Eclairages

Economic Research Department

Monthly - No. 126
October 2008

Mare Nostrum: common interests

From proposed integration to political determination

Once considered the crossroads of continents, religions and civilizations, and the cradle of the three monotheisms, the Mediterranean lost its position as center of the world centuries ago. The etymology of Mediterraneum mare (literally: the sea in the middle of earth) may be a geocentric reflection of past glories, but Mare Nostrum, as the Ancients called it, nonetheless holds a unique position in today's multipolar world, as a key to our ability to successfully resolve conflicts.

The Mediterranean is the only region where the East-West and North-South divides are both present. Whence the legitimate, reasonable aspiration for genuine regional integration in an attempt to narrow the divides and attenuate the divergences—economic, social and demographic, as well as political—that separate the space into a Northern bloc unified through European construction, and a fragmented Southern bloc (see the article on Dangerous differentials).

The project can be based on joint interests, notably in the economic sphere (see the article on North-South trade: development opportunities), taking concrete form in the development of projects and reflexes that foster cooperation between the two shores. There is no lack of suitable fields for action, including education, migration, agriculture, water, energy, and banking and financial services (see the article on "Agriculture and water: how to avoid a crisis on the southern rim", "A strategic geographical position for fossil fuels").

Recreating de facto solidarity (to borrow Aristide Briand's term for European cooperation) between partner countries around a common space is indeed ambitious, given that earlier attempts have bogged down owing to geopolitical divergences. **Progress would require the countries on the Mediterranean to move beyond disputes and differences, and jointly manifest a genuine commitment to cooperation and partnership** (see the article on "Is it possible to establish a stable, homogenous Mediterranean political space?"). The Mediterranean has the means to regain a major position in our globalized world—a position justified by the area's past and its present opportunities. That's something policymakers should now recognize. ■

Dangerous differentials

A major demographic change in the Mediterranean basin[1] is underway, as the population is expected to nearly double in barely half a century, from 285 million in 1970 to over 540 million in 2020[2], after 472 million in 2007. The expansion is attributable to the demographic vitality of the Southern Mediterranean countries. Population growth is potentially a boon for those countries, but first and foremost it poses a considerable challenge in terms of job creations. The gap in living standards between the North and South could widen.

Younger, growing populations in the South

In terms of population growth, the dynamics are clearly on the southern side of the Mediterranean, where population could increase by 63% from 1990 to 2020, compared with 10% to the north. But growth is not uniform throughout either bloc. In the South, the population is increasing far faster in the Middle East than in the Maghreb, where the demographic transition is already well underway. Between 1990 and 2020, the population of the Maghreb will have increased by 52%, while doubling in the Palestinian Territories, Jordan and Syria. Similarly, in the North, the birth rates in France and Spain contrast with the sluggish rates in Italy and, to a lesser extent, Portugal.

The population rankings of the region's countries are also changing. While the populations on the two shores were roughly equivalent in the late 1980s, 61% of Mediterraneans in 2020 will come from the South (chart 1). And while France and Italy in 1999 had roughly the same populations as Egypt and Turkey (on the order of 55 million), the latter two countries should become giants dominating the Mediterranean basin in terms of population, with 93 and 86 million in 2020, respectively, compared with 59 and 65 million for Italy and France.

The contrast between a young population in the South and a significantly older population in the North is the second major divergence. **The average age in the South is some fifteen years younger than in the North**, and the difference will continue into the future (chart 2). The two extremes are the oldest country, Italy, where the average age should rise to 49 in 2020, while in the Palestinian Territories the average age should still not exceed 20. Still, the consequence of the generalized acceleration of the demographic transition in the southern countries is that all Mediterranean populations, without exception, are aging.

Not enough jobs

In this context of a young, rapidly growing population[3], the main urgent concern for the southern Mediterranean countries is controlling tensions on the labor market.

In these countries, the number of unemployed persons (defined as those currently unemployed but previously in employment) is estimated at 9 million, and the unemployment rate is 12%; but the "inactive" population (those outside the labor force) is estimated at 82 million[4], putting the inactivity rate at roughly 50%. In light of the size of their population, four-fifths of these unemployed persons are concentrated in four countries: Algeria, Egypt, Morocco and Turkey. Further, unemployment is highest among females, young people, and especially young graduates in urban areas. In Jordan, the female unemployment rate is twice as high as the male rate. In Algeria, 75% of the unemployed are under 30 years old. And in Morocco, a third of young people aged 15 to 24 living in urban areas are identified as unemployed.

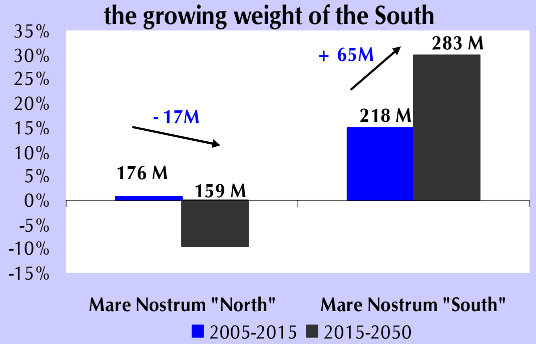
The only option is to create jobs. This is an enormous task: beyond today's inactive population, the net number of people entering the labor market in the Mediterranean Arab countries in 2005-2025 is estimated at 45 million, or 3 million a year. The challenge is thus to create a very high

1. Throughout this issue of Eclairages, unless otherwise specified, "North Mediterranean" and "Northern rim" will mean: Portugal, Spain, France, Italy, Slovenia, Croatia, Bosnia, Montenegro, Albania, Greece, Macedonia, Cyprus, and Malta; and "Southern Mediterranean rim" will mean Mauritania, Morocco, Algeria, Tunisia, Libya, Egypt, the Palestinian Territories, Israel, Jordan, Lebanon, Syria, and Turkey.

2. The high end of the range in World Population Prospects published by the United Nations, as the average projections estimate 520 million.

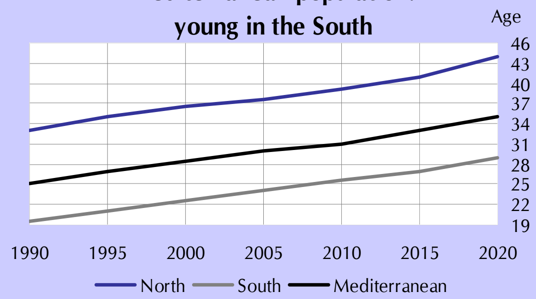
Charts 1 & 2

Mediterranean population: the growing weight of the South



Source : Morgan Stanley, Crédit Agricole S.A.

Mediterranean population: young in the South



Source : Word Population Prospects, Ciheam, Crédit Agricole S.A.

number of jobs. **In a low scenario, the World Bank estimates that 22.5 million jobs in the next fifteen years would have to be created simply to hold the labor force participation rate and unemployment rate at today's levels** (table 1). To stabilize the actual number of people outside the labor force and the number of unemployed, 58 million new jobs would be needed.

Growth too slow

Job creations are fostered by economic growth, and thus implicitly they are dependent on reform. **Growth in the Southern bloc of the Mediterranean averaged 4.4% in 2000-2007.** That's not enough: several convergent estimates claim that 7% annual growth would be needed over the next five years to create the conditions for a take-off capable of absorbing the inflow of young people into the labor market.

Projections for the next twenty years are hardly encouraging. Average annual growth is expected to be closer to 5% than 7%, or roughly the same pace as since the start of the century. The reason is quite simple: the lack of any genuine will by the Southern Mediterranean rim governments to address the constraints on growth. Those constraints are structural and multi-dimensional; they include excessive levels of trade protection via subsidies and customs duties, shortcomings in physical infrastructure and human capital, an industrial sector that is deficient in terms of concentration and industrial options, the small number of industrial groups with critical size on their markets, the weakness of the fabric of small and medium-sized businesses, insufficient specialization in high-value-added sectors, and narrow local markets.

The brain drain from Southern rim countries is also far higher than the world average[5]. This is a vicious circle arising from the countries' inability to offer jobs that match the highest levels of skills, and directly undermines their long-term development capacity.

Improbable convergence of the South towards the North

The growth differential could widen the divide between the two shores of the Mediterranean, and makes it unlikely that the Southern bloc will converge towards the Northern bloc within the next twenty to thirty years.

Table 1

Employment in the South: additional jobs totaling one-third of existing jobs required by 2020 to stabilize the unemployment rate and inactivity rate at current levels

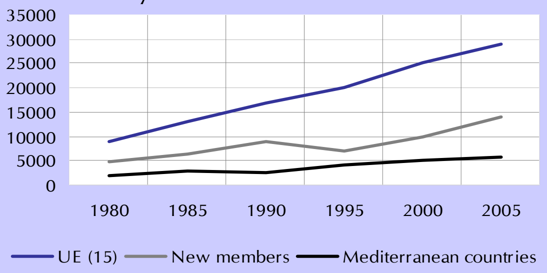
	Total jobs required in 2020	Jobs to be created, 2005-2020	As % of 2005 jobs
Algeria	8,892,917	2,046,953	29.90%
Egypt	24,570,872	6,452,272	35.61%
Israel	3,231,130	737,530	29.58%
Jordan	1,797,275	593,069	49.25%
Lebanon	1,363,371	266,086	24.25%
Morocco	12,802,303	2,889,007	29.14%
Palest.	998,460	420,021	72.61%
Syria	7,227,151	2,405,394	49.89%
Tunisia	3,587,904	661,204	22.59%
Turkey	27,983,306	5,937,306	26.93%
Total	**92,454,689**	**22,408,842**	**31.99%**

Source : World Bank 2007, Crédit Agricole S.A.

A considerable distance remains to be covered (chart 3). In 2006, aggregate GDP in the historical core of the Northern Mare Nostrum area (Spain, France, Italy and Greece) was approximately ten times higher than in the historical core of the Southern Mare Nostrum area (Morocco, Algeria, Tunisia, Libya, Egypt and Turkey). Examining the "5+5" Mediterranean Forum countries (France, Italy, Spain, Portugal and Malta vs. Algeria, Morocco, Tunisia, Mauritania and Libya), the aggregate wealth differential rises to 25; this reflects the considerable influence of Turkey in terms of its relative weight and role as a growth driver in the Southern bloc. The differentials are also seen in per capita incomes in PPP terms, with an average USD 28,900 in 2007 for the group formed by France, Italy, Spain and Portugal, compared with USD 8,350 for the six countries in the historical core to the South.

Chart 3

Mediterranean rim: lack of convergence by the South with the North



Source : IMF, Eurostat, Crédit Agricole S.A.

Still, there are grounds for optimism. One major reason is the demographic transition underway in several southern Mediterranean countries. The rapid growth experienced by the countries of East Asia and South-East Asia from 1965 to 1990 is explained in part by the demographic transition, which involves an increase in the working-age population (15 to 65 years of age) as a per-

3. Those under 20 years of age account for over one-third of the population in the Mediterranean basin, compared with over 50% in 1990. Under-20s account for 43% of the population in the Southern half, but never exceed one-fourth of the population in the Northern countries.

4. Based on the Femise Report on the Euro-Mediterranean Partnership 2007, published in February 2008.

5. Lebanon has the highest emigration rate for skilled workers among the MENA countries; Egypt and Jordan also have skilled migrant rates near 60%, with Tunisia and Morocco close behind.

6. Two-thirds of secondary education degrees are in human and social sciences or literature. The aim would be to promote university and occupational education more in keeping with labor demand and this improve the employability of young people on the Southern rim.

centage of the total population: the growth in human capital in those countries was a decisive factor in accelerating economic growth. More generally, the youth of the Southern Mediterranean rim populations is an exceptional opportunity, if the national authorities are able to make the most of it, notably by strengthening education[6] policy.

The Human Development Index[7] (HDI) averages 0.918 for the countries on Northern rim (with France having the highest index of all the countries in the Mediterranean area), and 0.767 for countries on the Southern rim (with Mauritania ranking last). The current differential of 0.151 has narrowed significantly from the 0.328 figure in 1975. The catching-up process can be expected to continue. The northern Mediterranean countries are reaching a plateau in terms of health/longevity and education—two areas where their Southern neighbors[8] will continue to make very significant progress. ■

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The Mediterranean space: heterogeneous countries

	GDP (USD bn)*	Population (millions)*
France	2,593.8	61.7
Italy	2,104.7	58.9
Spain	1,440.0	44.9
Turkey	659.3	68.9
Greece	313.8	11.1
Portugal	223.4	10.6
Israel	164.1	7.0
Algeria	134.3	34.4
Egypt	128.0	73.6
Morocco	75.1	31.0
Libya	69.9	6.1
Croatia	51.3	4.4
Slovenia	46.1	2.0
Syria	39.0	19.4
Tunisia	35.0	10.2
Lebanon	24.6	3.8
Cyprus	21.3	0.8
Jordan	15.8	5.7
Bosnia-Herzegovina	15.2	4.0
Albania	10.8	3.2
Macedonia	7.7	2.1
Malta	7.5	0.4
Palestinian territories	5.3	3.9
Montenegro	3.5	0.7
Mauritania	2.8	3.0

Sources : IMF, CIA World Factbook, Crédit Agricole S.A.
* 2007 data

7. The Human Development Index is computed by the United Nations Development Program (UNDP) on the basis of life expectancy, the adult literacy rate, the school-attendance rate, and income in PPP (purchasing power parity) terms.

8. In recent years, they have allocated 5% of GDP (or one-fifth of public budgets) to education, thus significantly reducing illiteracy (equally for both sexes) and raising the proportion of young people enrolled in secondary and higher education to record levels—even if only a single North African university is currently ranked in the world's top 500.

North-South trade: development opportunities

The Mediterranean is no longer the center of world trade. Globalization has pushed it to the periphery, among other outlying areas of global trade, which centers on the major developed powers (the United States, EU, and Japan) and emerging powers (the BRIC countries). The Mediterranean nevertheless remains a growing, dynamic space for trade, with multiple potentialities in business, financial and human capital terms. It is up to leaders on both sides of the Mediterranean to make the most of their joint interests and move towards greater regional integration.

Trade

The rise of trade in the Southern rim

Exports by the Southern rim countries grew by an average annual 17% in value terms in the period 2000-2007, or faster than the 12% annual growth in global trade. Imports followed the same path, growing an average 16% a year, compared to 12% for global imports. The average openness rate[1] of the countries was close to 40% in 2007, or higher than China's 32%.

This accelerated opening to the rest of the world should be seen in the context of the modernization and global integration of the economies on the Southern rim of the Mediterranean. Mare Nostrum has thus recaptured its position as a strongly growing crossroads for trade, with ten million containers unloaded in its terminals every year; and 30% of the world's maritime trade crosses "our sea."

Difficult trade integration

The stabilization and association agreements between the EU and its neighbors to the South have contributed to the trend by strengthening trading relations between the two rims of the Mediterranean. But trade integration of the Mediterranean basin remains imbalanced, and deepening the integration raises questions.

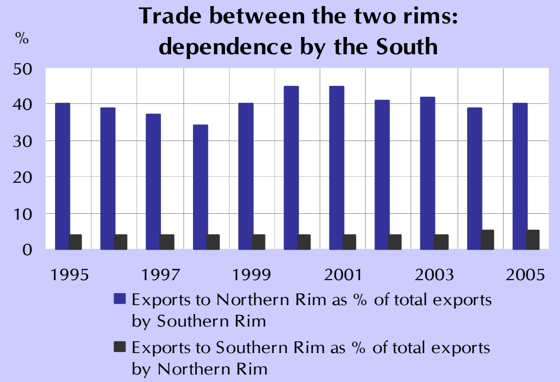
1. Defined here as the average of imports and exports of goods and services divided by GDP.

2. This is doubtless a long-term development: the clothing-leather-and-textiles sector accounts for 50% of employment in Morocco and Tunisia, and 37% in Turkey.

The European Union is the leading trading partner for the Southern countries (chart 1), absorbing 48.7% of their exports and providing 45.1% of their merchandise imports. But the opposite is not the case. While exports by the Maghreb countries to France exceed 20% of their total exports, France's exports to Morocco, Algeria and Tunisia account for only 3% of France's exports. **Further, the portion of exports to the EU as a percentage of total exports by the Southern rim countries has been falling. So has the portion of imports from the EU as a percentage of total imports**; for instance, this has fallen in a few years' time from 40% to 30% in Egypt, and there has been a similar decline in the percentage of imports by Syria.

The very nature of the specialization of the Southern bloc economies complicates the regional integration process. Many countries are dependent on a single sector, or a small number of sectors. Examples include clothing and textiles[2] in Tunisia, Morocco and Turkey (accounting for 35%, 29% and 25% of their total exports, respec-

Chart 1



Source : IMF, Crédit Agricole S.A.

Box 1

Morocco's banks are establishing ties on both sides of the Mediterranean

Morocco's banking system is considered one of the most sophisticated systems in North Africa. It has benefited from the authorities' determination to effectively modernize the system, and from privileged links with the northern Mediterranean countries.

Compared to neighboring countries, the rate of bank penetration in Morocco is relatively high[1]. Retail banking is particularly fast-growing. All the banks are opening large numbers of branch offices and the percentage of the population with bank accounts is rising[3]. Outstanding balances on loans to households have risen sharply, growing at annual rates above 40% in 2008; total loans outstanding to households come to about 20% of GDP in Morocco, compared with 15% in Tunisia, 10% in Egypt and less than 5% in Algeria[4]. In addition, Moroccan banks are offering an increasingly sophisticated range of products and services, and non-intermediation businesses like cards and payment systems, financial markets, funds, bancassurance and online banking are expanding.

The process of modernizing the banking system began in the late 1990s in Morocco, or earlier than in neighboring countries. Prudential standards and supervision were aligned with international standards. Nonperforming assets, which can be a real issue in the region, have been addressed effectively, and reduced from over 17% of loans in 2004 to 7% in August 2008.

The banking sector has also benefited as it has gradually opened to private capital and foreign capital, particularly from France and Spain. The considerable flows generated by Moroccans living abroad have contributed to growing financial transfers between the two shores of the Mediterranean, and accounted for 21% of bank deposits (€9.2 billion) and 17% of GDP at the end of 2007. They are considered a positive factor in developing the country's banking system and economy. All banks have developed offerings for overseas workers—not only money transfers, but also real estate loans and loans for investment in the Moroccan economy.

State **disengagement from the banking sector has gone further in Morocco than in neighboring countries.** Majority state-owned banks accounted for less than 30% of total bank assets in 2007. In Algeria and Libya, the equivalent share is roughly 90%; and it is about 35% in Tunisia and 45% in Egypt. The State's 45% interest in Morocco's second-largest bank, the cooperative group Crédit Populaire du Maroc, should be reduced.

Morocco's first and third banks, Attijariwafa Bank (26% market share) and BMCE (14%), are banks with private-sector capital, primarily Moroccan. But banks from the northern rim hold significant equity stakes that have been the basis for strategic partnerships. For instance, Attijariwafa shareholders include Santander (14.6%), Caja de Madrid (3.4%), Unicredito (2.1%), and Crédit Agricole—which has a 1.4% stake and has developed partnerships in consumer credit and asset management. At BMCE, CIC has increased its stake to 15%, and Caja Mediterraneo acquired 5% in 2007. These groups are active in all banking business lines, and in recent years have expanded beyond the already highly concentrated Moroccan market. They aim to become major players in the region. Attijariwafa, with Santander, acquired Banque du Sud in Tunisia in 2005, and the two banks are developing in the rest of Africa. They have a strong presence on the market for Moroccans living abroad, notably Attijariwafa, which is opening branches in Europe out of its Paris-based subsidiary. Products have also been developed for foreigners wishing to acquire real estate in Morocco (Crédit du Maroc and BMCE).

The presence of foreign banks in Morocco is dominated by the subsidiaries of three French banks: Banque Marocaine pour le Commerce and l'Industrie (BNP Paribas), Société Générale Marocaine de Banques (Société Générale), and Crédit du Maroc (Crédit Agricole). They account for a significant share of the market, totaling 21% of deposits and 24% of loans at the end of 2007. Their Moroccan activity in various business lines has benefited from expertise transfers from the parent company. They have offerings for Moroccans living abroad, in partnership with branch offices in France or through cooperation agreements with institutions in other European countries, such as SGBM in Spain and in Italy.

All told, the relatively advanced state of development of Morocco's banking sector, combined with the relations established with the European Mediterranean countries, form an advantage in meeting the challenge of providing bank services to the entire country and funding for the economy—particularly SMEs.

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1. According to IMF figures, credit to the private sector comes to 14% of GDP in Algeria, 46% in Egypt, 64% in Tunisia, and 75% in Morocco.
2. The number of branches increased by 12% in 2007, and the number of bank ATMs by 13%.
3. Approximately 40% of the population is reported to have bank accounts, including accounts held at the Moroccan Post Office.
4. But these levels remain low, compared to 30% of GDP in Italy, 44% in France, and 64% in Spain.

tively); diamond-cutting (36% of total exports) and high-tech products in Israel; and hydrocarbons in Algeria and Libya (98% of total exports in both cases). In fact, intra-Maghreb and Mashrek trade accounts for only a small fraction of those countries' total foreign trade, with the highest amount provided by the 2.6% of Tunisian exports going to Morocco and Algeria).

Financial flows

Resources for progress

The Southern Mediterranean rim economies are interconnected to those of the North, and also to the rest of the world, by a complex combination of financial flows of various types and origins,

Box 2

An example of successful integration: China and Japan

China and Japan are often referred as an example of successful economic and trade integration. Their trade is complementary, and has strengthened considerably over the past two decades. Theirs is a win-win relationship, as China benefits from technology transfers and Japan benefits from low-cost consumer goods.

Trade growth

China's accession to the WTO in 2001 had raised fears of Chinese goods flooding the Japanese market. Yet both countries have benefited. Bilateral trade has grown swiftly since the start of the decade, and not necessarily to the advantage of **China, whose trade deficit with Japan has actually increased.** China's exports have increased 2.3-fold since 2001 (and 11-fold since 1990). But imports have risen even faster, and in 2007 were 3 times higher than in 2001 (and 18 times higher than in 1990, chart).

China: trade with Japan

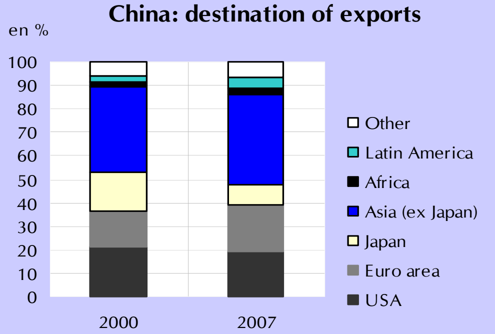
Source : General Adm. of Customs, Crédit Agricole

Capital goods for industry, electronic products—and to a lesser degree metals, chemicals and transportation equipment—account for most Chinese imports from Japan. China sells considerable amounts of textiles to Japan (19% of its exports to Japan in 2007), with rising volumes as well (up 42% since 2001). More generally, China has become Japan's leading supplier of finished products, overtaking the United States, Europe and the Asian dragons.

Complementary trade structures

The explanation is to be found in the structure of China's trade. China imports intermediary products from the rest of Asia, particularly Japan and Korea (its two main suppliers), which it assembles and exports as finished products to the industrialized countries. China's low labor costs have fostered this structure of production and made it the world's workshop. Japan, in turn, has successfully adjusted to this development and modified its production accordingly, as witnessed by the sale of semi-finished products to China, which today ranks as Japan's top export destination, ahead of exports of finished products to the United States and Europe.

China: destination of exports



Source : General Administration of Customs, Crédit Agricole

This transformation has increased the integration of the two economies, even if China is engaged in a policy of diversifying its trading partners, thus halving Japan's share of total exports from 16% in 2000 to 8% in 2007 (chart). Japan is today China's top trading partner, ahead of the United States. Most importantly, trade between the two countries is continuing to grow.

Rapid growth in FDI

Technology transfers to China have also accompanied the growth in trade. FDI also began to rise swiftly starting in 2001, and has nearly doubled in six years' time, to USD 75 billion in 2007 (chart).

In 2003, Japan became the leading foreign investor in China (in terms of FDI, and excluding offshore centers), overtaking the United States. On the other hand, China's FDI into Japan remains very low.

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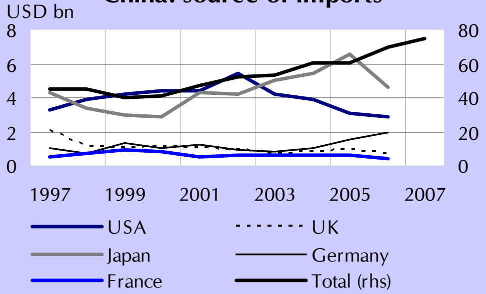
China: source of imports



Source s : National Bureau of Statistics, Crédit Agricole including tourism receipts, transfers by workers from the South with jobs in the North, financial development aid (bilateral and multilateral aid via the institutions provided under the Barcelona process[3]), and foreign direct investment (mainly from corporate investors in the northern rim).

While the amounts of these flows, continue to be relatively modest on the whole, **they have intensified over the past decade.** To the South of the Mediterranean, the tourism industry has benefited considerably from public policies to promote the sector, primarily in the area of developing transportation and related infrastructure. Tourism receipts in those countries exceeded USD 30 billion in 2005, accounting for about 7% of aggregate GDP. In the same year, migrant workers' remittances accounted for 6% of aggregate GDP in the Southern rim countries, and public development aid came to 2.6%. **But the largest increase in recent years has been in foreign direct investment** (FDI, table 1). This is attributable to several factors: the considerable easing of regulatory and prudential constraints that affected key sectors like financial services, real estate and telecommunications, and more generally, a modest improvement in the business climate; privatization programs; a windfall from oil and gas (in Algeria, Libya, and to a lesser extent in Egypt). FDI into North Africa, half of which comes from the EU, more than doubled in 2005, to $13 billion (or a weighted average 4.8% of GDP); this was 42% of investments in Africa.

The EU: room for improvement

Growing financial flows contribute to anchoring the Southern rim economies to the European and global economies, while providing them the financial means, and the technological means in the case of FDI, to succeed in the anchorage. But the same caveats that apply to trade also apply to the idea that all the intensified financial flows contribute to the construction of the Euro-Mediterranean space. **Growth in FDI in recent years, but also growth in tourism revenues and transfers, is largely, if not essentially, due to the boom in the Gulf countries.** FDI flows from the Gulf increased 3.5-fold in 4 years' time[4], and focused essentially on real estate and tourism. Their share of total flows increased, sometimes significantly, even if they are uncertain to continue over time. Funds from the Gulf States, as a portion of inward FDI, increased between 2005 and 2006, from 11% to 69% in Tunisia, and from 3% to 25% in Egypt.

Table 1

South of the Mediterranean: considerable transfers, and more FDI

	Transfers (% of GDP)		FDI (% of GDP)	
	1997	2007	1997	2007
Egypt	5.8	5.4**	1.0	9.2**
Israel	5.6	4.5	0.7	1.6
Jordan	25.6	17.6	5.0	11.3
Lebanon*	11.0	23.0	1.0	12.0
Morocco	6.5	9.5**	0.0	3.5**
Syria	3.0	1.6**	0.5	1.8**
Tunisia	4.2	4.6	1.8	4.5
Turkey	1.7	0.3	0.2	3.0
Algeria*	3.0	2.0	0.0	1.0
Palestinian Territories*	19.0	11.0	0.0	0.0

Source : IMF, Crédit Agricole S.A.

* 1995 and 2005 data; ** 2006 data

The EU still has a long way to go in terms of the quantity and quality of investment. Despite its geographical proximity, the Southern rim is the region of the world that receives the least FDI from its neighbors in the North. Only 2% to 3% of European FDI is channeled to those countries, whereas close to one-fifth of US FDI goes to its Latin American neighbors. The nature and destination of EU FDI is even more telling, as the lack of geographical diversification is obvious, with Turkey alone attracting one-third of total flows. Investment is also limited to a small number of sectors, namely energy, tourism, telecoms, cement works, and banking and financial services. Further, the small portion of gazelles[5] is regrettable, as their presence would promote the extension and deepening of the fabric of local SMEs.

The opening remains hesitant

While they cannot be held solely responsible[6], the Southern rim countries have actively contributed to the current situation. **Inertia in structural adjustment policies and in trade opening practices, combined with the lack of intraregional solidarity, has restrained trade growth between Mediterranean countries.** Liberalization of the flow of goods, services and capital remains modest in most of the Southern rim countries, which seem to prefer more gradual integration into the world economy. Fears of the negative effects of globalization[7] in a national economic environment, where the combination of a rent-based economy and mass unemployment explains decision-makers' adversity to risk, leads most of them to entertain protectionist tendencies.

3. However, the countries in the MENA Zone, despite their population that is twice as high as that of the Central and Eastern European countries, have received only $15 billion in European aid, compared with $60 billion provided directly or indirectly to the CEE countries.

4. China has also strengthened its presence of late, not only in construction and heavy industry, but especially in resource extraction.

5. Gazelles are high-potential SMEs.

6. The EU is just as responsible, owing to the lack of enthusiasm, vision and consistency among the member states regarding the Euro-Mediterranean Partnership.

7. Since the multifiber agreements (MFA) expired on January 1, 2005, China has directly captured market share in the EU countries from the Southern Mediterranean rim in the key textile sector.

The Southern rim countries continue to have some of the world's highest customs tariffs, with a weighted average 15%, compared with 9.4% in South-East Asia, 10.6% in Latin America and 13% in Sub-Saharan Africa[8]. The economic opening is often limited to ad hoc projects to establish export processing zones (e.g., for aeronautics and the automotive industry in Morocco), or specific programs sponsored by the national authorities (e.g., again in Morocco, the Plan Azur to expand and upgrade motorway and coastal resort infrastructures for the tourism sector, and the Plan Emergence to revitalize the rest the country's industrial fabric).

Further, the banking systems in the Southern Mediterranean countries are not yet sufficiently developed or modernized to fully assume their role of collecting local savings and re-allocating it in an optimal fashion to domestic investment projects. This makes access to credit a sensitive matter, when venture capital is not widespread (with ten or so funds in Morocco, and the "SICAR" in Tunisia are used mainly to fund receivables). This acts as a restraint on foreign investment.

Fears for the future

This raises the prospect of a vicious circle, in which the disappointed hopes of the South reinforce the lack of commitment by the North in the area of trade policy. The Barcelona process relaunched the idea of a regional free-trade zone and raises hopes that the Mediterranean basin countries will take advantage of trading opportunities—though it does not eliminate fears of a further loss of momentum, or even another bout of protectionism.

Another danger is that European investors could continue to turn their backs on risks and any real commitment to co-development. Other regions of the world that are expanding their economies are now replacing an overcautious Europe in investing in the Southern rim of the Mediterranean, and the EU could have trouble getting back on board later on.

Migration flows

Managing migratory flows and investing migrant workers' savings: are these the keys to regional integration?

A genuine North-South Euro-Mediterranean Partnership must doubtless be based on better understanding of the demographic and socio-economic dynamics at work on both sides of the Mediterranean. **Remittances by migrant workers have not only assumed a major position in the funding of the emerging Mediterranean countries, but have also become a long-term phenomenon.** There are many reasons for this, including migrants establishing roots in the host country, greater confidence in the economic development of their home country, and awareness of the differential in purchasing power between the two countries.

How can the remittance windfall be developed and used more effectively[9]? Population aging in the EU, and the two-fold increase in the population of the Maghreb and the Mashrek within two or three decades, naturally lead to massive human flows from one side of the Mediterranean to the other. These migratory flows are often characterized simplistically as the twin issues of clandestine immigration[10] and a brain drain; they indeed have political implications (far more than security implications) in the North, and economic consequences in the South. They could however prove a boon if the leaders in the North and South avoid the temptation of shoring up their borders (with Schengen and Frontex), and jointly regulate the population movements based on the needs of each party, while focusing on a Euro-Mediterranean arrangement in the areas of training and employment in the South. Faced with a reduction in its labor force, the European Union can make the "replacement migration" from its southern neighbors a decisive advantage for its future, especially given that the twelve new EU member states are experiencing the same demographic trend and are thus unable to provide the migratory flows. On the other side of the sea, controlled migration—and no longer clandestine migration—is a potential way of generating additional revenues from abroad, for easing tensions on the labor market, and for reducing unemployment, particularly among young graduates[11].

Learning to capture and make greater use of migrants' remittances in a virtuous logic of co-

8. Figures from the work by "Le Cercle des Economistes" with Hubert Védrine, "5+5=32".

9. In the case of France, for instance, transfers by immigrant workers are estimated at €9 billion a year, or roughly the same amount as France's public aid for development (€9.2 billion in 2007).

10. According to data published by Bruegel, a European think tank, undocumented migrants in the European Union are estimated between 4 million and 8 million, and annual flows at half a million.

11. The South has a pool of human capital with considerable potential, but for the time being the opportunities for using that capital are primarily in the North.

development is also a crucial issue for the future of the Southern rim. In Morocco, 13% of total transfers are invested in real estate, financial services, agriculture or small businesses; and a small portion goes into investment funds. The corresponding portions are 15% in Egypt and 18% in Tunisia. **Channeling more funds, and more effectively, will depend among other things on greater bank cooperation between the two shores of the Mediterranean to develop products meeting migrant workers' requirements** (box 1)**.** There is growing demand from migrants for specially designed products, including for investment in microfinance, and co-development savings accounts. ■

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Agriculture and water: how to avoid a crisis on the southern rim

The countries on the southern and eastern rim of the Mediterranean have two categories of agricultural populations: the numerous traditional producers neglected by official agricultural policy, and a more intensive, irrigated agriculture. The southern rim is at the limit of the level defining "water scarcity" and the situation could worsen considerably, with growing population, soil deterioration, and the acute impact of climate change. Water demand management must be improved.

A dual agriculture

Agriculture occupies an important position on the southern side of the Mediterranean, accounting for a high percentage of the labor force—up to 42% in Turkey and from 20% to 30% in the North African countries, compared with 5% in the countries to the north. Similarly, agriculture accounts for no more than 5% of GDP on the northern side, and from 8% to 23% on the southern side, with the highest level in Syria.

Land resources are distributed unevenly: in terms of national territory, on aggregate the South of the Mediterranean has more land per capita (except Egypt), but much of the land is arid, and the arable area per person is far lower than in the North (chart 1).

Most countries on the southern rim have a dual agricultural sector, with what are often large farms organized as enterprises, and many small farms, often for subsistence farming, covering large areas and occupying most of the agricultural population.

These peasant farms are the least favored in terms of land tenure, soil quality and water resources. Irrigated fruit and vegetable production is a leading form of farming in the Mediterranean basin, but cereals continue to be the main crops. In Morocco, grazing occupies the largest area; three-fourths of cultivated land is used to grow grains and other field crops, as irrigated crops continue to occupy a minority portion.

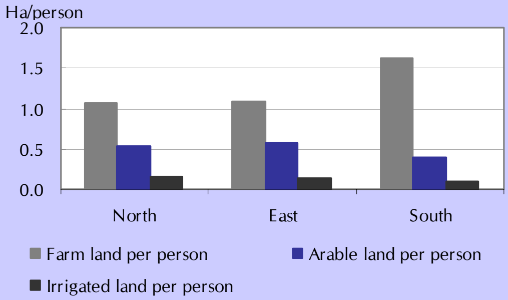
Far from declining, the active agricultural population has so far continued to grow on the southern side of the Mediterranean, and the size of farms has fallen with the population growth that has continued despite the incipient demographic transition in certain countries.

Water, the first limiting factor

Water is clearly the principal limiting factor. Half of the

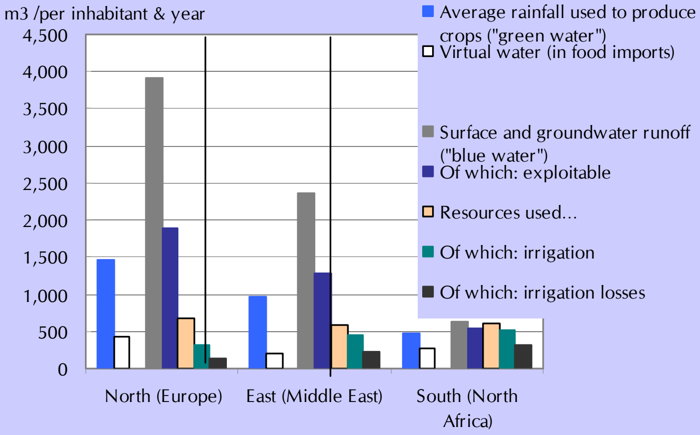
Charts 1 & 2

Land resources around the Mediterranean



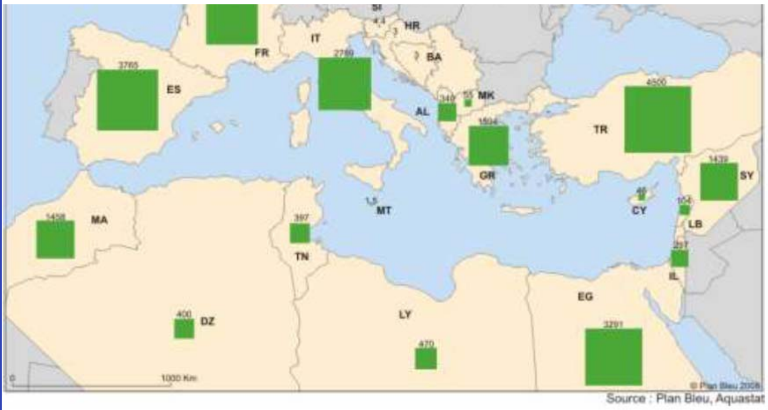
Source : Mediterra 08 et FAO stat, Crédit Agricole S.A.

Water Resources in the Mediterranean Region



Source : World Water Congress 2008: Water Resources and Demand in the Mediterranean Region, Blue Plan

Irrigated areas, in 1,000



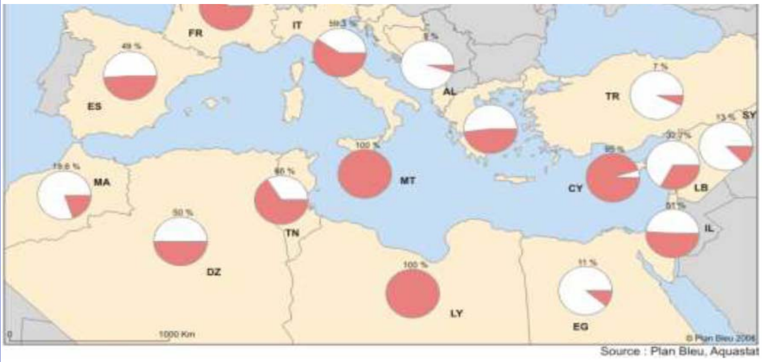
Irrigated areas / % efficient

	Irrigated areas (kha)	of which: with water-efficient facilities
Spain	3.765	49%
France	2.700	85%
Italy	3.973	60%
Greece	1.594	48%
Turkey	4.983	7%
Syria	1.439	13%
Israel	225	51%
Egypt	3.422	11%
Libya	470	100%
Tunisia	394	66%
Algeria	569	50%
Morocco	1.484	20%

Source : Plan Bleu, Aquastat

world's population defined as living in "water scarcity," that is, with less than 1,000 cubic meters per person per year of usable water, live around the Mediterranean (and nearly half of those living on the southern and eastern rims are in that situation[1].) The South is on the verge of a structural shortage, with less than 500 m3 of renewable resources, i.e., "blue water" (surface and groundwater runoff) per person per year (chart 2).

Land using modern systems, as % of total



As the volumes of water exploited already exceed renewable resources, the situation of countries on the southern rim of the Mediterranean is critical. Further, the volume of rainwater directly used and evaporated by non-irrigated agriculture, pastures and forests ("green water") is also low, and most importantly, it varies considerably from year to year. In North Africa, only Morocco and Tunisia have usable water resources that exceed actual use. Both Libya and Algeria are exploiting deep aquifers that are considered non-renewable. Egypt increases its resources by recycling irrigation waters, but uses a disproportionate volume of the waters of the Nile relative to upriver countries.

"Virtual water," or the water used to produce imports, plays a particularly large role in this region, which is a major importer of cereals—but is also a large exporter of fruits and vegetables that incorporate considerable "virtual water".

The situation is all the more critical because of continued population growth and because the region is threatened by climate change: the recent models all identify the Mediterranean basin as one of the regions most affected by warming and by lower rainfall—something that could also affect the Northern rim. This comes on top of the soil deterioration already underway (erosion and salinization of irrigated soils) and the gradual silting of dams.

Exploiting opportunities to save water

In future, emphasis will have to be put on reducing water demand and greater efficiency. This concerns both rainfed agriculture with rainfall, and irrigation. The traditional sector, which uses little or no irrigation, has so far benefited little from public or private investment, because expected returns are low, but the socio-economic impact is large. Improved performance depends mainly on agronomical measures aimed at water and soil conservation, notably the use of trees.

In the area of irrigation, adopting more efficient methods (sprinkling or drop irrigation, rather than large gravity irrigation systems) significantly reduces water requirements, by a factor of five to ten. In the same way as with energy conservation, the water saved by reducing losses would exceed half of current water utilization, according to the Blue Plan[2]. This calls not only for technical measures (aspersion or delivery to the plant), but also education and training, participation in management (e.g., with water user associations), and appropriate pricing. ■

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1. Source Demeter, 2009.

2. Blue Plan: the project is part of the plan of action for environment and development in the Mediterranean under the aegis of the United Nations Environment Programme (UNEP). The mandate includes providing governments with "all information that will enable them to develop plans likely to ensure sustained optimal socio-economic development without degrading the environment."

A strategic geographical position for energy

The Mediterranean area is a junction point for the hydrocarbon producing countries of the Middle East, Africa and the Caspian, and the consuming countries of Western Europe, and thus a transit zone for energy.

Hydrocarbon resources in the South

Oil and gas account for most of the primary energy consumption by the Mediterranean rim countries. Unsurprisingly, the largest consumers are in the North.

The Mediterranean area also produces hydrocarbons, but most resources are located in the South: Algeria, Libya and Egypt. These three countries are net energy exporters, unlike Morocco, Tunisia, Turkey and especially the Northern rim countries.

Table 1

Oil and gas account for most of the primary energy consumption in the Mediterranean area

En %	Northern countries	Southern Countries	World
Oil	42	45	35
Gas	22	34	21
Nuclear	18	-	6
Hydro	2	2	2
Renewable energies	5	4	11
Coal	11	15	25
Total (Mtep)	**721**	**284**	**11 428**

Source : Bulletin de l'Industrie Pétrolière / International Energy Agency

A transit area for global crude

Overall, the Mediterranean is thus a net importer of crude. It benefits from its geographical position, which offers:

● **Access to Middle East crude** through the Suez canal and the Sumed pipeline (with average flows of 4.5 million barrels per day), but also via the Kirkuk-Ceyhan pipeline;

● **Access to Caspian and Russian oil** through the Bosporus (2.4 million barrels per day on average) and via Turkey through the BTC (Bakou-Tbilissi-Ceyhan) pipeline (0.7 million bbl/day);

● **Access to West African crudes**, and also, in periods of arbitrage, North Sea and South American crudes via the straits of Gibraltar.

The opportunity to access this variety of crude oil explained several specificities of the zone:

● **The development of a network of oil pipelines from major Mediterranean ports** (Marseille, Trieste) to supply inland refineries often far from the coast (Karlsruhe and Bayernoil refineries in Germany, Feyzin and Strasbourg/Reichstett facilities in France, Cressier in Switzerland, and Kralupy in Czech Republic);

● **The presence of many costal refineries in the area that export their products**, as illustrated by Italy's 17 refineries with a capacity of 2.33 million barrels/day, including 4 in Sicily; by comparison, India has a total of 19 refineries with a capacity of 3.6 million bbl/day.

Tables 2 to 5

Oil consumption in 2007

Country	Toe/day/1,000 pop
Greece	45.4
Spain	36.4
France	30.5
Italy	27.9
Syria	12.7
Egypt	9.6
Turkey	9.0
Tunisia	8.8
Algéria	8.3
Morocco	6.1
World average	***13.1***

Gas consumption in 2007

Country	Toe/day/1,000 pop
Italy	24.4
Spain	16.9
Algéria	14.8
France	12.4
Egypt	8.6
Turkey	7.2
Syria	6.7
Tunisia	6.2
Greece	5.3
Maroc	0.3
World average	***7.7***

Note: boe = barrel of oil equivalent

Source : PIRA, Crédit Agricole

Source : PIRA, Crédit Agricole

Largest oil reserves, Mediterranean area

Country	Barrels (billions)	R/P (years)
Algéria	12.3	6.1
Libya	41.5	22.4
Egypt	4.1	5.7
Syria	3.5	8.9
Italy	0.8	6.4
Tunisia	0.6	6.1

Source: BP statistical review (2007)

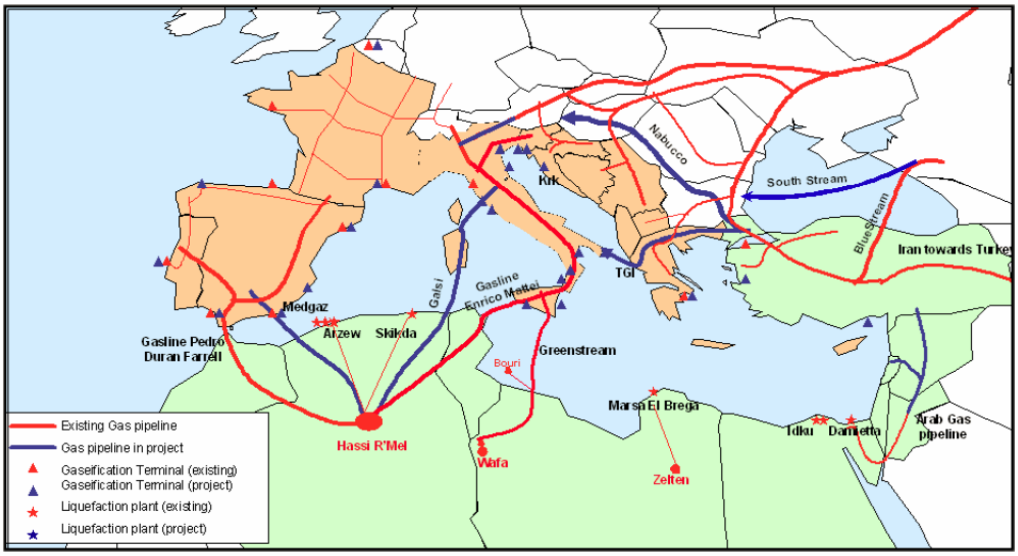
Largest natural gas reserves, Mediterranean area

Country	Gm3	R/P (years)
Algéria	4,515	54.4
Egypt	2,063	44.3
Libya	1,495	98.4
Syria	288	54.7
Italy	89	10.0

Source: BP statistical review (2007)

Note: R/P indicates reserves in years' production, at current rate of production

Natural gas infrastructures



Source: BIP (July 2008)

● **Algerian and Libyan gas**, that currently crosses the Mediterranean via several undersea gas lines to Spain and Italy, where it is then transferred to the European gas grid. Additional gas pipelines are planned to facilitate access by Northern European consumers to North African gas.

● **Iranian gas**, which crosses Turkey in a pipeline on its way to the Mediterranean area.

The Mediterranean's "petroleum" sphere of influence is larger than its geographical territory. **Its strategic position at the crossroads of the main global flows of crude oil, and its strong economic activity, have established it as one of the main zones as a market marker quotation** (Med), as per the Northwest Europe area (NWE) and the Amsterdam-Rotterdam-Antwerp zone (ARA).

An extensive but unbalanced grid of gas lines

For natural gas, the Mediterranean has a fairly well developed infrastructure interconnecting the main producing countries to the main consuming countries. **The principal sources of supply are**:

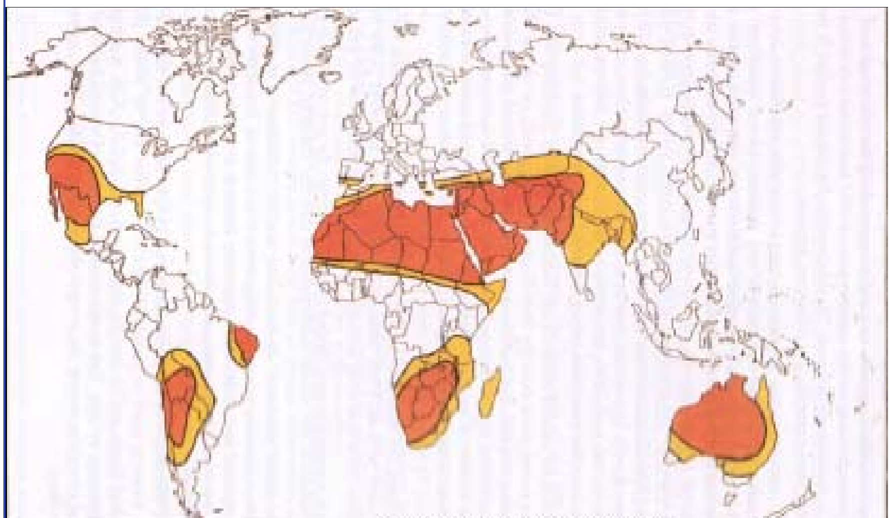
● **Russian gas**, which is already piped into Europe via various lines that do not go through the Mediterranean, but could go through the rim (through Greece and Italy). The idea behind the project is to bring more Caspian and Russian gas to consuming countries (South Stream, Nabucco, and TGI).

● **LNG**, from the liquefaction plants in Algeria and Egypt, as well as more remote regions (Nigeria and Qatar), which enters the European gas grid from gasification terminals in Italy, Spain and France.

The gas infrastructure does a better job of serving the Northern rim countries (and countries further north), than the Southern rim. Numerous gas line development projects are under examination. These include the extension of the Arab Gas Pipeline that starts in Egypt.

Such projects should allow for an improvement in security of supply to those countries, by giving them access to new sources of gas. Many of the projects, however, are only in the preliminary planning phase, and the density of the grid would continue to vary widely across countries. Patience will doubtless be required, considerable time is often required between design and the laying of the last length of the pipeline.

the Sun Belt



Source: Pharabod & Philibert 1991

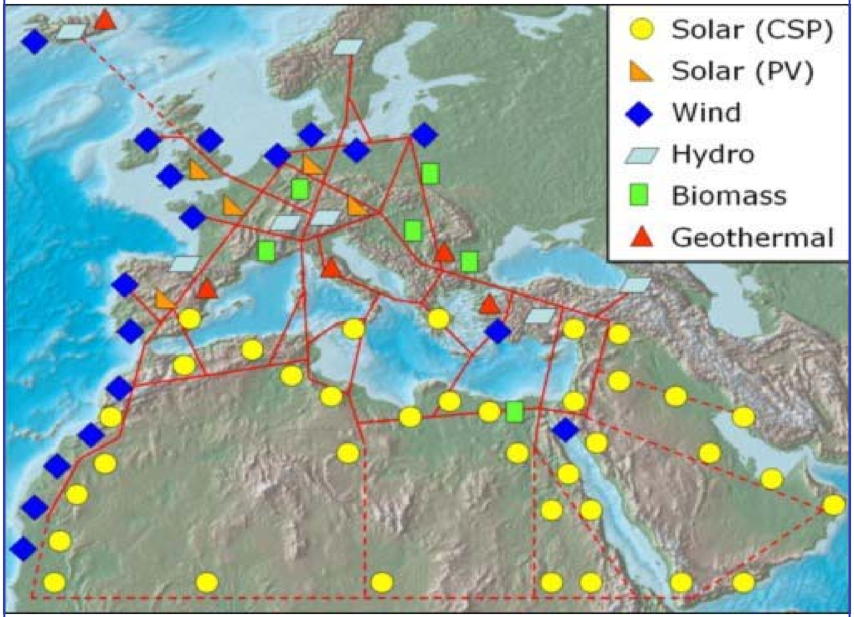
Table 6

Foreseeable development for 2010

PV	
Spain	500 MWc
Italy	300 MWc
Greece	150 MWc
France	250 MWc
CSP	
Spain	1 000 MW
Algeria	500 MW
Egypt	500 MW
Israel	500 MW
Morocco	250 MW

Source: Solar Millennium, Trans-Mediterranean Renewable Energy Cooperation

Possible infrastructure for electricity supply in Europe, the Middle East and North Africa



Source: http://www.desertec.org/

Renewable energies

The Mediterranean area is highly dependent on fossil energy, but climate and geography should allow it to move forward in developing renewable energies.

The solar radiation on the earth's surface can be exploited to produce electricity. Two processes are available.

Solar thermodynamic energy

Solar thermodynamic energy (Concentrating Solar Power, or CSP) involves concentrating sunlight on a black surface in order to heat a fluid, which is used as the hot source in a thermodynamic cycle. The mirrors can be parabolic, cylindro-parabolic, or flat, in which case the sun's rays are reflected to the top of a tower. The plants can produce electric power on the order of hundreds of MW. Electricity production is continuous (as the fluid remains hot at night) and adjustable to meet changes in demand. **This form of solar power can be used only in the Sun Belt** (see chart); **the Southern rim countries are thus in a suitable geographical area.**

Photovoltaic solar energy

Photoelectric solar energy (PV) converts the photons in sunlight into direct current electricity. Photovoltaic facilities can be installed as sun farms. However, the main application remains installation on rooftops, mainly on residential buildings. Electricity is produced intermittently, only during daylight, and output is lower when the sky is overcast. Photovoltaic energy can be produced just about anywhere.

In conclusion, the Mediterranean has a powerful energy card to play. The region is not only a major crossroads for global hydrocarbon flows, but also a future area for developing renewable energies, and particularly solar thermodynamic energy (table 6). Energy cooperation between the North and South of the Mediterranean has progressed in recent years. But much remains to be done in order to reassure, or at the least reinforce, security of energy supply for the region and the EU. All the economic players doubtless have a role to play. The leaders on both sides of the Mediterranean should set the tone. ■

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Is it possible to establish a stable, homogenous Mediterranean political space?

Revitalizing the Mediterranean space has always been an integral part of the European psyche. The area is the locus of the historical, religious and cultural sources of European civilization, that is, antiquity, the three monotheistic religions, empires, and their periphery. As a result, the idea of a common space with the southern Mediterranean societies has never vanished entirely from the European construction process: France's Edgar Faure spoke of Eurafrica in this connection, a year before the Treaty establishing the Common Market was signed in 1957.

From the "friendly neighborhood"...

Yet the steps taken towards joining the two shores have never been decisive, in part because Europeans have been unable to decide between unilateral policies or a better balanced, more pragmatic economic partnership. The Euro-Mediterranean Partnership (also called the Barcelona Process[1]) that began in 1995 was doomed from the start because the initial wavering approach was embodied in a set of bilateral association agreements without any overall structure; the approach was considered patronizing by some of the Southern countries. Thirteen years later, despite the introduction of the European Neighborhood Policy (ENP)[2] launched by the Commission in 2003 to strengthen bilateral cooperation initiatives, the results are contrasted and the impression is a bitter one. Development differentials have not narrowed significantly, the southern Mediterranean area still has little appeal for investors, the cultural and human rapprochement is at best a half-success, and prospects for peace in the Middle East are still as remote—even though the Euro-Mediterranean Partnership followed on the hopes raised by the 1993 Oslo accords. This half failure tends to show that for Europe, the Mediterranean remains a peripheral area perceived by the North as its natural extension. In recent years, the restrictive approach to Europe's identity (witness the debate over Turkey's accession to the EU), fears in confronting greater openness and the mixing of cultures (as seen in the terms "the Christian North" and "the Muslim South"), as well as the contradictions identified in the European project itself (illustrated by the repeated rejections of the constitutional treaty) gave reasons to think that the Mediterranean basin would never go beyond the philosophy of a "friendly neighborhood" set out by Romano Prodi.

... to the Mediterranean as the "future of Europe"[3]

With a reminder that relations with the Mediterranean are an essential part of the European project, but also symptomatic of its crises and moments of doubt, the initiative by the French President, Nicolas Sarkozy, restarted a process that had been bogged down in mutual incomprehension and a degree of defeatism. The initiative was especially praiseworthy given the challenge of establishing a position in a space already occupied by regional bodies such as the European Union, the Arab League, the African Union, as well as the Mediterranean Forum ("5+5")[4], the Barcelona process bodies, and the European Neighborhood Policy. While there have been significant alterations to the initial French proposal for the Union for the Mediterranean (UPM), the heart of the project is unchanged: conducting major projects (depolluting the sea, creating maritime highways, developing solar energy in the South, strengthening cooperation in the area of civil protection) to strengthen intra-Mediterranean solidarity and trade, expanding interconnections between North and South, and fostering greater private-sector participation in funding bilateral projects[5].

Under pressure from certain EU partners, France expanded the UPM from the initially planned core of countries actually bordering the Mediterranean to all the EU member states. This made the relationship with Mare Nostrum a component of Europe's identity, and more prosaically, a determinant of the future of European construction. But bringing 44 heads of state and government to Paris for the inaugural summit meeting founding the UPM on July 13, 2008 will prove to be less of a challenge than moving beyond the political complexity at work in the region. This will primarily mean targeting more

1. Associating the then-Member States with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey originally, plus Libya in 2004, and then Albania and Mauritania at the end of 2007.

2. Adding the following countries to the list of members of the Barcelona process: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

3. Speech by Nicolas Sarkozy in Toulon on February 7, 2007.

4. An informal political forum set up in 1990 with five EU member states (France, Italy, Spain, Portugal and Malta) and the five Maghreb countries (Algeria, Morocco, Tunisia, Libya and Mauritania).

5. This is why Laurence Parisot, the Chair of France's employer federation, the MEDEF, in her Marseilles speech on July 3, 2008, evoked a "free-enterprise zone" rather than a "free-trade zone."

limited breakthroughs that are nevertheless urgent for the Mediterranean and Europe in the 21st century.

The Union for the Mediterranean seeks to chart a course around the Mediterranean's divisions

The Mediterranean is divided politically. The North, united around the European Union (EU), faces a deeply divided southern Mediterranean rim. Today, it's impossible to unite the Southern countries around a shared policy vision, as can be done with the EU, albeit often with difficulty. This is illustrated by the Maghreb: while the countries are close politically (gaining independence at roughly the same time, and sharing similar colonial legacies) and culturally (with bilingual French and Arabic cultures for Morocco, Algeria and Tunisia, the Muslim religion, and Berber and Arab heritage), and despite the Arab Maghreb Union that was formed in 1989, plans for a union have been virtually put on ice since then.

The main obstacle to the Arab Maghreb Union continues to be the Western Sahara conflict, which opposes Morocco to the Polisario Front[6], and indirectly to Algeria, which rejects Morocco's territorial claims. Political and economic relations between the two countries have been strained. The second obstacle is more subtle but just as decisive: the Maghreb countries can see more readily the benefits they would derive from economic integration with Europe—each country's leading trading partner—than with their neighbors in the Maghreb. The free-trade agreements made between Tunisia and the EU or between Morocco and the EU in the 1990s, when the Maghreb union project was stalled, evidence the clear preference for Europe—including its vast market, direct investment, and technology transfers.

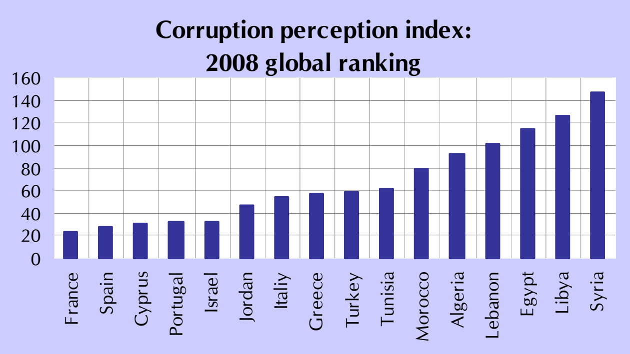
Further east, the Mediterranean countries of the Middle East are embroiled in more severe conflicts: war in Iraq, a country bordering both Turkey and Jordan, the rise of Iran as a regional power and Hezbollah in Lebanon, and of course the Israeli-Palestinian conflict. Then come issues of political and economic governance, human development, and more generally the economic difficulties that exacerbate domestic tensions.

The North Mediterranean appears to be more united within the EU, but the vision of the EU's identity, its geography or its zone of influence must be seen as a work-in-progress. This makes its political appeal to the southern Mediterranean countries both weaker and less clear. The lack of clarity, exemplified by the "neighborhood policy," which some countries perceive as a rejection of the south or as an alternative to membership, heightens suspicion of the former colonial powers.

Governance in the South: a key to deepening North/South economic relations

In terms of political freedoms, the rule of law, perceived corruption, and economic freedoms, the South is significantly behind the EU. Further, the southern countries have not all evolved along the same path: some have progressed far faster than others, and even among the top performers, notable progress in the economic field over the past decade (with freedom of enterprise and opening of the economy) has in some cases been accompanied by regressions in the political field (political freedoms and corruption).

Chart 1



Source : Transparency International 2008, Crédit Agricole S.A.

Though it is hard to set a figure, the governance gap has a cost. The first sign is the region's low attractiveness to foreign investors. Another sign is that private domestic investment tends to be lower where governance problems are most severe, evidencing lack of confidence in institutions (freedom of enterprise, bureaucratic red tape, and corruption). According to the World Bank, the state of the business climate reduces GDP growth by 1% a year in some southern Mediterranean countries. Added to the estimated 0.3% GDP growth that the five EU Mediterranean countries could derive from a more determined presence in the southern Mediterranean[7] countries, it is clear that both sides would gain from a rapprochement, the South via stronger institutions, and the North via greater economic engagement.

6. *A Western Sahara pro-independence movement that originated in 1975.*

7. *"5+5, l'ambition d'une association renforcée," Cahier No. 4, Le Cercle des Economistes, 2003.*

8. *""Maghreb-Moyen Orient: Contribution pour une politique volontariste de la France - Avicenne," IFRI, April 23, 2007.*

From the Mediterranean Union (MU) to the Union for the Mediterranean (UPM)

The tortuous path from the Mediterranean Union (MU) as envisaged in President Nicolas Sarkozy's speech in Toulon through the launch of the "Union for the Mediterranean" illustrates the challenges and obstacles facing the UPM. Initial plans for Mediterranean Union, as set out in the Toulon speech, show an approach similar to the conclusions of the Rapport Avicenne[8] issued by IFRI, which took the following observations as their starting point:

1. The problems in the Middle East are interdependent; the Palestinian issue is at the epicenter, and there are no military solutions to these problems.
2. Islamist fundamentalist movements, including Al Qaeda, are gaining ground in the Arab world, where they feed on institutional deficiencies.
3. The South has an unfulfilled "desire for Europe."

The MU would thus have had all the features of a "policy of civilization." For President Sarkozy, the ultimate goal is to make the Mediterranean "a key to our influence in the world" and "a key for Islam that is torn between modernity and fundamentalism."

After the reluctance shown by some EU members regarding the initial proposal, there could have been fears that the shift from Mediterranean Union to Union for the Mediterranean might have been watered down to mean "the European Union at the sickbed of the Mediterranean." But the UPM now seems headed towards a compromise that could avoid sacrificing its ambitions: **the UPM that was launched in Paris on July 13 will remain a "policy of civilization" in that its prime focus will be on culture, education, health, human capital, justice and fighting inequalities.** And to conduct the project successfully despite the deep political divides in the Mediterranean area, the UPM will also be "based on variable geometry," depending on each project. It will in fact be a "Union of projects" whose bases "are founded on the principle of North-South equality." Restating this point was important for the South: the institutional imbalance in the Barcelona process (requiring 27 European ratifications for each decision, and a single one in the South) has been a source of inefficiency and political misunderstanding between the two shores.

Further, the UPM is presented as a joint program that will help to reenergize existing projects, and not replace them. The EU countries will be free to participate or sit out each project, which opens the way to the reinforced cooperation arrangement desired by France, with different core combinations. These would be a large core including as many Mediterranean countries as possible in order to address issues involving the environment, shipping channels, and security. A second core would, initially, surely seek to strengthen political coordination and economic cooperation, with a smaller number of Mediterranean countries, forming a kind of reinforced "5+5" Mediterranean forum.

The UPM thus seems to have preserved the means required to achieve its ambitions, without being transformed into a large, rigid institution weakened by exposure to a host of conflicts. It will thus be able to circumvent the touchiest issues, while making progress on consensus issues which are also priorities, including education, health, environment, human capital, and reducing inequalities. That could conceivably make it easier to resolve some of the more serious policy issues in the southern Mediterranean rim, with progress in earlier projects providing a precious example. ■

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Crédit Agricole S.A. – Department of Economic Research
75710 PARIS cedex 15 — Fax: +33 1 43 23 24 68

ISSN 1248 - 2188
Subscription: publication.eco@credit-agricole-sa.fr

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Copy deadline October 21, 2008