

Economic transitions in the Mediterranean

ECONOMIC TRANSITIONS IN THE MEDITERRANEAN¹ **ABSTRACT**

At the initiative of academicians on both sides of the Mediterranean who share the belief in a common destiny uniting the nations and peoples of this region, a working group met to discuss the changes under way in the Arab countries.

Over the past five years, Southern Mediterranean societies have been restive once more, with all the upheaval, difficulties, and potential for progress inherent in any major change process. This turmoil in the South has paralleled Europe's struggle to restore its sense of direction and positive self-image. The factors, taken together, make for a radical shift in the relationships between Northern and Southern Mediterranean countries.

With constitutional amendments in the South, primarily in Tunisia, Morocco, and Egypt, the Arab revolutions are drafting new rules for political governance. However, they have yet to tackle the issues of the new economic and social model and the international relations (particularly with Europe) to be forged to support political transitions.

It is against this backdrop that the working group is seeking to review the situation in the Southern Mediterranean by focusing on the potential for progress and on obstacles and risks, while suggesting areas where new relationships can be built jointly for the mutual benefit of countries on both sides of the Mediterranean.

The group holds the view that the new regional impetus must come from the South. International cooperation, headed by the European Union, should encourage Tunisia, which embodies the

aspirations for a democratic solution, to provide this momentum.

The group suggests making the reduction of youth and women's unemployment the priority and underlying goal of all action and focusing Europe's attention on four closely interlinked goals: (1) gradually building new value chains through joint manufacturing projects linking Northern and Southern Mediterranean countries; (2) fostering development of the knowledge economy; (3) supporting the rural economy and regional development; and (4) securing the mobility of individuals residing legally in countries on both sides of the Mediterranean.

^{1.} This work was prepared to renew and broaden the discussion on economic transition and integration in the Mediterranean. At the initiative of the Italian Presidency of the Council of the European Union, it was presented on the occasion of the Union for the Mediterranean Senior Officials' Meeting held in Naples, Italy, on October 28, 2014. It was also submitted in response to the European Union consultations on the formulation of a New European Southern Neighborhood Policy, on June 30, 2015.

ECONOMIC TRANSITIONS IN THE MEDITERRANEAN

A working group composed of economists and political analysts from both sides of the Mediterranean, who harbor a deep conviction that the nations and peoples of this region share a common destiny, met to review that status of transition processes in the wake of the Arab revolutions.²

Overall, they believe that for many, economic issues are linked to political approaches and mechanisms, and that in this region in particular, the social contract between the government and young people is central to the processes of renewal, mobilization, and integration.

The group holds the view that successful political transition in the Arab world is a regional and global public good, and an imperative that requires ongoing investment in order to support economic and social transition. While international cooperation is critical to sustain these processes, the new impetus must come from the South. The group suggests that Tunisia, which embodies the possibility of a successful democratic solution, should set the process in motion. This initiative must be firmly backed by European Union policies. The group is not calling for a new institutional arrangement for the Mediterranean; far from it. In the group's view, the linkage and coordination with current institutions should be strengthened via Europe's Mediterranean policy, as it is the only policy backed by significant resources, both in terms of expertise and funding.

SOUTHERN MEDITERRANEAN SOCIETIES ARE RESTIVE ONCE MORE

Arab societies have changed drastically since the independence movements of the 1960s: demographic changes have brought fertility rates almost everywhere in line with European standards. Universal education of young people, including girls, is commonplace. Citizens are much better informed and the Internet is a dominant force. Urbanization has transformed these countries, leading to significant changes in housing, social relationships, and even the traditional patriarchal model.

However, these changes have had little impact on the post-independence political structures. These structures still accord a major role to government, authoritarian habits, and a rentier system. With few exceptions, the countries of the Maghreb and the Mashriq have been stuck with the same political systems since 2000, which fall well short of their peoples' expectations. At the same time, their neighbor and natural partner, Europe, has been grappling with a crisis from which it is just beginning to emerge. The limitations of the Mediterranean Integration Plan put in place in Barcelona 20 years ago have become obvious and the Union for the Mediterranean is struggling to implement a vaguely defined mandate. The solutions put forward by multilateral economic bodies no longer seem to be in step with the

^{2.} The list of members of the group can be found at the end of this document.

Southern countries' problems. For years, the Mediterranean has seemed to be in a slump, facing constraints, and pushed to the margins by sweeping global changes.

The Arab revolutions were triggered by the great divide between static political structures and restive young people. In fact, these revolutions marked the start of a shift in 2011, creating momentum that must be maintained to ensure lasting stability in the region. Any return to the old order will undermine long-term stability.

CONTRASTING THE OUTCOMES OF THE ARAB REVOLUTIONS

The history of the Arab revolutions has yet to be written.

Tunisia seems to be an exception, as it stands as the lone example of a revolution that managed to achieve compromise and spared its citizens from violence. The Tunisian revolution is the only one that truly sparked the forging of a new social contract.

Egypt illustrates the resurgence of a government rooted in a true desire for order in a society disturbed by social upheaval. This need for order reflects the yearning for stability and protection on the part of the government and a significant segment of the middle and working classes.

The tragedies in Syria, Libya, Iraq, and Yemen are illustrations of the upheaval under way in composite societies where inherently weak government structures representing a minority have clashed with powerful political, religious, and tribal opponents.

Aside from the tragedies playing out in Syria, Libya and Irag, events on the Southern shore of the Mediterranean have ushered in a whole series of positive developments and changes, along with some clearly negative impacts. The ousting of Ben Ali and Mubarak in the wake of youth uprisings and the palpable tensions in almost all Arab countries demonstrate not only that the old authoritarian regimes are crumbling but also that a variety of new political issues and players is emerging. This situation encompasses the newfound voice of young people, with 60 percent of the population being under the age of 25, the sudden emergence of local players, the revival of an activist civil society, and the growing strength of Islamist parties. In their own way, these new players are taking up the longstanding cause of democratic forces, offering radical criticism of the way governments in the region operate, demanding due consideration of local issues, and dignity and authenticity. The values of freedom and justice have been upheld, along with a different political construct that is simultaneously more individualistic and more collective, with a greater sense of morality and civic-mindedness in government action. In the eyes of vast swathes of the population, the government is the primary source of inequality, injustice, economic stagnation, and the rentier system in particular.

Following the revolutionary movements, conflicts have shaken and will continue to shake the Arab societies in the Mashriq and the Maghreb to their core. The conflicts pit powerful forces for change—young people, the underprivileged, parties rebelling against the government and certain members of the business world—against considerable forces for order, namely the military and the middle class, along with some of the Islamist movements, in an often incoherent approach to reform and restructuring. The situation in Libya and Syria reveals the potential for turmoil and violence underlying the confrontations, while the situation in Egypt attests to the strength of movements to assert order. In contrast, the Tunisian revolution and the ability demonstrated by Tunisian politicians and society as a whole to accept compromise serve as a model for collaborative political restructuring.



NEW PROBLEM; CONVENTIONAL RESPONSES

Nearly five years after the revolutions started, major challenges face the countries in the region, affecting most of them to various degrees. In addition, these countries have to cope with the impact of urbanization and climate change on the Mediterranean, which is the most vulnerable region on earth.

3.1 The difficult task of crafting a new social contract

Political leaders in Tunisia, Egypt, and Morocco were faced with pressing problems immediately following the revolutions, including the urgent political problem of dealing with popular uprisings; the urgent security problem of restoring basic law and order; and the urgent economic problem of coping with the decline in investment and tourism and export earnings and its impact on unemployment and public finances. In addition to managing these pressing issues, leaders courageously initiated a constitutional process.

The framers in the different countries have made a good faith effort to determine the principles of a new social contract to structure the transition, using a three-pronged approach: (i) the identity of the State, which must address the multiple historical foundations of its power and, more especially, the role of Islam in society; (ii) the separation of powers and the position of the democratically elected Parliament relative to the Executive; and (iii) the promotion of new political principles, such as freedom, justice, dignity, and civic-mindedness.

The framers were aware of civil society's expectations and demands, which focused on three broad issues:

 i) The issue of government; rejecting the authoritarianism and cronyism that emerged following independence in favor of a reformed government based on the rule of law that

- respects its citizens, but is also designed to maintain law and order, manage redistribution of wealth, and ensure a fairer society;
- ii) The issue of the economy, with a clear demand for a new economic and social compact that eliminates the rentier system and strives to achieve social, intergenerational, and territorial balance; and
- iii) Finally, the issue of civil society's call to give citizens a greater voice in policymaking in nations with a tradition of authoritarianism and bureaucracy.

Work on the Constitutions in Egypt, Tunisia, and Morocco have helped to ease political tensions and foster a spirit of negotiation and compromise. This work has established political and constitutional mechanisms that now need to be put to the test. The work produced a helpful and constructive first draft, which now needs to be refined, validated, and translated into political practices.

In political terms, government reform and strengthening civil society call for compromises that are often difficult to achieve. Rent-seeking behavior and cronyism persist, along with the temptation to obstruct progress or return to the authoritarianism of the past. Most importantly, defining a new social contract requires nations to have the capacity to build and maintain credibility, dialogue, and trust in the long run.

3.2 Ambivalent approaches to maintaining Law and order

There is no denying the real need for order and protection. This need is apparent in events in Egypt and Tunisia, and in the tragedy in Syria. The contradiction between the liberal aspirations of youth and the reflexive authoritarianism of conservative elements is obviously difficult to overcome when shaping a long-term vision of society.

The recent history of the Arab world demonstrates the entrenched nature of authoritarianism. Nasser's regime and the Ba'athist regimes produced authoritarian institutions often marked by heavy-handed policing, cronyism, and rent-seeking behavior that undermined the capacity for autonomous economic development.

3.3 Policies to fight radicalization

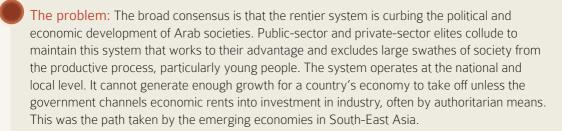
Mediterranean societies have an obvious problem with their youth. Many young people no longer believe the statements made by their countries' elites. Their everyday experiences underline their exclusion from the centers of economic, political, and social decision-making in their countries. It has become clear that the situation of young people in the South has changed little since the revolutions, despite the lip service paid to their cause.

All the countries in the region are experiencing radicalization of their young people to varying degrees. This phenomenon, which has now reached the fringes of Europe's population, has become very familiar.

Notwithstanding military confrontations, several countries in the region have worked to design and implement government policies to fight radicalization of their young people. In addition to cracking down on and keeping extremists and their financing channels under surveillance, various countries, such as Saudi Arabia and Jordan, have experimented with deradicalization programs that include efforts to undermine the religious and political legitimacy of extremism, along with action to ensure the social and political integration of vulnerable groups.



THE RENTIER SYSTEM, FAMILY CONNECTIONS, AND PRIVILEGES



Message: In a rentier system, status, rather than work, is the key to transmitting, acquiring, and improving social position. Connections to political and economic power derived from status are the means for accessing financial resources and social status symbols. Economic rents and status are inextricably linked. Work is undervalued, particularly payroll employment, because of the reluctance to accept subordination. The sole exception is the civil service, where positions are highly sought after because they provide access to status and the security that goes with it.

This is a fundamental fact in the way pre-capitalist societies operate, stemming from the primacy of connections over law. Understanding this fact is the key to analyzing how most interactions in societies in the South work. The neglect of rural areas stems from the concentration of power in wealthy areas and capital cities; young graduates are excluded because jobs are awarded based on social capital rather than merit; and high levels of largescale corruption involving the government and business are the result of strong ties between power and wealth.

The distribution of a share of economic rents in the Arab countries was aimed primarily at ensuring social peace. However, this approach has run up against its limits. Young city-dwellers who have benefited from expanded education opportunities want to attain dignity through access to the production process and jobs. To fight exclusion and pave the way for economic revival, the rentier system and privileges will need to be greatly reduced.

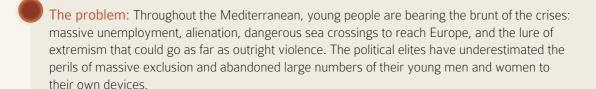
However, we do not underestimate the opposition to such reform, because the leaders (insiders) are still the main beneficiaries of the system, which permeates all levels of society. The free-trade basis of the Euro-Mediterranean Partnership and political transformation were supposed to weaken the rentier systems in the Southern Mediterranean countries. Nothing of the sort happened; private rents merely took the place of public sector rents when these countries lowered their tariff barriers.

The demands of the Arab revolutions for democracy and social justice are closely linked. Political democracy must be backed by economic democracy to respond to the demand for inclusion through employment. If not, frustrations may fuel ethnic divisions and jeopardize efforts to build a shared public space.



Proposals: The EU should support the strong impetus already created by the Arab countries to bring social pressure to bear on the rentier system, primarily through education and vocational training.

THE PRIORITY—THE INCLUSION OF YOUNG PEOPLE AND WOMEN AND DIALOGUE WITH LOCAL STAKEHOLDERS



The pattern is the same in all Arab countries: mass education, despite its shortcomings in terms of quality, has given a large proportion of young people the ability to take action, create, produce, and make decisions while there are few opportunities for them to do so. The situation is even more difficult for young women. Their labor force participation rate is a mere 25 percent in the South (the lowest rate in the world). Their share of non-farm payroll employment is even smaller and their unemployment rate is nearly five times higher than the rate among young men (in Egypt). Their wages are lower too.

Message: The priority for successful transition is inclusion and participation by young people, women, and marginalized groups (informal sector workers, excluded youth, people in areas that have been neglected by the government).

The issue of equal rights for men and women is a critical factor in the transition under way in Northern Africa and the Middle East. This issue lies at the heart of the debate about new development models for the region. Despite tangible progress achieved in some countries in the region, economic and social change is still severely hampered by major limitations in terms of women's access to economic and social rights, particularly with regard to employment and entrepreneurship.

One reason for youth unemployment is the underdevelopment of small and medium-sized enterprises (SMEs) because of the official and unofficial arrangements that support large corporations with political connections.

Proposals: The EU could focus on supporting approaches that ensure the inclusion of marginalized groups, particularly young men and women in rural and periurban areas. Education and vocational training must occupy a central role in this effort.

Legal mechanisms to reduce activity in the informal labor market and instruments to support the creation of micro-enterprises and SMEs, such as microcredit and financing for the social economy, need to be developed further.

All of these actions need to be implemented with transparent governance that gives a voice to local stakeholders and civil society organizations, particularly those serving young men and women.

DEVELOPING VALUE CHAINS LINKING THE NORTHERN AND SOUTHERN **MEDITERRANEAN**

The problem: The current organization of the production system between the Northern and Southern Mediterranean restricts the Southern economies to the low value-added end of shortterm subcontracting arrangements, thus preventing reduction of the abnormally high levels of involuntary expatriation and underemployment of skilled workers in these countries.

At the institutional level, the EU's approach has been bilateral, with separate links between the EU and each of the Southern countries.

At the same time, production processes in manufacturing and services have been relocated from the Euro-Mediterranean area to certain countries in Asia, which explains some of the mass unemployment seen in Northern and Southern Mediterranean countries.

Globalized production structures are undergoing two types of change. First, segmented activities of manufacturing industries are being brought back onshore in the region. Second, business services, especially high value-added services, such as R&D and design and marketing, are accounting for a

growing share of manufacturing value chains. These changes provide Southern Mediterranean countries with unprecedented opportunities for moving up in the global value chains and create new job opportunities for qualified young people.



Message: Businesses in Mediterranean countries can capitalize on new globalization trends to move up in the global value chains by deploying their skilled labor forces, particularly in the Southern countries, to offer high value-added business services (intangible investment in the knowledge economy). As part of this movement, businesses in the Northern and Southern countries can engage expatriate communities in the Northern countries in the process to create skilled jobs in business services with a view to enhancing labor mobility.

The experiences of the United States and Japan show that relocating production resources to neighboring countries in the South, in the same regional area, not only ensures that a production apparatus remains in one's own country, but also reinforces this apparatus.



Proposals: The EU should initiate and support coordination between businesses in Northern and Southern countries in order to:

- Develop coordinated strategies for sharing value chains, particularly in services;
- Sign long-term co-investment agreements with clauses on joint vocational training as part of a regional strategy; and
- Consider, in a broader sense, the educational capital of young people in Northern and Southern countries as a regional public good to be incorporated into a labor mobility strategy within the Mediterranean region, particularly for expatriates.

On the institutional level, the EU's policy with regard to the Southern countries should move toward a multilateral approach. To this end, the EU should resume negotiations with the Southern countries on the free movement of skilled labor, free trade in services, and due consideration of the agricultural interests of the countries in the region, along with the participation of Southern countries in European research and innovation programs.



FOSTERING THE DEVELOPMENT OF THE KNOWLEDGE ECONOMY



The problem: If the Southern countries are to succeed in becoming part of international value chains, they need to develop a knowledge- and innovation-based economy that includes education and training, innovation systems, and information and communication infrastructures.

All the countries on both sides of the Mediterranean are now impacted by the issue of youth employment. The keys to the long-term success of policies aimed at boosting youth

employment are the quality of education and the capacity of education systems to train young people for the jobs and qualifications in demand on national and regional labor markets.

And yet, too many young people in the Southern Mediterranean countries graduate without qualifications that are recognized by businesses, and without acquiring entrepreneurial drive or the cross-cutting skills that are essential in a knowledge economy, such as critical thinking, teamwork, problem-solving, listening skills, or the ability to communicate in at least one language other than their mother tongue. Without these cross-cutting skills, the technical and scientific knowledge that some individuals manage to acquire are not enough to ensure long and successful careers. These problems are most acute for young people from poor families or rural areas. This can result in frustration or hopelessness in many cases, which makes young people vulnerable to indoctrination or radicalization.

Message: These problems can no longer be resolved solely through the provision of additional funding for the existing education models. The new challenge is to achieve governance and organizational reforms in order to make the transition from "education for all" to "learning and skills training for all" through teaching institutions that are open to their environment, adaptable, innovative, and accountable to their users. As part of these medium- and long-term developments, the role of government needs to evolve, and change must be driven by each country's own vision and strategies for institutional and regulatory changes. These changes could be greatly facilitated by dialogue within the networks spanning the Mediterranean that foster the sharing of solutions. Training quality standards and skills certification in North African countries in particular must be aligned with those of their leading trading partner, Europe.

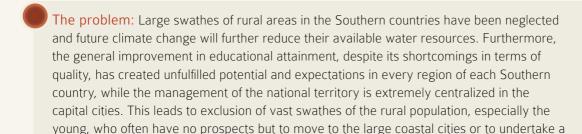
Consequently, Europe could launch an initiative to support these countries' efforts to modernize their education systems and encourage research and innovation within the framework of a North-South partnership. The priorities for action must focus on improving curricula and instructional methods and on teaching science, with particular emphasis on vocational training, academic research, and linkages with businesses.

Proposals: The EU could finance the creation of North/South networks of vocational and technical training institutions so that their faculty and staff can work together to share best teaching and management practices. The sectors concerned are where the jobs of the future will be found, including (i) alternative energy and the environment (green jobs), (ii) healthcare, the paramedical sector, and personal-care services, (iii) information and communication technologies, and (iv) cultural industries.

The EU could conclude research agreements with the Southern countries to enable their research laboratories to take part in EU research programs. As a supporting measure, financing 1,000 post-doctoral students would have a rapid and powerful impact on research in Southern laboratories and promote the development of South-North research partnerships.

hazardous migration to the North.

8) SUPPORTING THE RURAL ECONOMY AND REGIONAL DEVELOPMENT



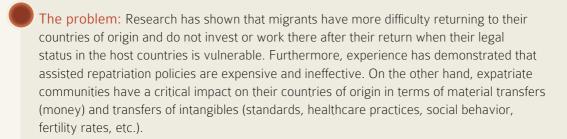
Message: In the next 20 to 30 years, the developed countries' labor force structure, with 5 percent of the labor force working in agriculture, cannot be replicated by the Arab countries, where agriculture employs between 30 percent and 50 percent of the labor force. The demand for payroll employees in urban areas to fill manufacturing or service jobs is unable to absorb the jobseekers who will come from rural areas, as was the case in the Northern countries up until the 1960s and 1970s.

Consequently, Arab countries need to plan on maintaining a large agricultural labor force over the next 20 or 30 years. Even though it will continue to shrink as a share of the total labor force, the agricultural labor force will remain stable or increase in absolute terms. This means that support for the transition to small-scale farming is not an option but a necessity.

Furthermore, we now know that, contrary to the conventional wisdom that land concentration boosts output, productivity does not depend on the size of farms. There are many largescale farms with very low productivity, while very small farms may be highly productive. The opposite can also be true, of course.

Proposals: Since such gains are possible, the EU should support the Southern countries' government policies to boost the productivity of small-scale farms (improving growing techniques while respecting tighter environmental restrictions, improving quality control, strengthening marketing arrangements, organizing farmers as part of the social and solidarity economy, etc.) and support the Southern countries' ongoing decentralization efforts.

9) MOBILITY OF INDIVIDUALS



Message: The switch from a "migration" approach to a "mobility" approach will promote social and economic development in both the countries of origin and the host countries. An effective immigration policy promotes the mobility of migrants and ensures the transferability and continuity of the entitlements acquired in the host countries. This provides an incentive for migrants to return to their countries of origin and to invest and work there, without losing their immigration rights, including the right to come and go. A large body of academic research shows that expatriate community organizations can facilitate immigrants' integration into the host countries and promote local development in their countries of origin.

Freedom of movement, ensured by dual nationality or issuance of long-term residence permits, is a key factor for cooperation between expatriate communities and their countries of origin. Furthermore, the principle of reciprocity between countries should be upheld to ensure that these relationships lead to South-North and North-South exchanges.

Proposals: The EU should promote dialogue between expatriate communities and their countries of origin to enhance the mobility of individuals and support the process of change in the Southern Mediterranean. This does not mean opening up the borders completely to migration from the South, but it does imply ensuring that legal residents enjoy a stable and secure status. To this end, the EU should ensure the transferability and continuity of immigrants' entitlements.

Economic and social transition will require us to rethink the previous development model. Three points should be noted:

- i) We need to continue opening up economies, but in a way that provides an incentive for inclusion and wealth redistribution policies. The realities of economic conditions in the Southern countries need to be taken into account, including their poor redistributive capacity, along with the new realities of North-South relationships, particularly with regard to restructuring value chains;
- ii) The resilience of the Southern economies and their weak points (rural areas, small informal activities) need to be closely monitored; and
- iii) The goal is to achieve an inclusive society, with greater opportunities for groups that have previously been excluded from jobs and decision-making, such as young people and women, especially in rural areas (decentralization).

Northern and Southern Mediterranean societies now face the same challenges and opportunities. They run the risk of persistently weak growth, continuing under-employment, heightened inequality, and ethnic and religious tensions.

They can opt to work together to craft new cooperation policies and implement strategies to enhance growth and shared prosperity. This seems to be the only realistic way forward for Europe as it struggles to find new drivers of growth, and for the Southern economies, which are struggling to define the right tools for achieving development that is beneficial to all.

Members of the working group

The group is composed of economists and political analysts from the Northern and Southern Mediterranean, who have been selected for their knowledge of the region. Some members of the group have held or currently hold senior positions in public and private academic institutions in their respective countries or in international institutions. However, they contribute to the group in a strictly personal capacity and the opinions expressed in this document are those of the authors alone.

Ms Ayça AKARÇAY-GÜRBÜZ, Mr Karim ALLAOUI, Mr Adel A. BESHAI, Mr Mohammad CHAFIKI, Mr Jean-Claude COUSSERAN, Mr Shantayanan DEVARAJAN, Mr Pedro DE LIMA, Mr Mourad EZZINE, Mr Hafez GHANEM, Mr Elyes JOUINI, Ms Agnès LEVALLOIS, Ms Giulia MARCHESINI, Mr Henry MARTY-GAUQUIE, Mr Radhi MEDDEB, Mr Mongi SMAILI, Mr El Mouhoub MOUHOUD, Mr Jacques OULD AOUDIA, Mr Olivier RAY, Mr Jean-Louis REIFFERS.

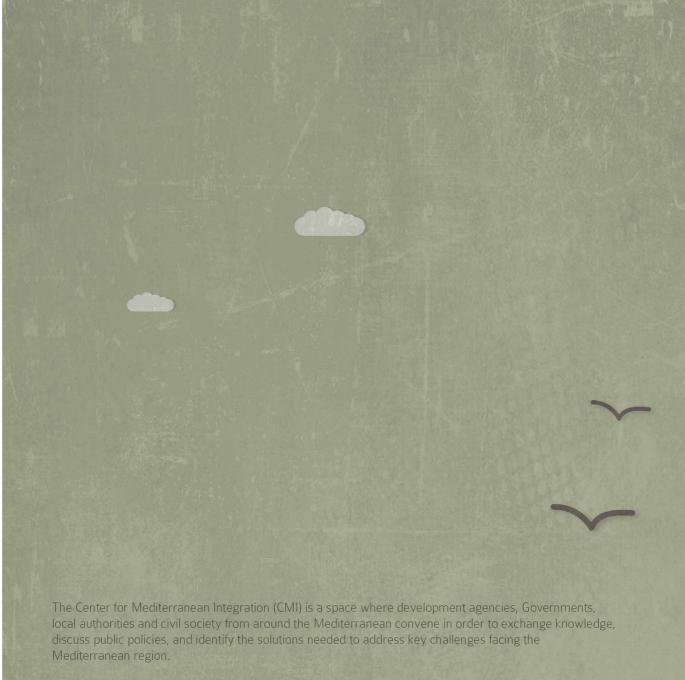
The Center for Mediterranean Integration (CMI) is a space where development agencies, Governments, local authorities and civil society from around the Mediterranean convene in order to exchange knowledge, discuss public policies, and identify the solutions needed to address key challenges facing the Mediterranean region.

www.cmimarseille.org Facebook: CMI Marseille Twitter: @cmimarseille

Contact

Ms. Giulia MARCHESINI, Senior Partnership Specialist gmarchesini@worldbank.org / +33 (0)4 91 99 24 49 Center for Mediterranean Integration (CMI)

World Bank - Marseilles Office Villa Valmer, 271 Corniche Kennedy 13007 Marseilles - FRANCE



www.cmimarseille.org Facebook: CMI Marseille Twitter: @CMIMarseille