

Risks and Opportunities of the Post-Pandemic Recovery in the Mediterranean Region

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The Current Post-Covid Landscape

Across the world, the Covid-19 pandemic has exposed and aggravated several pre-existing vulnerabilities. Firstly, on the economic front, the flow of goods and services via global value chains (GVCs) has been affected as production-outsourcing models became unreliable in the face of an unprecedented global shock. Secondly, on the social and human dimensions, the pandemic has accentuated existing inequalities, causing unemployment and poverty incidence to soar. Finally, at the political level, coordination has been suboptimal and the pandemic has exacerbated some of the previous trends that were harmful to cooperation at the global level.

The situation is even worse in the southern and eastern Mediterranean (SEM) countries, whose pre-existing conditions have been severely aggravated by the crisis, making recovery even more challenging. The economic and social costs of the pandemic are expected to be very high in the SEM region. As highlighted by the CMI-FEMISE report (2021, forthcoming), in addition to the impact of curfews and other national restrictions to contain the epidemic, the impact on developing countries is amplified in SEM countries, as a result of:

- *The collapse of tourism activities:* Over the last three years (from 2017 to 2019), tourism repre-

sented, on average, almost 41% of exports for Jordan, 24% for Egypt, 23% for Morocco and 12% for Tunisia. It has taken a massive hit following the pandemic, with considerable repercussions for the industry and related employment.

- *A fall in foreign direct investments (FDI):* with FDI inflows into non-oil-producing MENA countries between January and June 2020 representing only a quarter of the inflows recorded over the same period in 2019.
- *A massive drop in remittances:* with the exception of Algeria, these remittances account for a higher share of GDP in the region compared with other countries with comparable income. A 20% decrease was expected in 2020 following the pandemic.
- *The very large part of the population working in the informal sector* and who, as a result, find themselves in a situation of precariousness and vulnerability (almost 80% of people working in Morocco, 63% for Egypt, 59% for Tunisia and 48% for Jordan).

Furthermore, while the EU revealed ambitious support programmes, the SEM countries have offered only modest support as room for manoeuvre in terms of fiscal and budgetary revenue has been extremely limited (Tsakas, 2020). The outlook seems slightly brighter for a country like Morocco, which has been able to put an IMF programme in place and also borrow on capital markets (1 billion euros) at reasonable rates. At the other end of the spectrum, Lebanon is going through the worst economic and financial crisis in its history, while Algeria has seen a doubling of the fiscal deficit (close to 15%) with the government's options remaining very limited. As highlighted by the CMI-Growth Dialogue (2021), on the whole, SEM countries have benefited from financial support

from major multilateral sources, but this has only helped bridge the short-term funding needs, not the ones that are still emerging.

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The Covid-19 crisis has hit economies that were already struggling, as evidenced by chronically low GDP per capita growth rates, high unemployment rates for young people and graduates, rising inequalities in health and education, and subpar trade integration. A lot has been written already as to how their lack of dynamism is linked to a set of endemic problems concerning the business environment, corruption and the weakness of integration within the region. Dealing with those issues is necessary. But this cannot be done country by country, in isolation. The region needs above all *greater regional cooperation*, whether it be to promote private and foreign direct investment, to allow transfers of technology and know-how on a larger scale, to fight against the consequences of global warming and against possible future crises, to facilitate the mobility of people, to encourage co-production systems, or even to launch large-scale projects in specific sectors (CMI-FEMISE, 2021 forthcoming).

Challenges and Opportunities Following New World Trends

Fortunately, like in every crisis, this pandemic is also producing lots of opportunities and possibilities to respond to challenges. Based on recent research, the following merit particular attention and could be seized by SEM countries, provided they cooperate with each other more:

An Opportunity to Seize a Regionalization of Value Chains

The changes that the world is undergoing open up new prospects for SEM countries, as the pandemic has demonstrated the vulnerabilities of global value chains (GVC). In the current context, given supply shortages in some sectors, European companies have every interest in trading with SEM countries for the supply of inputs, manufactured products and services. SEM countries could benefit from a redeployment of EU value chains which include them, based on their comparative advantages. In addition to their privileged geographical position, being at the carrefour between Europe and Sub-Saharan Africa, SEM countries also have an undeniable human, social and cultural proximity to the EU. This would allow for (see CMI-FEMISE report, 2021 forthcoming):

- markedly reducing the environmental impact of products in terms of “product miles” and carbon footprint,
- helping protect European businesses and citizens in the event of new crises by ensuring continuous access to goods and services,
- better monitoring the production of inputs, particularly in terms of compliance with rules of origin and quality standards.

An important element to take into consideration is that the large wage differentials between China and SEM countries, which prevailed a decade ago, may no longer constitute an advantage for China.

Among key sectors, one finds the *pharmaceutical industry*, which is already a priority sector in several SEM countries. The overall resilience of the pharmaceutical industry in times of Covid in the region has been strengthened. The contribution of the pharmaceutical industries is being decisive in limiting the spread of Covid in SEM countries and in supplying health systems with essential pharmaceutical products. Meanwhile, Mediterranean countries have started to reflect on the implications of a possible new reconfiguration of pharmaceutical industry value chains. For example, Egypt, Morocco and Tunisia are already positioning themselves as preferred destinations for foreign investors who plan to relocate their production of pharmaceuticals from China to the southern Mediterranean.

Investing in “Smart” Digitalization

The current crisis, while putting strain on health systems worldwide, is contributing to an accelerated implementation of digitalization. In order to ensure “business continuity,” firms across sectors have turned to digital transformation solutions, initially to facilitate exchanges and minimize the economic damage caused by the lockdowns. Meanwhile, in the education sector, digital learning has become a necessity to ensure continuity and relevance. Last but not least, if used consistently, this increased technology use offers the potential to help breach healthcare inequities and could constitute a step forward towards a more universal health coverage.

Investing in digitalization also means strengthening security and privacy infrastructure. It is important to have enough secure web servers, which store the content available for the public, as well as other confidential data

In the Mediterranean region, under the right circumstances and when the necessary prerequisites are met, such as having quality technological infrastructure and a sufficient level of digital literacy across the population, digitalization could significantly improve the livelihoods of populations. Countries such as Jordan and Lebanon have a head start in reducing the digital divide, as they have higher internet penetration than others, due in part to their more urban configuration. In fact, about 78.2% of the Lebanese population uses the Internet, which is about as high as what is observed in Europe & Central Asia (see below). However, countries such as Algeria, Egypt, Morocco and Tunisia have lower digital literacy than their Levantine counterparts, with a total of 100M citizens still unconnected.

Morocco is a good example of an SEM country internalizing the importance of the knowledge economy, as it recently approved a five-year roadmap for digitalizing the country with the ambition of becoming the digital hub of Africa. The government has just an-

nounced that it wants to use digital technology to attract MAD10 billion (about US\$1.04 billion) in FDI and create more than 120,000 direct and indirect jobs. This initiative includes supporting digital companies, accelerating the digitalization of public administrations, improving the governance of the public sector and strengthening digital sovereignty (Arezki et al, 2020).

Investing in digitalization also means strengthening security and privacy infrastructure. It is important to have enough secure web servers, which store the content available for the public, as well as other confidential data. Right now, the number of secure web servers in SEM countries is very low, with an average of 228.3 servers per 1 million people, which is about four times less than in Sub-Saharan Africa (SSA) (CMI-FEMISE, 2021 forthcoming).

Achieving Energy Integration to Facilitate a Low-Carbon Transition

As stressed by Moreno-Dodson, Pariente-David and Tsakas (2021), the timing is right to rethink and actively support the transition to a low-carbon economy in the Mediterranean region. This cross-cutting challenge is common to all countries. In the face of increasing demographic pressures, as well as the progressive degradation of the environment triggered by climate change, we urgently need to take action and agree on strategies for the Mediterranean energy transition, which necessarily includes regional energy market integration.

With the unveiling of the European Commission's Green Deal, SEM countries could seize the opportunity to align with the EU's objectives, enabling them to achieve their own objectives of green growth and CO₂ emissions reduction. The Green Deal also sets out to allow the EU to use trade policy and build partnerships with its neighbours, including in the SEM region, to help them with their own transitions. In the post-Covid world, harmonized energy policies will be imperative in order for SEM countries to develop resilient energy sectors that can both respond to their own needs and contribute to supplying the EU market.

Cooperation on energy can play a crucial role, as an integrated energy market between the SEM and the EU could boost FDI in the SEM renewables sector, make the sector more efficient and increase energy

security in the SEM and in the EU. It could also contribute to social equity by making renewable energy more affordable and, of course, further reduce CO₂ emissions in a sustained way at the regional level. The timing seems right, as the changing GVCs and the transformation occurring in many sectors, including energy, are opening up new opportunities, including, as seen above, reshoring production closer to consuming markets, increasing the digitalization of the economy and channelling investments into flourishing green sectors which drive energy transitions. In the post-Covid landscape, the renewables sector in SEM countries harbours opportunities. However, a key challenge for SEM governments is how to fund important renewable energy projects. An effective private sector needs to lead the transformation. In addition, most SEM governments would need to create policies, regulations and procedures that encourage private investors and facilitate public-private partnerships (PPPs). Furthermore, in order to maximize the regional benefit of renewable energy post-Covid, Mediterranean grids should also be transnational, which will require bilateral dialogue and a regional approach. The SEM energy sector needs to be supported by the public sector, which should play a key role in promoting efficiency and facilitating investments from the private sector, as well as from international financial organizations. The sector also needs more private sector participation for the development of technology, technical and management skills, as well as the transfer of know-how, especially in cooperation with the EU.

Ensuring Food Security and the Sustainability of Agricultural Models

An assessment of the level of food security in the Mediterranean region (CMI-FEMISE, 2021 forthcoming) highlights its fragility in the post-Covid context. Countries in the region are very strongly dependent on cereal imports, which constitute the basis of their diet. In addition, a significant percentage of SEM populations are highly vulnerable to extreme poverty, which weakens their ability to access food. By triggering an increase in poverty levels in the region, the Covid-19 crisis has had a negative impact on food security. Malnutrition levels are expected to deteriorate further as the pandemic-related socioeconomic effects continue.

The pandemic may be considered an opportunity for Social Entrepreneurship, as locally driven organizations and entrepreneurs better understand the challenges of their communities and are capable of identifying and responding to changing needs more efficiently

In the context of the post-Covid recovery period, there is an opportunity to act by supporting the family farming sector. This can contribute to increasing national supplies and securing food access for the sizeable agricultural population, which is among the region's poorest. It is also important to put small farmers, which represent a non-negligible share of the population, at the heart of public policies and allow them access to credit and markets, while providing them training, land security and adequate infrastructure. Bridging the gap in market access suffered by small or medium-sized producers, compared to large production units, should be a priority. Such development in small-scale farming can simultaneously lead to improving the rural economy, which would be capable of absorbing part of the agricultural labour force and contribute to achieving economies of scale.

Promoting Social Entrepreneurship

The timing also seems right to unleash the potential of Social Entrepreneurship (SE) and Social Impact Financing in the SEM region. One of the key characteristics of SE is its ambition to unearth innovative answers to socioeconomic issues neglected by the public sector in a context of budgetary austerity (Tsakas and Moukaddem, 2019). The importance of this new business model is growing in SEM countries, as reflected by the increasing number of social enterprises and supporting organizations. This is particularly true in countries such as Egypt, where this model generates important direct and indirect economic opportunities, mainly for young people, women and informal workers (Ramadan, 2021).

A real tool for achieving social impact and inclusive growth, when supported by appropriate public policy, SE can contribute to the economic security of all segments of the population and to economic diversity (Hausser, Tsakas and Moukaddem, 2019), something that will be much needed in the post-Covid context. The pandemic may be considered an opportunity for SE, as locally driven organizations and entrepreneurs better understand the challenges of their communities and are capable of identifying and responding to changing needs more efficiently, especially in a sector such as health.

Cooperation at the regional level is key to trigger recovery and socioeconomic transformation. SEM countries should cooperate on trade within the region and on the broader rules-based multilateral systems

But for SE to become a driving force of economic and social development policy in the Mediterranean countries, it is necessary to create a social innovation ecosystem. Particularly necessary is “social finance,” which provides access to liquidity and credit, as social entrepreneurs are often unable to finance their projects. Policymakers can play a key role in SEM countries, in promoting an adapted regulatory framework for social enterprises and in facilitating the growth of such an SE ecosystem.

Proposals for Moving forward

The combination of a Covid-19 pandemic with pre-existing conditions has profoundly affected all aspects of SEM economies and societies. Nevertheless, the pandemic offers a unique opportunity for SEM countries to rethink their development models and priorities. Major reforms are needed as part of an improved development approach at the regional level, supported by national strategies.

Furthermore, SEMs need to be forward-looking and strategically investing for the future. This includes investments in infrastructure, logistics, technical and

higher education, research and development and innovation, and digital technologies, in order to promote and support sustained growth (CMI-Growth Dialogue, 2021). In addition, it is necessary to strengthen resilience, the current pandemic being a taste of future challenges, including climate change. Significant improvements in institutions will also be needed in order to avoid the crowding out of private sector initiatives and to facilitate competition. Financing all this will prove challenging, as there is also a need to rebuild fiscal and external balances to access financial markets and attract more FDI.

Based on the latest research by CMI and its partners, the following proposals should be part of the post-Covid development strategies in the Mediterranean.

1. Towards a Regional Reform Agenda for Better Integrating in GVCs and Attracting FDI

Overall, cooperation at the regional level is key to trigger recovery and socioeconomic transformation. Leveraging regional integration to enable domestic reforms as a stepping stone to enhance global integration could become a new source of growth, jobs and stability in the region. To reap the benefits of the global economy, SEM countries should cooperate on trade within the region and on the broader rules-based multilateral systems. At the regional level, the reform agenda (CMI-WB, Arezki et al, 2020) should favour certain reforms while also removing political economy obstacles that hinder cooperation:

- *Favour policies with economy-wide impact*, instead of sector-targeted policies that could be captured by interest groups. The creation of a common digital market could be one of them as SEM countries could improve their digital connectivity with markets in Africa and the EU, increasing productivity, inclusiveness and resilience. Among other things, digital technologies carry an important potential for *developing the pharmaceuticals sector and public health in SEM countries*. Promising modern technology such as blockchains seems particularly relevant. National registries of medical information about patients can be created and the transparency of financial flows in healthcare could be significantly improved. Meanwhile, linking the

distribution of insurance products with digital tools could also be a means of reaching lower-income and excluded populations of SEM countries (CMI-FEMISE 2021 forthcoming).

- *Allow sectoral integration to proceed intelligently.* SEM policies need to respond to reconfigurations of value chains. For example, Morocco appears poised to be a success story for post-pandemic sectoral integration. The country's geographic position, relatively advanced trade relations with the European Union and the United States, and substantial investment in infrastructure should make it an obvious choice for companies looking to relocate their supply chains following the pandemic. Each country must identify its comparative advantages in order to attract FDI to the sectors offering most potential and to promote export-oriented goods and services.
- *Adapt education and professional training programmes.* GVCs are at the forefront of changing demands for skills, but a major gap remains between the needs of employers and the skills provided by the education system. Policy reforms that could enhance youth employability include dual education systems that combine general and vocational education; development of professional training curricula with the private sector; and extended use of apprentice models that allow young people to learn while working.

In order to attract FDI, a larger, more integrated market would be a strong incentive for foreign investors, as it would offer opportunities for specialization, greater economies of scale and larger local and reachable foreign markets. SME countries are well positioned between the EU and Sub-Saharan Africa to act as gateways to the latter. New foreign investors seeking to enter the AfCFTA may well consider them as a bridge to expanding Sub-Saharan markets. However, countries looking for more foreign investment also have to improve their investment climate, infrastructure and trade logistics, and offer greater policy clarity and modernized laws and regulations, among other things.

2. Role of the EU and External Actors in Accompanying a Sustainable and Green Transition

- *The EU could also play an important role and initiate a major relocalization strategy* which in-

cludes the neighbourhood countries of the Mediterranean (CMI-FEMISE, 2021 forthcoming). Such an EU-Med industrial regionalization initiative would have beneficial effects for all, from the perspective of the African Continental Free Trade Area (AfCFTA), while better positioning European firms vis-à-vis Sub-Saharan markets. Furthermore, promoting the establishment of long-lasting relationships between European multinationals and SEM firms, in particular through direct investment and co-production models, would be a win-win strategy as it would reduce risks and ensure better product quality control for EU firms, while increasing competitiveness for SEM firms and creating new growth poles in SEM countries.

At the sectoral level, the *creation of a Euro-Mediterranean regional hub for the pharmaceutical industry* would be more than timely in a context of reconfiguration/relocation of certain production segments of European industries, currently established in Asia. The construction of an EU-Med regional innovation space, animated by cooperation between research centres, pharmaceutical companies, innovative start-ups and industrialists, around projects focused on common health challenges, would also make it possible to strengthen the regions' international attractiveness.

- *It is also time to relaunch agricultural cooperation between Europe and SEM countries.* The EU should continue and even strengthen funding programmes for projects contributing to the intelligent development of agriculture in the region, taking into account local conditions and integrating issues of water management, adaptation to climate change and the need for inclusive growth. The deepening of cooperation between Europe and the SEM countries could also involve a wider opening of the European market to agricultural and agri-food products from the South, which should perhaps require an evolution of the common agricultural policy. Both the EU and SEM countries would also have a lot to gain through increased regional cooperation, by launching a common agricultural programme for the Mediterranean in order to have group purchasing policies, a common storage policy, common R&D projects and a shared

approach to labelling Mediterranean products, among other things (CMI-FEMISE, 2021 forthcoming).

- The EU can also act as a catalytic actor by *supporting the industrial development of its neighbours towards a greener pathway* and accelerating their energy transition. Together with the financial and technical support of other partners and IFIs, the EU and SEM countries could quickly start working together on a regional strategy that clearly identifies trade opportunities and infrastructure requirements, along with harmonized regulations and human capital development, and the establishment of carbon policies aligned with the Paris Agreement. IFIs could also contribute through the funding of specific renewables projects that focus on economic and socially sustainable development.
- We urgently need to *place the issue of decarbonization and energy transition at the centre of the post-Covid cooperation strategy* of Mediterranean territories. A crucial issue for countries of the SEM region lies in the need to strengthen the skills of local decision-makers. Experience-sharing would be needed and a “Green Transition Knowledge & Policy Dialogue” at territorial level should be facilitated. The CMI’s “Territorial Resilience and Climate Change Hub” could serve as the hosting platform of such a dialogue, allowing decision-makers in SEM territories to be better informed and increasing the visibility of the different parts of the Mediterranean energy ecosystem.

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