



Thinking Ahead
for the Mediterranean



MEDPRO - Prospective Analysis for the Mediterranean Region

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Report of the Tunis High-Level Stakeholders Meeting

Tunis, November 5th and 6th 2012

WELCOME SESSION

MEDPRO-Coordinator Dr. Rym Ayadi (CEPS) introduced the MEDPRO project. It is a three year project funded under the EU's 7th Framework Programme and coordinated by the Centre for European Policy Studies (CEPS) in Brussels. The aim of the project is to contribute to the reform process in political, economic and social policies. In order to achieve this goal, reputed researchers from both sides of the Mediterranean have undertaken an inclusive foresight analysis of the main development issues to be expected in the Mediterranean, from Morocco to Turkey, referred to as the Southern and Eastern Mediterranean Countries (SEMCs). The analysis has been performed on the basis of four distinct development scenarios. At the meeting in Tunis the researchers presented the preliminary outcomes and policy recommendations - with a special focus on Tunisia - to local policy makers, academics and other experts. But above all, the experts were asked to give their views on the outcomes to strengthen the final results of the project.

In the opening speech Deputy Minister of Economy, Ridha Saïdi, pointed at the developments in Tunisia since the outbreak of the Arab Spring and the main challenges the Tunisian government faces today. The major uprisings in large parts of Northern Africa in general, and in Tunisia in particular, followed after years of rising inequality and poverty as well as limitation of personal liberties. In the aftermath of the Arab Spring the new Tunisian government's main aim is to turn this downward trend. To establish this it strives for better social economic conditions and institutional as well as political reforms. The government is conducting and implementing various plans to reach these objectives. The outcomes of the MEDPRO project could contribute to these plans. Especially concrete policy recommendations to create mutual beneficial cooperation with neighboring countries and the EU are welcomed.



SESSION 1: MEDPRO Framework and Alternative Scenarios

SESSION 2: Analyzing the Transition; Political Developments in Tunisia Post Arab Spring

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The MEDPRO analysis estimates the total accumulated wealth in the EU, MED11, EU-MED and individual MED11 countries under different scenarios until 2030*. Dr. Carlo Sessa (Istituto di Studi per l'Integrazione dei Sistemi, ISIS, Italy) elaborated on this MEDPRO scenario framework. It consists of a reference scenario (Business as Usual scenario, BaU) and three alternative scenarios that foresee a change in the international cooperation of the MED11. The first reference scenario assumed a continuation of the developments before the outbreak of the Arab spring, i.e. inter-governmentalization of EU-MED relations through bilateral agreements. The second and third scenarios, EU-MED Union and EU-MED Alliance scenarios foresee enhanced international cooperation, respectively by the sustainable development of an enlarged EU-MED11 union and the creation of multilateral agreements between regions in the EU and MED11. In turn, the fourth scenario, the Threats scenario, assumed weakening or even failure of international cooperation. These four distinct directions in international cooperation of the MED11 have been translated in more specific assumptions on seven different policy fields; geopolitics, demography, natural resources, energy and climate change, economy and trade, financial markets, and social development.

Dr. Ahmed Driss (Centre des Etudes Méditerranéennes et Internationales, CEMI, Tunisia) gave a brief analysis on the current political situation in Tunisia**. The country is currently in the middle of a complicated democratization process. During the revolution the opposition united against the previous rulers. The first democratic elections broke part of this unity. It provided powers to parties. Yet, it is tempting for the largest parties to exploit their newly gained political powers to the fullest, meaning that, liberties of minorities that have less political power are restricted. Favoring one group over the other makes it also more difficult for the new government to gain support among the wider population, which is required to smooth the reform process and regaining the respect for institutions. This is especially important when the re-design of the constitutional and legislative frameworks are taking place. The constitution requires a two-thirds majority in the assembly to be adopted, and thus requires a broader support than the absolute

* For the report on the qualitative scenario framework, see: <http://www.medpro-foresight.eu/publication/what-scenarios-euro-mediterranean-2030-wake-post-arab-spring>

** MEDPRO's previous analysis on Tunisia's transition is available here: <http://www.medpro-foresight.eu/publication/tunisia-changes-and-challenges-political-transition>



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majority necessary for adoption of legislation. The parties are struggling to get sufficient support for their proposal, which has led to substantial delays in the adoption process.

Roberto Aliboni (IAI) underlined the necessity of cohesion between the political parties for a constitution for everyone. This requires not only consensus between parties, but also a centralistic approach, which is not trivial in a country where extremist parties have an important voice.

SESSION 3: Energy: Final Scenarios, Policy Implications and Recommendations

The energy cooperation in the Euro- Mediterranean has been a great success story so far. Libya and Algeria are currently the main net exporters of energy. Together with the two other net exporters of energy in the region, Egypt and Syria, they account for 15-20% of the EU gas and oil imports^{***}. Dr. Manfred Hafner (Fondazione Eni Enrico Mattei, FEEM, Italy) showed that the fast increase in domestic energy demand in these countries will substitute part of their energy exports. The energy demand growth is substantially due to soaring population and increasing wealth. Besides the usage of oil and gas, the increased demand is likely to be absorbed by the increased usages of renewable, hydro, coal, and nuclear energy sources. The SEMCs have a huge potential for solar and wind energy . Unlocking this potential is one of the key policy recommendations of the MEDPRO work package on Energy (WP4b). Finding the required financial resources will be the main obstacle before the development of the solar plants and wind parks can start. These technologies are often expensive and require financial support which the local governments cannot afford. Tapping sovereign wealth funds could contribute to the collection of funds. Other key recommendations are the increasing the energy efficiency and reducing and better target the energy subsidies. Jordan could serve as an example. Dr. Emmanuel Bergasse (Center for Social and Economic Analysis, CASE, Poland) showed that Jordan has been successful in almost completely eliminating the energy subsidies. It gradually phased out the fuel price subsidies: oil product prices liberalized and fuel price subsidies eliminated except for LPG.

The discussants shared most of the analyses of the MEDPRO researchers. Chedli Chakroun (Paving the Way for the Mediterranean Solar Plan, PWMSP) added that the transition to more renewable energy would create new jobs and promoting local economic development.

^{***} For an outlook on hydrocarbons in SEMCs, see: <http://www.medpro-foresight.eu/publication/outlook-oil-and-gas-southern-and-eastern-mediterranean-countries>



**SESSION 5: MAJOR ACTORS
IN THE REGION: EGYPT,
ISRAEL AND TURKEY**

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Hence, it contributes to solving two of Tunisia's main challenges in the upcoming decades, creating employment for the growing population and limiting gaps in regional income levels created in the urbanization process.

Ridha Ben Mosbah (Société Tunisienne de l'Electricité et du Gaz, STEG, Tunisia), recalled that the country was interested in renewable energy sources (RES) to respond to the depletion of gas resources and their preponderance in Tunisia's energy mix. Currently, wind energy is the most important RES in the country and it accounts for 5% of total primary energy consumption in Tunisia. Developing RES requires grids' interconnections with the country's neighbors Algeria and Libya as well as with EU countries; an update of the regulatory framework which is under progress; and, the installation of storage capacities among others. Currently, pilot projects are underway to assess and fine-tune the cost-effectiveness of RES and overall their development will entail substantial changes in STEG's structure. As regards the EU, Mr. Ben Mosbah called for more visibility of initiatives, more coordination; identification of rules for regulatory convergence, while thinking of an integrated environmental and energy strategy, given the current water stress in the region.

Mr. Mustapha El Haddad (Utique Gaz, Tunisia) focused on the current barriers for enhancing energy intensity in Tunisia. First the existence of energy subsidies distorts prices and prevents a rational use of energy resources; second there is not yet a transparent regulatory framework that would increase investors' confidence as already mentioned by Mr. Till Senzel (Tunur); third, the country's interconnections need important upgrades and up till 2012, only Italy has expressed interest in buying RES electricity from Tunisia.

**SESSION 4: Natural
Resources and Environment;
Final Scenarios, Policy
Implications and
Recommendations**

Historically SMECs suffer of water scarcity. The expected increase in demand and climate change will put extra pressure on the countries to manage their water resources well. Dr. Rym Ayadi (CEPS) presented the proposed policy measures to decrease the demand and increase the supply of water. Agriculture is the largest consumer of water. Improving and spreading the knowledge about best agricultural practices at all levels as well as subsidizing the use of high efficiency irrigation systems are among the most prominent measures on the demand side. Hence, the potential gains differ between SEMCs, and might reach the limits in countries like Syria, Algeria and Turkey.



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To increase the supply new infrastructures like dams and canals should be built and the usage of unconventional water resources promoted*.

Mounia Brahem (Ministère de l'Environnement, Tunisia) called on an evaluation of the environmental impact of the EU-Tunisia Association Agreement prior to entering into deeper relations and negotiating the Deep and Comprehensive FTA (DCFTA). In her view; it will be crucial to integrate environmental criteria in EU-Tunisia relations, while at the same time integrating them in Tunisia's government reforms. Environmental policy should be explicitly entered in the new constitution and modernized with EU's financial and technical assistance in order to create efficient environmental management systems based on regional specificities to avoid regional development disparities and anchor the country in a pattern of sustainable growth.

SESSION 5: Demography, Human Capital, Inequality and Migration: Final Scenarios, Policy Implications and Recommendations

Dr. George Groenewold (Netherlands Interdisciplinary Demographic Institute, NIDI, Netherlands) presented the main demographic developments for Tunisia by 2030. As the country has already gone through its demographic transition with decreasing fertility rates, it will not be confronted with the same challenges as other SEMCs: for example, whereas in Egypt population will grow 50 million, in Tunisia the figure will be only around 2-3 million**. As projections point to changes in the country's age structure, and the main issue Tunisia will have to cope with the ageing population: if today there are 4 workers for one elderly, by 2030 there will only be 2. This calls for an ambitious set of well designed and coordinated policies addressing the likelihood of increasing social spending for old age. First, education policies will be essential to reduce the mismatch between skills offered and demanded by the labor market in order to be capable of creating a genuine social security net. Second, as the elderly will be increasingly numerous in Tunisia, there will be a need to reform health systems to enable them to cope with specific diseases. Third, concluding mobility partnerships with the EU can also prove beneficial for both regions as EU's population will decline by 2030 and Tunisia together with other SEMCs will need to upgrade their labor force skills while relieving the pressures on their labor markets. Also, policies will have to be smart, well targeted, measurable, acceptable, realistic, and time specific while being monitored.

* MEDPRO's analysis on climate change and management of natural resources can be found here: <http://www.medpro-foresight.eu/publications-wp4a>

** MEDPRO's demographic projections can be found here: <http://www.medpro-foresight.eu/publication/population-scenarios-south-mediterranean-countries-2010-2050>



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Prof. Alia El Mahdi (Faculty of Economics and Political Sciences of the Cairo University, FEPS, Egypt) presented the research devoted to the analysis of human capital, inequality, female labor force participation and migration. In the field of education*, past reforms in the region have been quantitative in nature, and government efforts have concentrated in increasing gross enrollment rates in primary in order to ensure the twin objective of increasing literacy rates among younger cohorts and close the gender gap in access to school. These objectives have been widely attained, but the past focus on education “quantity” has resulted in a situation where the skills mismatch is important and leads to high unemployment, especially among youth. Consequently, and as working age population is set to increase in the coming decades, future education reforms need to be qualitative in nature and rather focus on quality such as enhancing teaching curricula**.

The importance of education is further underlined when analyzing the region’s patterns of inequality, as education level is found to be the most important determinant of income inequality***. Despite the important levels of inequality in the MED11 and their stagnation since the 1990s, the region appears nevertheless to be more egalitarian than other parts of the world such as Latin America. Of particular importance in the region is the question of subsidies: largely used as a means to contain social instability, research proves they benefit mostly to high income households while exerting important pressures on public finances that further constrain governments in designing effective policies to address the roots of inequality. The results of the prospective analysis show that under an optimistic scenario where GDP growth is positive and average consumption growth is of 2%, the middle-class is expected to shrink; while under the pessimistic scenario, high income individuals concentrate growth benefits. As a consequence of these trends, governments will have to focus on creating pro-poor policies in the region while giving a particular attention to education quality and employment.

* MEDPRO Report on Education and Social protection can be accessed here : <http://www.medpro-foresight.eu/publication/education-and-social-protection-systems-southern-and-eastern-mediterranean-countries>

** For an analysis of returns to education in the Southern and Eastern Mediterranean, see : <http://www.medpro-foresight.eu/publication/measuring-returns-education-and-human-capital-southern-mediterranean>

*** The Technical Report on Inequality in the Southern and Eastern Mediterranean can be found here : <http://www.medpro-foresight.eu/publication/inequality-southern-mediterranean-survey-selected-countries>



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The research has also provided evidence on the existence of a U-shaped relationship between female labor force participation (FLP) and economic growth*. This implies that as GDP rises, first, women exit the labor market, until a threshold beyond which their participation increases. In comparison with other developing and developed countries, it appears that region-specific factors exert an important influence on female labor force participation in SEMCs. Estimates for Egypt show that a lower FLP would lead to a loss of 0.20% GDP by 2030; whereas a higher rate would drive GDP up by 1.1% per annum until 2030.

In the area of migration, Dr. Sergio Carrera (CEPS) gave an overview of EU's policy responses to the Arab Spring. Brussels-based institutions responded with a mix of measures consisting in increasing border control and prevention of illegal migration**. This has translated into a reinforcement of Frontex and Europol logistical capabilities, as well as promises by European Commission President J.M.D Barroso to provide North African governments with a total of 400€ million development aid conditional on accrued cooperation in fighting illegal migration. Also, the Arab Spring has led to an increased intergovernmentalization of EU's migration policies, as witnessed by the Franco Italian dispute whereby France decided to restore border controls with Italy. As security grounded measures and conditionality seem to be EU institutions top priority the likelihood of a genuine mobility partnership with SEMCs seems low. This is partly due to EU's institutional architecture, where Directorate General Justice and Home Affairs (DG HOME) leads the discussions on migration instead of the European External Action Service (EEAS). Under the current framework, Member States Interior Ministries' officials travel abroad to meet foreign officials and discuss migration related issues, instead of diplomats, who have a broader knowledge of issues. As a result, in talks about capacity building, securitization of migration is always prioritized over the policy responses tackling the roots of migration; and, as long as this division of labor remains, there will be no genuine mobility partnerships. Within MEDPRO's prospective framework, the Alliance scenario is optimal for migration if partners are equal, and conditionality on border control, readmission and the like is abandoned. In EU's institutional architecture, this implies a growing role of the EEAS and a consistent strategy, as currently, too many competing agendas and diverse actors undermine the policy coherence.

* The Technical Report can be accessed here : www.medpro-foresight.eu/publication/female-labour-force-participation-and-economic-development-southern-mediterranean-countr

** MEDPRO's report on EU's migration policy after the Arab Spring can be accessed here: <http://www.medpro-foresight.eu/publication/eu-migration-policy-wake-arab-spring-what-prospects-eu-southern-mediterranean-relations>



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Mohamed Monder Belghit (Ministère des Affaires Sociales, Tunisia) highlighted that unemployment figures in Tunisia were above 50% in some regions and in all the country, social mobility stagnated at best, despite positive rates of economic growth, leading to a fragmented society and migration pressures.

Reacting on the role of women, Dr. Boutheina ben Yaghlene (Ministère du Développement Régional et de la Planification, Tunisia) recalled that despite many achievements in the country that translate today into a narrowing of the gender gap in many occupations; development policies need to better target women. In the field of education for example, if curricula reform is a must authorities need to design measures to promote women's enrollment in disciplines deemed masculine such as mathematics and sciences to increase their competitiveness and employment prospects.

According to Prof. Riadh Zghal (Faculté des Sciences Economiques et de Gestion de Sfax, Tunisia) EU policies need to be conducive to the Alliance Scenario. To do so, the EU needs to transform itself and become a partner with an accompanying leadership for the Mediterranean. In the area of migration, such leadership would translate into policies addressing the roots of migration while at the same time deploying measures in host countries rather than focusing solely on security based measures. For example, it is well known that migration responds to numerous drivers, ranging from self-fulfillment, business, to desires of modernity, hence requiring targeted policies, in migrants home and host countries alike.

SESSION 6: Economic Integration, Trade, FDI and Finance; Final Scenarios, Policy Implications and Recommendations

Dr. Luc De Wulf, (CASE) gave an overview of the work under MEDPRO's work package 5 devoted to growth, trade, investment and sectoral analyses. With the exception of Israel, all SEMCs are upper and middle income countries; throughout the 1980s their economic performance has been disappointing but it slowly improved during the 1990s and growth rates picked up by the turning of the century. The region's economic performance has varied greatly depending on the countries and the period considered which gave rise to a number of social challenges. MEDPRO research has showed that the region's drivers of growth are to be found in a stable macroeconomic framework and containing inflation; a stable fiscal policy; and trade openness*.

* For an analysis of the determinants of growth and macroeconomic stability, see : <http://www.medpro-foresight.eu/publication/determinants-growth-and-inflation-southern-mediterranean-countries>



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Although high; inflation rates in the region have not been dramatically high by international standards; and, with the exception of Libya, all countries have been running fiscal deficits endangering macroeconomic stability. As regards trade openness, there is scope for significant improvement as the region is one of the world's less integrated despite the number of free trade agreements (FTAs) it concluded. In as far as the impact of the international financial crisis is concerned, the region's lack of commercial and financial integration acted as a buffer, isolating countries from negative spillover effects. However, the Arab Spring has an important cost on the region's economies as witnessed by the decreases in international reserves and the growing risks of currency devaluation. Recommendations for macroeconomic policies revolve around the need to reform the current subsidies' schemes, as they exert an excessive pressure on countries' fiscal balances; increase openness and attract more FDI inflows; and, reserve current employment policies based on increasing public sector employment. A notable effort also needs to be done by the region's governments to reach a stable and transparent business environment through the adoption and implementation of sound legislative frameworks. This latter point will be key for much needed infrastructure investment as SEMCs show a general deficit in infrastructure that translates into lower rates of economic growth.

As regards trade barriers, MEDPRO research has shown that the use of non tariff barriers (NTBs) in the region was important*. Under a scenario of complete removal of NTBs, trade flows between the EU and the SEMCs could increase up to 60%. As a roadmap for a better commercial performance, SEMCs should achieve integration between themselves, and remove selectively NTBs after performing a cost benefit analysis. Indeed, NTBs such as Sanitary and Phytosanitary Standards (SPS) are suitable for public health concerns, but others such as pre-shipment inspections might in turn exert a distortive effect on trade. Another important point relates to the use of standards and technical barriers to trade (TBT): while their use might be beneficial for a country's companies since it allows them to enter foreign markets, they can be detrimental in the absence of mutual recognition agreements (MRA) between trading partners. Concluding such MRAs in the region appears hence to be an important means to facilitate trade and deeper integration in the region. Finally, a particular attention should be given to logistics improvement, since the current characteristics in the region's transport exerts an important cost on trade.

* MEDPRO scenarios on shallow and deep integration with the EU can be accessed here : <http://www.medpro-foresight.eu/publication/shallow-vs-deep-integration-southern-mediterranean-scenarios-region-2030>



**SESSION 7: Economic
Integration, Trade, FDI and
Finance; Final Scenarios,
Policy Implications and
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Dr. Leonidas Paroussos (E3MLab, Institute for Communication and Computer Studies, National Technical University of Athens, ICCS/NTUA, Greece) presented the quantitative scenario framework and started by describing the GEM-E3 Model. The GEM-E3 is an applied general equilibrium model, simultaneously representing world regions and European countries, linked through endogenous bilateral trade flows and environmental flows. The model is dynamic, recursive over time, driven by accumulation of capital and equipment. Technology progress is explicitly represented in the production function, either exogenous or endogenous, depending on R&D expenditure by private and public sector and taking into account spillovers effects. A special version for the model has been developed for the MEDPRO Project. It is important to note that the model does not look at the likelihood of each scenario, but gives a forecast of what would economies would like after structural changes. Consequently, the model results depend on the assumptions under each scenario.

In the case of SEMCs, the GEM-E3 framework has 4 pillars of sustainable growth: population changes and labor mobility; trade liberalization; governance improvements; and, investment in education in infrastructure. The latter category, comprises investments in transport, water sanitation, electricity, and, human capital which are financed partly by consumption taxes and partly by Official Development Assistance (ODA). If the sources of investments depend on the scenario, the four scenarios have a closed current account constraint to avoid spurious prosperity effects. Infrastructure investments have the biggest effect on growth due to the region's characteristics and to a multiplier effect. Under the EU-MED Union, infrastructure investments for Tunisia amount to 70 \$bln and to 60 and 25 under the Alliance and Threats scenario respectively. This represents between 3.9 and 7% GDP in total but the highest multiplier effect in the country can be achieved through investments in human capital. The model shows that the country would be the region's main beneficiary of trade liberalization, as free trade with Tunisia's partner would lead to an increase in GDP per capita. Generally speaking, for Tunisia, the most beneficial scenario appears to be the EU-MED Union: due to the proximity with the EU and the development of closer relations over the course of time lowers risk premiums, EU-Tunisia trade is complementary; and, investments in infrastructure and human capital are accomplished mainly with local resources.



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In the view of Prof. Ali Chebbi (Premier Ministère, Tunisia) employment policies need to be differentiated according to the local context. Tunisia's top priority should be addressing the skills mismatch and creating a good institutional setting while addressing the links with macroeconomic developments, for example through the development of wages' indexation mechanisms on productivity. In as far as trade liberalization is concerned, the discussant does not share the conclusions of the quantitative modeling framework, as since 1986, the country started to liberalize its trade regime, but in the absence of positive results on dynamic rates of growth, it is necessary to devise another path for to implement trade liberalization.

Dr. Ridha Chkoundali (Ministère du Développement Régional et de la Planification, Tunisia) called on developing a new growth model, based on inclusiveness, a growing role of financial markets in financing, the inclusion of civil society, as well as the inclusion of the informal sector -which in Tunisia, accounts for 40% of the country's GDP- as well as regional diversification, promotion of value added sectors while avoiding external indebtedness.

S.E. Minister Jamaledine Gharbi agreed with these views and highlighted that the government was thinking of a growth model based on Tunisia's regional specificities and on the imperative of creating a distinctive international positioning which is challenging since it requires translating these regional specificities into competitive advantages in the world stage. In this regard, prospective analysis such as MEDPRO's will be key.

CONCLUDING REMARKS

Dr. Rym Ayadi, (CEPS) thanked MEDPRO researchers and discussants for their participation and their suggestions for improving the project's results and policy recommendations. She announced that within the framework of the project, another stakeholders' meeting will be held in Cairo. Both meetings discussions will serve to fine tune MEDPRO's outputs that will be presented on the project's final conference on 26th February in Brussels.