

Preface

This volume contains a selection of research output from the EU Seventh Framework Program's Collaborative Project on 'Prospective Analysis for the Mediterranean Region,' which was funded by the European Commission – Directorate General for Research and Innovation – Unit L Science, Economy and Society under the Grant Agreement No. 244578-FP7-SSH-2009-AEU.

The Mediterranean Prospects (MEDPRO) project was carried out by a consortium of 17 reputable institutes and universities from the EU and SEMC coordinated by the Center for European Policy Studies (CEPS) in Brussels. The consortium partners included the Center for Social and Economic Research (CASE) in Warsaw, the Center for European Economic Research (ZEW) in Mannheim, the Cyprus Center for European and International Affairs in Nicosia, the European Institute of the Mediterranean (IEMed) in Barcelona, the Faculty of Economics and Political Sciences at Cairo University, the Fondazione Eni Enrico Mattei (FEEM) in Milan, le Forum Euro-Méditerranéen des Instituts de Sciences Economiques (FEMISE) in Marseille, L'Institut Marocain des Relations Internationales (IMRI) in Casablanca, the Institute of Computers and Communications Systems-E3M Lab of the National Technical University of Athens, the Institute of International Affairs in Rome, the Institute of Studies for the Integration of Systems (ISIS) in Rome, the Mediterranean Agronomic Institute of Bari, the Netherlands Interdisciplinary Demographic Institute (NIDI) in the Hague, the Palestine Economic and Policy Research Institute (MAS) in Ramallah, the Polytechnic University of Madrid (UPM), and the Tunisian Institute of Competitiveness and Quantitative Economics (ITECQ) in Tunis.

The main objective of the MEDPRO project was to produce a set of scenarios of political and socio-economic development in the Euro-Mediterranean region. The findings aim to contribute to the reform process in the political, economic and social agendas by broadening the level of knowledge on the interplay among the diverse set of challenges and to provide deep insights into the prospected policy options and their outcomes.

MEDPRO sought to deliver the best available scientific underpinning for future policy decisions both domestically and at the EU level within the Euro-Mediterranean framework in the post-Arab Spring era.

In particular, MEDPRO analyzed the major development challenges that the SEMC will face in the coming decades (primarily until 2030) such as economic reforms, trade liberalization, the modernization of financial markets, an upgrade of infrastructure, a more prudent management of natural resources (economically and environmentally), a decrease in poverty and inequality, the eradication of illiteracy, an overhaul of the education system and equal access of boys and girls to education, the elimination of other forms of female discrimination, the reform of labor markets to reduce chronic unemployment (especially for youth), better access to water and sanitation, climate warming mitigation and adaptation, further improvement of health standards and many other policy targets. On the institutional and political front, the task is to undertake these policy objectives while building democratic states which will apply the rule of law and respect civil rights and freedoms without contradicting the dominant cultural and religious tradition in the region.

The MEDPRO project covered 11 SEMC: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey. Ten of them are EU partners under the so-called Barcelona Process, the ENP and UfM, and Turkey has EU candidate status and has entered into a CU with the EU.

The MEDPRO research agenda covered seven thematic areas that were highly relevant for the socio-economic development of the region:

- Geopolitics and governance, regional and international political challenges faced by the SEMC in a global context
- Demography and ageing
- Human capital, social protection, inequality and migration
- Management of environment and natural resources
- Energy and climate change mitigation
- Economic development, trade, investment and key sector analyses
- Financial services and capital markets

The period of implementation of the MEDPRO project (March 2010–February 2013) coincided with major political developments in the region, i.e., the Arab uprising (also called the Arab Spring), which directly affected several countries (Tunisia, Egypt, Libya, and Syria), while others have had to deal with various indirect consequences and spillovers as well as growing economic and political uncertainty.

Unfortunately, as of mid-2014, the collapse of the previous autocratic regimes has not led to the establishment of viable democratic regimes able to ensure elementary political stability and responsible economic management. Tunisia is perhaps the only exception as it has managed to maintain relative political stability and a democratic form of government. It started to implement the economic reform program supported by the IMF stand-by loan in June 2013. In January 2014, the National Assembly approved the new constitution, which gave Tunisia a chance to complete its political transition from dictatorship to liberal democracy.

The situation in other countries is much worse. Egypt and Libya continue to struggle with domestic political instability, deep splits of their societies along sectarian, regional, ideological and cultural lines, and tribal insurrections.

In Egypt, after a brief period where the democratically elected government of the Muslim Brotherhood failed to respond to the Egyptian population's basic needs, a military intervention backed by strong popular support led to the introduction of a new regime largely anchored in the military apparatus in 2013. While any assessment as of the date of the publication of this book is a mere speculation, the political transition in Egypt is shadowed by uncertainties. All of these developments have had a negative impact on business activity, investment, and incoming tourism.

Syria is experiencing its fourth year of bloody civil war with no prospects of a rapid resolution. The country is in fact territorially divided between pro-government forces and rebels with various ideological, sectarian and political profiles. The negative economic and political consequences of this conflict include a large number of internally displaced people and refugees, blocked transit routes, declining tourism, and dwindling FDI flows. These have affected neighboring countries, especially Lebanon, Jordan, and Turkey. Similarly, the civil war in Libya in 2011 and the subsequent domestic instability has largely affected neighboring Tunisia and Egypt.

Overall, 3 years after the beginning of the Arab Spring the process of political and economic transition is far from complete, which has negative consequences for the entire region (with the exceptions of Morocco and Israel). In Morocco, political and economic reforms are seemingly underway without any severe political and economic disruptions. In this context, the questions on how to successfully manage such a complex transition and how the experience of other regions can inform the next steps that would restore economic growth and lead to greater regional prosperity remain unanswered as of yet.

The Arab Spring-related developments led to a certain modification and update of the original MEDPRO agenda and added new interesting topics of research. However, most of analyses presented in this book reflect economic and social developments and use statistical data from before the Arab Spring. Whenever possible, we have tried to provide at least partial updates. However, one must be aware of data constraints related to the post-2010 period, especially in the countries most affected by violent conflicts (Syria and Libya).

The volume includes a selection of analytical papers produced under three thematic areas of the MEDPRO project: economic development, trade, and investment (Work package 5) coordinated by Luc De Wulf (CASE); financial services and capital markets (Work package 6) coordinated by Rym Ayadi (CEPS); and human capital, social protection, inequality, and migration (Work package 7) coordinated by Alia El Mahdi (Cairo University), with a strong focus on the potential of the region's cooperation with the EU. In this way, the book provides important historic background and analyses of the economic, financial, and social development of the SEMC and their economic relations with the EU. Better knowledge of this background and recent trends is crucial for understanding the development options for the region and designing their future possible scenarios. Details of these prospective quantitative scenarios that were produced under the MEDPRO project are the subject of another book.

The book is divided into five thematic blocks and 20 chapters. Part I contains five chapters on economic development, trade, and investment. In Chap. 1, Leonor Coutinho analyzes determinants of economic growth in the SEMC. In Chap. 2, Ahmed F. Ghoneim and Nicolas Péridy discuss the existing trade barriers in the region (mostly due to NTM and poor trade logistics) and the possible trade expansion that would follow trade liberalization – a reduction of tariffs and NTM, both between the EU and the SEMC, and among the SEMC themselves. Trade policy is also the subject of Chaps. 3 and 4. In Chap. 3, Subidey Togan presents the experience of the EU-Turkey CU as a potential model for other SEMC to follow. In Chap. 4, Khalid Sekkat analyzes the determinants of manufactured exports and FDI. This analysis is supplemented by Chap. 5 on private sector development coauthored by Rick Woodward and Mehdi Safavi.

The Part II is devoted to five studies of sectors of major importance for the economies of the SEMC: transport (Chap. 6 by Robin Carruthers), agriculture (Chap. 7 by Saad Belghazi), tourism (Chap. 8 by Robert Lanquar), the textile industry (Chap. 9 by Christiane Haberl), and ICT infrastructure (Chap. 10 by Jawad J. Abbassi).

Financial sector development in the region is the subject of five chapters in Part III. It starts with determinants of financial sector development in Chap. 11 (coauthored by Rym Ayadi, Emrah Arbak, Sami Ben Naceur, and Willem Pieter De Groen). The same authors also study the impact of financial development and bank efficiency on economic growth (Chap. 14) and future scenarios of financial sector development in the Euro-Mediterranean area (Chap. 15). Barbara Casu and Alessandra Ferrari provide an analysis of bank efficiency in Chap. 12 and Rym Ayadi, Emrah Arbak, and Willem Pieter De Groen discuss the convergence of banking sector regulations in the Euro-Mediterranean area (Chap. 13).

Part IV deals with social development in the SEMC. Chapter 16 by Alia el Mahdi and Ola el Khawaga and Chap. 17 by Emrah Arbak are devoted to the problems of education and human capital and their impact on labor market performance. In Chap. 18, Heba El Laithy discusses sources of income and gender inequalities. In Chap. 19, Stella Tsani, Leonidas Paroussos, Costas Fragiadakis, Ioannis Charalambidis, and Pantelis Capros analyze the impact of female labor force participation on economic development in the region.

Finally, in Part V (Chap. 20), Rym Ayadi, Marek Dabrowski, and Luc De Wulf provide a summary overview of the economic, financial, and social reforms agenda in the region, including their potential support by the EU.

The contributions published in this volume are based on earlier, much larger versions of technical and policy reports prepared within the MEDPRO project and published on the MEDPRO website (<http://www.medpro-foresight.eu/>). They were, however, subject to substantial re-editing and updating in late 2013 and the first half of 2014, taking into account the most recent developments in the region.

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Needless to say, all of the views, opinions, and policy recommendations presented in this volume are those of the respective authors only and do not necessarily reflect the position of the project donor (European Commission), project institution participants, institutions which the authors have worked for or have been associated with, and other contributors to the MEDPRO project and this publication.

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