

Marseilles, June 12, 2015

Discussion series on economic transitions in the Mediterranean:¹

Response to the European Union consultation for defining a new European Southern Neighborhood Policy

Abstract

At the initiative of academics from both sides of the Mediterranean who are convinced that there is a common destiny uniting the nations and peoples of this region, a working group met to discuss the transitions under way in the Arab countries.

Over the last five years, Southern Mediterranean societies have started moving forward again, with all the upheavals, difficulties and potential progress inherent in any major change. These upheavals in the South have paralleled Europe's struggles to regain its self-confidence and define its future. The combination of these factors makes for a radical shift in the relationships between Northern and Southern Mediterranean countries.

In the wake of constitutional revisions in the South, primarily in Tunisia, Morocco and Egypt, the Arab revolutions are exploring new rules for political governance. However, they have yet to tackle the issues surrounding new economic and social models, and international relations, particularly with Europe, required to support political transition.

The working group has sought to interpret the situation in the Southern Mediterranean with regard to these issues, highlighting potential for progress, obstacles and risks, and suggesting areas where new relationships can be forged jointly for the mutual benefit of countries on both shores of the Mediterranean.

The group feels that the new regional impetus must come from the South. International cooperation, headed by the European Union, should encourage Tunisia, which embodies the hopes for a democratic outcome, to provide this momentum.

The group suggests making the reduction of youth and female unemployment the priority and underlying aim for all action, and focusing Europe's attention on four closely interlinked goals: 1/ building up 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; 4/ securing the mobility of individuals residing legally in countries on both shores of the Mediterranean.

¹ An earlier version of this report was submitted to the Italian Presidency of the Council of the European Union on the occasion of the Senior Officials' Meeting on the Mediterranean held in Naples, Italy on October 28, 2014.

Discussion series on economic transitions in the Mediterranean

A working group made up of economists and political analysts from both shores of the Mediterranean, who hold a deep conviction that the nations and peoples of this region share a common destiny, met to consider the way transitions in the wake of the Arab revolutions are playing out².

They believe that political realities and mechanisms often shape economic issues and that the social contract between the government and young people lies at the heart of the processes of renewal, mobilization and integration.

The group believes that successful political transition in the Arab world is a regional and global public good, and that it is an imperative that requires continued investment to support economic and social transition. International cooperation is critical to support these processes, but the new impetus must come from the South. The group suggests that Tunisia, which embodies the possibility of a successful democratic outcome, should start the ball rolling. This initiative must be backed resolutely by European Union policies. The group is not calling for a new institutional arrangement for the Mediterranean; far from it. The group feels that Europe's Mediterranean policy should reinforce the network and coordination of existing institutions since it is the only policy backed by significant resources of both expertise and funding.

1 – Southern Mediterranean societies are moving forward again

Arab societies have changed greatly since the independence movements in the nineteen-sixties: demographic changes have brought fertility rates almost everywhere into line with European standards. Mass education of young people, including girls, is widespread. Citizens are much better informed and the Internet plays a large role. 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 political structures that emerged upon independence. These structures still feature a large role for 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 far short of their peoples' expectations. At the same

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

time, their neighbor and natural partner, Europe, has been mired in a major slump from which it is just starting to recover. 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 commensurate with the Southern countries' problems. For years, the Mediterranean has seemed to be depressed, constrained and left behind by global changes.

The origin of the Arab revolutions lay in the yawning gap between political structures stuck in the past and young people moving forward. 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.

2 – Contrasting outcomes of the Arab revolutions

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

Tunisia seems to be an exception, the sole 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 underpinned by a real demand for order in a society disturbed by social upheaval. This need for order stems from a demand from government structures for stability and protection and a similar demand from a substantial share 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 encountered powerful political, religious and tribal opponents.

Aside from the tragedies playing out in Syria, Libya and Iraq, events on the Southern shore of the Mediterranean have brought a whole series of positive developments and changes, alongside some obviously negative impacts. The ousting of Ben Ali and Mubarak in the wake of youth uprisings and the palpable tensions in almost all Arab countries reveal not only that the old authoritarian regimes are crumbling; they also show the emergence of *a variety of new political issues and players*. This encompasses the newfound voice of young people, with 60 percent of the population under the age of 25, the upsurge 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 long-running struggle of democratic forces, offering radical criticism of the way governments in the region operate, demanding due consideration of local

issues, and dignity and sincerity from leaders. The values of freedom and justice have been upheld, along with a different way of thinking about politics that is both more individualistic and more collective, with a greater sense of morality and citizenship in dealings with the government. 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* – the military and the middle class, along with some of the Islamist movements – in an often-confusing movement for reform and restructuring. The situation in Libya and Syria reveals the potential for turmoil and violence underlying the confrontations, while the situation in Egypt testifies to the strength of movements to assert order. In contrast, the Tunisian revolution and the ability that Tunisian politicians and society as a whole have shown to accept compromise are a model for collaborative political restructuring.

3- Novel problems and 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 struggle to define a new social contract*

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

The framers in the different countries have worked in good faith to define the principles of a new social contract designed to organize transition around three themes: i) the identity of the State, which needs to 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 with

regard to the executive; iii) the promotion of new political principles, such as freedom, justice, dignity and citizenship.

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

- i) the issue of government, rejecting the authoritarianism and cronyism that emerged following independence in favor of a reformed government under the rule of law that respects its citizens, but is also meant to keep 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.
- iii) finally, there is 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 constitutions in Egypt, Tunisia and Morocco have helped to ease political tensions and promote 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, confirmed 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 order

There is no denying that there is a 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 reflex authoritarianism of conservative elements is obviously difficult to overcome when defining a long-term social future.

The recent history of the Arab world shows how firmly rooted authoritarianism is. 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

Societies on the shores of the Mediterranean have an obvious problem with their youth. Many young people no longer believe the discourse of 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 of 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 stepping up repression and surveillance of extremists and their financing circuits, various countries, such as Saudi Arabia and Jordan, have experimented with de-radicalization 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.

4- The rentier system, family connections and privileges

The problem: The broad consensus is that the rentier system is holding back the political and economic development of Arab societies. Public-sector and private-sector elites collude to maintain this system that works to their advantage and excludes large swathes of society from the productive process, particularly young people. The system operates at the national and local level. It cannot generate enough growth for a country's economy to take off unless the government channels economic rents into investment in industry, often by authoritarian means. This was the path taken by the emerging economies in South-East Asia.

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 associated security.

This is a fundamental fact in the way pre-capitalist societies operate, stemming from the primacy of connections over law. Understanding of 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 left out because jobs are awarded based on social capital rather than merit; high levels of large-scale corruption involving the government and business are the result of incestuous links 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. Fighting exclusion and preparing the way for the economy to take off require major trimming of the rentier system and privileges.

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 undermine 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 up by economic democracy to answer 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 powerful dynamics already put in place by the Arab countries to put social pressure on the rentier system, primarily through education and vocational training.

5- Priority: inclusion of young people and women and dialogue with local players

The problem: All around the Mediterranean, young people are bearing the brunt of the crises: massive unemployment, alienation, attempting dangerous sea crossings to reach Europe, the temptation of extremism and even absolute violence. The political elites have underestimated the perils of massive exclusion and abandoned huge numbers of their young men and women to their plight.

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 decide. But there are few opportunities for them to do so.

The situation is even more difficult for young women. Their labor force participation rate is only 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 that of 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 critical for 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 deficits 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 its support for approaches that ensure the inclusion of marginalized groups, particularly young men and women in rural areas and the fringes of urban areas. Education and vocational training must be at the heart of this action.

Legal mechanisms to reduce the informal sector's share of the 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 open governance that gives a voice to local players and civil society organizations, particularly those serving young men and women.

6. Developing value chains linking the Northern and Southern shores of the Mediterranean

The problem: The current organization of the production system between the Northern and Southern shores of the Mediterranean restricts the Southern economies to the low value-added end of short-term subcontracting arrangements.

This does not help reduce 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 countries on the Northern and Southern shores of the Mediterranean.

Globalized production structures are undergoing two types of change. First, segmented activities of manufacturing industries are being brought back onshore in the region. Secondly, business services, especially high-value-added services, such as R&D, design and marketing, are accounting for a growing share of manufacturing value chains. These changes provide Southern Mediterranean countries with new potential for moving up global value chains and open up new job opportunities for qualified young people.

Message: Businesses in Mediterranean countries can capitalize on new globalization trends to move up 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 in neighboring countries to the South not only ensures that means of production remain in one's own country, but also reinforces these means.

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

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

On the institutional level, the EU's policy with regard to the Southern countries should move towards a multilateral approach. To this end, the EU should

resume negotiations with the Southern countries covering 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.

7 – 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 an economy based on knowledge and innovation that includes education and training, innovation systems and information and communication infrastructures.

All of the countries on both sides of the Mediterranean are now concerned by the issue of youth employment. The keys to long-term success for 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 crosscutting skills, the technical and scientific knowledge that some individuals manage to acquire are not enough to ensure successful and long-term careers. These problems are most acute for young people from poor families or rural areas. This can result in frustration or despair in many cases, which make young people vulnerable to indoctrination or radicalization.

Message: These problems can no longer be dealt with 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 sharing 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, teaching methods and 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, paramedical sector and personal-care services, (iii) information and communication technologies, (iv) cultural industries.

The EU could sign 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 strong impact on research in Southern laboratories and promote the development of South-North research partnerships.

8. Supporting the rural economy and regional development

The problem: Large swathes of rural areas in the Southern countries have been neglected and future climate change will further reduce their available water resources. Furthermore, the general improvement in educational attainment, despite its shortcomings in terms of quality, has created unfulfilled potential and expectations in every area of each of the Southern countries, but the management of the national territory is extremely centralized in the capital cities. This leads to exclusion of vast swathes of the rural population, especially the young, who often have no prospects other than a move to the large coastal cities or undertaking a hazardous migration to the North.

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 reproduced 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 all of the jobseekers that will arrive from rural areas, as was the case in the Northern countries up until the nineteen-sixties and nineteen-seventies.

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 total labor force, the agricultural labor force will remain stable, or else increase in absolute terms. This means that support for the transition of family-run farms is not an option; it is a necessity.

Furthermore, we now know that, contrary to the accepted wisdom that land concentration boosts output, productivity does not depend on the size of farms. There are many large-scale farms with very low productivity, whereas very small family-run farms may be highly productive. The opposite can also be true, naturally.

→ Proposals: Since such gains are possible, the EU should support the Southern countries' government policies to boost the productivity of family 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

The problem: Research has shown that migrants have more difficulty returning to their countries of origin and do not invest or work there after their return when their legal status in the host countries is vulnerable. Furthermore, experience has shown that assisted repatriation policies are expensive and ineffective. On the other hand, expatriate communities have a critical impact on their countries of origin in terms of material transfers (money) and transfers of intangibles (standards, healthcare practices, social behavior, fertility rates, etc.).

Message: The switch from reasoning in terms of “migration” to reasoning in terms of “mobility” will promote social and economic development in both the countries of origin and the host countries. Effective immigration policy is a policy that 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 great deal of academic research shows that expatriate community organizations can facilitate immigrants' integration in 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.

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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 policies for inclusion and redistribution of wealth. 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).

Societies on the North and South shores of the Mediterranean now face the same challenges and opportunities. They run the risk of continuing weak growth, persistent under-employment, greater inequality and ethnic and religious tensions.

They can choose to *work together* to define new cooperation policies and implement strategies to enhance growth and shared prosperity. This seems to be the only realistic aim 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 benefits everyone.

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Members of the working group:

The group is made up 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 SMAILL, Mr El Mouhoub MOUHOUD, Mr Jacques OULD AOUDIA, Mr Olivier RAY, Mr Jean-Louis REIFFERS.

The **Center for Mediterranean Integration (CMI)** is a partnership made up of governments (Egypt, France, Italy, Jordan, Lebanon, Morocco, Palestinian Authority and Tunisia), development agencies (World Bank and the European Investment Bank), local governments (Provence-Alpes-Côte d'Azur Region and the city of Marseilles)

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