

**Policy Paper**

# Economic recovery in the South Med region post-Covid19



# TABLE OF CONTENTS

List of Acronyms 1

Executive summary 2

Introduction 3

**Outlook of the current economic & geopolitical scenario in the South Mediterranean region post covid-19 pandemic 5**

**Overview of major industries hit by the pandemic and the estimated recovery plans**

The Tourism Industry 7

The Healthcare System 11

The Textile Industry 14

The Digital and Aeronautics Industries 16

Signs of socio-economic recovery 18

Reshoring production back to Europe: an opportunity or a challenge? 20

**Policy recommendations**

Adjustment of policy-related measures 22

Development of SMCs Infrastructure 24

Promotion of relocation projects through subcontracting 26

Donors' engagement in promoting SMCs regional integration 27

Conclusion 28

References 29

# LIST OF ACRONYMS

CMI	The Center for Mediterranean Integration
EU	European Union
EBRD	European Bank for Reconstruction and Development
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GVC	Global Value Chains
GCC	Gulf Cooperation Council
IEMED	Institut européen de la Méditerranée
IMF	International Monetary Fund
KAS	Konrad-Adenauer-Stiftung
MNEs	Multinational Enterprises
NEET	Not in Employment, Education, or Training
OECD	Organization for Economic Co-operation and Development
RVC	Regional Value Chains
SDGs	Sustainable Development Goals
SMC	South Mediterranean Countries
UfM	Union for the Mediterranean

# EXECUTIVE SUMMARY

The Covid-19 pandemic is anticipated to initiate a restructuring of the global value chains (GVCs) whereby Western European countries will redesign their production trajectory. It is likely that Southern and Eastern Mediterranean Countries will be the best candidates for such strategic regional value chain (RVCs) integration. Therefore, profound industrial reforms must support this development by enabling host countries to improve product value and reduce production cost among other competitiveness factors.

World Economic Forum (2020) called for an 'aggressive' evaluation of the nearshoring options that can be effectively handled by multinational firms by leveraging digital technologies to mitigate risks and guarantee business continuity. However, international trade experts are skeptical about the effective role of the GVCs reconfiguration. They stipulate that the complexity and the high cost associated with GVCs restructuring is likely to prevent large-scale RVCs. They observe that a diversified policy to mitigate value chain

disruptions is better suited for parties from both shores of the Mediterranean basin (Javorcik, B 2020, MiroudotS. 2020 and Giovanetti et al 2021).

Against this background, this policy paper briefly describes the impact of the Covid-19 pandemic on the economies of the South Mediterranean region. It then outlines the economic and geopolitical outlook of the region in the post-Covid-19 era and presents a brief sectoral analysis to review economic recovery plans implemented in the region to jumpstart vital industries. In addition, the paper presents a short analysis to assess the region preparedness to address socioeconomic recovery issues. It also maps out the conflicting views on the readiness of the South Mediterranean countries (SMCs) to deal with regional value chains at the challenging regulatory standards of European countries. Finally, it presents some recommendations that can help to promote sustainable economic recovery.

# INTRODUCTION

The global economic and social disruptions caused by the Covid-19 pandemic are devastating. It led to massive economic shocks, caused unprecedented recession, increased global poverty, and upended people's lives. To restore global health, drastic isolation measures were adopted to mitigate the virus contagion. Government imposed prolonged lockdowns, quarantine, and physical distancing, banned travels and restricted movements. This led to a slowdown of the world economy. According to the World Bank (2020) SMC's GDP contracted 3.8 percent in 2020. Although developed countries managed to take draconian preparedness measures to mitigate the impact of the pandemic on their economies, developing countries in SMC were not that responsive. SMC countries experienced the closure of thousands of local businesses, the disruption of regional and global supply chains, the decline in export revenues in key foreign currency-generating sectors (such as tourism). These effects of supply shock caused a significant impact on the aggregate demand side. Thousands of jobs were lost leading to loss of wage income and reductions in remittance inflows (OECD 2021).

The Covid-19 pandemic had differential impacts across countries depending on their growth status. Due to their excessive economic and social vulnerabilities, Southern Mediterranean countries suffered more economic and financial scarring. Several international studies (World Bank, EBRD, OECD, IEMED) reported that the SMC region remains the least integrated region in the world: it suffers from an endemic unemployment and a vulnerable private sector that generates low skilled jobs. Besides the overreliance on public sector employment, 60% of the jobs available are generated by the informal sector. In addition, the region struggles with the rising trend of skills mismatch which is prompted by skewed and backward education system (mainly vocational education and tertiary education). Obviously, the economic context of the region negatively impacted on the social outlook, which is distinguished by a rampant poverty rate, the absence of robust social security provisions, an increasing gender inequality and a rise of youth violence among the large NEET population (Not in Education, Employment or Training).

The mitigation of Covid-19 restrictions coupled with the vaccine rollout had a positive impact on SMC economies, and slowly but surely, the South Mediterranean region economy has begun to bounce back from the economic ravages of the Covid-19 pandemic, and a growth of 2.8 is expected by the end of 2021 (World Bank 2021). Against this background, the Regional Program Political Dialogue South Mediterranean of the Konrad Adenauer Stiftung (KAS PolDiMed) and the Union of Mediterranean Confederations of Enterprises (BUSINESSMED) brought together leading experts to discuss the prospects of an economic recovery in the Southern Mediterranean countries (SMCs) in a high-level workshop. Following this event, the recommendations arising from the Workshop's key speakers and experts are developed under the present policy paper for an effective economic recovery in the SMCs, with a specific focus on the current and possible reforms and regional relevant collaboration frameworks.



**Outlook of the current  
economic & geopolitical  
scenario in the South  
Mediterranean region  
post covid-19 pandemic**

Although the World Bank reported a promising growth for the South Mediterranean region, there is no doubt that the reported statistics on the region illustrate a set of regional disparities and demonstrate different trends that shape the path to recovery in the region which is likely to confirm that globally, the South Mediterranean region is the least integrated and heterogenous region.

A particular focus on the Mediterranean region shows that SMCs lag behind post pandemic developments. However, the pandemic has created some opportunities that may enable the region to leapfrog economically and socially speaking. Some of these opportunities are the digitalization of the economy, the investment in the green and blue economies and the reconfiguration of the global value chain through nearshoring processes.

Several studies (World Bank 2020, OECD 2020, IEMED 2021) reported that the South Mediterranean region is one of the least integrated regions on a variety of indicators in the world. It has been stated that even before the pandemic, the South Mediterranean region has already been struggling with the impact of financial crisis

of 2008 and the Arab spring uprising. Both global and regional shocks weakened the economic and social outlook of the region which have been facing challenges related to the high unemployment rate of youth, decline in GDPs, increasing gender disparities, significant skills mismatch in the labor market, continuous political instability, disrupted trade, decline in the tourism sector, poor infrastructure, and absence of structural reforms.

Referring to the World Bank (2020) and EBRD (2020) data, the CMI (2020) report indicates that the heterogeneity of socio-economic development in the region highlights sharp differences in the severity of Covid-19 consequences across countries. Thus, the IMF points out Libya and Lebanon as the major victims of the pandemic. Lebanon is likely to contract even more sharply due to the economic and political consequences of the explosion in Beirut in August 2020. At the same time, Egypt is expected to escape the recession thanks to large public construction projects and the telecommunication sector growth.

To illustrate and as reported in a policy brief published by CMI (2020),

the Southern Mediterranean countries are expected to register a decline ranging from -3.5% in Jordan, -4% in Morocco and Tunisia up to -6.4% in Algeria and -10.9% in Lebanon. Egypt is an exception where a 3% growth is forecasted. According to the IMF World Economic Outlook (October 2020), world real GDP will decline up to -4.4%. Within the region the deepest fall is expected in Libya (-66.7%), Lebanon (-25%), and the Occupied Palestinian Territories (-12%). Morocco and Tunisia are forecasted to reach the -7% fall of the real GDP, Israel -5.9%, Algeria -5.5%, Jordan -5%, and only Egypt is expected to grow at 3.5%.

The European Bank for Reconstruction and Development (EBRD) forecasts the contraction of the output in the Southern and Eastern Mediterranean region by 1.3% in 2020 as a result of containment measures, a drop in tourism, falling external demand and a slowdown in foreign direct investment inflows (EBRD, 2020). (Ref. figure 1).

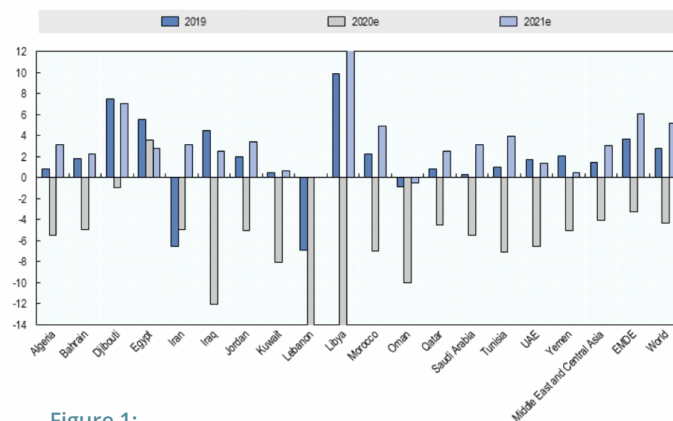


Figure 1: Gross domestic product in selected MENA economies

Source: OECD (2020) International Monetary Fund, World Economic Outlook Database, October 2020

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**Overview of major  
industries hit by the  
pandemic & the estimated  
recovery plans**

# The Tourism Industry



The tourism sector was badly hit by the pandemic, leaving the most touristic destinations of the region namely Egypt, Lebanon, Jordan, Morocco, and Tunisia in dire situations. The tourism sector is an important pillar of the SMCs' economies. It is a labor-intensive sector that generates 6.7 million jobs across the region and accounts for 5.3% of the region GDP growth. The absence of tourism revenue caused by the pandemic lockdowns increased unemployment, decreased tax revenue, and reduced capital flows. UNWTO (2020) indicated that international tourists' arrivals plummeted by 57 percent in the first months of 2020, with peaks of over 90 percent between April and July and a dramatic fall in hotel occupancy.

According to ASCAME expert (2021), the Mediterranean is the world's leading tourism area with nearly 400 million tourists: 32% of all international arrivals and 30% of global revenues. It accounts for 13% of exports, 23% of the services sector and employs more than 20 million people. The region has 20% of the world's hotel accommodation capacity. It has 10,000 destinations, some 100,000

hotels and one million restaurants. However, despite these numbers, tourism remains heterogeneous and fragmented between the two shores of the Mediterranean.

The mostly hit countries started looking for ways to mitigate the impact of the pandemic on this organic sector. Immediate actions consisted in prioritizing public health and hygiene to stop the spread of the virus and reduce contamination and death rates. Lockdown measures were adopted worldwide and rolling out vaccination has become a global priority to restart economic activities and in particular the tourism industry.

To prepare the sector for recovery, SMC governments should continue supporting the tourism industry to mitigate the upcoming pandemic waves. Fiscal packages offered to provide temporary income for workers in the most hit industries should be adopted as long as there are new covid-19 waves that hit the region. Private sector firms operating in the tourism sector are not expected to recover from the pandemic before 2023. It is therefore important to mitigate the

socio-economic impacts of the pandemic on livelihoods. Temporary exemptions for payment of taxes, social security contributions, flexible credit lines for working capital, supporting salary payment for tourism workers and postponing bill payments can help the private sector overcome the hard times imposed by the lockdown measures. However, not all SMCs can provide social security nets to the tourism actors. The tourism sector in countries like Tunisia and Lebanon was already suffering prior to the pandemic due to security and stability issues which led to the decline of the sector at large.

To bring tourism back on track in the Mediterranean region, SMC governments should work on restoring consumers' confidence. Travelers are concerned about health and are worried about complex travel measures that could ruin their trips and prevent them from going back home. In addition, several governments started looking for ways to develop locally diversified and customized touristic solutions to accommodate consumers' changing needs and new behaviors.

According to a recent publication by OECD (2021), the return to the pre-pandemic level of 2019 is not expected before 3 to 4 years, depending on the vaccine timeline. These scenarios point to a rebound in the year 2021, provided that the contagion numbers decrease, which would lead to a boost in travelers' confidence on the side of the customers and a lifting of travel restrictions on the side of government regulations (Eco-Union Report). The following figure illustrates the different scenarios to recover international tourist arrivals in the Mediterranean and European regions.

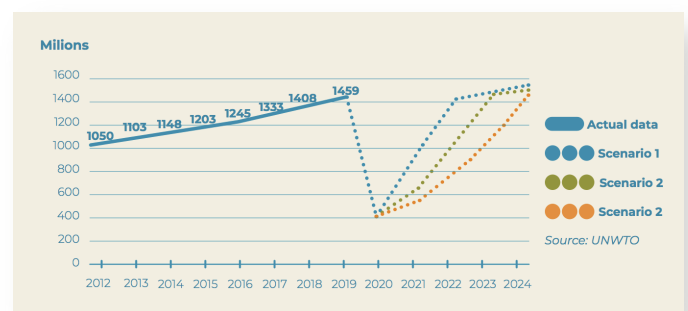


Figure 1: Gross domestic product in selected MENA economies

Source: Eco-Union 2021 The future Mediterranean Tourism

It seems that a return to normal before 2023 is unlikely to occur as the covid-19 virus will be around due to the development of new variants of the virus preventing reaching collective immunity worldwide. Therefore, structural adjustments to the sector are necessary.

Some SMCs governments resumed local tourism which was not affected by cross-borders lockdown measures. Intraregional and domestic tourism becomes a steady trend amidst the continuous lockdown and the emergence of new variants of the virus. Northern Mediterranean countries like Spain, France, and Italy capitalized on the domestic tourism during 2020 seasons. Similar plans should be adopted by SMCs. Morocco has initiated the promotion of local tourism and adjusted lodging prices to attract local tourists.

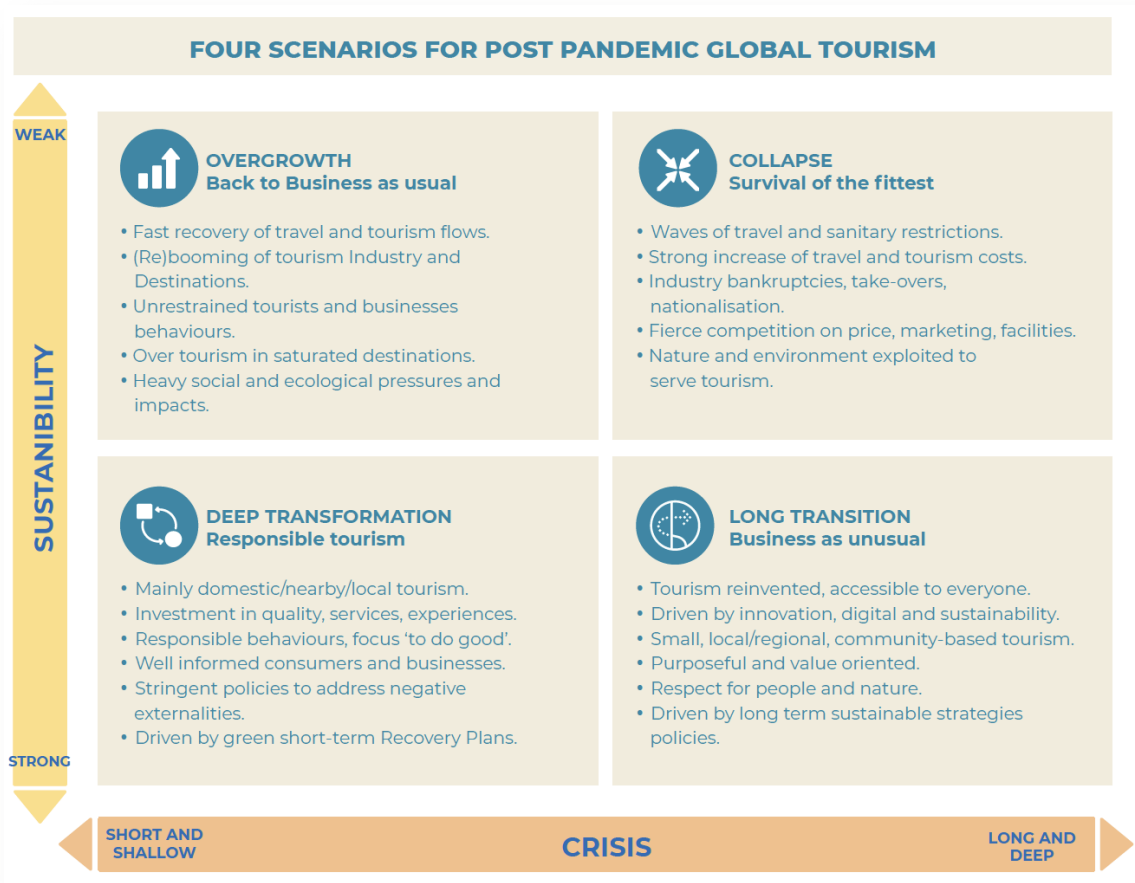
Moreover, promoting digital tourism seems to be a new trend that is emerging in both shores of the Mediterranean. Many countries continue showcasing their cultural heritage by offering personalized and valuable experience to individual tourists who are eager to discover other cultures virtually. Virtual tours to visit internationally renowned museums have been developed (projects developed in Italy, Spain and US). EU launched Europeana, a virtual platform that showcases European cultural artefact. Morocco launched an application and a digital campaign to promote the cultural heritage and historical landmarks of

Essaouira, a UNESCO classified coastal city in Morocco. Other digital tools were used to promote the sector recovery. Contactless technologies, biometrics and artificial intelligence tools were used to accommodate the new normal and ensure that visitors enjoy their tours in a protected and safe environment. Since the use of digitalization in the tourism sector is quite new, reskilling of the industry workforce is essential. Human capital development was prioritized to guarantee a successful transition to digital tourism experience.

Furthermore, sustainable tourism has become a new trend in the recovery plan. The global lockdown allowed consumers to enjoy an environment friendly lifestyle. With the complete halt of air transportation network and an unprecedented decline in global air transport, low carbon emission scenarios have been observed and the willingness to continue working on this trend encouraged governments to develop environment friendly recovery plans.

As part of EU new green deal, tourism reform/recovery plans take into consideration the development of a sustainable tourism in the Mediterranean

that reduces carbon emission, lowers the use of fertilizers and chemical products that pollute waters, and protects the marine life of the Mediterranean. One of the scenarios of the global and regional tourism recovery promotes responsible tourism which alludes that the era of mass tourism has gone.



Source: Eco-Union 2021, the Future of the Mediterranean Tourism

ASCAME is the Association of the Mediterranean Chambers of Commerce and Industry. A Mediterranean dialogue was organized by the Friedrich Naumann Foundation for Freedom to discuss the status of the Mediterranean tourism post pandemic.

With reference to EU (2020) policy report on Behavioral changes in tourism in times of COVID-19 and UNCCTAW (2021) United Nations Conference on Trade and Development.



# The Healthcare System



SMCs healthcare systems were unprepared to face the pandemic and failed to effectively manage the increasing number of infected persons flocking to hospitals to get treated. The SMCs healthcare systems are characterized by a poor infrastructure and fragile responsiveness mechanisms. The healthcare systems dramatically lagged behind and were not prepared to respond and sustain the pressure of the prolonged pandemic outbreak. Most public healthcare facilities were unable to manage the increasing influx of patients requesting emergency interventions. To mitigate the surging need for the healthcare services, most SMCs relied on WHO aids and support in protective personal equipment, Covid-19 tests, training of medical staff and the needed ICU/respiratory equipment. In countries like Tunisia, Morocco and Lebanon, the support of the private healthcare sector helped ease the tension on public healthcare institutions.

Egypt, the most populous country in the SMCs and MENA region faced tremendous challenges during the pandemic which strained the country's healthcare system

and put a huge pressure on its public and private healthcare institutions. However, several studies on Egypt's management of the pandemic indicate that the pandemic provided an opportunity for Egypt to roll out a universal health insurance plan that enabled millions of Egyptians to receive healthcare coverage. Also, the pandemic represented an opportunity to re-calibrate the healthcare sector reform initiatives by taking into consideration the urgent need to increase the number of beds, improve service quality and provide an equitable service for all. In Egypt, the private sector role is necessary to help seize the growth opportunity that the sector is presenting. Investment in new healthcare facilities and local production of protective equipment, ventilators and ICU units have been initiated by the publicly owned institutions but a partnership with the private sector is necessary to reach the targeted results by 2030.

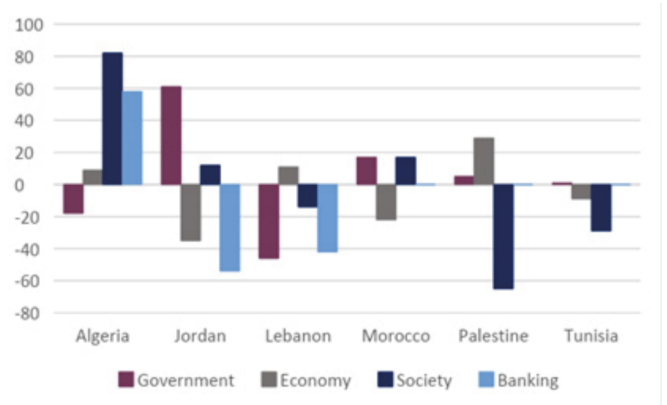
According to a recent study conducted by KAS and EMEA (Ayadi and al. 2021), the overall Global Health Security (GHS) Index scores slightly above the world average (40.2) in Jordan, Lebanon, and Morocco (respectively 42.1, 43.1 and 43.7), whilst

Algeria and Tunisia score below the world average (respectively 23.6 and 33.7). During the pandemic, mainly Tunisia and Morocco seemed to have put in place a medium to long term strategy to mitigate the pandemic effect. Tunisia's health sector had a clear plan to manage the pandemic and Morocco managed to activate local production of Covid-19 related products such as personal protection equipment.

To analyze the targeted countries healthcare systems resilience against the pandemic, three parameters were developed to assess the healthcare sectors of the targeted countries: 1. The early warning system and the capacity of the healthcare system to detect the pandemic in advance to be able to respond in case of large-scale infection. 2. The crisis management system and the activation of the healthcare policies to combat the healthcare crisis and 3. The crisis recovery system and the activation of a medium to long term investment plan to ensure recovery from the healthcare crisis. The study concluded that most SMCs were not prepared to effectively mitigate the impact of the pandemic and that the healthcare systems which were already weary and fragile, collapsed and necessitated international community

intervention and private sector support to manage the crisis.

The following figure illustrates the preparedness index of the targeted countries studied by Ayadi and al (2021).



Source: Preparedness Index in targeted countries EMEA Covid 19 policy Monitor

Recently, WTO has reported the beginning of a fourth wave that has hit the population globally and the rise of a new variant coined Omicron that is unpredicted in terms of contagiousness and severity. This indicates that the pandemic has not finished yet and the region healthcare systems need to scale up their health services to swiftly respond to new waves and novel virus variants. A more robust preventive and primary care services should be adopted to avoid the spread of the virus.

Moreover, SMC governments should continue investing in the healthcare sector to strengthen its capacity and to become more resilient to respond to present and future waves of the pandemic. A regional collaboration on the healthcare issue is

important and desirable to ensure fair distribution of health products such as protective equipment and vaccines and to reinforce the regional healthcare system governance in coordination with WHO.

Finally, in countries like Tunisia, Lebanon, and Egypt the private sector contribution to strengthen the healthcare sector was important which indicates that the pandemic created opportunities for the private sector to create jobs and develop business opportunities growth in the healthcare sector. Private sector involvement in the healthcare sector could further increase the whole sector resilience against the outbreak of the pandemic or any other healthcare issues.

# The Textile Industry



The textile industry was one of the hardest hit industries in the SMCs region and globally. The pandemic lockdown measures and the work from home model which changed consumers habits led to a sharp decrease in retail sales as well as in the manufacturing volumes and the distribution channels of garment and apparel. According to the International Trade Center report (ITC, 2020), retail sales decreased by 11% and fashion, apparel and luxury goods reached up to 30% decrease. Millions of jobs were lost because of product order cancellations.

According to ITC, the pandemic impact on the industry is disrupting the value chains permanently in the medium and long terms. This situation is likely to herald an increase in nearshoring opportunities for countries in Eastern Europe and Southern Mediterranean region. Trade experts presage that fashion brands would bring production closer to home Europe to avoid any supply disruption and to prevent the increase in shipment costs which has already reached 10 times higher than the pre-pandemic period.

To mitigate the industry supply chain woes (increase in shipping costs and lead time), brands like Benetton and Hugo Boss

decided to nearshore their production and they chose Southern Mediterranean countries such as Tunisia, Morocco, and Egypt. Working in countries like Bangladesh and Vietnam is still less expensive (in terms of workforce costs), however this benefit is offset by longer lead times caused by the reduced number of shipping vessels during the pandemic. According to these brands, the nearshoring investment will be either by ramping up existing structures (Tunisia and Morocco case) or partnering with new suppliers (Egypt case) and since this is a heavy investment in difficult times, it seems that nearshoring decisions will be permanent and there will be no setback. Egypt, like other SMCs was hard hit by the pandemic and saw a sharp decline in export figures that reached 30% in the first six months of the pandemic. However, Egypt recorded a partial recovery in 2021 with export levels reaching 80-90% in comparison with pre-pandemic period (export value of \$1.45 – 1.55 Bn). The government's guidelines to keep employees working under safe and healthy conditions encouraged Egyptian firms navigate the pandemic. With the help of its business support associations

and private sector firms, Egypt succeeded in attracting MNEs looking to relocate sourcing businesses closer to Europe. Like Egypt, Morocco attempted to overcome the impact of the pandemic on the textile industry and continued attracting lead firms to place orders. Morocco leveraged the recently built infrastructure (port of Tangier Med) to significantly halve lead time and shipment/production costs. To fully seize the nearshoring opportunities in the garment and apparel industry, SMCs should take proactive actions to attain EU requirements and

promote sustainable value chains by developing the circular economy concept. This will significantly impact on the production and the management of textile and apparel products. In addition, most EU countries have already adopted a sustainable textile industry and have already shifted to sustainable business models of supply chain management. Rolling out these measures to partners/suppliers in the SMC region can help them capture the full breadth of the subcontracting/relocation opportunities.

# The Digital and Aeronautics Industries



The Covid-19 pandemic acted as an accelerator of digitalization. Industries that digitalized their firms succeeded in mitigating the impact of the pandemic on their businesses. After the lockdowns, the new normal has become digitalized with work from home arrangements, online retail shops, online education, and online healthcare services. Digitalization seems to have provided an economic buffer to better navigate the devastating impact of the lockdown measures on businesses and industries. Businesses that adopted digitalization increased their resilience and recovered quickly from the several waves and lockdown measures.

Digitalization will underscore the importance of technology-based sectors such as microelectronics, electric car tools and aeronautics. SMC countries such as Morocco and Egypt developed a strategic transformation/reform plan to accelerate the digitalization of their business sites to attract foreign contractors looking to develop partnership for a sustained policy of nearshoring of such expertise. However, EU partners remain reluctant to strategically invest in SMCs due to the limited stability and political will of SMCs governments in addition to the limited

infrastructure and the high cost of investment required to develop complex technological platforms.

Morocco has developed a competitive aeronautical and space sector and succeeded in becoming the most competitive aerospace base at the gates of Europe. Since 2013, Morocco embarked in a significant investment in Nouaceur Pole to build a dedicated industrial zone, the Aeropole, in addition to the Midpark Free Zone and the Moroccan Aerospace Training Institute. To date, more than a hundred international multinationals specialized in the aeronautics sector chose Morocco to install their partial or full manufacturing units. The sector secured more than 17,000 qualified jobs, with 42% jobs performed by women.

The industry has registered a growth of 20% pre-pandemic and although it suffered from an important decline during the pandemic lockdowns, it started to recover steadily, and most plants resumed manufacturing to meet requirements of ongoing and new orders.

Morocco succeeded in signing subcontracting agreements with major sector players such as Boeing, Airbus and Bombardier.

Morocco has invested massively in the aerospace sector by building a dedicated aerospace city and clusters and by training the specialized and highly qualified workforce. Morocco has already proved to the major aerospace partners that it has the required capacities to subcontract large orders of aircraft structural parts and is now further promoting its capabilities to obtain a larger market share from subcontracting and relocation opportunities during the post-pandemic period. The Moroccan aeronautics success story should be taken as a lead example for further investment in the digital industry in the SMC region as well as similar sustainable investment in other vital sectors capable of optimizing regional economic growth and fostering SMC global integration.

# Signs of socio-economic recovery



With reference to recent reports and studies on the Euro-Mediterranean region economic growth post-pandemic, several facts indicate that the Southern Mediterranean countries can capitalize on its educated and young workforce and its developing manufacturing and services sectors to accelerate the economic recovery plan. It seems that the pandemic has created some opportunities to countries in the Euro-Med region. Decades before the pandemic, there has been long discussions on Southern Mediterranean region socio-economic integration, but no major actions have been made to consider that the region is fully integrated within the regional or global setting. Small actions have been developed in different contexts but after the recent global crisis (the financial crisis of 2008 and the Covid-19 pandemic), the region is still considered as the least economically integrated region worldwide.

With the advent of the new normal, SMC governments have resumed the integration plan hoping to accelerate the economic recovery. They are willing to take advantage of the share of the region from the restructuring of the global value

chain and the nearshoring of main value chains, but they are also aware that they need to further develop their digital economy and their logistics capabilities to be able to compete with Asian and European markets. SMCs governments started developing regional partnerships (South-South) to build their capacity at the regional level first. During the pandemic, several initiatives focused on fostering partnership between SMCs to support their healthcare systems and strengthen its resilience against the pandemic. The 5+5 dialogue led by IEMED in 2020 selected the healthcare sector as a topic to discuss South-South cooperation. The Med think 5+5 group recently developed a policy study to underscore the importance of transport and logistics sectors that can promote cooperation, socio-economic development, and regional integration in the SMCs region. The 5+5 dialogue helped foster the debate and knowledge sharing. Moreover, several agreements that implement the EU Neighborhood Policy through its regional and bilateral institutions such as UfM, BUSINESSMED, KAS, GIZ , ENI CBC MED, etc. are being conducted.



To attain inclusive economic development, SMCs must strengthen the private sector and create more jobs. Integrating the informal sector and growing the entrepreneurship spirit represents possible solutions that have already been explored in the region. The integration of the informal sector will help leverage the role of economic sectors such as agribusiness and manufacturing to generate sustainable employment. Also, providing support to entrepreneurial initiatives in the digital and green economies can significantly increase the potential of start-ups and create thousands of jobs for the educated youth in the region.

Although economic data shows that the SMCs region suffer from late economic integration in the global economy, there are several indicators that show that the SMC region has the potential to grow. The SMC region is characterized by the richness of its historical, cultural, and geopolitical context of the Med Region. The region has always attracted global powers due to its proximity to the EU region and the robustness of historical ties that link both shores of the Mediterranean. For this reason, several international and regional trade agreements have been signed. In addition,

despite all the difficulties that the region is facing, its human capital composed of increasing youth population bulge that represents a demographic dividend, remains an asset. This human capital represents an educated human capital despite the backward education system.

Although there are several attempts to promote the SMCs region integration in the global economies, SMCs are lagging a fully-fledged integration that can facilitate better cooperation with global value chains. The SMCs region face many social and economic challenges that are hindering the region's integration process. The region endemic unemployment, gender inequality and increasing NEET population are fragilizing its capabilities to face competition at a global scale. In addition, the limited capacities of the private sector and the slowness of structural reforms in the education, healthcare, transport, and infrastructure represent additional burden to the SMCs to effectively reach the economic integration target. Other macro-economic factors are responsible for the slow economic integration. The significant public expenditure and debuts, the limited trade activities and vulnerability of transport and logistics structure and the slow adoption of strategic environment

provisions including low carbon initiatives represent some of the factors that weaken SMCs government from pursuing a robust integration action plan.

Although most SMCs do possess the good will to move forward with the economic integration plan, they still face the threat of political instability, the risk of terrorist attack and the rise of violent extremism.

This can significantly delay strategic plans of regional and global integration. Also, the region faces the continuous effect of the recession as well as the rise of new waves of the pandemic. These external threats are significant factors that may thwart the economic integration process. From a geo-political perspective, SMCs are concerned with regional political instability (mainly in Libya, Lebanon, and Palestine) and are skeptical about Morocco-Algeria conflict.

## Reshoring production back to Europe: an opportunity or a challenge?



The outbreak of the pandemic revealed unprecedented supply and demand shocks that cast doubt on the future of global value chains (GVCs), which promote the globalization of production. Even before the advent of the pandemic, US and China trade war has already initiated the debate on USA reliance on China for sensitive electronic components. Also, the supply shortages of medical products that European countries experienced during the pandemic revealed the over dependency on China. It seems that the pandemic exacerbated the need for relocation because it brought to light the heavy dependency on China for life saving

material such as pharmaceutical products. The restructuring of GVCs has become a hot topic to debate amongst EU policy makers. Large firms from European developed countries started pursuing relocation projects to reduce production cost and to benefit from competitive macroeconomic advantages offered by the host countries. These advantages represent abundant skilled and cheap labor, availability of input material, reduced trade barriers and tariffs, convenience of FDI related incentives and policies, reduced shipping cost, and expanded market potential. European firms piloted several forms of

restructuring of the GVCs.: Reshoring, relocation, diversification, and replication. To attain regional integration, nearshoring remains the most strategic initiative to diminish dependency on China and stimulate local economies after the dual shock of the financial crisis of 2008 and the Covid-19 Pandemic.

For the EU, SMCs are in the closest region where investment on nearshoring must be made. However, the region does not seem to be ready for such investment. According to OECD (2020), the region showed resilience towards the impact of the economic recession which raises hope that the region is ready to take the challenge and that it can turn the economic crisis into structural and inclusive reforms. Bringing part of the GVC to SMCs is an appealing solution to accelerate the region socio-economic integration, however, the SMCs are not ready to roll out nearshoring initiatives.

According to UNIDO (2020), some SMCs improved their logistics and infrastructure to be able to accelerate the process of regional value chain integration. For instance, Egypt, showed high shipping connectivity due to the construction of the second Suez Canal line. Also, Morocco multiplied its efforts towards modernizing

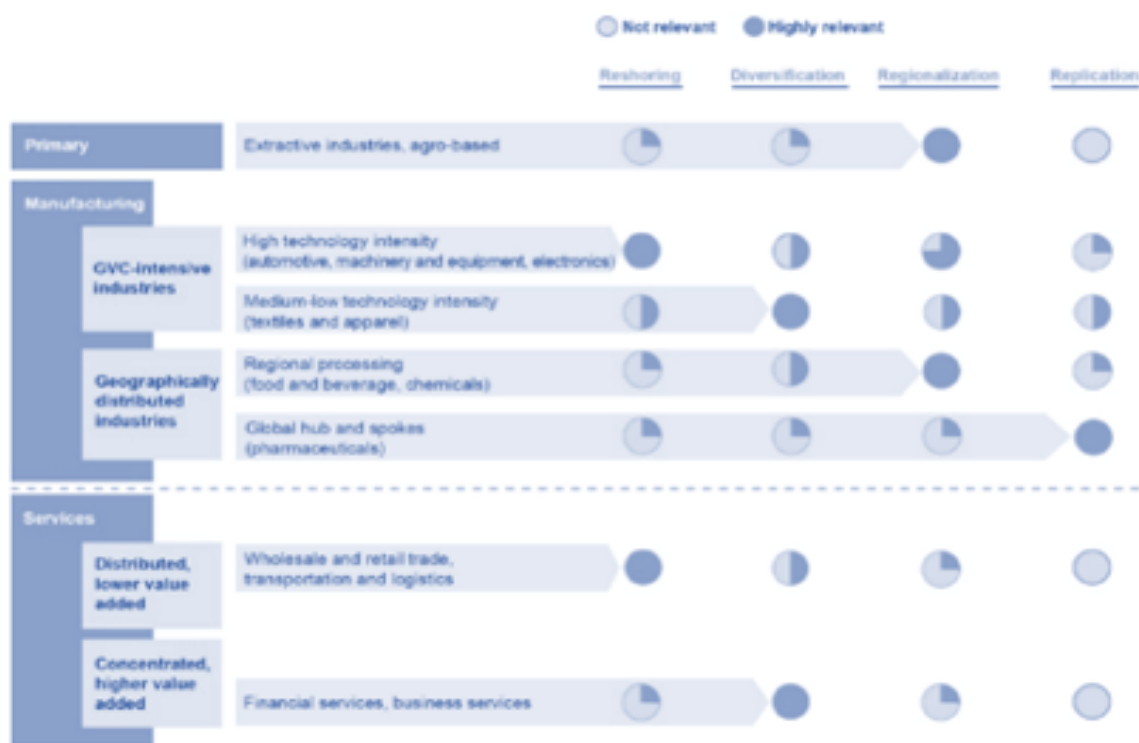
its logistics capabilities with the creation of the AMDL (Moroccan Logistics Development Agency) and the improved Tangier Med port infrastructure capacities and the Tangier Free Zone. Morocco has also built the industrial accelerating zone of aeronautic, located in the Greater Casablanca area, which is close to Mohammed V International Airport, Morocco's main airport, which has also developed and is now serving over 70 destinations worldwide. Other SMCs, like Tunisia, face more challenging Trade infrastructure.

Tunisia's port traffic is outdated, and no major structural improvements have been conducted since the outbreak of the Arab Spring in 2011.

According to the OECD, in the MENA region, trading across borders is expensive and time consuming: it is, on average, three times more expensive and - four times longer than in high-income economies. Similarly, bringing industries close to Europe necessitates a large investment to rebuild the industrial capacity of the selected countries which has not been planned before the pandemic. Even prior to the outbreak of the pandemic, the level of integration of the SMCs in production networks has been

slow and limited despite the existing trade agreements with the EU. According to IEMED (2021), countries of the southern shore of the Mediterranean vary substantially in terms of logistic performance. The World Bank's Logistic Performance Index (LPI) for 2018 ranks Egypt, Jordan, Morocco, Tunisia, and Algeria respectively 60th, 76th, 87th, 104th and 107th out of 167 countries.

This is likely to persuade multinational enterprises to opt for Eastern European countries which are well-positioned to integrate as they have already established GVCs within the EU network. It seems that Eastern European countries are more likely to be the right candidate to bring the RVCs closer.



Source: own elaboration based on UNCTAD, 2020b, p. 166

Figure 2:  
Relevance of development trajectory by industry  
Source: European Parliament, INTA (2021).

# Policy Recommendations

Following the high-level workshop organized by the Konrad Adenauer Stiftung (KAS PoDiMed) and the Union of the Mediterranean Confederations of Enterprises (BUSINESSMED), a set of recommendations suggested by the Workshop's key speakers and experts has been gathered:

# Adjustment of policy-related measures



The economies of the SMCs faced unprecedented challenges due to the Covid 19 pandemic therefore, it goes without saying that governments must rapidly implement structural reforms to jump start the economic recovery. Governments must galvanize complex reforms that can significantly impact on vital sectors that were hit by the pandemic. These sectors include education, healthcare, tourism, textile, ICT, and construction. To effectively plan for recovery projects, governments should adopt a multi-stakeholder approach in conducting structural reforms at the national, regional, and local levels. In addition, they should establish a tripartite partnership between public, private and

donors' stakeholders to tackle pressing economic issues. A promotion of the Private Public Partnership initiatives may further support the development of the green economy in the region. Sectors such as the renewable energy represents a vital area where multiple stakeholders must be involved to successfully implement Mega energy-related projects. Moreover, governments should build trust and must endorse the rule of law to promote transparency and accountability and improve doing business indicators in the region. Finally, governments should incorporate the SDGs framework in the recovery plan so that issues related to education, employment and gender inequalities can be addressed.

# Development of SMCs Infrastructure



To attract global investors and convince Multinational Enterprises (MNEs) to relocate in the SMCs region, it is important to accelerate the process of regional integration and prepare SMCs to benefit from the nearshoring opportunities through investment in transport and logistics infrastructure, know how, reskilling of workforce and diversification of goods and services to relocate/export. Developing the country's infrastructure requires a sound selection of sectors that must undergo an inclusive economic development. These sectors could include manufacturing, digitalization, green and blue economy, and services. It is also urgent to facilitate access to finance and offer technical assistance to further support the private sector in the region. Governments should pave the way to the creation of new forms of financing where the FinTech opportunities are considered as innovative ways to further support the private sector in the region. New forms of financial products need to be developed to take into consideration the needs of the private sector in the region. Moreover, it is essential to capitalize on regional

platforms that can contribute to regional integration and provide knowledge exchange and cooperation. These platforms can be business platforms that enlarge the network of SMCs businesses or trade related platforms that can facilitate exchange between global partners.

SMC governments should improve the Doing Business indicators and develop policies that attract foreign capitals and create a conducive environment for startups to grow. Such endeavor should take into consideration the new normal imposed by the post-pandemic era. Also, local, and regional partnerships should be put in place to further strengthen the private sector. South-South collaboration can be an opportunity to strengthen private sector resilience and leverage its capability to innovate and adjust to market dynamics in a sustainable manner. Once private sector capabilities are confirmed at the regional level, expanding its services to northern or global partners becomes easier and more straightforward. Moreover, it is important to enhance logistics performance of SMCs to reduce trade costs. Logistics cost

reduction can be more impactful than tariffs reductions. As per trade regulations, SMCs should examine the flexibility/requirements of the European regulatory framework that they must abide by to become part of the RCVs and provide the needed institutional capacity building to SMCs that need to be strengthened in this regard. Finally, SMCs governments should adopt a bottom-up approach to deal with trade agreement implementation and try to depoliticize trade agreements implementation to avoid losing track of the structural reform plans.



# Promotion of relocation projects through subcontracting



SMCs should benefit from the existing economic cooperation with European countries which was established decades ago through free trade agreements. The geographical proximity and colonial ties with Europe should be a vehicle to strengthen those connections and further develop trade integration which can be an engine for economic growth. Technological progress and the qualified young workforce of the SMCs represent an opportunity to offer private sector firms services for subcontracting for intermediate products and services. SMCs should encourage SMEs to offer subcontracting services to global MNEs (Multinational Enterprises). Subcontracting can be an initial form of collaborative supply relationship that can be further developed into a full-fledged relocation of supply services. Subcontracting represents an opportunity to build the capacity of SMEs in the Mediterranean region and improve their competitiveness. Subcontracting for intermediate products or services help build trust, improve product quality and design, ensure respect in delivery timelines, and promote the use of innovation.

Several studies reported that preparing SMCs private sector to offer supplying intermediate products require a costly investment for both SMEs and MNEs. For this reason, it is better to focus on developing services rather than manufacturing goods where competition is high in other parts of the globe such as China and Latin America. Also, it is worth considering subcontracting services (FinTech) as a more efficient way to diversify cooperation with Western European countries.

# Donors' engagement in promoting SMCs regional integration



Donors should focus on assisting SMC to develop and implement nationally owned trade integration strategies suited to the local context through processes that strengthen the regional value chain opportunities in favor of economic growth and job creation. Donors' interventions should avoid developing short-term interventions which are not productive and impactful. They should focus on developing, in coordination with the local authority, long-term development interventions. Also, due to the unpredictable nature of policy change and partner country priorities, donors should consider applying flexible assistance that takes into consideration the changing socio-economic environment locally and globally.

Donors should innovate to develop context-specific solutions by making informed and evidence-based interventions. An evaluation of the existing nearshoring options should be conducted to make sound decisions whether to continue embarking on other nearshoring adventures in specific sectors. Donors should build statistical capacity that can allow a detailed monitoring of the regional progress in the integration process as well as inform the design of effective integration policies. Finally, prior to the development of country specific interventions, donors should consider sustainability and ownership of the development projects in the region when designing new impactful regional projects.

# CONCLUSION

It appears that the pandemic will not set a tone for a de-globalization phenomenon; however, it may require a sound diversification of production sourcing to avoid heavy dependency on a single country (mainly China). Regional value chain initiatives should be further developed to allow for a fair and inclusive integration of developing countries in the Southern Mediterranean region.

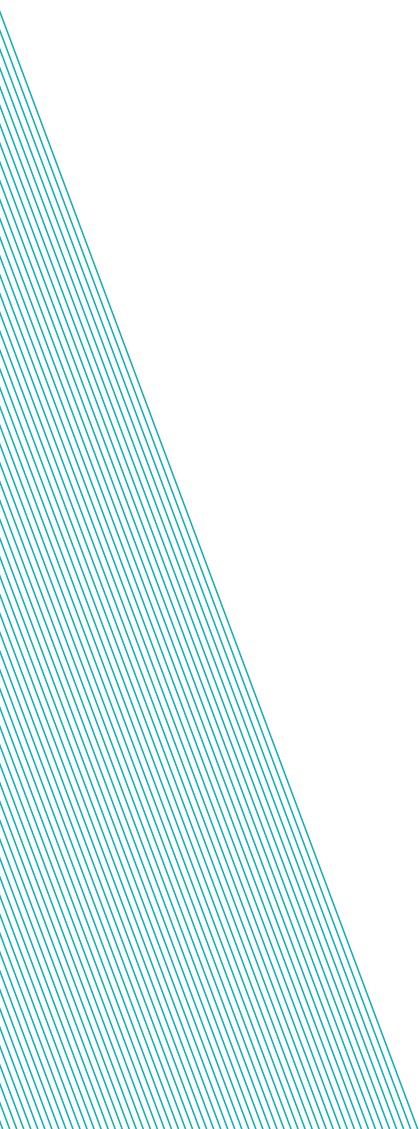
Decades before the pandemic, the development of the GVCs led to a substantial economic growth of the global economy.

The new era imposed by the pandemic will require a reconfiguration of GVCs trajectories in a manner that allows the full integration of the Mediterranean region. Such integration will boost economic and social growth by creating millions of jobs and alleviating people from extreme poverty.

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