



Center for Mediterranean Integration

The Valmer Series

Policy Brief

**Building Vigorous and Integrated
Economies in Times of Transition**

Lessons from the Golden Growth Report

July 2013

Foreword

The transition taking place across the Mediterranean region underscores the importance of broad-based job-creating economic growth. The ongoing changes not only point to the economic and social dimensions of inclusive development, but also highlight the democratic space, which accommodates deliberation, debate and dialogue throughout the region. It is within this openness that the Center for Mediterranean Integration (CMI) seeks to bolster knowledge and facilitate public policy choices.

We want—with our members and partners—to support and complement the efforts and actions of public and independent institutions on the southern rim of the Mediterranean. The value that we can provide rests in being substantially useful in the transitions and emerging integration of the region—and ultimately supporting the creation of good jobs, democratic participation, as well as an emphasis on social inclusion and equity. Pathways to change are hard, however crucial.

Integration continues to be the defining approach of CMI 2.0. As a collaborative platform for sharing knowledge, CMI 2.0. aims to bring about regional convergence and consensus on reform in a context where partnership is one of the most promising responses to the global crisis and the aftermath of the “Arab Spring”. Acting as a network among networks in support of reforms toward transformation and regional integration, CMI 2.0. strives to offer a forum for dialogue and learning that adds value to the efforts of its members and partners.

For the past three years, we have shared a journey, starting with the aim of supporting development and the integration of practices across the Mediterranean. We pursued this aim by providing a space for evidence-based policy dialogue; producing and disseminating significant knowledge; supporting cross-sectoral, multi-partner regional efforts. Along the way, we welcomed new partners and seized new opportunities.

Moving forward, CMI 2.0. remains a multi-partnership platform building networks and communities of practice around three integrational themes: the development of integrated economies, promotion of sustainable growth, and support for participatory governance. These crucial themes build on the work done over the last years and resonating with the new socio-economic context of the Southern Mediterranean countries.

Our value is embodied in the range of outputs delivered, all designed to stimulate a virtuous circle of mutually reinforcing reflections and actions: the delivery of various products and practices, high-level dialogue in policy forums that broaden knowledge and evidence among Mediterranean leaders and opinion-shapers, including those from the private sector and civil society.

Dialogues have the power to boost the development of vibrant communities of practice, which bring together peoples from the northern and the southern rim of the Mediterranean working on common themes. CMI 2.0. is unique in proposing to its partners a platform and venue for joint collaboration.

In that spirit, the Rencontre Valmer series of events aims to bring together a community of decision makers, experts and journalists from to discuss and reflect on the economic and social implications of the region’s transformation, and ultimately contribute to its long-term development and integration.

Mats KARLSSON
Director of CMI

Introduction

The transformations undergone by countries of the Southern Mediterranean have by no means come to an end. Indeed, in spite of its huge potential—some of the fastest-growing economies throughout the world, as well as a youthful population eager to contribute to economic development and social progress and vast energy endowments— and the new avenues unquestionably opened by the “Arab Spring,” the current situation in the region remains challenging and paved with many short and long-term obstacles. In particular, youth unemployment is a structural impediment to development and progress. Up to 30 percent of young people remain unemployed, and the most recent events have only heightened their expectations. Job creation is at the top of the agenda of the new governments. Yet, the underlying issues are extremely complex, ranging from skills and training mismatch, barriers to entrepreneurship, lack of available financing to inadequate education systems.

The current developments are also taking place with different intensity and magnitude. Citizens and the new political elites are grappling with the trials of reaching a new social and national consensus around tough reforms; strengthening institutions, abilities to withstand shocks; and balancing social needs with short-term macroeconomic and budgetary constraints. However, these transformations all share a common theme: empowerment and inclusion, at the social, economic and political levels. Immediate challenges include the rapid creation of jobs for youth and women, the need for broadly based growth, the expansion of access to quality education, and the imperative of more inclusive and accountable governance with greater participation of civil society in the political process. How these challenges are addressed will have wide-ranging repercussions in the Southern Mediterranean and more largely across the world.

More than ever, the international community will have to be pioneering in its approach to the region and in the methods it uses to close the gaps that have haunted the region for so long. Accomplishing the goals of transformation and integration requires a totally reshuffled framework for cooperation and development. Since 2011, international institutions have committed unprecedented resources— financial and technical—to this dynamic of change; exceptional opportunities opened up; and much stronger partnerships were made possible between all parties willing to build a new future together.

CMI 2.0. is well placed to respond to these challenges through its unique multi-stakeholder approach and ability to advance regional integration and draw upon expertise and resources to create positive disruption and innovation serving its members’ interests on all priority issues: regional development, governance, bottlenecks to job creation. Virtually every Southern Mediterranean country suffers from high unemployment rates, mostly affecting the young, educated, and women. In this respect, the 2011 revolutions were a reminder that jobs are about bread as much as they are about freedom and human dignity.

The Fourth Rencontre Valmer on Integrated Economies held on December 11-12, 2012 in Marseille convened international experts and high-level officials and practitioners to discuss the challenges of regional economic integration through the specific lens of the *Golden Growth, Restoring the Luster of the European economic model* report. Policy makers, leading economists and CMI program leaders examined the lessons and findings from the study of the European economic model and the realities of interdependencies between both rims of the Mediterranean.

This policy brief draws from the rich discussions and exchanges that took place on that occasion, and lays out a set of strategic recommendations inspired from the European experience for countries of the Southern Mediterranean as they pursue their historic dynamic of transition.

Lessons and Prospects from the *Golden Growth* Report

Over the past six decades, Europe has made impressive achievements and served as a powerful integrational machine. Despite not having federated as one country like the United States model, and beyond linguistic and cultural diversity that still is a relative barrier to labor mobility, convergence on the old continent has gone further than in any other part of the world. European growth remains, in that respect, unique. Most of its countries are doing well on the trade and finance front; many are in enterprise and innovation. Other key elements must be integrated into the analysis of the success of the European model such as structural policies, which have been a key element of the convergence process and building of Europe's model, as well as the favorable institutional conditions, which have accompanied the integration process and the political economy context.

European integration has materialized through increasingly sophisticated trade in goods and services and private capital in all forms—foreign direct investment (FDI), financial FDI, and portfolio funds. This has flowed from richer to poorer countries, as well as from low- to high-growth economies. In the process, rich and poorer European economies have become more integrated: Eastern Europe has created equity while Southern Europe, on the other hand, has become more exposed to debt. Trade and finance—facilitated by the single market instituted by the European Union and its forebears—have fueled convergence in incomes and living standards.

Besides, Europe has become a global brand. The combination of excellent engineering with first-class design has become a distinct feature of European goods. European enterprises have delivered jobs, productivity, and exports. Enterprise and innovation—aided by deep and comprehensive regional economic integration—has enabled Europe to account for about a third of the world gross domestic product (GDP) with less than one-tenth of its population. Productivity patterns, however, show a manifest gap between Southern Europe and the rest of the continent, mostly explained by a weak business environment in countries like Greece, Italy, Portugal or Spain.

Lastly, Europe has become a true lifestyle superpower, succeeding in keeping financial and income inequalities at bay and outspending the rest of the world on policies such as social protection, deeply entrenched in political or symbolic beliefs. Workers in Europe are accorded strong protection against abuse by employers, and have unprecedented income security after job loss and in old age. Europe's model of labor and government—facilitated by the growing consensus for continental cohesion and made affordable by its economic heft—has made the European lifestyle admired and envied around the planet.

Yet, Europe has also paid a price for its economic integration and now competes with economies to which it previously transferred knowledge and technology. The severe crisis undergone by some of its countries has also shown the limits of integrating peripheral economies that have not necessarily found their comparative advantage in this dynamic. To avoid complete liberalization and the erosion of productive capacity, Europe has to pursue convergence through several top priorities: controlling its public expenses; enhancing its productivity, harmonizing its fiscal and social policies; improving internal labor mobility; addressing, finally, the challenge of demographics and rethinking immigration policies.

The *Golden Growth* report, which was produced upon the request of the Polish EU presidency as a response to the growing loss of confidence in the European economic model due to the challenges that the EU and the Eurozone have been facing, reminds us how, during the last decades, Europe has made

remarkable achievements and invented a true “convergence machine” taking in poor countries and helping them become high-income economies. It stresses Europe’s successes, through the three components of European economics and integration—trade and finance; enterprise and innovation; labor and government—and assesses longer-term challenges.

Fostering Integrated Economies in the Mediterranean

Europe is an area sharing considerable economic links with Southern Mediterranean countries, likely to serve as a vehicle to stimulate dialogue and contribute to evidence-based policy choices. Learning from the European convergence model through the current challenges that it faces and the analysis of its successes and failures constitutes both an opportunity and source of inspiration for the region. It could actually create “gold.” Europe has an active role to play in fostering change in “revolutioned” countries, around two decisive questions: why have convergence processes been more successful in some countries and less so in others? How these lessons can benefit the Southern Mediterranean as a whole?

The region could draw on Europe’s experience, which has demonstrated that productivity and equal opportunity are not necessarily mutually exclusive. Regional integration is a decisive topic for many governments, which see it as a potential solution to the current crisis in Europe. The European model is affordable and can meet the expectations of Southern Mediterranean youth and populations.

Such an integration project in times of crisis also presents an opportunity to engage diasporas that can be instrumental in achieving economic success through their double culture, skills, networks and many other assets unique to their members. It is in the European interest to promote political and economic stability on the Southern Mediterranean rim, and its duty to support the convergence of its economies as it did with those of Eastern Europe.

To ensure success, countries of the Southern Mediterranean need to negotiate more at a regional level and less at a bilateral level. Trade agreements need to be complemented with structural policies that will help the catching-up of lagging regions and the development of more competitive economic structures. In broader terms, the Southern Mediterranean needs a vision that promotes innovation, education and cultural diversity, supported by the recently elected governments.

Although the measurement of productivity gains is not as evident as it seems in Southern European economies, which are dominated by small entrepreneurs and microscopic enterprises, the European experience shows that it is possible to be simultaneously competitive and inclusive. Therefore, it can be a model for Southern Mediterranean countries currently searching for a new social contract.

CMI 2.0. Strategic Policy Recommendations

Trade and Investment: Political Leadership and Structural Policies

Even though they were produced separately, the *Golden Growth* and *Trade and Investment*¹ reports are complementary in the ways in which they frame critical messages for countries of the Southern Mediterranean. An economic awakening in the region is essential to consolidate and reinforce the political awakening. However, reform is required for economic evolution. Drawing on the European model, the *Trade and Investment* report proposes core structural reforms underpinning integration in the Southern Mediterranean region: improve access to markets; increase competitiveness through productive diversification; mobilize external capital and engage diasporas; promote inclusiveness, equity and sustainability.

Labor Mobility: Competing for Global Talent

The *Golden Growth* report underlines the requirement for Europe to facilitate internal labor mobility. It also highlights the necessity to adopt more needs-driven immigration policies to fill the labor gaps that will arise given Europe's demographics. This will require the setting up of adequate policies to transform Europe in a magnet for global talent. Some European countries, such as Germany, Sweden and the United Kingdom, have already embarked on such a reform process, with mixed results thus far.

Critical economic gains could be yielded by labor mobility between poorer and wealthier countries around the Mediterranean, with migrants filling labor shortages in the more advanced economies. In practice, yet, many hurdles to such mobility exist and the perceived risks to engage in this politically sensitive field remain high. An effective and comprehensive strategy to manage international labor mobility, backed by appropriate institutions and policy instruments, could potentially lead to a triple-win outcome, for origin and destination countries as well as for the migrants themselves.

In the absence of any global institutional framework for migration, CMI 2.0. will perform analytical work to provide the fact-base necessary to inform policy-making, spur discussions about existing international labor mobility policies and tools on both sides of the Mediterranean, and facilitate the emergence of new ideas to improve and/or reform the existing frameworks through its convening power. The *Golden Growth* report contains lessons and implications on intra-Mediterranean labor mobility—north-south, south-north and south-south. The human dimension of international labor mobility goes beyond the mere analysis of remittance flows. Existing institutions currently represent an obstacle in unlocking international labor markets and enhancing human development outcomes.

Southern Mediterranean countries have good geographical and demographical cards to play: they could benefit from this opportunity by positioning themselves to become Europe's "preferred source of talents." Wide-ranging reforms to the education systems—including vocational, language and soft skills training—have to be implemented at country-level to upgrade the labor force with competitive, possibly exportable, skills. The current free public education diverting people away from vocational training leaves hordes of graduates without the skills needed by the private sector.

¹ Coordinated by the CMI in the frame of the G8 Deauville Partnership. See http://cmimarseille.org/E-letter_13-2.php.

It is essential that actors work together towards Mediterranean integration by aligning education and training and CMI 2.0. has the opportunity to become the platform from which actors from the region can address the education and training of human resources. In addition, to adequately position itself, each country has to determine the policy-mix, which best fits its needs: unlike its neighbors Algeria and Morocco, Tunisia, for instance, is presently at the peak of its youth bulge. With respect to the 2011 revolution, the country clearly needs to find solutions for its unemployed youth population. Yet, it also needs to think about how to attract the international talents that will allow its businesses to grow in the medium- to long-term.

Whilst the need to build competitiveness as a labor exporter is pertinent, a mutually beneficial policy must be sought in parallel as international labor mobility also comes at a cost, with a possible short-term loss of human capital. There is a need to find a new paradigm to ensure that southern countries are not left alone financing the education of highly skilled persons who will migrate upon graduation. The possibility would be to involve the receiving countries in the financing of such training, ad hoc or through existing—or renegotiated—bilateral cooperation schemes.

The concerns related to international labor mobility could also be mitigated by moving away from a unidirectional “brain drain” vision towards a multidimensional vision of “brain circulation.” Such a positive change could entail tighter relations with diaspora members in order to maximize the use of their unique skills, networks and other assets.

The revolutions in Southern Mediterranean countries present a new opportunity for diplomatic and consular services to interact with diasporas and engage them in all possible ways in the development of their home country. Rather than losing educated and skilled workers, countries should send out temporary ambassadors, investors and young talents who will later return home, invest and create viable trade and investment networks. New initiatives are being experimented all around the globe, including in some of these countries. CMI 2.0. will continue to disseminate international practices in this field and, to the extent possible, contribute to the design and further implementation of such pilot initiatives.

Knowledge Economy, Innovation and Entrepreneurship

The Mediterranean in need of a new mindset given the importance of a knowledge and innovation driven economy for achieving jobs, productivity and a sustainable growth trajectory. There are clear shortcomings in the business environment throughout the Arab world, which constitute a significant barrier to innovation. One clear indicator for the substantial deficiencies within the current economic model in the Southern Mediterranean region is its lack of resident patents.

A flawed economic model undermines innovation, but the recent political upheavals also represent a window of opportunity for far-reaching economic reforms. Change, and the implementation of a new business environment in the region, is the only means through which political transformation can be sustained.

Given the deficiencies in the present economic model, CMI 2.0. will address the question of how the region could develop more entrepreneurial economies, create innovative industries and prepare a new generation of better educated and more highly skilled people. The region must establish, at a country level, a climate with at its foundations a mindset nurturing competition and creativity.

Despite poor performances in recent indexes measuring global competitiveness, further efforts must be made to support innovation through the funding of start-up businesses, exchange programs and financial support for training in sectors in which there is high demand for labor. There is a necessity of an economic climate, which favors business and innovation to yield substantial results for overall competitiveness. Whilst the importance of regional initiatives cannot be undermined, there is now a consensus that only nationwide reforms and a new mindset could form the foundations upon which regional programs would flourish.

A new economic model would require not only adapting skills, but also more entrepreneurship. The younger generation needs to embrace a culture of competition and innovation. In order to promote the reforms needed to create a climate in which innovation can thrive, comprehensive reforms of the education system, including vocational training, are key to achieving the results the region is striving for. In agreement with the premise that education and innovation are inextricably linked, any ideas that Southern Mediterranean countries lacked the raw human resources for an innovation driven economy must be dismissed. Because it is nearly impossible to define in advance the sectors that will demand labor, the primary role of the education system should be to prepare students to become leaders and innovators. CMI 2.0., as an agent of change in the region, will foster links between higher education institutions and the private sector to facilitate the dialogue. Its capacity will be used to act as a politically neutral exchange platform to convene a group of “champions” from the private sector, higher education and civil society to help take the reform agenda forward.

An inflexible mindset and a reluctance to embrace competition have been shown to impede Europe from achieving its innovative potential. The Arab world, in regarding competition as a necessary good rather than a necessary evil, has to create a business environment, which appeals to innovators and entrepreneurs. Perceptions are important indeed and change cannot happen unless the populations are involved. Reforming education will need to ensure that education systems produce not only purveyors of goods and services, but also purveyors of ideas through which change in society may be fostered.

Appendices

Agenda

Tuesday, December 11

- 9.00 – 9.15** **Opening Remarks** by Mats Karlsson, Director of CMI
- 9.15 – 9.30** **Introductory Statement**
Mr. Abdellatif Mazouz, Minister in charge of Moroccans abroad, Morocco
- 9.30 – 11.15** **Presentation of the Golden Growth report**
Indermit Gill, Chief Economist, Europe and Central Asia, World Bank
- *Lessons for the Euro-Mediterranean region*: Jean-Louis Reiffers, President of the Scientific Committee, Femise;
 - *Perspectives from outside the region*: Richard Parker, Harvard Kennedy School of Government
- Jean-Pierre Chauffour, Lead Economist, MENA region, World Bank: How trade and investment are drivers of inclusive growth? Presentation of the Trade and Investment report
- 11.15 –11.30** **Coffee**
- 11.30 – 13.00** **Discussion on the Golden Growth report**
How can the Golden Growth lessons support a path for economic inclusion in the Arab Mediterranean countries: Magda Kandil, Egyptian Center for Economic Studies and Mohamed Wefati, Director, Libya Development Policy Center; and Bruno Aubert, Ministry of Foreign Affairs, France
Discussion
- 13.00 –14.00** **Lunch**
- 14.00 – 17.00** **Tackling the challenge of Labor and Labor Mobility**
Session coordinated by Manjula Luthria, Leader of the International Labor Mobility program
Introduced by Mr. Abdellatif Mazouz
Roundtable Discussion
- 17.00** **Reception**
- 20.00** **Rencontre Valmer Dinner**

Wednesday, December 12

- 9.30 – 11.00** **Knowledge economy, Innovation and Entrepreneurship**
Session coordinated by Anuja Utz, Leader of the Knowledge Economy program

Discussants: Bruno Lanvin, INSEAD; Ilyes Boumadi, Ministry of Finance, Morocco; Jean-Eric Aubert, Consultant, CMI.

11.00 –11.30 *Coffee Break*

12.00 – 13.00 **Moving forward into CMI2.0** introduced by Mats Karlsson

- Mr. Indermit Gill, Chief Economist, Europe and Central Asia, World Bank
- Mr. Hedi Larbi, Director, MENA region, World Bank

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