Union for the Mediterranean
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Press summary

Regional Integration in the Euro-Mediterranean region: positive developments but progress is slow

In 2017, the UfM Ministers of Foreign Affairs adopted the "UfM Roadmap for Action" aiming to strengthen the role of the UfM in driving enhanced regional cooperation and integration in the Mediterranean. In order to inform policy-making, the UfM identified the need for a Progress Report on Regional Integration that would monitor major trends and evolutions with specific performance indicators to measure progress achieved and identify areas for improvement.

The UfM commissioned the Organisation for Economic Co-operation and Development (OECD) to prepare the first issue of the Progress Report, with the financial support of the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) on behalf of the Federal Ministry for Economic Cooperation and Development of Germany (BMZ).

The Report examines five domains of regional integration: trade, finance, infrastructure, movement of people, and research and higher education. It presents key findings and policy recommendations for each of these domains.

Main conclusions from this report

- **Integration has advanced in the UfM region, but progress has been slow** and remains below the potential of the region in terms of capacities and resources.
- **Integration has progressed unevenly, across and within sub-regions of the UfM, in all policy domains.** In terms of trade, for instance, countries of the Western Balkans and North Africa sub-regions have been integrating more closely with the rest of the UfM, while the Levant (Lebanon, Palestine and Jordan) and Israel remained well below potential.
- **Two important challenges to regional integration that remain are the inadequate infrastructure for transport and energy connectivity, and the lack of common vision on human mobility as a driver of innovation and growth in the region.**
- **Recent changes to the global economy – in particular, the digital transformation that has accelerated following the COVID-19 pandemic – are modifying global production and affecting the ability of countries to follow regional integration strategies based on trade and foreign investment policies.** Changes in trade patterns, the increased use of automation in manufacturing, and a trend toward regional re-shoring in sectors pose several challenges to the ability of some Euro-Mediterranean countries to move up the value chain and increase participation in the global economy.

30 Key findings from the Report

Trade

1. In the UfM region in 2018, trade represented an important part of the region's economy, accounting for 35% of GDP.

2. In the 1990s and early 2000s, trade agreements within the Euro-Mediterranean region focused mostly on reducing existing tariffs in the trade of agricultural and manufactured goods, while not covering trade in services. Trade in services accounts for 25% of global trade flows, and could be a key engine for economic development - yet there is a lack of ambitious regulation on services trade, except EU association agreements with the Western Balkans.

3. The importance of the region's intra-regional market has remained relatively constant since 1996. With over 20% of the world's trade in goods in 2018, the intra-regional market of the UfM continues to be one of the most relevant global markets.

4. The distribution of the intra-regional market is, however, concentrated in the Northern shore of the Mediterranean. The European Union is responsible for over 95% of the region's internal merchandise exports and 93% of the external merchandise exports. The sub-region of North Africa is the fourth main merchandise export partner, notably due to the importance of Algeria's hydrocarbon sector and Morocco's growing manufacturing sector.

5. In 2018, the UfM countries exported almost two times more merchandise to other UfM countries than to the rest of the world. However, the high level of intra-regional merchandise exports compared to extra-regional merchandise exports is largely explained by the exchanges within the European Union's internal market. Once the EU internal market is excluded, UfM countries export over 80% of their gross merchandise exports to other regions of the world. Nonetheless, even when excluding the market of the EU, the ratio of intra- versus extra-regional merchandise exports shows a slightly positive trend, pointing to progress in regional integration.

6. Several policy initiatives that UfM countries could implement to unleash the untapped trade potential in the region, include enhancing the collaboration on trade regulations, including the adoption of more ambitious trade-in-services agreements, and the homogenisation of common procedures, such as the adoption of common rules of origin. However, improving the general environment for trade, including access to transport and finance, could remain ineffective in the absence of industrial diversification.

Finance

1. Within the UfM region, EU countries are the main senders and receivers of foreign direct investment (FDI). There is significant untapped potential for investment within and between the MENA and Western Balkans sub-regions, which share limited FDI flows, and are net receivers of foreign investments

2. On average, 68% of investment stock in a reporting economy from the UfM comes from another UfM member state. Given the depth of formal ties that EU member states share among themselves, they have the highest share of intra-UfM investment.

3. *Remittances* is the money or goods that migrants send back to families and friends in origin countries. Remittance flows and costs are a relevant dimension of financial integration in the UfM region as they shed light on a form of capital exchange that is

particularly significant between MENA and Balkan countries on the one hand, and EU countries, Israel and Turkey on the other. In the UfM, 90% of emigrants from North Africa and almost all emigrants from the Western Balkans lived in an EU country in 2019. Intra-UfM remittance flows are significant: 10 countries out of 14 considered have at least one UfM member state as key partner

4. In several MENA and Balkan states, remittances represent a significant share of GDP. On average, remittance inflows represent 10.4% of GDP in the Western Balkans and 7.8% in the MENA region against 0.8% in the EU. This percentage is likely underestimated in several countries due to remittance flows through informal channels.

5. Due to the Covid-19 pandemic, digital payments are expected to grow fast across the region in 2021 and beyond, which will require countries not only to develop the legal environment but also to strengthen the regulatory framework for service providers to allow for further innovation in this area. This would boost remittances as well as e-commerce, which is currently limited in part due to the lack of infrastructure for digital payments: in 2017, studies reported that only 8% of SMEs in the wider MENA region had an online presence (compared to 80% in the United States) and only 1.5% of the region's retailers were online.

Infrastructure

1. Infrastructure for transport and energy is an important enabler of economic integration and development. Yet, in the Euro-Mediterranean region, especially the Southern and Eastern Mediterranean, infrastructure connectivity is still limited.

2. The World Bank (2020) estimated that over the next five to ten years the MENA region will require investment of over 7% of its annual regional GDP in maintenance and creation of infrastructure. In the Western Balkans, despite annual public infrastructure investment rates averaging over 6% of GDP over the past 15 years, infrastructure gaps are also high.

3. Cargo traffic between MENA countries is only 5% of total cargo traffic in the Mediterranean, while traffic between European ports is 70%, and between Europe and North Africa is 15%.

4. The total final energy consumption in the Southern Mediterranean could increase by 37% by 2040, with one half being driven by an increase in electricity consumption. There are a number of sub-regional initiatives to interconnect electricity networks and allow for electricity trade. Challenges include not only the lack of proper infrastructure but also a lack of a harmonised regulatory frameworks at the national and sub-regional levels.

5. Energy relations between North Africa and Europe are still based on oil and gas, with over 60% of North Africa's oil and gas exports being sent to Europe. Western Balkans exported more electricity to other UfM countries than to non-UfM countries.

6. Although economies in the Southern Mediterranean region are well endowed with renewable energy sources, they have not sufficiently diversified their power supply. Many have set up national renewable energy targets and the deployment of related projects is well under way, but many economies are expected to rely on gas and oil to generate electricity at least until 2030.

7. Concentrated solar power plants could generate 100 times the combined electricity consumption of MENA and Europe together. There is also a growing interest in the potential of renewable hydrogen to achieve this transition; the MENA region could be an important supplier for the EU.

Movement of people

1. The UfM region is among the most important tourist destinations worldwide. While most tourism flows remain directed towards European Mediterranean countries (71%), some Southern Mediterranean and South-Eastern European economies have emerged as growing tourist destinations in the region. Arrivals in MENA destinations grew by 10% between 2017 and 2018 to reach 87 million, mainly from Europe and other MENA countries. This revival was particularly felt in Egypt, Jordan, Morocco and Tunisia. Intra-regional tourists make up the majority of tourist flows towards UfM countries.

2. In 2019, when considering both direct contributions as well as indirect and induced impacts, tourism accounted for over 15% of GDP in several countries. The tourism sector also plays an important role in job creation in the region, accounting for over 10% of total employment in most Southern and Eastern Mediterranean economies.

3. There are different migration patterns in the UfM region. EU labour markets are seeing an increasing age imbalance, with growth of retirees outpacing those coming of working age, which has created a space for immigration into the EU to fill the gaps in the labour market.

4. By contrast, in the Southern Mediterranean sub-region, the number of new entrants to the labour market is still increasing every year. UNICEF estimates that, at the current pace, 39 million additional youth will arrive on the labour market across the region by 2030. As the world's second-youngest region, the Southern Mediterranean faces challenges in providing quality employment opportunities for its young labour force, especially young women. Although in several countries (Egypt, Jordan, Tunisia) women now outnumber their male counterparts in terms of tertiary education graduates, they remain disproportionately affected by unemployment.

5. At the regional level, the share of foreign-born labour force among all workers increased slightly from 10% in 2010 to 12% in 2019.

6. Circular migration is defined by the International Organisation for Migration as *a form of migration in which people repeatedly move back and forth between two or more countries*. Since the early 2000s, circular migration programmes with Southern and Eastern Mediterranean countries have progressively been incorporated into the EU's migration approach. The bulk of circular migration programmes in the UfM region continues to involve low- to mid-skilled seasonal workers from Southern and Eastern Mediterranean countries responding to seasonal needs in EU countries.

Research and Higher Education

1. The education, research and innovation triangle demonstrates how constant interaction between these three endeavours makes economically viable innovation possible. Countries must establish pre-conditions to regional integration, invest in research and development (R&D) and related knowledge-based assets, and be able to absorb foreign technology, contribute to trade and exchange ideas through regional and international cooperation.

2. Research and higher education needs to be linked with national industries, including manufacturing and services, in order to ensure that regional collaboration among scientists and universities effectively contributes to economic development.

3. Scientific co-operation in the Euro-Mediterranean region is characterised more by North-South interactions than by South-South collaboration, although there are exceptions (e.g. Morocco-Israel).

4. Several UfM countries have increased their investments in R&D over the past decade, in particular Israel, Egypt and Algeria. Funding from abroad plays quite an important role in business R&D. In EU countries it represents between 5 and 10% of total expenditure; in Southern UfM economies, with the exception of Israel and Palestine, foreign funding accounts for 5% or less.

5. Although scientific collaboration tends to cluster around scientific and technological specialisations, this does not mean that specialisations are static. Indeed, publication data show that between 1981 and 2014 the disciplinary focus in chemical and petroleum engineering in Southern Mediterranean and MENA countries has waned, while there has been modest growth in the life sciences.

6. Data from UNESCO show that, of UfM countries sending 10 000 students, Albania sends most of its students to Italy; Algeria, Morocco and Tunisia send most to France; and Turkey sends most to Germany. Of UfM countries receiving more than 10 000 students, France receives most of its foreign students from Morocco and Algeria; Italy receives most from Albania; and Germany receives most from Turkey and Tunisia. The United Kingdom receives most from Morocco, Egypt and Jordan.