian Business Leaders’ Forum, who made an appeal to “move towards a productive economy” in Algeria; an idea also taken up by [ARNAUD MONTEBOURG](#), France’s Minister for Industrial Renewal, who readily maintained that, “All countries want to produce, because a country that doesn’t produce is in the hands of countries that do. That doesn’t mean being obsessed with productivism, a criticism made by some. It’s mainly about sovereignty and freedom. A country that consumes goods manufactured by others loses its freedom, because its standard of living depends on the prices set by others. And that’s especially so if it doesn’t have the capacity to produce its own wealth to buy and consume what others are producing; it will end up depleted and incapable of defining its own social compromise, social model, its level of public services, level of military expenditure (...). What is a coproduction pact?” concluded the Minister. “It means telling ourselves that to produce and be free, we need to unite, because if we do it together we can be stronger.”

Fostering complementary North-South capacities

The choice of co-sourcing in the Mediterranean as the theme for the debate was primarily motivated by the observation that crises that affect both sides of the Mediterranean can give rise to opportunities. Participants all agreed that Europe and SEMCs are at a historic point: while Europe needs to find levers for growth, SEMCs, and in particular those in the Maghreb, want to move away from a sub-contractor position to “play a part in these knowledge services” ([EL MOUHOU B MOUHOU D](#)), and take advantage of the “third industrial revolution, combining renewable energy with computerization” ([JEAN-LOUIS GUIGOU](#)) for which SEMCs have genuine assets. [CHARLES IFRAH](#), Delegate General of Desertec France, put the focus on renewable energy, as did [POURIA AMIRSHAHI](#), Member of Parliament for French Citizens Overseas, who emphasized the significant industrial perspectives emerging in these domains and the high number of jobs and qualifications they offer that respond to a common interest. For [ÉLISABETH GUIGOU](#), Chairwoman of the French Commission on Foreign Affairs, the challenges of energy, climate and food security require “new investments in new domains that will induce a new development model”.

[RACHID SEKAK](#), Managing Director of HSBC Algeria, said that cooperation between the two sides of the Mediterranean is not, however, so obvious, and compared “Euromed dialogue” to The Myth of Sisyphus by Albert Camus. He stated that Europe and SEMCs need “mutual lucidity”, since crises can “trigger mutually advantageous rapprochement” for both sides.

The economist [JEAN-LOUIS LEVET](#) insisted on the complementary economic capacities of countries on both sides: the EU’s productive specialization, mainly dictated by that of France and Germany, gives the European Union comparative advantages in the new sectors of the future. On their side, SEMCs need knowledge and know-how in these sectors and possess expertise in other domains.

[JEAN-LOUIS GUIGOU](#), IPEMED’s Delegate General, also insisted on these complementary capacities and took the idea further, focusing on the reciprocal situations North and South of the Mediterranean and arguing that, “Revolutions in the South impose revolutions in the North”. He expressed his conviction that the North’s future is linked to the South’s because they are interdependent, and reminded the audience of Saint Exupéry’s inspired idea that, “The future, this common future, can’t be discovered or anticipated, it has to be built”.

Co-sourcing facts: co-production per industry, inter- and intra-regional co-sourcing

Following a necessary reminder of the economic concepts behind co-sourcing, co-production and offshoring (c.f. infra: What is co-sourcing?), the debate turned to business leaders from around the region who took the floor to share their concrete experiences of co-sourcing.

[XAVIER BEULIN](#), Chairman of the Sofiprotéol group, which has a particularly strong presence in Morocco, insisted on the acuteness of the food issue (above agriculture) in the Mediterranean, and highlighted the synergy and complementary capacities between Europe, the Mediterranean, and West Africa. He made an appeal to “combine economic and scientific questions on agriculture with more immaterial values”. He urged Europe to turn around and look towards the South. His recommendations included reorganizing industries in the south (“extend upstream co-development strategies” to boost local production), the need

for policies on tax, development, strategic choices on the size of operations and on the role that Europe and France should play: “It’s not about exporting the French model, it’s about working towards co-sourcing based on local expertise.”

YOUSSEF ROUISSI, Deputy Managing Director and Head of Global Corporate & Investment Banking at Attijariwafa Bank, described his group’s successful attempt at South-South co-sourcing. In the early 2000s, Attijariwafa Bank expanded its critical size on the Moroccan market, which enabled it to search new growth engines in sub-Saharan Africa, where it purchased 10 banks (instead of the 5 initially planned in its 2007-2012 strategic plan), of which 5 were former branches of the French *Crédit Agricole*, which had pulled out of Senegal, Gabon, Cameroon, Congo-Brazzaville and Côte d’Ivoire. This acquisition had positive long-term effects in each of the countries concerned: its banking network doubled, it played a role of long-term industrial investor, facilitated access to banking in each of the countries, and accompanied the emergence of private consumption. Its focus on all levels of the population, and its commitment to innovation and development of economic banks (successful experience in Morocco), along with significant pooling (outcomes, resources, synergy between banking assets in the region) make this a good example of virtuous co-sourcing. Not only does the Group accompany North African operators who want to set up in the South, but in an unprecedented step, it now accompanies European operators whose financial levers have shrunk because they can no longer turn to their traditional banks (which have moved out of the region). The Group therefore plays a “pivotal role in accelerating the movement for co-sourcing business from North to South.”

Another example of North-South co-sourcing was put in place by **YOUSSEF CHRAIBI**, Managing Director of Outsourcia, a Moroccan SME created in 2003 specializing in offshoring. The company recently set up in France to give companies direct access to its expertise. Co-sourcing works well in this case because it involves “being able to offer better expertise in the best location” to companies that associate offshore treatment with lower-quality service.

For **MOHAMED FESSI**, Founding Partner of Grant Thornton Tunisia, the figures indicate that European companies are already co-sourcing. On 31 December 2011, around 3,100 European companies were present in Tunisia and employed close to 525,000 people. 80% were in the manufacturing industry (textiles, mechanical industry, car components, electric wiring), with 40% from France, 30% from Italy and 10% from Germany, attracted by an advantageous tax regime (Tunisia/Morocco) and an attractive average wage cost (Morocco). This situation implies that Europe and SEMCs have much to win by taking up the co-sourcing trend.

For **JEAN-LOUIS GUIGOU**, IPEMED’s Delegate General, what is really new is the investments going from South to North, which seem to demonstrate European companies’ need for finance and excess liquid assets in the South. Tarik Sijilmassi, Chairman of the Board of *Crédit Agricole Morocco*, mentioned for example the creation of funds in Morocco to invest in the North.

ARNAUD MONTEBOURG had the last word: “My dream is that a major oil company from the Maghreb will open service stations in France. While Total is leaving and closing its refineries in France, and Shell is deserting France and Western Europe because the margins aren’t high enough... I have a dream that we can break down the idea of the dominator and the dominated, and that the so-called dominated party will come and sell petrol to the French, who will discover to what extent power is shared, intelligence is shared, and relationships are ultimately equal.”

Proposing a new development model

JEAN-LOUIS GUIGOU observed that, unlike countries claiming accession to the European Union, “what Europe can give [SEMCs] is a new development model”.

NASSIM KERDJOUJ, Vice President of the Algerian Business Leaders’ Forum (FCE), nevertheless wondered: “That European model is currently shaky. Should we continue to follow it despite its limitations?” He mentioned the case of Portugal, which is relying on its former colonies to emerge from the crisis, and Algeria, which suffered from the IMF’s structural adjustment plan, but is now loaning it 5 billion dollars, leading to the impression that in 2012, “The world is turning upside down”. For him, it is vital that, “Co-sourcing isn’t just offshoring in disguise or a new way of finding growth drivers for exports moving from North to South, but rather a genuine long-term development philosophy” and a search for common perspectives. It is not sufficient to look at the purely economic aspect because,

“Talking about co-sourcing like industrial co-sourcing without mentioning an overall project raises some real questions,” like mobility of people.

This last point was taken up by all of the speakers. [POURIA AMIRSHAHI](#), MP for French overseas citizens, denounced impermeable borders and the “brain drain”. For [Elisabeth Guigou](#), Chairwoman of the French Commission on Foreign Affairs, the “mobility of people is fundamental” and should be at the forefront of public debate. [RACHID SEKAK](#), CEO of HSBC Algeria, esteemed that the most important condition for successful co-sourcing is political volition, which is the “basis of renewed trust and mutual commitments,” particularly for the mobility of people and capital.

The economist [JEAN-LOUIS LEVET](#) pointed to the economic issues that call for co-sourcing in the Mediterranean (1/3 of global trade passes through the Mediterranean and the region hosts 40% of the world’s tourism), along with geostrategic, social and political issues, concluding that in both North and South, we need to “reinvent a new mode of development”. He based his argument on the observation that the EU’s debt crisis is primarily “a production crisis” and that the South is confronted with unemployment problems, particularly for the young, and insecurity.

However, a new economic, productive development model is not enough. Focusing on co-sourcing rather than co-production provides an opportunity to move away from economics and take a closer look at the ethical dimension, said [NASSER NEGROUCHE](#), director of the firm Pirorité Client. For him, we need to share the human value chain. It is important that, “economic stakeholders in the North don’t put aside their social and environmental responsibility”. This “ethical condition” involves “constructing a common political area in an understanding of mutual benefits,” which learns lessons from an economic model that has failed in the North and moves towards a relationship on an equal footing.

This idea was reiterated in other terms: Jean-Louis Levet made an appeal to “move to the stage of intelligence”, [EL MOUHOUH MOUHOUH](#) had previously claimed that there is “no co-production strategy without co-training”. [ELISABETH GUIGOU](#) called for a “genuine Euro-Mediterranean partnership” made up of concrete projects and “based on human bonds that bind us through history and geographic continuity”.

“Trust and convergence” are key to the success of co-production, maintained [PHILIPPE DE FONTAINE-VIVE](#), Vice-President of the European Investment Bank.

An opinion shared by [RADHI MEDDEB](#), IPEMED’s president, who asserted that this “new software (Ed’s note: co-sourcing) should be organized around values of solidarity, trust, convergence, foresight, and common convergence in the long term”, concluding that although the “redefinition of North-South relations should be an occasion to identify a new shared economic model for the region, solidarity won’t just be economic. It will have to be human and cultural.”

What conditions need to come together for co-sourcing to succeed?

Talking of a new development model for both North and South (c.f. infra), illustrated by co-sourcing, means establishing a relationship of trust between stakeholders on both sides of the Mediterranean.

[MOHAMED FESSI](#) appealed to politicians: “Can we move towards this process without SEMCs changing their governance system?”

The first to respond was [TARIK SIJILMASSI](#), Chairman of the Board of Groupe Crédit Agricole Morocco, who said we must “take a stance of truth to coexist” and “give freedom of speech so that investors can free up their capital”. He also recognized that investors who want to co-source in the South can only do so if SEMCs rethink their governance system and encourage a “framework that respects the state of law” (“Reform of legal systems as a condition for an efficient, operational business climate”, respect for the right to work). To achieve this, administration in the South needs to be genuinely efficient, transparent and honest, which means devolution and “creating a framework of sectorial policies that give visibility” to states’ commitments. For him, such “obligations are part of the body of ethical values” necessary for co-sourcing.

[DENIS SIMMONEAU](#), Director of European and International Relations at GDF SUEZ, also insisted on respecting the rule of law, taking Egypt as an example, as did [PHILIPPE DE FONTAINE-VIVE](#), Vice-President of the EIB, where other co-sourcing conditions are nevertheless

present (i.e. openness to foreigners, desire to continue PPPs, desire to work together on vocational training, etc.). [RADHI MEDDEB](#) said that the requisite conditions should include “security for people, institutional stability” and “the existence of clear, credible and consensual political roadmaps” before “the right to private property” and the “fight against corruption”, etc.

In the opinion of [RACHID SEKAK](#), CEO of HSBC Algeria, “Without shared long-term effort, there will be no political volition”. He said that Europe and SEMCs need to develop a long-term rationale and “move away from a commercial export approach and take on a production approach”. To succeed, he maintained that, “We need to generate success stories, catalyst projects, and so give co-sourcing a conceptual, and especially operational, content”. If this is not the case, co-sourcing will not be perceived as a profound renewal. “At the moment, stalks fly from North to South to lay their eggs and hibernate. What we need are the wild geese that Jean-Louis Guigou is so fond of, but we also fear the geese of capital and the Capitol,” he concluded.

Later in the debate, [POURIA AMIRSHAHI](#), MP for French overseas citizens, highlighted the need for a political project to accompany the economic regional integration movement. Among the main propositions put forward, he called for setting up an “economic and cultural passport for the French-speaking world, which could be Mediterranean”, and shared with [ÉLISABETH GUIGOU](#), Chairwoman of the French Commission on Foreign Affairs, the desire to create a “Mediterranean Erasmus”. Other suggestions included creating a Civil Society Forum that would enable diasporas from both sides of the Mediterranean to meet together, and setting up more “common channels with common diplomas”.

Co-sourcing is underway and backed by the French government. The proof can be found, said [ARNAUD MONTEBOURG](#), French Minister for Industrial Renewal, in an initiative launched with Nicole Bricq, entrusting a group of government experts with a mission on “co-sourcing between France and three North African countries. The conclusions will be available in January 2013 [...]. The objective is to identify the channels we need to work on. We are looking for win-win channels together [...] and we are hoping to make concrete industrial alliances that will lead to a co-production pact. I see this as the best way to animate a project-based Mediterranean, and why not something like the Mediterranean equivalent of a European Coal and Steel Community,” like that imagined with the Europeans, with a similar model applied to some channels. “I’m not talking about steel,” laughed the Minister, “It’s a subject I need to steer clear of right now.”

What is Europe’s role?

“Cooperation in the Mediterranean is an opportunity for both sides, and we have a duty not to miss it,” ([MARTIN SCHULZ](#)). In this context, what role can Europe play to support economic and political development around the Mediterranean?

Europe has a “historical responsibility” vis-à-vis countries to the South of the Mediterranean, declared [MOHAMED FESSI](#), founding partner of Grant Thornton Tunisia. We need to “move beyond the issue of the past with new generations” and “facilitate reconciliation with concrete facts and common economic and cultural projects,” insisted Pouria Amirshahi, MP for French overseas citizens. [PHILIPPE DE FONTAINE-VIVE](#), Vice-President of the EIB, called for Europe to review the way it conceives European mandates and put greater emphasis on that focusing on South Mediterranean countries, with a reminder of the role played by InfraMed, the only financial instrument that currently allows co-production. He made an appeal to develop financial instruments to support and boost this movement.

Whereas for [ÉLISABETH GUIGOU](#), Chairwoman of the French Commission on Foreign Affairs, “The Arab spring made Europe aware that it had been too slow with its attention, concrete action and funding for our neighbours in the South,” [MARTIN SCHULZ](#), President of the European Parliament who concluded the debate, saw this as insufficient and commented that “The European Union is once again in the process of missing a historic opportunity”. The reasons are a “dangerous ignorance” which tends to reduce the Mediterranean to France, Spain and Italy. “Europe isn’t viewed as a global region, with a global duty and a global opportunity,” but rather as an addition that lacks political coherence. “We will never escape from our past, but Europe has a chance to get rid of these specific issues and problems”. Regional integration, according to Martin Schulz, can only be perceived through increased cooperation between the European Union and the countries of the Maghreb.

In this context, what role can the Union for the Mediterranean play? For [MARTIN SCHULZ](#),

“It doesn’t need reviving, but should be given the necessary instruments”. Just like the partnership formed with Eastern Europe, or the Neighbourhood Policy built up with Ukraine for example. “The UfM should be transformed into an instrument for durable, structured cooperation with its own institutions, budgets and responsibilities,” concluded Martin Schulz.

From bilateral to regional

Europe has a major role to play in regional construction, said [MARTIN SCHULZ](#), President of the European Parliament (c.f. infra): we need to move from bilateral to regional and take a “global approach”. Jean-Louis Levet, economist, pointed to the “transfer of power from the West to Asia” and the dilemma that goes with it: “We get watered down in the global economy or we try to cooperate.” An idea summed up neatly by [ROBERT JULES](#), who led the debate and works as Economics Editor at the Tribune: “Regionalization means wielding weight in international competition”. In the view of [EL MOUHOUB MOUHOUD](#), Professor of Economics at Paris Dauphine University, it also means, “ending the bilateral relationship”, and providing the institutional means to encourage South-South integration.

The economists’ opinion was shared by [ARNAUD MONTEBOURG](#), French Minister for Industrial Renewal: “We can see the Asian axis rising; we can measure to what point the centre of gravity of production sites is moving away from Europe; we can measure to what point Africa, from north to south, has considerable potential but today is either pillaged or abandoned, and doesn’t enjoy the relationship of cooperation that we could be intelligent and skilful enough to build”. To conclude, the minister added, “If we look at the list of points we have in common, I’d be tempted to say that we are the same losers in globalization”. It is clearly therefore Africa as a whole that needs to be considered. For [JEAN-LOUIS GUIGOU](#), IPAMED’s Delegate-General, “Africa is the continent of opportunity”. “The Mediterranean is the headway of Africa. Africa is the great continent of the 21st century. Africa is in the process of awakening [...], and after Asia, it is Africa that we should be working with,” affirmed [JEAN-LOUIS CHAUSSADE](#).

