



International Conference

***DEVELOPING THE MEDITERRANEAN:
A STRATEGIC OPPORTUNITY FOR
ENTERPRISES***

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“PAX MEDITERRANEA”? AN ENVIRONMENT FOR GROWTH

Introductory speech by *Luigi Troiani, Secretary General of Euro-Med TDS*

We must be aware that when we talk about the Mediterranean, we are dealing with the long history which has allowed communicating many people and races among the most glorious of the human being.

No other place in the world can claim so intense flourishing of people and civility. Although we are frequently unaware of it, we are the last but not least protagonists of the great flow of the Mediterranean Culture: rich forms of life in partnership, political governments, artistic expressions and religious beliefs, material and spiritual riches realized in three thousand years.

Considered that, in comparison with the data prepared by the Confcommercio Studies Department and Communication Department, the first question we think of is: why, with such a large heredity, we have to face nowadays a economical and social-cultural backward reality? Why is it so difficult to find a entrepreneurial success history among the countries facing our beloved sea, especially on the South coasts?

Certainly, the area's economy is too focused on natural resources: agriculture (between the geographic extremes of Morocco and Egypt, from the lowest 18% in Libyan Jamahiriya to the pick of 34% in Morocco), and energy. Concerning the innovation field, this region does not meet the standards of the *Society of Information*; in Africa and in Middle-Eastern countries, internet users are 1% of entire world users.

The report which was distributed gave us information about demographic indicators, that appears as a burden in relation to the ambitions of development. Are these 3 elements enough to explain the present situation?

A backwards region compared to modernism

The population of the 12 Southern Mediterranean countries (MEDA) which had signed the Barcelona Charter in 1995, was 244 million people (as of 2002), on a land of 5,103,700 sq km. It is 3.81% of the worldwide population and same percentage of land. The level of the GNP for the same year (exclusively considering the Arabian countries in the Mediterranean) stops at 1.68% of the world total GNP.

This is therefore poverty: 1/5th of the population have an average income of 2 \$/day, they live in polluted urban areas, neglected rural areas, inconceivable sanitary structures and educational systems.

The average GNP per capita is 2,385 € The rate of exports on GNP is 21,1%, including oil and gas products. A poor reality blocked in its poverty and definitely not opened enough to positive exchanges with the other economic systems.

A commercial exchanges research declares that the inter-exchange of goods within the 12 MEDA, in the period 1980-1990 was marked by an increase of the deficit balance. In 2002, the data registered was of -53 billion € (176 import, 123,2 export). In the considered 10 years period, the percentage of the total international commerce realized by the 12 MEDA is basically unchanged: almost 3% imports and 2.5% exports. To be considered that China exported goods for 49 billion \$ in 1990, 125 billion \$ in 1996, 230 billion \$ in 2000, and in 2003 it was already nearly 415 billion \$. We mention

China's case because the Mediterranean industrial production, especially textiles, shoes and leather accessories, strongly suffer for the competition with Chinese goods, and also because the Chinese economic growth confirms that the economic backward can be removed.

The foreign investors are not attracted to put their efforts in this area, besides the Euro-Mediterranean free exchange area promised by the Barcelona Agreements due in 2010 (Ref to: table 1). The comparison between the flow of investments towards the South coast of the Mediterranean, and the South-East Asia + China, such as towards several Central-Eastern European countries results merciless.

With specific reference to the protagonists who started the dialogue in Barcelona in 1995, it is enough to compare the group of 15 European countries and the 12 MEDA, based on percentage index which consider the relations between Foreign Direct Investments (FDI) and the GNP (Ref to: table 2). The distance is huge and tends to grow year after year: while average annual investments in the five year period increase of 24% in the 15 countries Europe, they decrease of 1% for the MEDA 12. During the same period investments decrease especially in Malta (-236%), Jordan (-31%), and the Palestinian territories (-23%), while they increase in Algeria (+33%), Syria (+23%) and Tunisia (+18%).

*Tab. 1 FDI in the Meda countries**, \$*

<i>country</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Algeria	501	507	438	1.1966	1.065	684
Palestinian A.	58*	19*	76*	51*	41*	-
Cyprus	264	685	804	652	297	830
Egypt	1.065	2.919	1.235	510	647	237
Israel	1.760	2.889	4.392	3.044	1.648	3.745
Jordan	310	158	787	100	56	379
Lebanon	200*	250*	298*	249*	257*	358
Malta	267	822	652	314	-375	380
Morocco	417	1.376	423	2.808	428	2.279
Syria	82	263	270	205	225	150
Tunisia	668	368	779	486	821	584
Turkey	940	783	982	3.266	1.037	575
Total	6.532	11.039	11.136	12.881	6.147	10.150
*Estimate						
** Meda, the 12 countries in the south Mediterranean area addressed in the Barcelona Chart of the European Commission						
Source: Unctad						

Tab. 2 FDI in the Meda countries and in the Ue-15countries

	FDI pro GNP (x 1.000, 2001)	FDI pro habitants (x 1.000, 2002)	FDI average 1997-2002	average FDI annual growth
<i>Meda-12</i>	11,8	25,8	9.030	-1%
<i>Ue-15</i>	54,9	992,3	383.512	24%
Source: Unctad				

Among the MEDA 12, the ratio FDI are 11.8% of GNP, while among the 15 EU countries FDI are 5 times bigger. 12 MEDA/15 EU countries proportion of FDI/inhabitants ratio is 1/40. Among the Arabian countries, Tunisia registers a bigger FDI value in relation to its population, as of \$ 0.846/10 inhabitants in 2002. The same year, FDI value for the 12 MEDA was \$ 0.258/10 inhabitants; the value for the 15 EU is \$ 9,923/10 inhabitants.

Other values confirm the backward of the Mediterranean area, in particular the South. Official unemployment share, among the 12 MEDA, is between 12 to 20% , and in most cases it considerably exceeds over 20%, especially in those countries where young people is around 50% of the total population. To keep the unemployment level rate (already too high) as it is, further 40 million jobs should be added in the next 10 years. It could only be possible if the average development rate was as of 7%, but the growth rate among Maghreb and Machrek is near to 5% per year.

MEDA's backwardness is not only verified comparing with the EU advanced economy, but even comparing it with the Central-Eastern European countries. In 2002 The World Bank made a research that compared the GNP per capita between macro areas, as follows:

Tab. 3 GNP pro capita, \$, 2002

Eu-15	22.689
Eu-10 New Members	5.373
Meda-10	2.360
Source, World Bank, 2004	

The research alights that the economic gap between the EU and the MEDA, comparing close regions, is the largest of the world, with a ratio as of 10/1, whereas between the United States and Mexico it is 7/1. Inter-regional development experiences show the notable benefits represented by the cooperation among nearby macro regions, and by creating links of inter-regional inter-dependence: if a level of integration like that

between Japan and China existed between the EU and MEDA, the connection would provide an effect of directly adding development even like 0.75%.

In other Arabian countries research made by the World Bank at the end of 2003, nearby political factors affected the under-development of the area: “The region is positioned at the bottom of a Quality of global governance list, compared to countries with similar characteristics (...).” It insists: “The economic, social, and human development of Middle-East countries and North Africa (MENA) is ruined from the weak quality of public governance; the area is positioned at the bottom of a list of the whole world (...) the root of their growth deficit is a governmental deficit.”

The Euro-Mediterranean cooperation

EU and not EU Mediterranean countries are totally 37 states. 720 millions of inhabitants and GNP is 9,581 billion \$. China, at the present the most developing country of the world, has a population of 1,272,000 people and GNP is 1,237 billion \$. Euro-Mediterranean population is less than 50% of the Chinese but GNP ratio is 1/8 as of China/EU Mediterranean countries.

Considering these information you can imagine how the huge potentiality that the economic and entrepreneurial cooperation among the Euro-Mediterranean countries is. Even more if you think the European companies forecast to cancel 10 millions of jobs in the period between 2005 and 2015: compared to China and South-Eastern Asia, MEDA area is geographically and culturally closer to their system and they can find there low cost workers and technicians, a growing consumer market and many opportunities of bilateral enterprises which could give great advantage even to the economy of the old continent.

At the present, per capita revenue of the MEDA workers reaches a value similar to those registered in countries like Portugal and Greece before they became members of the Union. It is also similar to the revenue registered in most of the countries newly entered into the EU, thanks to the consistent remittances made by the emigrants. The 320 million people who will live in the Southern Mediterranean countries by 2025, compared to the present 240 millions, if well integrated in the European productions and exchanges, will provide an alternative opportunity of development to the one presently expressed by China and the Asian *tigers*. The MEDA countries can effectively represent a sort of new frontier for European growth, in the present stagnation.

This opportunity was not perceived by enterprises and management, considering the investors' behavior.

In 2002, only 3.07% of the outgoing European FDI was sent to the MEDA 12, and only 0.7% of the incoming FDI in the EU came from the MEDA 12. At the end of that same year, 0.77% of the total European liabilities FDI was the value of FDI come in the EU 15 from the MEDA 12, while the FDI stock of the EU 15 presented to the MEDA 12 constituted the 1.16% of the total EU 15 assets FDI. Presently the EU FDI stock in the MEDA is low, even if Europeans traditionally represent the most consistent group of investors in North Africa: only 5% of the total EU FDI was assigned to the META. The investments expressed towards the region of the second half of the 20th century were

mostly by France (16% of the total); Italy to follow (13%) and Germany (7%). The United States made, in that period, 34% of the total FDI in MEDA.

At the present, the MEDA countries receiving FDI are above all: Morocco (165 running projects), Turkey (83 running projects), Algeria (80 projects), Egypt, Israel, Tunisia and Lebanon (almost 30 running projects). Even though the political situation is unsettled and Israeli-Palestinian crisis is still in act, Machrek is more interesting than Maghreb: Western Arabia totalizes 52% of foreign investments, Machrek 21%. Concerning the present situation, Morocco and Israel appear to be the countries with the most attraction capacity.

Between the investors of the last two years, France is in pole among the European countries (1/3 of projects per number and a slightly lower per amount), Spain, the United Kingdom and Germany are to follow. Italy carried on 11 projects in 2003 and 10 in 2004, compared to the 78 and the 84 projects supported by France during the same period. Projects carried on by the United States (44 and 49) and Gulf (9 and 14) and some Asiatic ones are increasing. The investments among and between MEDA countries are evolving, too, although the total is still low (close to 20) and less than what necessary to sustain an interdependent and intraregional theory of development.

Among the most involved fields there are Textiles (but it is important to see how the situation with Chinese competition will evolve, after the end of Multifibers and the recent restrictive measures established by the USA and the EU), Automobile Industry, Tourism, Agrifood and Energy. A real boom is made by the High Technology sectors, in particular those connected with the development of software, call centers and so on. The average sizes of each investment project appear interesting: almost 100 million € and more than 300 jobs.

The situation of the foreign investments shows Europe still not disposed in investing in the Mediterranean area. Being aware of the limits concerning the Mediterranean development, Arabian area in particular, regarding the economic, social-political and cultural profile, it is important to focus the necessity to find more foreign investors, especially a EU Mediterranean cooperation as to create a wider regional interdependence.

Concerning the above point, it is also important give a basically good evaluation on MEDA politics made by EU in the last 10 years, even though they did not made that particular change expected by the sign of Barcelona Charter, where 3 kinds of partnerships between the EU and the countries of the Southern Mediterranean were promised: political and of security, economic and financial, social, cultural and human partnerships.

Of good hope is the ENP (European Neighborhood Partnership), inaugurated from EU in January 2005. It is desirable that the European Union will seriously put its efforts in the Mediterranean matter, considered that it let entry in the Union new democracies of the Central and Eastern European countries, and also it took the responsibility to guarantee for the people belonging to formerly communist regimes to believe in future European life standards in social and economical terms.

Opportunities for Italy

As international reason penalized the Mediterranean in the past, at present it could play in favor, instead. On one hand there is the positive intervention of the EU; on the other hand, opportunities are facing the new possibilities concerned with the Mediterranean infrastructures and harbors that will improve the economies, as well as Indian and Chinese ones, as through the Mediterranean, they will be able to reach the rich western markets. Goods coming from India and the South-Eastern Asia can find in the Mediterranean Sea good logistics and infrastructures as well as trading. At the same time, the construction of a Euro-Mediterranean structured relationship, based on the principles of the cooperative regionalism of the EU, could sign a return to the united development, the lack of which is considered to be the cause of the historical decline of the Mediterranean.

Even because not only opportunities are coming from Far East. Many countries of the Mediterranean such as Italy, France, Spain to start, but also Turkey, Egypt, Morocco to follow, are suffering the Chinese attack in textile, footwear and leather making fields. The Asiatic competition is highlighting one of the structural matters of the Mediterranean area development: the countries of this area tend to share an excess of production in the agricultural, industrial and handicraft sectors. This happens in Mediterranean agricultural products, but also in Textile and Apparel production, Mechanical, Utensils and Tourism sectors. Neighborhood policy will decide how to use the common attitudes in the production of the countries facing the coast. The Southern European countries will take advantage of it. Exports from South to North of gas, petroleum, basic commodities contribute to the growth of the continent, and it is a great example of interdependence, which will be extended to the other economic fields. The potential platform confirms the strength of the strategy and gives the opportunity to improve the development recently shown by the North African and Middle-East. In 2004, the GNP reached 6% value, and it is expected to decrease to 5% until the end of 2005. In 2004, among the Mediterranean countries, Libya and Algeria have reached the highest peak (+7%), thanks to the petroleum price together with Tunisia (+5.8%) and Lebanon (+4.5%). This year Maghreb Algeria, Libya and Tunisia are in pole (growing respectively at 6.5%, 5.7%, and 5.6%).

Even though the percentages are decreasing, the forecasts for the next year are still satisfying: 4.3%. But the consequences of the expected decrease related to the energetic basic commodity, and multi-fiber market conclusions, on Morocco and Egypt, whose industrialization process is based on the textile field.

Imports are rising. Compared to 2002, a decrease of 2.6% during the 2003 was registered, North Africa and Middle-East imported manufactured goods as of 138.273 billion €. In 2004 values turned to a new increase of 6.4% and further rising of 4.6% in 2005 and 10.7% in 2006 was forecasted. At fixed rates, it seems that imports rise further. The manufacturing imports of Egypt, Israel, Morocco, Tunisia and Algeria increased; Libya and Lebanon, on the contrary, decreased.

The selling opportunities for our producers are certainly increasing in the private trading market, which still has much to buy and test. In this area, the mass consumers society is just starting, with new crowd of population that start to demand articles usually sold in rich areas. Together with the growth of welfare and imports, there is a rise of families consumption: +5.1% in 2004, +4.9% expected in 2005 and +4.6% in 2006.

Tunisia has reached the highest peaks (+5.3% in 2004, +5.5% in 2005, and +5.2% in 2006), while Israel, Egypt, Algeria and Morocco are to follow.

Total investment rates are also increasing. In 2002 there was a rise of 1.8% in North African and the Middle-East areas but in the following two years it reached 2.5% and 4.5%. Forecasts for 2005 and 2006 are respectively +5.3% and +5.2%. Above all Libya has the best hopes (+6% in 2004; +8% in 2005, and a forecast of +9% in 2006) followed by Algeria (in the three year period respective rates of 6.5%, 6.5%, and 6.7%), Lebanon (4%, 5%, 3.8%), and Egypt (3.1%, 4.9%, and 4.5%). National request and foreign investment capitals will sustain these rates if oil rates do not decrease too much.

Regarding the Italian interests concerning economics of the South Mediterranean coast, it could be useful to consider the foreign purchases made by the North Africa and Middle-East countries (Ref to table 4).

Tab. 4 North Africa and Middle East: Importations of end made products in euro

	2003 Million €	% tot	Var. % annual average			
			2003	2004	2005	2006
Total end made products importations	138.273	100	2,6	6,4	4,6	10,7
Commodity	15.963	11,5	4,2	10,7	3,1	5,2
Electronics	15.095	10,9	1,1	6,2	7,5	14,1
Cars and motorbikes	13.502	9,8	-4,6	10,1	9,4	16,2
Mechanics	12.567	9,1	-1,8	6	2,8	8,4
Fashion: consumer goods	8.693	6,3	-8,7	4,4	8	15,2
Alimentary	7.830	5,7	-3,2	3	7,6	15,8
Trains,airplanes,ships	7.707	5,6	-7,1	7,4	7,4	17,3
Instrumental mechanics	7.143	5,2	-7,9	11,4	4	10,5
Electrotechnics	6.958	5	8,2	7,5	0,8	7,2
Fashion: semimanufactured	6.478	4,7	-7,2	3	3,5	8,4
Semimanufactured for the industry:						
Metal products	6.410	4,6	-1,8	4,6	-0,7	5,3
Source: Ice, Prometeia						

There is an apparent growth of “made in Italy”, such as fashion, furniture, domestic appliances, domestic handmade goods. Other typical Italian export products as mechanical devices, automobiles and motorbikes are increasing as well. Great demand for goods related to spare time, field where Italian products are always very claimed. Italy, therefore, could continue to increase the merchandizing in this area (+1% in first 5 years of the 21st century), as well as the production and commercial settlement. The results are satisfying, even because in past five years there was an inflection of Italian presence in the area. Domestic goods, fashion and mechanical devices are still the three most important sectors to strengthen due to be those of largest demand.

Tab. 5 North Africa and Middel East: Market shares of the Italian exporters

	2003, millions €	Share at current prices			
		96-98	99-02	2003	2004
<i>Manufacts imported from Italy</i>					
Domestic appliance: construction goods	868	35,7	32	31,7	31,8
Instrumental mechanics	1.928	22,6	23,7	27	29
Domestic appliance: furniture And household appliance	302	36.5	29.5	22.3	21
Mechanics	1.998	14,2	14,3	15,9	17
Packaging	261	18,9	16,7	16,2	15,2
Semimanufactured for the industry: Metal products	963	15,7	15,3	15	14,2
Fashion: semimanufactured	852	11,1	11,5	13,2	13,6
Fashion: consumer goods	1.042	18,7	14,4	12	11,4
Commodity	1.695	8,9	10,5	10,6	10,8
Domestic appliance: manufacts	277	14,6	12,8	10,9	10,1
Semimanufactured for agriculture	28	14,7	11,1	9,1	8,2
Source: Ice, Prometeia					

In addition, there is a growing attention related to Italian electronics and other goods, such as mechanics, instrumental and other, together with electrotechnics are well accepted both from public and from expert clients (Ref to table 5); these are articles made also in the importing country, through delocalization of the industries. On the other side there are articles for domestic use and constructions that are not selling well.

Italy and the other European countries, among whose there are several having matters with structural crisis in their own economic system, should reconsider the relation with the nearby Mediterranean area, using it to increase their economy.