



## WP 9 - Scenarios for regional integration and cooperation with the EU

# Scenarios Assessment and Transitions towards a Sustainable Euro-Mediterranean in 2030

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*In the aftermath of the 2011 Arab uprisings in the southern and eastern Mediterranean, the region has reached a turning point in its history, presenting as many opportunities as challenges. The European Union itself is facing challenging conditions following the financial and economic crises that have hit its periphery. This MEDPRO Policy Paper examines and assesses various possible scenarios that could play out in EU-Mediterranean relations over the next two decades and offers recommendations towards long-term sustainable socio-economic development in the region.*

The southern and eastern Mediterranean region has reached a turning point in its history, following the unprecedented uprisings that brought to an end decades of repressive authoritarian rule and amidst a global financial crisis that swept away years of created value in some countries in the developed world and particularly in the EU. In recent decades, European policy-makers seem to have equated stagnation

with stability, choosing to cooperate with autocratic regimes pursuing a pragmatic self-interested approach. Political reforms and human rights were sidelined, while issues such as combating terrorism and controlling borders to contain illegal migration dominated the Euro-Mediterranean policy agenda. The final step in this process was the creation of the Union for the Mediterranean (UfM) in 2008, which was revealed

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Unless otherwise indicated, the views expressed are attributable only to the authors in a personal capacity and not to any institution with which they are associated.

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to be a fragile edifice, dominated by France's determination to inter-governmentalise Euro-Mediterranean relations.

Before 2010, the year of the start of the Arab revolts, the prevailing 'business as usual' (BAU) scenario in EU-Mediterranean relations consisted therefore of a blend of state un-sustainability and bilateral and regional cooperation dominated by inter-governmental relations and increasing depoliticisation and securitisation.

Unsustainability coupled with phony stability and continued but fragile economic growth were believed to offer the basis for a solid future for the southern and eastern Mediterranean countries (SEMCs),<sup>1</sup> as no credible prospects for radical democratic political change were foreseen. On the contrary, a deterioration of political freedoms and the rule of law has been the norm in the region rather than the exception. Despite this trend, economic growth had continued at an average rate of 4% (up till 2010) but below full potential hampered by inefficiency and low productivity, inadequate institutional capacity, market fragmentation and lack of integration, below-potential foreign direct investments<sup>2</sup> and driven by the consumption of scarce resources which is largely unsustainable.

If these conditions had continued<sup>3</sup> – assuming persistence of past trends of autocratic regimes (which produced fragile stability), excessive dependence on hydrocarbon revenues in some countries, a moderate investment in infrastructure (estimated at \$1,383 billion over 2015-30),<sup>4</sup> some degree of trade opening and institutional improvement – the SEMCs would have slowly grown at an annual speed of 4%. Such a cumulative growth rate would have translated into an increase of GDP of the region from \$1,610 billion in 2010 to \$3,564 billion in 2030, but resulted in a wider gap between the North and the South.

This increase will also mean a mere 3% of global GDP in 2030 (up from 2.7% in 2010) for the region, with the major part of the wealth creation originating from Turkey and Israel (see Tables 1a and 1b).

Table 1a. GDP growth in the BAU scenario in 2030

Region*	GDP				Annual growth rate 2010-30	Population Annual growth rate 2010-30	GDP per capita	
	S bn		% of World				US \$ 2010	
	2010	2030	2010	2030			2010	2030
SEMCs	1,610	3,564	2.7	3.0	4.1	1.3	5,741	9,861
Rest of the Arab world	1,349	3,053	2.2	2.6	4.2	1.2	11,192	19,799
EU27	17,462	23,695	28.8	20.2	1.5	0.2	34,893	45,529
Emerging Asian economies	8,840	34,572	14.6	29.5	7.1	0.8	2,855	9,541
<b>World</b>	<b>60,556</b>	<b>117,072</b>	<b>100</b>	<b>100</b>	<b>3.4</b>	<b>1.0</b>	<b>8,951</b>	<b>14,106</b>

Table 1b. Macroeconomic aggregates in BAU scenario in 2030 (\$ billion)

	GDP	Investment	Public consumption	Private consumption	Exports	Imports
SEMCs	3,530	768	687	2,110	816	851
Rest of Arab world	3,023	654	506	1,677	1,213	1,027
EU27	23,125	5,088	4,924	13,831	5,090	5,808
Emerging Asian Economies	34,290	7,488	6,169	19,747	5,807	4,921
<b>World</b>	<b>115,725</b>	<b>25,014</b>	<b>20,915</b>	<b>70,517</b>	<b>0</b>	<b>0</b>

Notes: SEMCs: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey.

Rest of the Arab world: Armenia, Bahrain, Iran Islamic Republic, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Yemen and Iraq.

Emerging Asian economies: China, Hong Kong, Taiwan, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam and India.

EU27: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

Source: GEM-E3-MEDPRO – in Paroussos et al. (2013).

Amidst the global financial/economic crisis, with the Arab revolts that have swept across the region in 2011, however, the future has suddenly become uncertain as radical domestic political and socio-economic changes threaten to drive the region into a transition period with its risks and opportunities.

External actors – notably the EU, which has a role to play as the key economic partner of the region – are expected to rethink their policies towards the region as past political choices proved to be suboptimal to steer the region into a sustainable future. Past policies would lead to a widening of the economic gap between the South and the North, which over time will heighten the tensions between both regions.

A growth path under the BAU scenario will therefore be hampered as a result of changing past political conditions and most notably the inherent instabilities of the transition period that naturally leads to new political and economic risks but also to new opportunities that may materialise if the best political choices are taken to drive the region towards sustainable futures.

While the BAU scenario and its potential implications have clearly been eliminated as past conditions have changed radically, other scenarios may materialise in a 2030 perspective, depending on the interaction of relevant political and socio-economic drivers that could plausibly lead to one or another possible future, depending on the nature and the scope of the policy actions to be taken (see Figure 1).

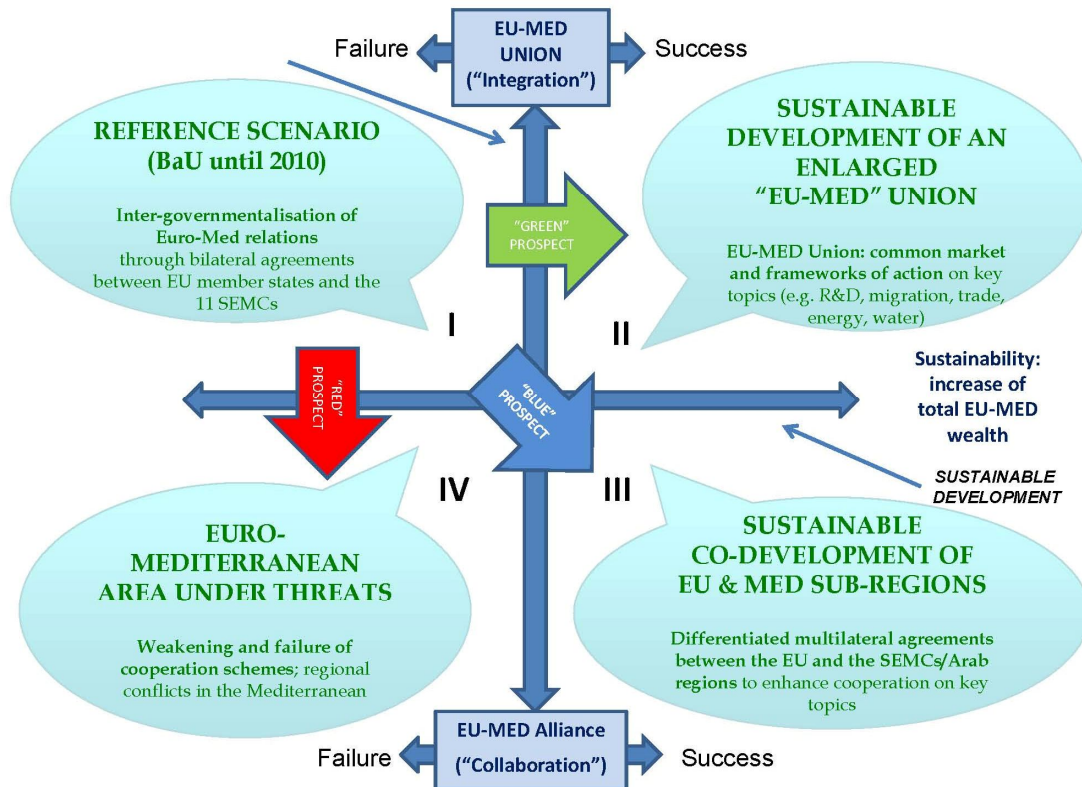
<sup>1</sup> SEMCs: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey.

<sup>2</sup> The total cumulative FDI attracted by the region accounted for \$385 billion for 2000-11, of which \$131 billion came from the EU and 55% was directed to Turkey.

<sup>3</sup> For more details on the assumptions, see Annex 1.

<sup>4</sup> See Paroussos et al. (2013).

Figure 1. Alternative scenarios of Euro-Mediterranean policy in 2030



Source: Ayadi & Sessa (2011).

Indeed, in a highly fragile and uncertain political and socio-economic context of pre- and post-Arab revolts, a scenario analysis appears to offer the best strategic tool for laying the basis with which to steer adequate policy reforms towards more long-term and sustainable socio-economic futures. Alternative scenarios were derived from a comprehensive political and socio-economic reflection on what determines the wealth of nations and sustainability on the one hand and the cooperating role of the European Union as a leading historical, geographical, political and economic partner of the southern and eastern Mediterranean region on the other hand.

However for synergies to emerge between drivers of sustainable growth and cooperation with the EU and to maximise the potential for the region, investment needs to be made in infrastructure (e.g. electricity, telecommunications, transport, water/sanitation) and human capital and market integration. Efforts also need to be made to foster stability, better governance, institutional reforms and increased labour force participation. These improvements, in turn, will result in increased productivity, competitiveness and employment, promoting economic growth and development of the SEMCs and the whole Euro-Mediterranean area.

These scenarios were hence identified, tested, adapted by senior MEDPRO researchers in Ayadi & Sessa (2011) and finally simulated and assessed in Paroussos et al. (2013), using a state-of-the-art computable general equilibrium model derived from the standard GEM-E3 model and extended for the Mediterranean region: the so-called 'GEM-E3-MEDPRO' model.<sup>5</sup>

### Scenarios for Euro-Mediterranean cooperation and socio-economic implications

Let us start with the most pessimistic scenario, expressed simply as the 'Euro-Mediterranean area under threat', in which the Mediterranean Sea

<sup>5</sup> GEM-E3-MEDPRO is a state-of-the-art economic model built for the MEDPRO project. It is based on a new detailed database for the SEMCs that goes beyond GTAP. The model covers multiple sectors and is global, extended to 19 countries/regions, including the SEMCs, the EU and the rest of world (all linked through endogenous bilateral trade), 23 economic sectors of activity, fully detailed social accounting matrices, detailed bilateral trade modelling, dynamic, investment-driven, general equilibrium projections up to 2030. The quantification of the alternative scenarios is based on specific assumptions on population and labour force, investments in infrastructure and human capital, governance and risk and trade liberalisation in the SEMCs. These assumptions are detailed in Annex 1 of this paper. For more details on the comprehensive assessment of the MEDPRO qualitative scenarios, see Paroussos et al. (2013).

becomes a dividing line between conflicting civilisations. Sporadic conflicts would become long-lasting and would spread from one country to another, leading to deeper political uncertainties and mounting economic and social difficulties and tensions.

That would translate into a significant destruction of economic value (a minimum of \$5,239 billion, equivalent to a 12.7% cumulative loss of GDP over the period 2015-30, as compared to the BAU scenario) and a drastic decrease of trade opportunities (\$2,074 billion and \$1,375 billion, equivalent to more than 20% and 13% in exports and imports respectively), a loss of domestic and foreign investment (\$1,223 billion, equivalent to more than 13%) as a result of increased business uncertainty and financial instability and a loss of private consumption (\$3,317 billion, equivalent to 13.4%) (see Table 2).<sup>6</sup>

Table 2. Economic cost of the 'Euro-Med under threat' scenario in 2030\*

In bnUS\$ (%)	GDP	Investment	Private consumption	Exports	Imports	Employment	Real wages
SEMCs	-5,239 (-12.7)	-1,223 (-13.4)	-3,317 (-13.3)	-2,074 (-20.8)	-1,375 (-13.1)	(-1.5)	(-12.9)
Rest of Arab world	-1 (0)	0 (-0.01)	-23 (-0.13)	2 (0.01)	-21 (-0.17)	(-0.01)	(-0.11)
EU27	-21 (-0.01)	-35 (-0.05)	-398 (-0.21)	42 (0.06)	-370 (-0.47)	(0.02)	(-0.12)
Emerging Asian economies	115 (0.03)	0 (0)	-155 (-0.08)	235 (0.37)	-35 (-0.06)	(0.01)	(-0.03)
World	-5,010 (-0.35)	-1,271 (-0.4)	-4,323 (-0.51)	-	-	(-0.03)	(-0.36)

\* Changes from the BAU scenario cumulatively over 2015-30.

Source: GEM-E3-MEDPRO – in Paroussos et al. (2013).

However, the speed and extent of economic loss cannot be predicted and therefore these results are only an illustration of the potential (rather mild) consequences if the 'Euro-Mediterranean area under threat' scenario were to materialise.

These new conditions therefore will further widen the gap between North and South and result in protracted national and regional social tensions and potentially high loss of employment that would progressively lead to waves of illegal migration and heightened political and social tensions with neighbouring countries.

The failure to resolve the conflicts in the Middle East and the Western Sahara and the emergence of new conflicts would exacerbate tensions in the Mashreq and the Maghreb, which would lead to contagion and heightened political risks. These uncertainties and tensions would offer new opportunities for terrorist/organised crime organisations and radical movements to ultimately take power.

The absence of cooperating authorities in the SEMCs would undermine the EU's and other geopolitical actors' capacities to achieve the necessary cooperation on key sectors, such as migration, research, science and technology and education, agriculture, environment, security and energy.

As a result, in 2030, the Mediterranean would become a border zone of broad conflicts, which, if not contained, would spread to the northern frontiers. This is indicated in the diagram above as the '**red**' transition towards a widening gap and increasing tensions and conflicts between the two shores of the Mediterranean.

The consequences of this scenario must not be underestimated for they would plague the Euro-Mediterranean region for generations to come.

According to Tocci (2011), the signals emitted in the pre- and post-Arab uprisings appear to point to further polarization and heterogeneity of the Mediterranean. Countries have been reeling from sporadic open conflicts (e.g. Libya, Israel, Palestine and Syria) to political and economic uncertainty (e.g. Egypt and Tunisia) and wait and see strategy (e.g. Algeria). With no clear target or direction, they alternate between pressures and tensions to continued un-sustainability and hopes for achieving sustainability, while trying to cope with new realities and dynamics brought about by changing political grounds.

A "no-action policy" would progressively lead the region to a gloomy future towards a red transition.

The prospects do not give grounds for optimism. Between mounting conflicts pressures, the failure to anchor democratic values in the several political transitions underway, the quick deterioration of the socio-economic conditions, the lack of socio-economic reforms, the progressive multiplication of extremist/jihadist religious factions and armed movements, the increasing political risks and the subsequent decrease of investments and economic activity and lack of vision and decisive action from the EU and other geopolitical actors, the region is heading towards a disastrous "red transition" quicker than one might expect.

**One can envisage two alternative scenarios of long-term growth and sustainability** if the necessary political and economic can be summoned, but with each following a different path of Euro-Mediterranean cooperation/partnership. Within the optimistic vision for the region, the Arab revolts can be taken as a starting point towards one or possibly both of these sustainable paths.

<sup>6</sup> For more details on the assumptions under the quantification of this scenario, see Annex 1.

In a perspective of a ‘Euro-Mediterranean Union’, recognising their shared past, believing in their common future and building on their complementarities, the European and the South (and East) Mediterranean countries would eventually form an integrated region with a common market.

The integration scheme could be inspired by the European Economic Area (EEA) model – to develop an adapted Euro-Med Economic Area (EMEA) establishing deep and comprehensive socio-economic relations, based on full movement of goods, capital and people and hence aimed at full participation of the SEMCs in the EU’s Internal Market. This path would result in the adoption of the EU *acquis*, the full participation in the programmes and agencies and the mobilisation of the necessary foreign direct investment and adequate financial means (e.g. structural/ guarantee funds, etc.). It would thus lead to more convergence and ultimately to consolidating development and furthering the economic integration.

Since not all of the countries have reached the same level of political and socio-economic development and depth of relationship with the EU, the differentiated approach as outlined in its response to the Arab spring, the so-called ‘renewed neighbourhood policy’ might result in a number of countries progressing more quickly than others to fulfil the requirements to become part of the new Euro-Mediterranean economic bloc.

At a later stage, this renewed neighbourhood policy would need to be fundamentally reoriented towards the philosophy of the Euro-Med economic model that would give a stake in the EU Internal Market while providing full technical and financial support to the SEMCs to adopt the EU *acquis*. The Union for the Mediterranean, the Arab League and others could play an important role in fostering and speeding regional cooperation (and convergence) beyond the Euro-Mediterranean geography and framework, thus deepening the economic integration between all countries of the region (including the Gulf States, other Arab states and Africa).<sup>7</sup> However, if not fundamentally restructured to be enlarged to other regions, the importance of the UfM may diminish over time when all SEMC would have a stake in the EU single market.

<sup>7</sup> Both institutions can become the drivers of Euro-Mediterranean and Euro-Arab regional integration and beyond if they have adequate resources to achieve this objective.

Under such a scenario, the tensions of post-Arab uprisings and conflicts in the Euro-Mediterranean region would be settled, economic growth and development would be enhanced accordingly with a cumulative GDP increase beyond BAU scenario of up to \$2,896 billion which is equivalent to 7% increase necessary to start closing the gap between the North and the South between 2015 and 2030.

This cumulative economic value is made possible if an additional investment in infrastructure for the same period would amount to up to 1066 bn\$ beyond the business as usual trend (which is estimated at \$1,383 billion) (Table 3).

Table 3. Economic benefits of the Euro-Med Union Scenario in 2030\*

In bnUS\$ (%)	GDP	Investment	Private Consumption	Exports	Imports	Employment	Real Wages	Investment in infra
SEMCs	2,896 (7.03)	997 (10.94)	848 (11.19)	1,414 (5.65)	2,896 (7.03)	(2.02)	(4.78)	1066
Rest of Arab world	(-0.02)	(0)	(0)	(0.01)	(-0.02)	(-0.04)	(-0.11)	
EU27	1,321 (0.42)	242 (0.35)	0 (0)	775 (0.42)	1,321 (0.42)	(0.59)	(-0.62)	
Emerging Asian Economies	-48 (-0.01)	-1 (0)	0 (0)	-20 (-0.01)	-48 (-0.01)	(0)	(-0.02)	
World	4,131 (0.29)	1,230 (0.39)	848 (0.34)	2,128 (0.25)	4,131 (0.29)	(0.09)	(0.01)	

\* Changes from the BAU scenario cumulatively over 2015-2030.

Source: GEM-E3-MEDPRO – in Paroussos et al. (2013).

However, not all countries in the South and East Mediterranean region will benefit from the same level of cumulative economic growth (and hence the GDP per capita) under this scenario because of different socio-economic links with the EU from the start and also the potential for further development. During the projected period the Maghreb countries (e.g. Algeria, Libya, Morocco and Tunisia) will maximise the growth potential as compared to the rest of the countries and Palestine will see its economy improving mainly because of the conflict resolution (Table 4).

Table 4. GDP per capita changes in the Euro-Med Union/Alliance Scenarios in the SEMCs in 2030\*

	Euro-Mediterranean Union Scenario	Euro-Mediterranean Alliance Scenario
Israel	2.54	3.57
Turkey	6.38	3.42
Algeria	27.26	14.40
Egypt	14.65	10.94
Morocco	12.82	7.96
Tunisia	18.32	11.03
Libya	24.60	19.69
Lebanon	13.52	10.87
Syria	7.79	6.26
Jordan	10.98	10.79
Palestine	21.18	16.51

\* Changes from the BAU scenario cumulatively over 2015-2030.

Source: GEM-E3-MEDPRO – in Paroussos et al. (2013).

From a sectoral point of view, production would increase mainly in the sectors producing the investment goods and the services for upgrading infrastructure and in sectors that are favoured by trade liberalisation. Sectors such as equipment and basic manufacturing goods, as well as in construction and services will benefit the most

from this scenario. The textile sector would benefit from trade liberalisation. (Table 5).

*Table 5. Economic benefits per sector of Euro-Med Union and Euro-Med Alliance Scenarios for the SEMCs in 2030\**

	Euro-Med Union Scenario (bn US\$)	(%)	Euro-Med Alliance Scenario (bn US\$)	(%)
Agriculture	131	3.02	541	12.46
Energy	409	1.96	-13	-0.06
Chemical products	568	17.42	881	27.01
Other energy-intensive	565	8.99	-136	-2.16
Electric goods – Other equipment goods	413	8.89	-248	-5.34
Transport equipment	180	9.12	-37	-1.89
Consumer goods industries – Food	293	5.72	258	5.04
Consumer goods industries – Rest	52	6.93	8	1.06
Textiles and clothing	1,165	28.48	731	17.86
Construction	1,112	15.42	745	10.34
Transport	182	2.74	-14	-0.21
Communication	173	11.21	122	7.87
Services	1,201	3.86	738	2.37

\* Cumulative change of output by economic sector between 2015-2030 from BAU scenario. Source: GEM-E3-MEDPRO – in Paroussos et al. (2013).

Finally, the creation of a larger and powerful Euro-Mediterranean community could influence the global scenario for the year 2030, with the emergence of a tri-polar world, dominated by the US, China and Euro-Med.<sup>8</sup>

This prospect is indicated in the diagram above as **the ‘green’ transition**, because it entails the expansion of the ‘Green-Growth’ strategies that currently underpin most of the EU’s policies on energy, environment, research, development and technology and other key sectors to include the South and East Mediterranean.

In practice, however, this scenario would still reflect a Euro-centric vision of the future.

Another scenario that is worth considering – referred to as the ‘Euro-Mediterranean Alliance(s)’ – would keep the North and the South/East separate: the EU on the North (which may or may not be enlarged to include the Balkan States and potentially Turkey) and the Southern Mediterranean countries on the South/East (which may or may not include other African and Middle Eastern countries). Under such a scenario, there would be no perspective (or need) for pursuing an integration model such as the Euro-Med Economic Area.

On the contrary, most indications point to an increasingly heterogeneous region, where distinct but related countries and sub-regions (e.g. Western Mediterranean, South Mediterranean, Eastern Mediterranean, Maghreb, Mashrek...) would work in *association* towards the same aim of sustainability within an increasingly interdependent world. Bilateral EU policies, such as the European Neighbourhood Policy (ENP),

would shed their ‘enlargement-like’ approach, while multilateral policies, such as the UfM, would need to be revised and enhanced to account for a more heterogeneous Mediterranean and increasing economic partnership with other regions such as the countries of the Gulf Cooperation Council and others. The region would also feature its own forms of multilateral cooperation (e.g. the Arab League, the Arab Maghreb Union, etc.). The North, the East and South would enter into cooperative contractual relations, featuring trade and co-development, political dialogue, security, as well as specific initiatives pertaining to youth education and employment opportunities, circular migration schemes, research, science, technology, innovation and infrastructure (energy, transport and ICT), agriculture, food and water security, and mitigation and adaptation to climate change.

In this scenario of differentiated multilateralism, regional cooperation schemes would be applied in a more selective way with regard to participating actors and subject areas, fully recognising that Western, South and Eastern Mediterranean and other sub regions are distinct geographical sub-regions (even if there may be some overlap) each with its own specific problems, opportunities and challenges.

Given its inherent heterogeneity, in all likelihood, this scenario would not entail a full Arab-Israeli cooperation in a common economic area (as membership in a Euro-Med Economic-like area would entail in the “Euro-Mediterranean Union” vision), but at least will require the progressive neutralisation of the Arab-Israeli conflict. The latter could be ensured by the admission of both Turkey and Israel in an enlarged EU or European Economic Area – EEA – facilitated by these two countries being the wealthiest amongst the SEMCs – and the concomitant requirement for Israel and Turkey to accept the ‘two-state’ solution and maintain peaceful relationships among them, with the Palestinian Authority and with the other neighbourhoods. Also the Western Sahara conflict could be neutralised by Algeria and Morocco entering in a regional cooperation scheme (e.g. the Arab Maghreb Union). Under such a scenario, the political transitions in a post-Arab revolt era will be settled and the necessary economic reforms launched.

Under this scenario, there would be economic growth beyond the BAU scenario of about \$1,905 billion above reference which corresponds to a cumulative growth of 4.62% during the period 2015-2030 (Table 6). Such an additional economic value can be achieved with an investment in

<sup>8</sup> Such an assumption is consolidated over time with a continuing enlargement of the EU towards the East. At the time of writing of this paper, Croatia has formally become the 28th member of the EU.

infrastructure of an additional \$700 billion beyond the BAU scenario.<sup>9</sup>

Table 6. Economic benefits of the Euro-Med Alliance scenario in 2030\*

In bnUS\$ (%)	GDP	Investment	Private Consumption	Exports	Imports	Employment	Real Wages
SEMC	1,905 (4.62)	675 (7.41)	555 (7.32)	1,527 (6.1)	1,425 (14.27)	(1.35)	(7.15)
Rest of Arab World	115 (0.32)	16 (0.2)	0 (0)	99 (0.54)	159 (1.07)	(1.22)	(-1.9)
EU27	-119 (-0.04)	-24 (-0.03)	0 (0)	-322 (-0.17)	-94 (-0.13)	(0)	(-0.13)
Emerging Asian Economies	356 (0.1)	26 (0.03)	0 (0)	125 (0.06)	1,072 (1.69)	(0)	(0.07)
World	2,350 (0.17)	662 (0.21)	555 (0.22)	1,177 (0.14)		(0.07)	(0.07)

\* Changes from the BAU scenario cumulatively over 2015-2030.  
Source: GEM-E3-MEDPRO – in Paroussos et al. (2013).

As in the Euro-Mediterranean Union scenario, under the Alliance scenario, not all countries in the southern and eastern Mediterranean region would benefit from the same level of cumulative economic growth (and hence the GDP per capita increase) because of their initial economic structures and competitive advantages. In addition, under this scenario, all countries in the region would be competing world-wide and against each other and hence will suffer from their vulnerabilities. As with the previous scenario, the Maghreb countries would benefit more during the projected period compared to the rest of the countries, and Palestine would see its economy improving mainly because of improving political conditions (Table 4).

From a sectoral point of view, sectors such as equipment and basic manufacturing goods, as well as in construction and services would benefit the most from this scenario. In contrast, equipment goods and some of the consumer goods industry would suffer from increasing competition world-wide (Table 5).

Also this vision, as with the previous “Euro-Mediterranean Union” scenario, is coherent with a multi-polar world envisaged for the year 2030, but the European Union and the southern and eastern Mediterranean will play separate roles on the global stage, maintaining preferential relationships of co-development in some key areas of common interest.

This perspective is indicated in the diagram as the ‘blue’ transition, because it is based on common policies built with the active contribution of people, civil society and policy-makers on all sides of the Mediterranean, without the emergence of a dominant partner (the process is symbolically centred in the ‘blue’ Mediterranean Sea).

Overall, both scenarios will lead to increasing growth and welfare<sup>10</sup> in the region (Table 7). Lower unemployment rates and higher wages induced mainly by projects to upgrade the infrastructure would lead to an increase in household income.

Table 7. Welfare under the Euro-Med Union and Alliance scenario in 2030

	Euro-Mediterranean Union Scenario				Euro-Mediterranean Alliance Scenario			
	2015	2020	2025	2030	2015	2020	2025	2030
Israel	0.19	0.61	0.99	1.41	0.19	1.05	2.08	3.64
Turkey	-0.02	3.89	8.74	15.73	0.73	6.07	11.64	18.87
Algeria	1.76	4.45	7.55	11.42	0.70	2.21	3.81	5.83
Egypt	0.76	3.21	5.71	9.07	0.75	3.29	5.95	9.55
Morocco	0.89	2.12	3.19	4.54	0.47	1.43	2.19	3.25
Tunisia	0.71	2.57	3.91	5.73	0.28	1.34	2.17	3.46
Libya	-0.26	1.43	3.09	5.02	-0.18	1.39	2.63	4.01
Lebanon	0.29	0.97	1.50	2.11	0.23	0.77	1.25	1.90
Syria	0.32	0.84	1.35	2.02	0.20	0.73	1.21	1.83
Jordan	0.22	0.75	1.09	1.48	0.45	1.69	2.19	2.74
Palestine	1.29	0.91	1.04	1.27	0.77	0.90	1.06	1.27

Source: GEM-E3-MEDPRO – in Paroussos et al. (2013).

The Euro-Mediterranean Union and Alliance scenarios are not mutually exclusive. Over time, elements of both scenarios can complement each other to maximise the potential economic value in the region to reach what can be described as a ‘Nirvana scenario’.

### The EU policy response: State of the art

According to the assessment of more than four decades of Euro-Mediterranean partnership by Ayadi and Gadi (2013) before the Arab uprisings, the EU has failed to drive the SEM region towards a sustainable future as a result of the fragmentation, discontinuity and failure to enforce its policies, the absence of clear incentives towards more integration of the Euro-Mediterranean region, the lack of coordination between the EU and the individual member states on key dimensions of the Euro-Mediterranean partnership and the poor performance of the financial assistance framework applied in the region.

Caught off guard by the Arab revolts, the EU has been now engaged for some time now in a major mid-term review of the European Neighbourhood Policy (ENP). When the revolts broke out, the European Commission acknowledged the need to revise the ENP so as to pay greater attention to political reforms, while being ready to commit to deepened political and economic relations with the neighbouring countries. As suggested by Tocci (2011), the drivers of this choice were underpinned in the bureaucratic rationale that has pressed EU institutions to proceed, full speed, with a review of the ENP, in the internal political-institutional rationale that has induced the European Commission to ‘use’ the Arab revolts to reassert itself at the centre of the EU’s Mediterranean

<sup>9</sup> See Paroussos et al. (2013).

<sup>10</sup> As measured by Hicksian equivalent variation.

policies and finally in the external political rationale that has induced a focus on the ENP, which demonstrated its weakness notably through its lopsided emphasis on economic cooperation and migration management at the expense of sustainable development.

The EU's stance as reflected in the Commission's Communication on "Partnership for Democracy and Shared Prosperity" issued in March 2011, and complemented soon thereafter by "A New Response to a Changing Neighbourhood" issued in May 2011, has been therefore timid and with no major change in vision foreseen in the state of affairs in the region.

The EU recognised the need to deepen the Partnership with its neighbours who are committed to democracy, human rights, social justice, good governance and the rule of law, while reaffirming the differentiated and conditional approach ("more for more").

To support the political transition, the EU committed additional funding<sup>11</sup> for more targeted support in developing and sustaining political parties (through the Endowment for Democracy) and civil society (through the Civil Society Facility).

To contribute to a sustainable and economic development in the region, the EU embarked on negotiations for deepening its bilateral relations with most of the SEMCs. The so-called Deep and Comprehensive Free Trade Agreements (DCFTAs) are expected to open the door to more access to the EU's single market. Efforts are also being made to support micro, small and medium-sized enterprises (MSMEs), vocational and educational training; improve health and education systems; develop poorer regions and enhance sectoral cooperation. Moreover, the EU has promised more 'mobility partnerships', which are designed to better manage migration flows between the EU and SEMCs, and in particular to fight illegal migration, in exchange for enhanced possibilities of mobility between SEMCs and the EU for their citizens.

To further promote regional integration, the EU recognised the need for the various regional organisations and structures that already exist to be re-energised in order to meet common challenges. This approach is being implemented already with the Maghreb countries (e.g. Joint Communication supporting closer cooperation and regional

integration in the Maghreb), and with the grouping of five countries of the EU southern Mediterranean and of the Maghreb (the so-called "5+5") currently establishing cooperation activities on the basis of shared interests and common objectives. The role of the UfM has been also slowly activated to develop its initial projects to bridge both shores of the Mediterranean.

These commitments are to be welcomed, but they remain trapped in a BAU scenario based on the same paradigm underpinning the differentiation and the conditional approach of the EU, supplemented by a collection of actions with no coherent vision. As emphasised by Tocci (2011), this logic is no more than the one of enlargement, security, vagueness, insularity and bilateral relationships with the countries of the region.

### **Transitions and policy agendas towards sustainable futures**

Looking ahead to the 2030 horizon, the EU's response to the challenges in the region appear still do not reflect a vision towards either the 'green' or the 'blue' transition. Instead, it remains trapped in the BAU scenario while the region is moving towards further polarisation and increased instability and social tension, which might drive the region towards the red transition.

Re-defining a comprehensive new agenda for long-term sustainable economic growth for the region becomes a priority if not a necessity.

The new agenda will build on the synergies between drivers of sustainable growth and cooperation between the SEMCs and the EU to maximise the potential of long-term growth and development, looking beyond: i) the BAU scenario which has failed to build upon the Euro-Mediterranean socio-economic complementarities, and ii) the uncertainties currently brought about by the break-up of the social contracts in the SEMCs by the post-Arab uprisings and the potential failure to anchor democracy.

To provide the grounds for such a new Euro-Mediterranean cooperation agenda, the MEDPRO forward-looking exercise has analysed the demographic/human, economic, financial, energy and environment implications of the different red, blue and green transitions for the SEMCs. This in-depth analysis has pointed to the long-term policy implications and recommendations to orient the SEMCs' and the EU's policy response towards a sustainable Euro-Mediterranean in 2030.

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<sup>11</sup> Ayadi & Gadi (2013) for more detail on the evolution and an assessment of the Euro-Mediterranean partnership and financial assistance.



*Demographics, human capital and migration*

Looking forward to the expected demographic dividend in the SEMCs, Groenewold et al. (2013) show that as a result of the increase in population, the region will either experience increases in numbers and relative size of working-age populations, or it will experience a stabilisation of already-high numbers and shares. Thus, the window-of-opportunity to the demographic dividend is opening now or is already open to SEMCs.<sup>12</sup> Only a limited time frame is available to benefit from this dividend, however, as the window-of-opportunity starts closing around 2035.

Moreover, although a demographic dividend is an opportunity to push economic growth upwards, it is not a sufficient condition. Employment creation has been below expectations in the region, in particular for the growing share of educated youth. Unemployment rates have been at the two-digits level and are on the rise. In the absence of meaningful socio-economic reforms, the demographic dividend will turn into a penalty in the years to come.

Labour migration, frequently a safety-valve in the past for excess (unemployed) population, will become more difficult. Many receiving countries among the EU member states, despite expected labour force shortages resulting from declining active populations, are increasingly unreceptive to immigrants who do not have vocational skills to properly integrate into the labour market. The socio-cultural environment of these receiving countries also discourages immigration. According to Carrera et al. (2012), there seems to be no change in the EU policy framework on migration towards the SEMCs. The so-called EU Dialogues for Migration, Mobility and Security for the Southern Mediterranean remain rooted in an insecurity-oriented understanding of human mobility. This approach underestimates the links between human capital, migration, employment and economic development.

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<sup>12</sup> The total population of the SEMCs will increase from about 280 million (in 2010) to a figure between 395 million (the stress scenario) and 426 million (the alliance scenario) during the period 2045-2050. EU27 country populations are expected to grow from about 500 to 525 million people in that same period. Population growth is predominantly determined by growth in the largest two countries, Egypt and Turkey. There, in 2010, 81.1 and 72.8 million people lived, respectively, comprising about 55% of the population in the SMC region. Expected population growth in Egypt is the highest in the region. Depending on the scenario, Egypt's population will increase between 2010 and 2050 with a figure between 44 and 53 million persons.

As far as human capital development is concerned, Ayadi and El Mahdi (2013) showed that despite the substantial progress in school enrolment and narrowing the gender gap and higher government spending on education in recent decades, the increase in educational attainment has not translated into equally higher participation rates in the labour market, particularly for women. This is partly attributed to the low quality of their education, low returns on education and persistent skills mismatch in the job market.

The whole demographic dividend and employability require a fundamental change in approach towards designing new human capital development strategies and considering migration as an opportunity for socio-economic development, in particular for the recipient countries.

Therefore policy-makers in both SEMCs and the EU need to give this challenge their immediate attention. This can be done by convening and developing commonly agreed strategies and programmes to enhance human capital, promote higher education standards and better prepare youth and young adults, and women, for the human skills and quality demands of labour markets in SEMCs and EU countries. Diplomas, certification recognition, exchange of best practices and multiplication of partnerships between educative institutions and with the private sector are cornerstones towards building a Euro-Mediterranean human capital space.

Obviously, such programmes should prepare prospective migrants for a life in EU countries in terms of their socio-cultural integration.

The future needs for *skilled* labour in EU countries require EU and SEMC policy-makers to modernise EU migration policies to encompass new admission rules and regulations, and labour migration programmes that better manage the flow of (skilled) labour migration from SEMCs to the EU *and back to the home countries*.

These and other issues should be framed and agreed upon between the EU and its neighbouring countries in the context of a Euro-Mediterranean Strategy for Human Capital Development and Mobility.

*Socio-economic and financial development*

To drive the SEMCs towards a sustainable growth and development path, some policy decisions in the socio-economic and financial fields have to be taken.

Undoubtedly, undertaking timely socio-economic reforms in a political transition phase post-Arab

uprisings might be a delicate task, but a step-by-step, long-term approach is necessary to drive the region towards sustainable growth paths that generate employment and deal with inequality and social exclusion.

In line with the proposals of Dabrowski and De Wulf (2013), the SEMCs should pursue a prudent fiscal policy to maintain a fiscal balance, develop the business and investment environment to develop the private sector (with a particular focus on sectors of key importance in the region such as tourism, agriculture, textiles and new high growth sectors) and to attract foreign direct investment (FDI) particularly in infrastructure and other sectors that are essential for economic development and job creation. At the same time, as was outlined in Ayadi and El Mahdi (2013), social and income redistribution policies must go along with economic policies and be well designed and well targeted in order to overcome social disparities and raising inequalities.

Trade will continue to play a critical role in the growth and development path of the region in the next decades. Deepening intra-SEMC trade, with the EU and other economic partners, is thus essential. Measures that would further boost openness include tariffs removal, the progressive reduction of trade-restricting non-tariff barriers (NTBs) after a thorough cost-benefit analysis, decreasing high transport costs and improving uncompetitive trade logistics. However, deepening integration with large economic partners must take into account potential vulnerabilities due to loss of competitiveness which might lead to unintended economic losses.

Investment in infrastructure should aim to achieve levels beyond the Business as Usual scenario in all sectors such as transport, water sanitation, energy, human capital and telecoms. With more infrastructure development, other economic sectors will thrive and contribute to sustainable development in the region. Important economic sectors such as agriculture, tourism, manufacturing and services must be further developed along the value chain. New high growth and employment potential sectors in industry and services, and in which the EU and other external actors have potential interest to grow should be identified and/or further developed in line with the Euro-Med Union and Alliance scenarios. The southern and eastern Mediterranean region can develop into a second natural production field, service provider and market for the EU in sectors where complementarities can be sought.

Another key area where a sustained effort of reform in the region is needed is financial markets. The bottom line is how to ensure that finance is at the service of long-term growth. However, as was argued in Ayadi (2013), the financial sector in the region is not only lagging behind as compared to other developing regions but it also does not seem to contribute to long-term growth. The challenge ahead is how to bring a positive significance to the finance-growth relationship in the region.

Indeed, as amply demonstrated in other regions, notably the EU, financial integration is a growth enhancer. The SEMCs lag behind in terms of financial integration. A long-term agenda for far-reaching regulatory harmonisation in the financial market is needed to start the process. Such an agenda should concentrate on diminishing the unproductive influence of the public sector on the financial sector, ensuring full independence of central banks and harmonising the regulations and infrastructure in financial services and capital markets to promote access to efficient, competitive and safe financial services to companies, investors and individuals. The future policy should promote competition, efficiency, financial inclusion and financial stability simultaneously.

To benefit from the positive impacts of financial reform and hence of financial development, it is essential to ensure that key prerequisites are met. Strengthening legal institutions and democratic governance and implementing and enforcing these financial reforms within a fully stable macro-economic framework, where inflation is contained, capital account gradually opened and investment and trade fostered are the key conditions for a significant relationship to form between financial development and growth. Beyond that, targeted actions must be taken to enhance access to finance to MSMEs, which are key to job creation. For example, in a context of market failures, loan and equity guarantee schemes, if well designed, can play a central role in alleviating some financial constraints.

Finally, aimed at furthering the Euro-Mediterranean integration, the SEMCs and the EU should develop a common long-term economic and financial development and integration strategy. This strategy should be built on four pillars:

*A full economic integration agenda* aimed at progressively removing all tariffs and non-tariff barriers and introducing regulatory harmonisation and standardisation, while ensuring a fair trade balance for trade partners;

*A comprehensive initiative in infrastructure investment* whose purpose is to close the infrastructure investment gap in the region;

*A Euro-Mediterranean sectoral development initiative* to identify the complementarities and potential additional economic value to further develop existing and new sectors; and

*A Euro-Mediterranean financial market initiative* to promote and monitor Euro-Mediterranean financial market integration. Such an initiative will bring together financial and market regulators from both shores of the Mediterranean to agree on a Euro-Mediterranean financial services action plan that would set the foundation for a more integrated Euro-Mediterranean financial market that is competitive, safe and inclusive and that benefits both the EU and the SEMCs.

#### *Energy and climate change mitigation*

The current energy situation in the SEMCs is characterised by a rapid increase of energy demand, low energy efficiency and low domestic energy prices due to extensive and universal consumption subsidies. The latter act as a strong disincentive to a rational and efficient use of energy and investment in the sector, including renewable energy.

Large subsidies and continuing high and volatile global prices for energy commodities constitute a burden on the public finances of many net-importing countries and their citizens.

In short, the current energy situation does not appear sustainable and poses several risks to the prospects of socio-economic development of the region.

The SEMCs are endowed with a large potential for renewable energy as well as significant energy efficiency and demand-side management (DSM). Thanks to the ongoing technological and institutional changes, all countries in the region could make use of this large potential. While in the past only the hydropower was exploited (mainly in Turkey, Egypt and Morocco), presently all countries are developing plans to enable them to also rely on other renewable sources, such as solar, wind and biomass. These sources can be developed for both domestic and export markets.

For these programmes to be successful, it is important to implement socio-economic reforms backed by solid strategies, improved governance, regulation, rationalised energy-pricing structures and subsidy systems, combined energy-supply policies with strong energy-efficiency and DSM policies, shared R&D to design new technologies,

and find new and innovative financing instruments to address both centralised and decentralised renewable energy development and energy-efficiency measures. As was suggested in Hafner et al. (2013), a Euro-Mediterranean energy transition strategy is needed. Such a strategy should be built on four pillars:

*Unlocking the untapped potential for energy efficiency and DSM policies.* An effective national and regional policy agenda on energy efficiency and DSM should consider households, SMEs and the building sector as priority targets. It should include several actors and institutions at the national level (and regional level) to create synergies. Dedicated agencies should be formed to implement the right technical choices – and the best financing tools – and to enforce mandatory regulations. Finally it should consider the financial constraints of energy efficiency and DSM, the timing and the hierarchy of the implementation measures and the relevant action plans that set implementation schedules and responsibilities. The EU can offer technical assistance in these fields.

*Unlocking the renewable energy potential.* The development of different scale renewable energy projects in the SEMCs is highly recommended. It is important to avoid focusing solely on large-scale renewable energy projects, but also to firmly develop decentralised systems, such as solar water heaters and rural PV systems and to develop new shared technologies to maximise potential. This development would offer a wide variety of advantages, as follows. i) Renewable energy projects could initially be primarily devoted to diversifying the energy mix, still largely dominated by fossil fuels. This would free up natural gas alternatively used in the domestic power generation sector for additional exports to Europe. ii) Renewable energy projects, due to their intermittency (now well forecasted days ahead), require the reinforcement of grids to enable their integration into larger, interconnected electricity networks and markets, further fostering the integration of the SEMCs. iii) Part of the renewable electricity could also be exported to Europe via HVDC (high voltage direct current) electricity interconnections. iv) Renewable energy projects could develop significant new industry and service sectors (e.g. installers), leading to local job creation and manufacturing developments; v) the economic and industrial development consequent to the large-scale implementation of renewable energy projects in the SEMCs could have several positive spillovers for the EU, such as creating new markets and securing the existing energy infrastructure in the Mediterranean.

*Developing a new structure of regional and interconnected markets.* For renewable energy to contribute most effectively to the development of the SEMCs, it must be embedded in a functioning, regional electricity market that permits the exchange of power in substantial volumes, has no barriers to trade and is friendly to private investment. Such a market does not yet exist across the SEMCs. There is neither the infrastructure nor the regulatory and legislative framework that would be necessary for a regional market to function correctly. Indeed, electricity interconnection remains a key issue for energy cooperation in the region. It is of crucial importance to reinforce the national transmission lines in the SEMCs, which are often weak, as well as interconnections between these countries.

*Set-up the appropriate mechanisms to finance the sustainable energy transition in SEMCs:* To finance energy efficiency and renewable energy development innovative financing methods are needed. The Clean Development Mechanism (CDM) is a potential source of additional revenue streams for investments in energy efficiency and renewable energy, and SEMCs seem to be endowed with significant carbon market opportunities. But to date the SEMCs have not fully tapped into the vast potential for CDM projects, as several barriers to the development of CDM projects in the region persist: 1) the lack of capacity for operation and management, 2) the lack of regional coordination and 3) the lack of engagement of the private sector. However, the Mediterranean region offers an interesting opportunity for an integrated approach to carbon markets: there is indeed an institutional set-up (e.g. the UfM), a financial facility (the Mediterranean Carbon Fund) and a region-wide initiative with substantial potential for energy-related emission reductions (the Mediterranean Solar Plan) that could fit into a new market-based mechanism.

Moreover, and with regard to the need for new financing sources and instruments for the development of renewable energy projects in the SEMCs, the EU could also play an important role in facilitating investments by the Gulf Cooperation Council (GCC) countries, among others, in the SEMCs. Notably, a strong complementarity exists between these regions in the field of renewable energy. The wide availability of capital in the GCC, the great renewable energy potential of the SEMCs, with the possibility (considering their geographical proximity) to export some of it to Europe, and the institutional support of the EU could represent the three main pillars of a new 'triangle of growth'. Private and public investors

(such as sovereign wealth funds) from the GCC are increasingly focusing their investments on the renewable energy sector, with the aim of transforming oil wealth into technological leadership in renewable energy. Some of the investment could be directed towards the SEMCs, whose potential for solar energy is among the highest in the world and which are already promoting several large-scale renewable energy projects. The EU should facilitate the implementation of this process by providing institutional support (in terms of both regulation and public finance) and technological know-how.

#### *Environment and climate change adaptation*

The Mediterranean region is one of the world's climate change hotspots and the heart of drastic socio-economic transformation. Recent research confirms that temperature increases will be higher compared to the global average, precipitation is projected to decline and the probability of extreme drought to increase (IPCC 2007). Final vulnerability, however, depends also on sensitivity and adaptive capacity, which are highly country-specific and differentiated particularly between the Northern and the Southern shores of the Mediterranean. Against a rather low vulnerability of Northern shore countries, with losses ranging from the -0.25% to the -1.4% of GDP for temperature increases above the 4°C (Ciscar et al., 2011, Anaheim et al., 2010), stands a much higher vulnerability of SEMCs.

In particular, these climatic changes will have adverse impacts on crop production driven by an increasing water scarcity which exacerbates ongoing processes of desertification and water overuse, pollution, salination in a context of increasing demand (IPCC, 2007; FAO, 2011). Another less obvious, but relevant channel of potential negative economic impacts in SEMCs is the climate-induced loss of biodiversity. In addition to threatening ecosystem life-support services, it can negatively impact tourism.

Water resources will be also under increasing stress: albeit with country variability, water withdrawals in SEMCs are projected to increase and water availability to decline. Until 2030 withdrawals would still remain below the total natural renewable water resources in most of the countries analysed, but they could reach the limit in irrigation-dependent agricultural economies, such as Egypt. Irrigation expansion proves to be a limiting factor to the increase of water consumption in future years, with the agricultural sector being the largest water consumer in the region. Consequently, economic development and

social stability would require more sustainable economic activities, less-water-consuming and technically efficient irrigated agriculture and, in turn, the implementation of water-saving policies and improved water governance.

As was highlighted in Bosello et al. (2013), the main policy implication is the increasing need for an integrated water planning and management approach in the whole Euro-Mediterranean region, which is currently lacking. However, some changes started to be seen in the dynamics of water planning whereby more emphasis started to be given to: i) demand management rather than the sole reliance on finding new sources of supply, ii) a growing awareness of the importance of preventing and mitigating various types of water conflicts, iii) a growing emphasis on incorporating ecological values into water policy, iv) a re-emphasis on meeting basic human needs for water services, v) the importance of stakeholders' participation and vi) a conscious breaking of the ties between economic growth and water use.

The EU-SEMC cooperation can be crucial to promote and enhance these outcomes. Direct financial and technical support can be provided by the EU when resources in SEMCs are lacking. This would be particularly appropriate to foster irrigation modernisation and sustain the huge investment needed. Technical and agronomic drivers will not be sufficient, however. Institutions need to be adapted, governance improved and habits themselves changed. More specifically, institutional reforms should be implemented that promote water users' associations and participatory irrigation management approaches; land tenure arrangements need to be revised with specific attention to well defined property rights; and new lifestyles aimed at conserving water (e.g. the 'Mediterranean diet') have to be promoted.

Another area where appropriate resource management and preservation can offer not only environmental benefits, which are often difficult to quantify, but also direct and tangible economic development opportunities is that of biodiversity/ecosystem protection. Collecting precise quantitative evidence on SEMCs' expenditure devoted to this activity is particularly difficult due to the scattered and often lacking information. Nonetheless, it can be estimated that the region as a whole is devoting roughly 0.013% of its GDP to the preservation-management of biodiversity, but with large differences across the countries.

A scenario fulfilling minimal requirements of sustainability would require that at least the

existing resources under some form of legal protection are properly managed and preserved. This would require the SEMCs' budgets devoted to protect area conservation/ management to rise to a range between 0.1% and 0.3% of GDP.

A fully-fledged adaptation strategy for the Euro-Mediterranean is necessary to respond to these long term challenges.

### **A Future EU Policy Response Agenda towards a sustainable Euro-Mediterranean in 2030**

The policy recommendations to shape the EU policy response towards the Southern and Eastern Mediterranean countries, stemming from the MEDPRO research conclusions, are organised and presented in the form of a "Future EU Policy Response Agenda for a sustainable Euro-Mediterranean". The agenda is intended to cope with the possible transitions towards sustainable development, listing the measures that are intended to avoid the unfavourable red transition on one side, and those that are aimed to support the favourable blue and green transitions on the other side.

As was previously explained, a no-action policy will drive the region towards a red transition with disastrous political and socio-economic implications.

To set the transition path from the red towards the blue and the green, the EU (and in coordination with the EU member states) should provide a decisive political message for the SEMCs that provides a comprehensive vision towards a more sustainable transition. This can be done at a high-level conference of EU institutions, the Arab League and any other relevant regional organisations and Heads of State of the Euro-Mediterranean countries and any other relevant stakeholder. This political message will set the headlines for a new Euro-Mediterranean vision towards a green and/or blue transition.

To avoid the red transition, the EU should firmly assist SEMCs in their political transitions towards fully democratic regimes and away from failed attempts at democratisation, radicalisation of conflicts and wider gaps between both shores of the Mediterranean.

The critical period to deliver the package of red transition avoidance measures is from 2011 to 2015.

A full Euro-Mediterranean Partnership towards a sustainable transition in the SEMCs should offer indeed a **short-term** and **longer-term** response to the region. Such a Partnership should be devised

and agreed between the EU and the SEMC partners that wish and are willing to pursue such a fundamental step.

It must be based on a true partnership anchored in co-decision, the co-ownership and co-development processes.

**In the short-term**, a differentiated action plan is needed to support the countries willing to embark on (and to continue) anchoring democracy, human rights, social justice, good governance and the rule of law in their political transitions underway. This is the case for Libya, Tunisia, Morocco, Lebanon and Jordan. For Egypt, the latest military coup, although driven by large-scale opposition and massive popular revolts, should not derail the democratisation process in the country, as has been largely promised by the high military officials. However, it is important that the democratic process is kept on track.

For countries, where democratic transitions have not been initiated, the partnership will be delayed until there is a commitment from the countries in question. In Syria, a decisive diplomatic action by the EU (in close coordination with the EU member states) is needed to halt the conflict. In Algeria, the EU should continue the diplomatic route to ensure that democracy is under way. In Israel and Palestine, the EU must take a strong position and decisive action to intermediate towards a two-state solution. In Turkey, following the recent mass revolts and the rather strong position of the government, the EU should reassess its position vis-à-vis the accession talks.

This differentiated short-term Euro-Mediterranean action plan will have three pillars: technical assistance, a transition fund and an independent monitoring function. The technical assistance will mainly deal with the support in anchoring democracy and rule of law and support socio-economic reforms towards more sustainable paths. A transition fund (in coordination with all member states, the Deauville Partnership and others) will support countries under budgetary pressures and the strain of diminished market confidence due to a lack of stability. Finally, independent monitoring will take place via regular visits of independent experts from the Euro-Mediterranean region to the countries to assess progress in key areas of political and socio-economic reforms.

Over time, when there is certainty that political and socio-economic reforms are underway, then the conditionality principle will be lifted.

**In the medium to longer term**, comprehensive socio-economic agreements will be mutually

agreed towards a sustainable future between the EU and its partner countries in the region. The implementation of custom unions, mobility partnerships (with no conditions of readmission and alike), common education, R&D programmes and exchanges, deep and comprehensive trade agreements (while considering competitive vulnerabilities), energy transition and climate change adaptation programmes, infrastructure investments will drive the region towards the 'blue' and 'green' transition pathways of the partnership agenda. These initiatives will help smooth the risks of radical conflict and enhance the integration between economies and societies of the northern and southern shores of the Mediterranean.

Shared cultural initiatives could be envisaged to strengthen human ties, such as for instance the creation of a Euro-Mediterranean citizenship school, with programmes on common sustainable development issues, values and goals, open to all citizens, especially youth. Such a school would help citizens from both shores of the Mediterranean to meet and learn to assess together with experts the acceptability of public policies and programmes, with the aim of increasing democratic participation capability and exchange of experiences. To be sustainable, the school should include courses for young and 'citizen summer school' sessions for adults. The permanent courses should focus on co-democracy building, both in theory and in practice, e.g. techniques for deliberative democracy and facilitation.

The summer school could focus on sustainable co-development challenges, and involve voluntary candidates and/or panels of people randomly selected to be involved in citizens' conferences and/or participatory assessment of sustainability research and policy in key sectors (energy, water, etc.), e.g. to support policy discussions in the national parliaments. The school could be located in Malta, as this is a central location in the Mediterranean (a 'blue' place), and shows some practical advantages, e.g. existing infrastructure and services for teaching English (the common language to be used for such international schools), the presence of the Parliamentary Assembly of the Mediterranean (PAM) and the role the Maltese government has recently played to foster EU-Arab League cooperation.

**Under the blue transition**, the EU would assist SEMCs in their economic and social modernisation and in building South-South cooperation and integration for common sustainable development purposes. This is to prepare for a more balanced cooperation, the so-called 'Euro-Mediterranean Alliance', where both regions will be represented

by separate institutions (the European institutions for the EU and Mediterranean institutions/Arab institutions for SEMCs).

The critical period to deliver the blue transition package is until 2020, in order to enhance the human capital endowment, MSMEs development and employability in the region, and trade integration between SEMCs, and build their capacity to cooperate with the EU on an equal basis in a sustainable transition pathway to 2030.

Over time, a group of countries in the SEM would enhance cooperation with each other and with other regions such the Gulf States and form a stand-alone regional organisation with its own institutions and structures. The Arab League and other sub-regional institutions such as the Arab Maghreb Union that may emerge, could take a more active role to achieve this objective.

The EU would support south-south regional integration through enhancing technical assistance and capacity-building initiatives of regional institutions.

The EU will upgrade its Euro-Mediterranean partnership with individual countries into a regional one, consisting of a regional FTA, co-investment agreements, targeted mobility partnerships, research and innovation, energy and environment agreements between the EU and the newly formed Arab Mediterranean region.

With the completion of this transition, the ENP bilateral approach becomes mostly obsolete and the UfM is reinvigorated to lead the EU-SEM integration, with the membership extended to other countries such as the Gulf States, and a list of projects would be mutually decided, agreed and co-financed. This change would favour multilateral approaches of co-investment, co-financing, mobility, etc.

**Under the green transition**, the aim is to build the Euro-Mediterranean Economic Area (EMEA) on the basis of enhanced partnership schemes with an emphasis on energy, environment/water and socio-economic areas.

The critical period to deliver the package is from now until 2030, which is the time frame for large programmes and infrastructure investments in the energy, transport, ICT, water and environment (including adaptation to climate change) to be implemented and produce their effects. This transition rests on the twin conditions of a reinforcement of EU common policies and the adoption by SEMCs of the EU's integration model of development. The Euro-Mediterranean Partnership would be upgraded to convey a clear

strategy towards SEMCs that would ultimately seek to achieve deeper integration and full mobility of goods, people and capital by 2030 within the Euro-Mediterranean Economic Area (EMEA).

This form of integration would emphasise tackling non-tariff barriers and progressively achieving comprehensive regulatory harmonisation in areas such as technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS), competition policy, industrial policies, research cooperation, company law and public procurement. Encouraged by the clear prospect of forming a Euro-Mediterranean Economic Area, SEMCs would progressively establish a Customs Union with the EU and implement the EU *acquis* while strengthening socio-economic, political, scientific and cultural ties amongst themselves.

Commitments under bilateral Euro-Mediterranean partnerships would rise. Structural/cohesion funds would be earmarked to support reform programs, national, regional infrastructure projects and regional development. A key role will be played by cooperation in energy, the environment and adaptation to climate change. Renewable energy and energy-efficiency projects in the SEMCs could stimulate enhanced EU-Mediterranean partnerships in socio-economic areas, similar to the case of the European Coal and Steel Community, which sparked Europe's post-World War II integration. EU-SEMC energy cooperation could be enhanced and better developed by setting a new "Euro-Mediterranean Energy Transition Strategy".

Given the fact that climate change impacts in the Mediterranean are similar on both shores, efforts should be taken to reach coordinated and common adaptation policies. This could take the form of common research projects, regular cooperation meetings at the highest political level, joint information campaigns, meetings of researchers, practitioners and policy-makers in the climate impact community and adaptation case studies on both shores of the Mediterranean. Thereby, decision-makers could learn from the experiences of others and reach their own decisions on a better knowledge base.

Furthermore, a comprehensive and legally binding agreement on how to handle Mediterranean adaptation issues could be agreed and ratified by states from both shores. This would include e.g. migration issues and the coordinated regulation of CO<sub>2</sub> emissions.

Under such a vision, the Mediterranean sea will be the link between two prosperous and peaceful civilisations that would benefit future generations to come.

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## Annex 1. Assumptions on population, infrastructure, political risk and trade under the four scenarios

	Population <sup>a</sup>	Infrastructure <sup>b</sup>	Risk <sup>c</sup>	Trade <sup>d</sup>
<b>BaU Scenario</b>	Continuation of past trends	Continuation of past trends	Continuation of past trends	Continuation of past trends
<b>Euro-Med Union scenario</b>	<ul style="list-style-type: none"> <li>-Population marginally falls in SEMCs</li> <li>- Labour force marginally increases in SEMCs due to increased female participation</li> <li>-Labour force marginally increases in the EU due to migration from SEMCs</li> </ul>	<ul style="list-style-type: none"> <li>-SEMCs invest in infrastructure and human capital (5.96% of GDP)</li> <li>-EU funds directed to infrastructure and human capital investments in the SEMCs</li> <li>-Infrastructure investments affect total factor productivity, increase demand for investment goods and increase capital stock of specific sectors</li> <li>-Investments in human capital increase labour productivity</li> </ul>	<ul style="list-style-type: none"> <li>-Sovereign risk of SEMCs decreases as governance assumed to improve</li> <li>-Governance improvements lead to lower risk parameter in the SEMCs</li> </ul>	<ul style="list-style-type: none"> <li>-Import duties and NTBs removed between SEMCs and between SEMCs and EU</li> <li>-Logistic performance improved in the SEMCs reducing transport costs between SEMCs and EU</li> <li>-Electricity exports from the SEMCs to the EU</li> </ul>
<b>Euro-Med Alliance scenario</b>	<ul style="list-style-type: none"> <li>-Population marginally increases in SEMCs</li> <li>-Labour force marginally increases in SEMCs due to increased female participation</li> <li>-Female labour participation rates higher than in BAU but lower than in Euro-Med Union scenario</li> </ul>	<ul style="list-style-type: none"> <li>-SEMCs invest in infrastructure and human capital (5.06% of reference GDP)</li> <li>-Rest of Middle East countries' and emerging Asian economies' funds directed to infrastructure and human capital investments in the SEMCs</li> <li>-Infrastructure investments affect total factor productivity, increase demand for investment goods and increase capital stock of specific sectors</li> <li>-Investments in human capital affect labour productivity</li> </ul>	<ul style="list-style-type: none"> <li>-Governance improvements lead to lower risk parameter in the SEMCs</li> <li>-Risk parameter for SEMCs higher than in Euro-Med Union scenario</li> </ul>	<ul style="list-style-type: none"> <li>-Import duties and NTBs removed between SEMCs and between SEMCs and Middle East countries and emerging Asian economies. NTBs lowered with Brazil and Russia</li> <li>-Logistic performance improve in SEMCs reducing transport costs between SEMCs and Middle East countries and emerging Asian economies</li> </ul>
<b>Threats scenario</b>	<ul style="list-style-type: none"> <li>-Population falls in SEMCs</li> <li>-Largest population fall from all alternative scenarios</li> </ul>	<ul style="list-style-type: none"> <li>-Capital destruction in the SEMCs in 2015</li> <li>-Reduction in government investment in 2015</li> <li>-Resumption of investments from 2020 onwards</li> <li>-Change in consumption patterns in the SEMCs</li> </ul>	<ul style="list-style-type: none"> <li>-Governance deterioration leads to higher risk in the SEMCs</li> <li>-Conflict hinders perceived risk for the SEMCs</li> </ul>	<ul style="list-style-type: none"> <li>-Increase of NTBs between SEMCs and EU</li> <li>-Reduced tourism and exports of SEMCs</li> <li>- Logistic performance worsens in SEMCs increasing transport costs between SEMCs and EU, rest of Middle East countries and emerging Asian economies</li> <li>-Import duties remain in place</li> </ul>




<sup>a</sup> Assumptions computed from Groenewold et al. (2013).

<sup>b</sup> Assumptions computed from Carruthers (2013).

<sup>c</sup> Assumptions computed from Colombo (2010).

<sup>d</sup> Assumptions computed from Ghoneim et al. (2012).

## Future EU Policy Response Agenda for a resilient and sustainable development of the Euro-Mediterranean region

	 <b>RED TRANSITION</b>	 <b>BLUE TRANSITION</b>	 <b>GREEN TRANSITION</b>
<b>Rationale</b>	<p>For the EU to assist SEMCs in their political transitions towards fully democratic regimes and avoid the radicalisation of conflicts</p> <p>The critical period to deliver the package is from 2011 to 2015.</p>	<p>For the EU to assist SEMCs in their economic and social modernisation processes, and build South-South cooperation on common sustainable development purposes</p> <p>To prepare for a more balanced Euro-Mediterranean cooperation</p> <p>The critical period to deliver the package is from 2011 until 2020, in order to enhance the human capital endowment, SME development and employability in the South, and trade integration between SEMCs, and build their capacity to cooperate with the EU on a similar green transition pathway to 2030.</p>	<p>To build enhanced Euro-Mediterranean partnership schemes in energy, environment/water and socio-economic areas</p> <p>The critical period to deliver the package is from 2011 until 2030, which is the time required for large programmes and infrastructure investments in the energy, transport, ICT, water and environment (including adaptation to climate change) to be implemented and produce their effects.</p>
<b>New approaches recommended as a result of MEDPRO research</b>	<p>A full Euro-Mediterranean Partnership towards a sustainable transition in the SEMCs should offer a <b>short-term</b> and <b>longer-term</b> response to the region. Such a Partnership should be devised and agreed between the EU and the SEMC partners that wish and are willing to pursue such a fundamental step. It is based on co-decision, co-ownership and co-development.</p> <p><b>In the short-term</b>, a differentiated action plan to support the countries willing to embark on (and to continue) anchoring democracy, human rights, social justice, good governance and the rule of law in their political transitions underway. This differentiated short-term Euro-Mediterranean action plan will have three pillars: technical assistance, transition fund and an independent monitoring function.</p> <p><b>In the longer term</b>, comprehensive economic agreements towards a sustainable future will be mutually agreed between the EU and the partner country. The implementation of mobility partnerships, common education, research and development programmes and exchanges, deep and comprehensive trade agreements, renewable energy and climate change adaptation programmes, infrastructure investments (on the “blue” and “transition” pathways of the cooperation agenda) will help to smooth the risks of radical conflicts and promote the integration between the economies and societies of the North and South shores of the Mediterranean.</p>	<p>Regional economic and financial integration, human development programmes and targeted mobility partnerships should be encouraged.</p> <p>Over time a group of countries in the SEM would enhance cooperation with each other and with other regions such as the Gulf States and act as a stand-alone regional organisation with its own structures. The Arab League, the Maghreb Union and others can take the lead in this transition.</p> <p>In this transition, the ENP becomes obsolete and the UfM could be reinvigorated to become the vehicle of integration if the membership is extended to other countries such as the Gulf States and a list of projects is mutually agreed upon. This change would favour triangular approaches of co-investment, mobility, etc.</p>	<p>A Euro-Mediterranean human capital development and mobility strategy</p> <p>A Euro-Mediterranean economic integration strategy</p> <p>A comprehensive infrastructure investment initiative</p> <p>A Euro-Mediterranean sectoral development initiative</p> <p>A Euro-Mediterranean financial market initiative</p> <p>A Euro-Mediterranean energy transition strategy</p> <p>A Euro-Mediterranean environment adaptation strategy</p>



## About MEDPRO

MEDPRO – Mediterranean Prospects – is a consortium of 17 highly reputed institutions from throughout the Mediterranean funded under the EU’s 7<sup>th</sup> Framework Programme and coordinated by the Centre for European Policy Studies based in Brussels. At its core, MEDPRO explores the key challenges facing the countries in the Southern Mediterranean region in the coming decades. Towards this end, MEDPRO will undertake a prospective analysis, building on scenarios for regional integration and cooperation with the EU up to 2030 and on various impact assessments. A multi-disciplinary approach is taken to the research, which is organised into seven fields of study: geopolitics and governance; demography, health and ageing; management of environment and natural resources; energy and climate change mitigation; economic integration, trade, investment and sectoral analyses; financial services and capital markets; human capital, social protection, inequality and migration. By carrying out this work, MEDPRO aims to deliver a sound scientific underpinning for future policy decisions at both domestic and EU levels.

<b>Title</b>	MEDPRO – Prospective Analysis for the Mediterranean Region
<b>Description</b>	MEDPRO explores the challenges facing the countries in the South Mediterranean region in the coming decades. The project will undertake a comprehensive foresight analysis to provide a sound scientific underpinning for future policy decisions at both domestic and EU levels.
<b>Mediterranean countries covered</b>	Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey
<b>Coordinator</b>	Dr. Rym Ayadi, Centre for European Policy Studies (CEPS), <a href="mailto:rym.ayadi@ceps.eu">rym.ayadi@ceps.eu</a>
<b>Consortium</b>	Centre for European Policy Studies, <b>CEPS</b> , Belgium; Center for Social and Economic Research, <b>CASE</b> , Poland; Cyprus Center for European and International Affairs, <b>CCEIA</b> , Cyprus; Fondazione Eni Enrico Mattei, <b>FEEM</b> , Italy; Forum Euro-Méditerranéen des Instituts de Sciences Economiques, <b>FEMISE</b> , France; Faculty of Economics and Political Sciences, <b>FEPS</b> , Egypt; Istituto Affari Internazionali, <b>IAI</b> , Italy; Institute of Communication and Computer Systems, <b>ICCS/NTUA</b> , Greece; Institut Europeu de la Mediterrania, <b>IEMed</b> , Spain; Institut Marocain des Relations Internationales, <b>IMRI</b> , Morocco; Istituto di Studi per l’Integrazione dei Sistemi, <b>ISIS</b> , Italy; Institut Tunisien de la Compétitivité et des Etudes Quantitatives, <b>ITCEQ</b> , Tunisia; Mediterranean Agronomic Institute of Bari, <b>MAIB</b> , Italy; Palestine Economic Policy Research Institute, <b>MAS</b> , Palestine; Netherlands Interdisciplinary Demographic Institute, <b>NIDI</b> , Netherlands; Universidad Politecnica de Madrid, <b>UPM</b> , Spain; Centre for European Economic Research, <b>ZEW</b> , Germany
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