Union for the Mediterranean
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***Regional Integration in the UfM 2025: Progress Report* – key points**

The second edition of the Union for the Mediterranean report on regional integration, published in the year marking the 30th anniversary of the Barcelona Process, examines the state of Euro-Mediterranean economic interconnectedness and provides evidence-based policy recommendations that promote integration as a driver of sustainable economic growth and social development. Published by the UfM in collaboration with the OECD and with support from the German Development Cooperation (GIZ), this data-driven assessment focuses on five domains: trade, finance, infrastructure, movement of people, and higher education and research. It builds on the first edition, published in 2021, updating the analytical framework with three new transversal dimensions: gender, digitalisation and environmental protection.

Economic integration in the Euro-Mediterranean region remains below potential due to persistent challenges to the movement of goods, services, capital, people and ideas. Since 2021, the region has been exposed to severe shocks including the war in Ukraine, which disrupted supply chains and distressed food, energy security and prices, as well as the ongoing conflict in the Middle East that undermines resilience, investor attractiveness and socioeconomic growth. Other developments, however, have contributed to positively shaping integration, such as increased exchanges with Gulf countries or Pan-African efforts. The report also notes the importance of infrastructure connectivity in advancing trade, investment, innovation, skills, and economic diversification, while highlighting how the green transition and evolving mobility models offer new opportunities for deeper integration.

1. Trade

Intra-regional trade in goods has been growing, with evidence of a shift towards higher value-added trade and deepening regional value chains.

Trade flows in the Euro-Mediterranean region represent a significant share of the world's economy, accounting for a third of all global exports in 2022 and valued at USD 7.2 trillion. While the total value of exports has tripled since 1996, its share globally is below the early 2000s, when it peaked at 40%. Within the region, the EU is the dominant trade partner: in 2022, 94% of internal exports, amounting to approximately USD 3.9 trillion, were attributed to the EU, although increased trade integration among Türkiye, the Western Balkans, and North Africa has also been observed.

Non-tariff measures such as technical regulations, standards, customs procedures, and environmental requirements can profoundly impact market access, compliance costs, and trade flows, creating obstacles for partners lacking in technological or financial capacity. The initiative to harmonise rules of origin for products within the pan-Euro-Mediterranean (PEM) area could help ease this. Measures such as the EU Carbon Border Adjustment Mechanism, on the other hand, may increase export costs and reduce competitiveness for economies trying to access the EU market.

Industrial development across the region has followed varied trajectories, although overall it is experiencing strong growth in export of machinery, chemicals and transport equipment, indicating a shift towards more advanced industries and higher value-added activities. Other sectors, such as textiles, show declining trends, highlighting the need for adaptation and innovation to remain competitive in the global marketplace.

Imports from China have surged from 1.9% in 1996 to 9.2% in 2022 despite vulnerabilities revealed by the pandemic. Gulf countries are important energy partners for the region, with UfM manufactured goods leading exports to their markets. This relationship, however, is marked by fluctuations defined by global price variance in hydrocarbons. Trade with Sub-Saharan Africa grew between 1996 and 2015, and while this has since slowed, in 2023 UfM economies exported USD 82 billion to the region and imported USD 75 billion.

Trade agreements predominantly focus on goods despite the increasing importance of services and digital commerce: in 2023, global trade fell by 5%, but services trade grew by 8%. Currently, only agreements between the EU and the Western Balkans and a bilateral agreement between Türkiye and Serbia incorporate digital trade provisions even though globally the sector accounts for 25% of all trade.

- **Policy recommendations:**
    - **i.** Develop new-generation trade agreements that encompass services, investment, digital trade, and regulatory cooperation while modernising and enforcing existing pacts.
    - **ii.** Improve trade facilitation via enhanced border cooperation, digitalisation, mutual recognition of standards, and increased transparency.
    - **iii.** Promote economic diversification towards higher-value activities and support the development of regional value chains for goods and services.

2. Finance

Financial development and integration remain fragmented, reflecting economic, institutional, and geographical disparities.

Although financial sectors in the region are largely heterogenous due to factors including GDP per capita or the structure and openness of markets, a common feature is the predominance of bank-based financing. Limited access to diversified financing sources and persistent constraints are particularly evident in the MENA and Western Balkans regions.

Geopolitical risks further complicate the landscape, especially in MENA countries, where elevated sovereign borrowing costs, risk premiums, and tightening external financing conditions discourage investment. In certain countries, access to credit is not as widespread for privately-owned companies. In Egypt, Algeria, and Albania, for example, domestic credit to the private sector is approximately 30% of GDP, far below the EU average of 80%.

Foreign direct investment (FDI) was broadly resilient over 2013-2023 period, with notable subregional differences (2.9% of GDP in MENA countries versus 6.1% in the Western Balkans). The primary sources of FDI in the Western Balkans are EU countries attracted by geographical proximity and labour costs. The EU is also the primary source of investment in MENA countries, with the notable exception of Egypt. Gulf economies are emerging as key investors, with substantial investments in Morocco (USD 11 billion), Algeria (USD 2.2 billion), and Tunisia (USD 1 billion) in 2023.

Remittances exceed FDI and official development assistance in several economies. In 2023, they accounted for approximately 35% of GDP in Lebanon, 20% in Palestine and 10% in Jordan, while in most other MENA countries they were 5%. Similarly, in Albania, Montenegro, and Bosnia and Herzegovina they surpassed 10% of GDP. In absolute terms, the top recipients between 2020 and 2023 were Egypt and Morocco, where they exceeded USD 10 billion. Most remittances to MENA and Western Balkan countries originate from the EU, although the Gulf is also a critical source.

Access to finance remains a constraint for individuals across the region, with the EU maintaining the highest levels. In MENA countries, less than 50% of adults have a formal bank account, and ownership levels are significantly lower among women.

- **Policy recommendations:**
  - **i.** Government reforms to strengthen financial markets and institutions, addressing financial fragmentation and facilitating cross-border capital flows.
  - **ii.** Promote diversification with financial instruments such as equity and corporate bond markets to complement banking and support private sector development.

iii. Ease FDI restrictions, streamline approvals, and remove barriers to foreign operators and operations to improve investment frameworks.

3. Infrastructure

Challenges to the development of the connectivity infrastructure persist, especially in the south, dampening the performance of logistics systems and affecting trade potential.

UfM countries currently account for 13.4% of global transport emissions, 40% more than in 1990. Greater investment in multimodal transport infrastructure, such as high-speed rail connected to ports to reduce reliance on road infrastructure, would support better-performing logistics systems, increase trade and create more sustainable regional supply chains. This is constrained by regulatory fragmentation, FDI restrictions, coordination complexities, difficulties mobilising capital, and limited public-private partnerships.

Cross-Mediterranean energy exchanges are an opportunity for deeper integration given the MENA region's potential to contribute to the EU's climate goals. However, electricity generation per capita in these countries, where demand grew by over 200% between 2000 and 2023, remains a challenge, and it is unlikely they will be able to export significant amounts of renewables in the immediate future. With few exceptions, MENA countries have been slow to develop new transport and energy infrastructure.

Although digital infrastructure has advanced, the expansion of broadband remains limited in MENA economies compared to the Western Balkans and the EU, with an average of 76 mobile subscriptions and 7.8 fixed subscriptions per 100 inhabitants. The success of initiatives to improve connectivity like the Medusa submarine cable depend on the national deployment of communication network infrastructure.

- **Policy recommendations:**
  - i. Further engagement in regional cooperation platforms to foster trust, coordination, and policy coherence, aligning standards, cross-border planning, and the continuity of infrastructure networks and supply chains.
  - ii. Support the development of renewable energy infrastructure, especially in the Southern Mediterranean, and its integration into local and regional energy grids.
  - iii. Enhance broadband infrastructure in the Southern Mediterranean to expand high-speed communications and North-South connectivity.

4. Movement of people

Mobility has continued to rise, bolstered by demographic pressures, labour market mismatches, and economic disparities.

Migration can have positive development impacts, but high levels of migration from the Western Balkans and the MENA region have led to concerns of a *brain drain* and loss of key workers. In the UfM's Western Balkan states alone, one fourth of the population lives abroad. The EU's aging population and shrinking labour force, on the other hand, are reinforcing the historical role of migration in filling market gaps. The bloc has introduced several agreements, including Talent Partnerships that facilitate the alignment of foreign skills development with domestic market requirements, to support labour migration.

Intra-UfM migration grew by 6% between 2021 and 2024, exceeding pre-pandemic levels. The region now hosts over 34 million intra-UfM migrants, up from 19 million in 1990. The biggest share of this migration can be attributed to the EU, but the number of migrants from the MENA region and the Western Balkans has been on the rise since 2021. In 2022, 1.39 million new intra-EU migrants were recorded, 63% of all intra-UfM flows. The top EU countries of migrant origin that year were Romania, Italy, Germany and Poland.

Structural challenges such as high youth unemployment and a mismatch between skills and labour market needs are a persistent problem in MENA and Western Balkan countries. Surveys indicate interest in migration is high: on average, around 35-40% are considering it, a rate that is even higher in Tunisia (46%), Albania (44%), Jordan (42%) and Montenegro (42%). Main destination countries in the EU include France, Italy, Spain and Germany. The Gulf is also an important destination for MENA migrants, particularly from Egypt, with numbers tripling between 2000 and 2024 to 3.9 million.

In 2023, more than 274,800 irregular migrants reached Europe across the Mediterranean and Atlantic Ocean. Data suggests a 35% increase in irregular arrivals in 2023 from the previous year, the highest levels since 2016. Climate change also caused 305,000 new displacements in the Middle East and Africa in 2022, a 30% year-on-year increase. More recently, earthquakes in Türkiye, Syria, and Morocco in 2023 and floods in Spain in 2024 led to increased internal displacements.

Although tourism remains a significant contributor to GDP, especially in non-EU countries, regional instability has reduced its economic impact, notably in Lebanon, Jordan and Egypt. Tourism has recovered or surpassed pre-pandemic levels in several countries but contributes to concerns about pressures on local communities and the environment. Employment in the sector, about 15% across the region, has remained stable in recent years.

- **Policy recommendations:**
    - **i.** Enhance labour migration management by monitoring flows and prioritising agreements that support skills development and respond to needs of both origin and destination countries.
    - **ii.** Promote sustainable tourism practices to optimise the use of natural resources, mitigate environmental impacts, balancing growth with long-term sustainability.

5. Higher education and research

Higher education and research are increasingly central to regional integration and cooperation, yet their development remains significantly unbalanced.

While the EU has robust educational frameworks that support cross-border cooperation and mobility as well as harmonised standards, systems in MENA countries are integrated neither with Europe nor among themselves. Current mobility patterns reflect inequalities in investment, infrastructure, and institutional capacity and are largely asymmetrical, dominated by outflows from the South and shaped by EU programmes such as Erasmus+. In 2022, about 65% of all mobile students from UfM countries stayed within the UfM, primarily in EU countries (60%).

MENA and Western Balkan UfM countries generally invest less in tertiary education compared to the EU average, which can affect competitiveness and integration efforts. In 2023, Israel invested 6.35% of its GDP in R&D, significantly more than other UfM countries. That same year, the EU median R&D expenditure was 1.58% of its GDP, far above the MENA region's 0.68%, North Africa's 0.66%, the Levant's 0.57% and the Western Balkans' 0.29%.

Gender gaps remain, with men, for example, tending to outnumber women in research positions. About 48% of inbound mobile tertiary education students are female in UfM countries with available data, a figure that drops to 40% in Northern Africa. However, women accounted for 63% of mobile learners and 57% of staff in Erasmus+ programmes in 2022.

- **Policy recommendations:**
    - **i.** Enhance capacity for regional cooperation by increasing public funding for higher education and research, especially in Southern Mediterranean countries. Create incentives for researchers, universities and businesses to participate in international funding programmes.

ii. Promote opportunities for education and research mobility as well as virtual exchanges and short-term mobility. Implementation of the Global Convention on the Recognition of Qualifications in Higher Education will help improve qualification recognition and information sharing.