

report

FROM CRISIS TO RECOVERY IN THE WESTERN MEDITERRANEAN:

Challenges and opportunities on the road to
a post-COVID-19 sustainable growth

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Webinar, 11 November 2020



Introduction

The COVID-19 pandemic and the measures to fight its spread have plunged the global economy into a historical contraction. In a Western Mediterranean severely hit by the new coronavirus, trade flows have suffered a dramatic reduction while critical industries for the economies of the region such as tourism, transport and energy were put under serious stress. Both in the north and the south of the Western Mediterranean, the scale of the economic downturn is historical with GDP drops reaching never seen levels in peacetime. Although the second wave of the COVID-19 pandemic has worsened the economic situation in Western Mediterranean countries, the countries of the subregion have prepared recovery plans to support a reactivation of the economy, sustaining the private sector, job creation and encouraging investment.

Against this background, the MedThink 5+5 network, coordinated by the European Institute of the Mediterranean (IEMed), together with the Policy

Center for the New South (PCNS) brought together leading experts from think tanks, academia and diplomatic services, to discuss the prospects of economic recovery in a post-COVID-19 era Western Mediterranean. This second MedThink 5+5 webinar in a year marked by the COVID-19 pandemic sought to analyse the economic situation generated by the COVID-19 crisis in the ten countries of the 5+5 Dialogue, the macroeconomic policies pursued by their respective governments to protect national productive tissues and social cohesion, and finally the opportunities and challenges that lay ahead for a sustainable economic recovery.



With this webinar, the MedThink 5+5 network of Western Mediterranean think tanks provided a space where experts from both shores of the Mediterranean region could share their analysis and reflections on a crucial issue that will impact the future of the region and which calls for a strengthened cooperation between North and South of the Western Mediterranean, especially in the framework of the 5+5 Dialogue.

The challenges and opportunities of the Post-COVID-19 economic recovery in the Western Mediterranean were discussed by **Senén Florensa** (President of the Executive Committee, IEMed), **Karim El Aynaoui** (President, Policy Center for the New South), **Luis Óscar Moreno** (Director General of Economic

Diplomacy, Ministry of Foreign Affairs, European Union and Cooperation of Spain), **Roger Albinyana** (Director of Mediterranean Regional Policies and Human Development, IEMed), **Giorgia Giovannetti** (Vice-President, University of Florence), **Hakim Ben Hammouda** (Former Minister of Economy and Finance of Tunisia), **Yahia Zoubir** (Professor of International Relations, Kedge Business Schools), and **Larabi Jaïdi** (Senior Fellow, Policy Center for the New South).

Following an introduction on the scale of the economic crisis generated by the measures to fight the COVID-19 pandemic in the countries of the 5+5 Dialogue, the participants analysed the short-term responses to the crisis provided by the different governments of the region before debating what should be the objectives of the mid to long-term responses to be embodied in their recovery plans. For that, they identified economic opportunities and challenges that governments of the Western Mediterranean countries need to consider to successfully put their economies back on a path of economic growth and job creation that is more sustainable and inclusive. Their reflections and recommendations are incorporated in this report summarising the discussions of this stimulating webinar.

An unprecedented economic crisis in the region

As in other parts of the world, the COVID-19 and its health implications have prompted governments in the Western Mediterranean to take severe measures to curtail socioeconomic activities for a substantial period of time. Such measures implementing lockdowns, curfews, mobility restrictions, and closure of businesses throughout the last months, have led to what participants described as a dramatic self-inflicted recession. As a matter of fact, the GDPs of the countries of the region, whether in the North or in the South, were expected to drop by 4 to 12% in 2020 (and even -66% in Libya according to the OECD). Alternating periods of so-called “stop and go” have created uncertainty and insecurity which are extremely prejudicial to a resumption of the economic activity, especially in the field of trade. In face of such a crisis, the economic and social costs have been extremely high, especially in terms of

job losses and business bankruptcies which, contrary to previous economic crises, impacted much more the tertiary sector than manufacturing, as pointed out by a speaker. The tourism transport, textile, automotive, and fossil energy sectors, usually considered as the main engine of growth of the Western Mediterranean economies have been the most hardly hit by the COVID-19-related crisis.

In the Maghreb countries, the COVID-19 has created a very strong shock that exacerbated existing economic problems, coming on top of already existing fragilities and crises. In Tunisia, for instance, the recession, which was estimated to lead to a drop of about 8% of GDP, has taken hold in a weak economic situation exacerbated by political instability. In other countries of the southern shore of the Western Mediterranean, namely Algeria and Libya, an oil and gas shock triggered by the collapse of the demand added a new layer to the COVID-19 crisis. Consequently, these countries are trapped in a financial deadlock which threatens their ability to respond to the crisis in the short to the long term.



Containing the crisis: short-term policy responses

The countries of the Western Mediterranean have all implemented emergency measures since March 2020 which have intended to counter-balance and cushion the effects of the restrictions that they have themselves enforced to fight the spread of the pandemic. The objectives were, on one hand, to support and consolidate the private sector and the productive tissue, and on the other, to

provide safety nets to the most fragile households whose incomes have been affected by the shutdown or slowdown of the economic activity.

As noted by the speakers, both in the North and in the South of the region, fiscal policies have taken the lion share of the short-term government responses to the crisis. Aimed at providing safety nets to firms and households in need of treasury (subsidies and loans to SMEs, cash transfers, tax credits), this unprecedented fiscal effort (amounting to 3% of the GDP in Morocco) has put a huge strain on national budgets, especially in the South, in those countries that have seen their fiscal revenues dramatically drop by consequence of the oil shock (Algeria, Libya) or with fragile economic fundamentals (Tunisia, Mauritania). Participants stressed that the landscape is less worrying in the EU where governments, despite massive fiscal measures, benefit from favourable financing conditions, notably following an agreement on a partial mutualisation of the debt contracted during the pandemic.

On the monetary policy side, the EU has been much more active than the Maghreb countries. Indeed, as observed by the speakers, the latter remained quite conservative and refrained from experimenting unorthodox monetary measures (venturing in quantitative easing, buying private debt and assets on the central bank balance sheet) unlike most of emerging countries.

This set of measures aimed at mitigating the impacts of an economic crisis impacting millions of households and businesses will create some challenges for the macroeconomic stability of the countries of the region, essentially in the Maghreb. As highlighted by the participants, the recovery plans announced by almost all the governments in the Western Mediterranean will have to consider these imbalances – often inherited from previous crises – to ensure a successful exit of the crisis.

Building up a long-term response through well-targeted recovery plans

While the Summer 2020 provided a relative respite on the front of the pandemic in the region, Western Mediterranean countries such as Algeria, Tunisia, Morocco or France have unveiled recovery plans with the declared ambition to launch a

new model of economic growth based on the principles of sustainable development and the knowledge economy. The pandemic, by highlighting the vulnerabilities and fragilities of the economic models of the Western Mediterranean countries, indeed led to a questioning that shall impact the post-COVID-19 recovery strategies. The experts invited to debate the issue concurred that the crisis could be an opportunity to reorient the regional development models towards more promising, sustainable and resilient economic sectors, if wisely exploited by the present governments.

In the EU, the will to take advantage of the crisis recovery to lay out the basis for a modern and sustainable economy has been made tangible with the adoption of the NextGenerationEU recovery plan (€750 billion). Designed to stimulate the post-COVID-19 EU economy, it will make funds available for the financing of the green and digital transitions, as a matter of priority.

This transformative ambition is shared by most of the governments of the region, whether in the North or in the South. Do the recovery plans announced by the countries of the region respond to a conjunctural situation rather than illustrating a real appetite for reforms? This remains to be seen, according to the speakers who nevertheless considered that structural reforms are paramount. This is even more valid for rentier states (Algeria, Libya) whose extractive industries are going through

difficult times and which are now faced with the pressing need to operate a shift to open and diversified productive economies.

Against this background, the speakers highlighted the current opportunities on which the post-COVID-19 economic recovery could be based in the Western

Mediterranean region, while pointing out some of the common challenges to be overcome in the process.



Opportunities of the post-COVID-19 era to shift regional economic models

The COVID-19 crisis has disrupted our societies and economies with a magnitude never seen in peacetime. The pandemic has put the sustainability of many economic sectors and practices into question while reinforcing and accelerating emerging mega trends. The post-COVID-19 context is indeed expected to bring about opportunities to shift towards more productive and sustainable economies. This applies equally to the region where the speakers identified three main opportunities, which, if properly seized in the context of the recovery, could lead to a more resilient and integrated Western Mediterranean Basin.

The first opportunity highlighted by the speakers is that a shortening of Global Value Chains (GVCs) could benefit the region and play a key role in the post-COVID-19 recovery. The pandemic has indeed led to a greater demand for the reorganisation of the GVCs in favour of nearshoring to avoid the excessive concentration and the supply tensions that some countries have experienced throughout the first phase of the crisis. It is notably the case of the European Union which has developed the concept of “open strategic autonomy” as a new priority policy in May 2020, calling for the diversification of its supply chains to ensure a greater independence vis-à-vis a number of countries. And Maghreb countries have a role to play in this new context, as stressed by the participants.

Indeed, the experts believed that the current context demanding more proximity, more diversification and less concentration gives an opportunity to put the focus on the Southern Mediterranean as a production frontier. Integrating Maghreb countries, especially Morocco and Tunisia, in Regional Value Chains (RVCs) would allow to respond to the demands of proximity, diversification, and environmental concerns while possibly contributing to a greater regional integration in the Western Mediterranean Basin. As highlighted by a speaker, Tunisia and Morocco, with now lower costs of labour than South-Eastern Asian countries, a lesser distance to European markets, as well as already existing trade agreements, are indeed attractive countries for European companies interested in nearshoring their productions. This would be especially relevant

in the automotive and textile sectors where these countries benefit from comparative advantage, as well as in the pharmaceutical sector (provided that knowledge transfer and common standards are implemented). In addition to creating jobs, these industrial hubs would allow Maghreb countries to increase their exports at their intensive margin.

Nevertheless, it was made clear that any strategy designed to foster RVCs in the Western Mediterranean would inevitably call for a greater cooperation between the European and Maghrebi countries, notably through the adoption of Free Trade Agreements (FTA) and creation of Free Trade Zones (FTZ), setting common standards and countering protectionist threats. Such a strategy would also require an upgrade of the digital skills, infrastructures and business environments of the host countries in order to attract investments. In that respect, the development of the Moroccan-Spanish value chain was considered an example to follow: very important in the automotive and textile sectors, it has made Spain the first trading partner of Morocco within the last 5 years, while Rabat has established itself among the 10 top trading partners of Madrid.



Participants were also keen to raise the issue of green economy as one of the potential engines of the post-COVID-19 recovery in the Western Mediterranean. It seemed clear to all that the European Union, through the adoption of its Green Deal (EGD) and its NextGenerationEU recovery plan, is

determined to embark on a green transition which will set its new growth strategy. This new priority calls inevitably for a greater cooperation with the Maghreb countries, notably in terms of production of renewable energy or electric cars. For the Maghreb countries, the green transition represents an opportunity to diversify their sources of growth and could constitute a basis to foster the post-COVID-19 recovery. In this context, a shared green agenda for the recovery is much needed, especially to mobilise large-scale funding and avoid that the EGD becomes a barrier to entry the European market.

It is widely recognised that the COVID-19 pandemic has provided a considerable boost to the digital transition worldwide. A source of growth and resilience, digitalisation should be the third pillar of the recovery strategies of the countries of the Western Mediterranean, according to the speakers. If on the European side, fostering the digital transition is a top priority of the NextGenerationEU recovery plan, Maghreb countries are yet to claim full ownership of the issue, as remarked by the experts. Without doubt, it is a promising area of regional cooperation, together with fostering regional value chains and the green transition.

Challenges laying ahead for the Post-COVID-19 Western Mediterranean economies

The post-COVID-19 recovery will not be an easy road for Western Mediterranean countries. The speakers identified significant challenges that may hinder the efforts to build more sustainable and resilient economies in the subregion.

Firstly, in the Maghreb countries, including Tunisia, the root causes that led to the Arab uprisings have not disappeared ten years later. As a matter of fact, the COVID-19 has highlighted the weak capacity of a number of governments to deliver their core functions to absorb the shock (both from a health and economic point of views) and provide social protection. The issue of governance is still on the agenda, notably from a political perspective with recurring demands for the accountability of the ruling elites. On the economic

front, a sound reform agenda appears as a prerequisite to sustain a rebound of the economy. It includes much awaited structural reforms improving the education systems and the business environment, while tackling the weak macroeconomic fundamentals inherited from the 2008 financial crisis and a decade of instability.

The challenge posed by the reform agenda equally applies to the Northern Mediterranean countries. Reforms are much needed in terms of improving the quality of the education systems, fostering more innovative and flexible economies, reforming the public sector, if the EU Mediterranean countries such as France, Italy and Spain aspire to living up to the increased competition from China and emerging countries.

Secondly, the post-COVID-19 financial context is expected to be especially challenging for the Maghreb countries. The massive government spending to support businesses and households throughout the crisis have been putting a huge strain on budgets. Some experts considered that the debts of the Southern Mediterranean countries are rising worryingly, threatening to reach unsustainable levels if the crisis were to last. Contrary to the countries of the European countries which came to terms to mutualise a part of their debt, they do not benefit from consolidated and favourable financial positions in the international markets. Obviously, this worsening financial situation will considerably reduce the room for maneuver of these countries when the time to launch recovery plans will come.

Resorting to International Financial Institutions (IFIs) was evoked by a speaker who nevertheless acknowledged that IFIs became much more stringent regarding accountability, prompting some countries such as Algeria to rule out such an option. In the absence of the usual funding from the Gulf States, the EU should therefore be a key player. In that context, a speaker deemed necessary to envision innovative financing schemes such as the extension of the guarantees put in place by the EU to some southern Mediterranean countries such as Morocco and Tunisia (under conditions). Finally, participants



agreed that, because budget support from the EU will not be enough, exceptional financial assistance will be needed to stabilise the post-COVID-19 economies of the Great Maghreb countries, from Libya to Mauritania.

Conclusion

Throughout the webinar, the speakers constantly stressed that the COVID-19 crisis represents a turning point in the Western Mediterranean. If the countries of the subregion remained mired in a crisis which shows no respite, the choices that will be made in the framework of the post-COVID-19 recovery will determine the direction of the economies for the next decades to come. In this regard, the speakers highlighted a couple of key opportunities and challenges that are likely to structure the economic recovery in the subregion. In this context, cooperation between the ten countries of the Western Mediterranean will be more needed than ever to seize opportunities and overcome challenges. It seems clear that whether regarding the RVCs, the green and digital transitions, the governance and reform agenda, and the financial assistance, no country of the subregion will be able to cope with the post-COVID-19 challenges on his own. On the contrary, cooperation and coordinated responses, whether in the framework of a renewed European Neighbouring Policy, the Union for the Mediterranean or the 5+5 Dialogue will be key to build a common sustainable and prosper agenda for the future. Speakers of this

webinar gave insights on the key axis of this cooperation. They now need to be heard by policymakers of the Western Mediterranean.

Policy Recommendations and key messages

- In the context of the responses to the COVID-19 and future crises, countries of the South of the Western Mediterranean Basin should shed the traditional paradigms and short-term fiscal rules and activate a more flexible monetary policy;
- The post-COVID-19 recovery plans in the Western Mediterranean should foster a real diversification of the national economies, and a shift from rentier to productive and modern economies. They could be based on a strategy to encourage regional value chains, and the green and digital transitions;
- Because they are attractive and offer comparative advantages, Maghreb countries, especially Morocco and Tunisia, have a role to play in the “open strategic autonomy” of the European Union and the processes to nearshore production in the automotive, textile and pharmaceutical sectors in the post-COVID-19 era;
- In order to facilitate the emergence of strong regional value chains in the Western Mediterranean, regional cooperation will be essential to ensure the adoption of free trade agreements, the establishment of common standards, the upgrade of digital skills and infrastructures, as well as a conducive business environment;
- The post-COVID-19 recovery should be supported by a much-awaited reform agenda tackling structural weaknesses of the countries of the subregion in the fields of governance, education, fiscal policies, business climate and the public sector;
- Regional cooperation (ENP, UfM, Dialogue 5+5) and coordinated responses to the crisis will be key to seize shared opportunities of the post-COVID-19 recovery (RVCs, green and digital agendas) and overcome challenges (reform agenda and critical financial needs).

