Foreign Direct Investment in Mediterranean region: some basics to improve investment climate

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Acronyms:

EU :	European Union
EIB :	European Investment Bank
FEMIP :	Euro-Mediterranean Facility for Investment and Partnership
FDI :	Foreign Direct Investment
MENA :	Middle East and North Africa
UNICE :	Union of European Industrial Confederations and Employers
UMCE :	Union of Mediterranean Confederations of Enterprises
ANIMA :	Euro-Mediterranean Network of Investment Promotion Agencies
MPC :	Mediterranean Partner Countries
SME :	Small and Medium-Sized Enterprises
TC :	Thematic Commissions
OECD :	Organisation of Economic Co-operation Development
CEEC :	Central and Eastern European Countries
MOIP :	Mediterranean Observatory for Investment Promotion
GNI:	Gross National Income
GNP :	Gross National Product
GAFI :	General Authority for Investment and Free Zones (in Egypt)
FTA :	Free Trade Agreement
EFTA :	European Free Trade Association
EC :	European Commission
ENPI :	European Neighbourhood Policy Instrument

INTRODUCTION

The Mediterranean countries have assets likely to present attraction factors for foreign investors: their geographic proximity to the European Union States, the good infrastructure level, available and often qualified labour force, with lower costs than those of the European Union (EU). However, Europe invests only 5% of its private world investments.

In view of creating a Mediterranean Free Trade Area by 2010, the countries of the region accelerated their efforts to improve the investment environment. The approaches « consist in focusing on the reforms, concluding partnerships with the civil society and getting widely involved with the concerned countries through initiatives such as Barcelona Process and the European Neighbourhood Policy, the regional strategy of the World Bank and the Euro-Mediterranean Facility for Investment and Partnership (FEMIP) of the European Investment Bank (EIB) »[1].

Box 1.

Euro-Mediterranean Partnership

Launched by the European Union and countries from the Southern shore of the Mediterranean in Barcelona in November 1995, the Euro-Mediterranean Partnership aims at creating with the Maghreb and Machrek countries an area of common peace and prosperity.

Organised according to three chapters (political, economic and financial, cultural and human), it was launched from the start with the Ministers of Foreign Affairs, including the economic chapter which should be under the Ministry economy, finance and industry. The Partnership management is ensured by a meeting of the Ministers of Foreign Affairs every six months. Each country is represented by an ambassador within Euromed high executive committee. Furthermore, recommendations are stated during specific Ministerial meetings, mainly within industrial co-operation (since 1996), commercial (since 2001), economy and finance (since 2005).

Euromed Partnership gathers the 25 countries of EU and Morocco, Algeria, Tunisia, Egypt, Israël, Jordane, Lebanon, Syria, the Palestinian Authority and Turkey.

[1] « Regional Forum on Investment on the South shore of the Mediterranean and the Middle East », Cairo-Egypt, 28-29 November 2005.

Source : http://www.exporter.gouv.fr/exporter/Pages.aspx?iddoc=115&pex=1-2-40-115

The European Investment Bank (EIB) allocated 4,808 Bn € in 1995-1999 ; 6, 5 Bn € in 2000-2006 ; the credit policy covers three areas : developing the private sector and reinforcing the local financial sector ; creating basic infrastructures ; supporting projects with regional scope. The Euro-Mediterranean Facility for Investment and Partnership (FEMIP) created in 2002 aims at promoting investments in favour of the private sector. On the macro-economic level, the Foreign Direct Investment (FDI) is the major factor allowing to decrease unemployment, to facilitate trade and reach the target growth rate.

In October 2003, the Working Party on Euro-Mediterranean Industrial Co-operation of the European Commission, gathered in Rome, approved action lines articulated around improving the administration and regulatory context in which enterprises operate, industrial modernisation, innovation promotion, improving SME access to financing and developing the entrepreneurship spirit.

In the same context, other initiatives are launched by Middle East and African countries (or MENA[2]). The most recent one, entitled « initiative on Governance and Investment for Development"[3], attempted to promote wide reforms to support the investment environment, modernise governance structures, reinforce regional and international partnerships and promote a sustained economic growth in the MENA region.

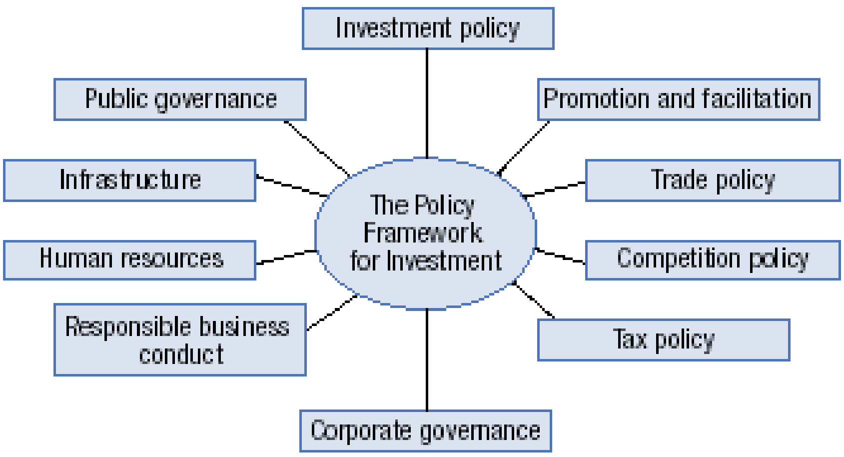
Another approach is the one adopted by employer confederations. It consists in strengthening their member enterprise competitiveness level through coordination with their Mediterranean counterparts. The VIth Euro-Mediterranean Business Summit (UNICE[4] and UMCE[5]) was focused on the importance of co-operation in the area of

[2] Initials of the Middle East and North Africa.
[3] Cf. OECD Document : http://www.oecd.org/pages/0,2966,en_34645207_34645535_1_1_1_1_1,00.html#Investment
[4] Union of the Confederations of Industry and Employers of Europe.
[5] Union of Mediterranean Confederations of Enterprises.

enterprise policy[6]. The Summit final Declaration was addressed to the government officials, gathered in Barcelona on November 27 and 28 2005 to celebrate the 10th Anniversary of the Euro-Mediterranean Partnership.

Commercial and economic integration needs cannot occur without a dialogue between professional associations and the public authorities. The data collected contributes to enriching the existing debate on the possibilities of improving the business and investment environment in the Mediterranean region. The paper approach aims to be useful to the critical follow up of the existing reforms whose interpretation should help to suggest adapted solutions according to international standards. We may, then, follow the example of the framework suggested by OECD in this field.

Graph 1. OECD ten main criteria for improving investment policy



The framework for investment policies assumes that the countries' needs in terms of different development levels call for a flexible and less prescriptive approach. All depends on the institutional organisation in each country.

[6] « Co-operation of Euro-Mediterranean enterprises in the promotion of joint investments and in technological and industrial co-operation » (Work document), VIth Euro-Mediterranean Business Summit, Valencia, 23 November 2005.

Some investment policies may be transferred to any kind of institutional organisation. Competition and transparency policies, market laws, intellectual property protection, etc. are all principles applicable to all the countries. However, they will take different forms according to the existing institutional organisation. In other words, a reform that is successful in a given country cannot be fully successful in another country without being adapted. Some arrangements, applied textually, may sometimes be successful.

As far as Mediterranean countries are concerned, regional integration is also a crucial factor, when the market size presents an important element and a profitability factor for FDI. This regional perspective does not only thoroughly change the perception of the investment environment in each country, but it also imposes a global approach for the region as a whole. The infrastructure and transport networks, for instance, call imagining new solutions.

The present paper will be devoted to making the diagnosis of the whole region. This will help to stress the urgent reforms to improve FDIs in the Mediterranean region, as well as identifying the role of the main actors on both shores of the Mediterranean. Accordingly, the present study will include three parts. In a first step, we will overview the situation concerning FDI and the current trends for the whole region. The second part will be devoted to a regional diagnosis to identify the means to implement by the countries involved. The third part highlights the importance of regional co-operation, particularly through multilateral agreements, to improve competitiveness in the region. The analysis should lead us to suggest some recommendations in terms of regional reforms.

I) A regional situation that calls for urgent reforms

Prior to overviewing the vast array of possibilities of improving the investment environment and highlighting the possible recommendations, we should remind the regional Euro-Mediterranean context in which the governments are to act.

1) Economic and political context of FDI in the Mediterranean region

FDI represent an investment in production installations, and it is, hence, a lot more crucial for developing countries. Regional integration within the Mediterranean region relies, for a large part, on the scope of the efforts made in this area. FDI does not only increase the available capitals and capital formation, but it is also, most particularly, a channel for transfering production technologies, competences, innovation capacities organisation and management practices, and it offers to local installations access to international marketing networks. Assessing FDI progress may show the degree of attractiveness of the region. This will also help to identify what is to be corrected, mainly through improving the investment environment.

a) Assessment of the situation concerning FDI in the region: towards a reversal of the situation

During the last ten years, the Mediterranean region has known huge transformations in terms of FDI. In the 1990s, the majority of South Mediterranean markets suffered from the small size of their domestic markets and from the still high barriers to foreign firm entrance. A survey was carried out in 1996 by the « Foreign Investment Advisory Services »[7], a joint service of the World Bank and the International Financial Company, relating to attracting FDI towards South Mediterranean countries. The results of this survey were clear, only Turkey seemed to appeal to big investors. The other countries around the Mediterranean Basin were in a bad situation compared to countries from Central and Eastern Europe (PECO) and from Asia.

[7] This survey is extracted from the article of C. A. Michalet, December 1997, pp. 44-51.

Table 1. Progress of MEDA share from 2002 to 2004

Number of FDI projects	Central and Eastern Europe		MEDA-12	
	Projects[8]	PECO share	Projects	MEDA share
in 2002*	420	72%	167	28%
in 2003	451	62%	275	38%
in 2004	505	56%	400	44%

* For MEDA, estimation based on the average amount 2003.

Source : Stéphane Jaffrin and Bénédict de Saint-Laurent (ANIMA), « Foreign Direct Investments (FDI) in MEDA region in 2004 », *Invest in the Mediterranean*, N° 15, January 2005, p. 10.

A reversal of situation seems to occur in favour of the Mediterranean. Foreign investors announced 686 projects in some ten countries (Algeria, Egypt, Israël, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey) for 44 billion dollars, twice more than in 2004. From now on, this part of the world competes with PECO. In 2002, the Mediterranean represented only 28% of all the projects in these two parts of the world, while PECO countries had 72%. The Mediterranean region attracts only 1,5% of FDI from the European Union. In 2005, the Mediterranean countries had 46% of the total number of projects[9].

However, the distribution is not equitable between the countries and the sectors. Indeed, during 1997-2003, 75% of FDIs in the region were focused mainly on four countries: Egypt, Israël, Morocco and Turkey. Furthermore, FDI flows in these countries show an irregular conducts revealing the impact of the big investment projects realised during specific years in the framework of the privatisation process.

b) Investment distribution remains unequal

[8] AFII Observatory (French Agency for International Investments) involving some thirty European countries.

[9] ANIMA (Euro-Mediterranean Network of Investment Promotion Agencies) Report, World Investment Conference, La Baule, 6-8 June 2006.

If, in 2005, Algeria ranks fourth in MEDA region[10] in terms of foreign direct investment use[11], it is probably the effect of the increase in energy prices. This country attracted 93 FDI projects in 2005 against only 59 in 2004 according to Chinese surveys (xinhua)[12]. Algeria is a promising equipment market, with its rich energy resources and its infrastructure projects. However, this sectordoes not rank first, precisely with the emergence of capitals from some Gulf countries to be invested in the real estate and tourism[13].

Turkey takes the lead thanks to its telecommunications sector, followed by Egypt, with important projects in areas related to energy, banking and real estate, and Israël which attracts many investors in terms of technologies, according to MIPO report. We can also notice that the most important projects are attracted by the largest countries. The project average found out by MIPO is an investment of 57 millions euros (an average over three years). This average varies from one country to another. The largest part of big projects go to Turkey, Egypt and Algeria.

Table 2. Size of project according to receiving country, 2003-2005 (in million euros)

Receiving country	Less than 50 million euros	50 to 100 million euros	100 to 500 million euros	Over 500 million euros	Total
Algeria	62%	8%	24%	6%	100%
Cyprus	67%	0%	33%	0%	100%
Egypt	44%	14%	33%	9%	100%
Israël	66%	13%	15%	5%	100%
Jordan	58%	8%	30%	5%	100%
Lebanon	46%	27%	23%	4%	100%
Malta	100%	0%	0%	0%	100%
Morocco	760%	7%	14%	3%	100%
Palestinian Authority	75%	25%	0%	0%	100%

[10] MEDA gathers ten countries from South Mediterranean region : Algeria, the Palestinian Authorities, Egypt, Israël, Jordan, Lebanon, Morocco, Tunisia, Syria Turkey.
[11] Report of the Mediterranean Observatory for investment promotion (MIPO), June 2006.
[12] ANIMA Media Report, June 2006.
[13] Investors from Saudi Arabia, Kuweit and Egypt took half FDIs in Algeria, according to Oxford Business Group.

Syria	63%	13%	17%	7%	100%
Tunisia	84%	9%	7%	0%	100%
Turkey	52%	11%	22%	14%	100%
Palestinian Authority	64%	11%	19%	6%	100%

Source: ANIMA, *Foreign Direct Investment (FDI) in the MEDA Region in 2005, Notes and Studies n° 20*, Mai 2006, p. 32.

This table shows, at least in part, FDI structure in the region. Indeed, there are many Euro-Mediterranean projects in « soft » areas (culture, tourism, patrimony, etc.). The economic « hard » side is, in contrast, often neglected, particularly the micro-economy (the field of the enterprises and projects). Appendix 2 shows the progress (in number of projects) of investments in the Mediterranean area by sector from 2003 to 2005.

Most of the investments surveyed are in banking and trade (93 projects), energy (84), tourism (67), real estate and transport (56) and information technologies (49). In financial terms, the telecommunication sector outpasses energy: 12,6 billion dollars against 7,5 billion; banking : 5,4 billion; tourism: 2,6 and real estate: 2,1 billion.

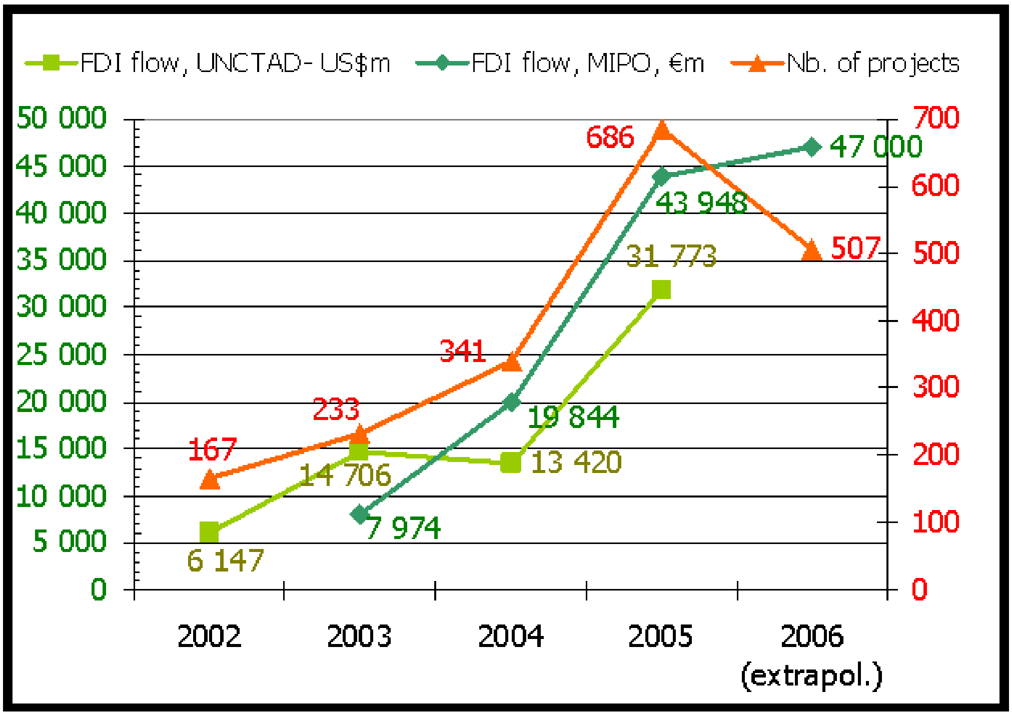
Table 3. Foreign Direct Investments in the Mediterranean region in 2005

Country	Amount in billion euros	Number of projects
Turkey	16,89	73
Egypt	8,92	101
Israël	5,92	94
Algeria	3,49	93
Syria	2,98	40
Morocco	2,43	118
Jordan	1,24	46
Tunisia	1,00	78
Lebanon	0,73	26
Cyprus	0,41	7

Source : « Les échos » June 9th 2006, according to ANIMA.

On the whole, foreign direct investment in all the region are increasing rapidly since 2002 before falling slightly in 2006.

Graph 2. Evolution of Foreign direct investment from 2002 to 2006



Source : Fabrice Hatem, « Investment environment in MEDA countries », ANIMA, *Mediterranean Economic Rendez-vous*, 2006.

To sum up, the Mediterranean area is increasing its FDI market share, in terms of number of projects and also in terms of financial flows. However, despite the region attractiveness, real flows remain very low. Efforts must be made to attract more foreign investors.

3) Advantage of regional integration

With its 240 million inhabitants, the Southern shore of the Mediterranean is an opportunity for Europe. The few million jobs to be created are also consumers, likely to take over a saturating European consumption With the enlargement of the European Union towards the East, the « Pan-euro-med » market will gather no less than 40 countries and about 800 million consumers[14]. The future is then in favour of Mediterranean regional development :

> *« Investors and enterprises argue with economic fundamentals : a young population, eager to start business and is close to European standards ; some evident proximity advantages ; some of the most profitable projects in the world, a productive, flexible and talented labour force ; finally great efforts to improve investment environment »*[15]

South Mediterranean countries have an important role to play with Europe, mainly in terms of image. It is then important to launch the bases of a sustainable co-operation between both shores of the Mediterranean. To do so, tools and strategies to attract FDI are needed and to create a durable inter-country network (North-South and South-South). At this stage, some common integration policies need be implemented. Some recommendations[16] by ANIMA Network may be the start of a wide debate in this concern:

- Change the huge imbalances into complementarities. There is no doubt, the Mediterranean South shore is no important to Europe. It is a small player in terms of trade, exchange, investments, partnership (5% of world volumes). On the contrary, Erope has a huge weight for MEDA in terms of outlets, supplier and investor. This is why bridging the gap is very important through implementing funds to catch up the delay.

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[14] «The Conference and investment opportunities in MEDA region », *Euro-Mediterranean Business Summit 2005*, Marseille 13 et 14 january 2005.

[15] Stéphane Jaffrin et Bénédict de Saint-Laurent (ANIMA), « Foreign direct investments (FDI) in MEDA region in 2004 », *Invest in the Mediterranean*, Issue 15, January 2005, p. 12.

[16] Bénédict de Saint-Laurent (ANIMA), Evaluation and perspectives for Euro-Mediterranean co-operation concerning investment, Marseille, 11 october 2005.

- Encourage common regional political reform initiatives. Even though a Euro-Mediterranean co-enterprise is still to be invented, any form of North-South inter-enterprise co-ordination initiative should be encouraged by the European Commission. A European fund is needed in this case. Inter-enterprise co-ordination, whatsoever the form, presents two important advantages: for European enterprises, benefit of the comparative advantage offered by cheap and qualified labour force; for South Mediterranean countries, this may create links able to improve the investment environment and facilitate future FDIs.

- Bet on industrial co-operation by sector: This needs implementing promotion policies and target prospection with the different international actors in the involved branch. Their role is to highlight national potentials, as well as all the region. Such co-operation also needs different forms of partnerships. Hence, the importance of implementing a « Mediterranean Industrial Partnership »[17].

In order to implement this network and because of the specifics in each country, we should create a network spirit in each country. Reinforcing networks in each country, means providing the essential elements so that each national network could be at the same time operational and open[18].

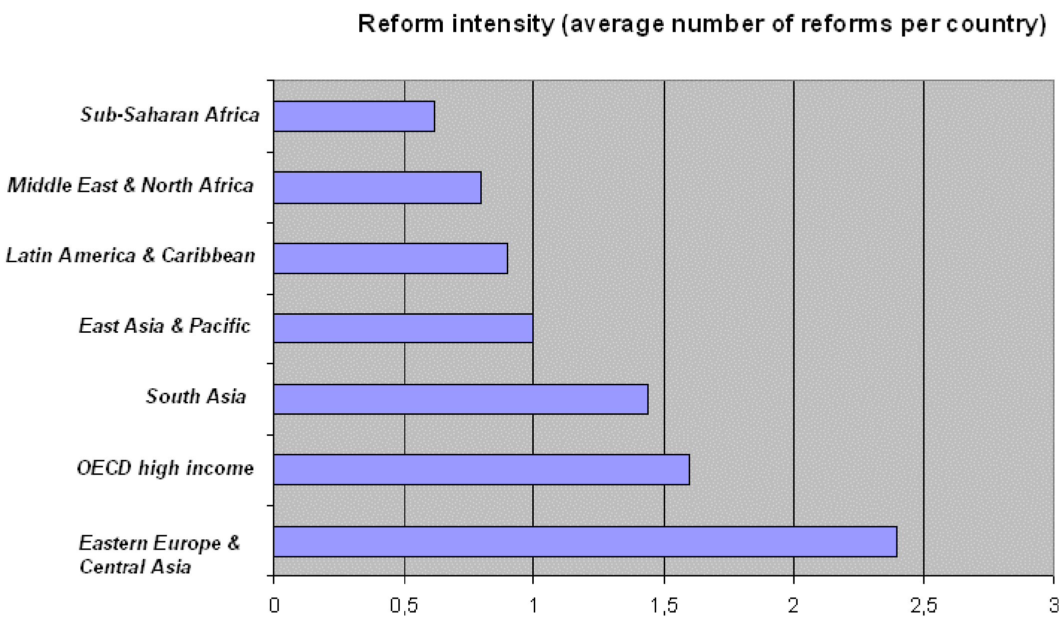
[17] Presentation by Pier-Luigi D'Agata, Director general - Assafrica & Mediterraneo – Confindustria, TC 2 Meeting, Cairo, 11 september 2006.

[18] Mohamed Sassi (UMCE), « Conclusion », CT 2 meeting, Cairo 11 september 2006.

2) Urgent reforms are needed for MEDA member countries

Improving the investment environment is the key to durable growth, job creation and poverty eradication. Indeed, a better investment environment coincides with a better income level[19]. However, reforms seem very sluggish. OECD data prove that:

Graph 2.



Source : *Doing Business 2006.*

As shown in the graph, the Mediterranean region including « the Middle East and East and North Africa » (with Sub-Saharan Africa) has undergone fewer reforms compared to the rest of the world.

A comparison between 175 countries, realised by the OECD[20], shows a drastic delay for Mediterranean countries in terms of creating a favourable environment for

[19] Ümit İzmen, « An Assessment of the Investment Reform Programs in the World and Turkey », CT 2 Meeting, Cairo, 12 September 2006.

enterprise creation. Ranking concerning the « Facility of doing business » is the average as many rankings of the countries according to the framework established by OECD. This ranking of the countries is the result of a comparison dated April 2006. 2006 ranking is in italics, as presented in its original document.

Table 3. Ranking of Mediterranean countries concerning « Facility of doing business »

Country	Amount in billion euros	Number of projects
Israël	*26*	26
Jordan	*73*	78
Tunisia	*77*	80
Lebanon	*87*	86
Turkey	*84*	91
Morocco	*117*	115
Algeria	*123*	116
Syria	*135*	130
Egypt	*165*	165

Source : *Doing Business 2007*

These alarming results call for acceleration in the reform process by country, but also for the region as a whole. We can approach the situation in the Mediterranean through two types of constraints: the internal constraints, upon which governments can act more easily, and those depending on the international and geo-political context (i.e. Euro-Mediterranean) which calls for tighter regional co-operation.

II) Means to be deployed by each country

The means to be deployed by the Mediterranean countries in order to attract FDIs ar dependent on their capacity to create value added for the investment environment. The governments have to optimise their countries' capacities to add value to their own assets.

[20] *Doing Business 2007.*

1) FDIs in the Mediterranean zone: governmental reforms

The investment environment takes into consideration the economic performance, the proximity and access to markets, human qualification competitiveness, booming infrastructure, favourable legal framework and tax incentives, investment opportunities, key numbers, foreign investment. The list can be longer depending on the sector or the quality of the service offered. Using the SWOT method[21] in our analysis offers a clear framework of strngths and weaknesses as well as opportunities and threats for MEDA region:

Table 4. Diagnosis of MEDA region applying SWOT method

Strengths	**Weaknesses**
- Political stability - Geographical proximity with Europe - Efforts towards democracy - Cheap and available labour - Success stories of many foreign investors - Quality approches in progress (ISO, *zero defect, just in time*, etc.) - Use of the European Comunity languages (French, English, etc.)	- Transparency and governance - Legal procedure slowness - Insufficient infrastructures in some countries - Sometimes complicated tax systems - Difficult social dialogue and exclusion of some social categories - Lack of co-operation spirit in some countries. - Difficulté de dialogue social et exclusion de certaines catégories sociales
Opportunities	**Threats**
- Critical size of local markets (4 countries) - Long co-operation with EU client (ex. textile, software, tourism, petrol and mining, etc.) - Emergence of new activities (electronics, services, call centers, data processing) - The European trend to re-localise - Return of emigrated communities - Competition between US and EC in the MEDA region	- Competition from East European countries and Asia - Poor positioning - Poorly perceived differentiation (most countries) - Lack of regional integration and economic co-operation - The importance of the Israël-Palestine conflict on the region of the Middle East and on market opening reforms

Source : Adapted from Fabrice Hatem, « Investment Climate in the MEDA region », ANIMA, *Mediterranean economic Rendez-vous*, 2006.

[21] Acronym of Strengths, Weaknesses, Opportunities and Threats.

The analysis using SWOT method provides a methodological framework to diagnose the situation of investment climate in the region and in each country. It, moreover, helps to distinguish between what is internal (Strengths and weaknesses) and what is external (Opportunities and risks). This helps to better identify the roles.

On the other hand, we may underline the fact that business development faces a lot more regulatory constraints in poor countries than in richer countries (three times in terms of cost and twice in terms of time). As a consequence, the internal constraints, met in the poorer Mediterranean countries, are of two types.

However, business development faces a lot more regulatory constraints in poor countries than in rich ones (three times in terms of cost and twice in terms of time). The consequence is that the internal constraints, met by less rich Mediterranean countries, are of two types.

a) Typology of internal constraints

There are two types of internal constraints:

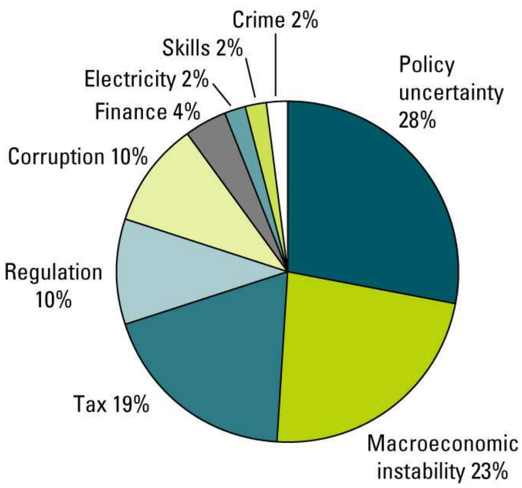
- Constraints related to the « market factor » with, in the first place, loans and real estate, followed by the lack of qualified labour, the bad infrastructure and the lack of reliable economic information.

- Constraints related to governance, market institutions and issues related to the economic policy (those particularly related to competition promotion), political instability, corruption, and the administrative procedures, tax administration and the juridical system.

b) Acting on the internal constraints is a priority

The key constraints (jobs, regulation, infrastructure, taxation, financing, security and stability, etc.) vary depending on and through the countries. However, *policy-related risks* present a major concern for enterprises in economies in transition.

Graph 3. The share of governance criteria in improving the investment environment



Source: IC Surveys; WDR methodology.

Raising policy predictability alone increases investment probability by over 30%. Twenty five out of OECD twenty seven countries have a clear programme for decreasing the administrative barriers (or constraints) imposed by the government. The obtrusive regulations hinder the enterprise development and the attraction of foreign capitals and they give birth to an underground economy.

2) Evaluation criteria of the investment climate

In this part, we will examine several criteria that help to evaluate the facility of doing business in Mediterranean countries in order to situate the region as a whole through the comparative approach. Because of the countries' diversity in the region, we can only mention some key criteria for the evaluation of investment environment in Mediterranean countries.

a- Enterprise creation and liquidation

This crucial criterion identifies the regulatory obstacles an entrepreneur must overcome to incorporate and register a new enterprise. The table below, taken from OECD studies, examines the procedures, time and cost needed to launch a commercial or industrial activity with more than 50 employees.

Table 6. Launching a business in some Mediterranean countries compared with other regions in the world

Region or Economy	Procedures (number)	Duration (days)	Cost (% GNP per head)	Capital Min. (% GNP per head)
Europe & Central Asia	9.4	32.0	14.1	53.9
Latin America & the Carrebean	10.2	73.3	48.1	18.1
Middle-East & North Africa	**10.3**	**40.9**	**74.5**	**744.5**
OECD	6.2	16.6	5.3	36.1
South Asia	7.9	32.5	46.6	0.8
Algeria	14	24	21.5	46.0
Egypt	10	19	68.8	694.7
Israël	5	34	5.1	0.0
Morocco	6	12	12.7	66.7
Syria	12	43	21.1	4,233.5
Tunisia	10	11	9.3	28.3
Turkey	8	9	26.8	18.7
Palestinian Authority	12	93	324.7	1,889.6

Source : *Doing Business 2007*

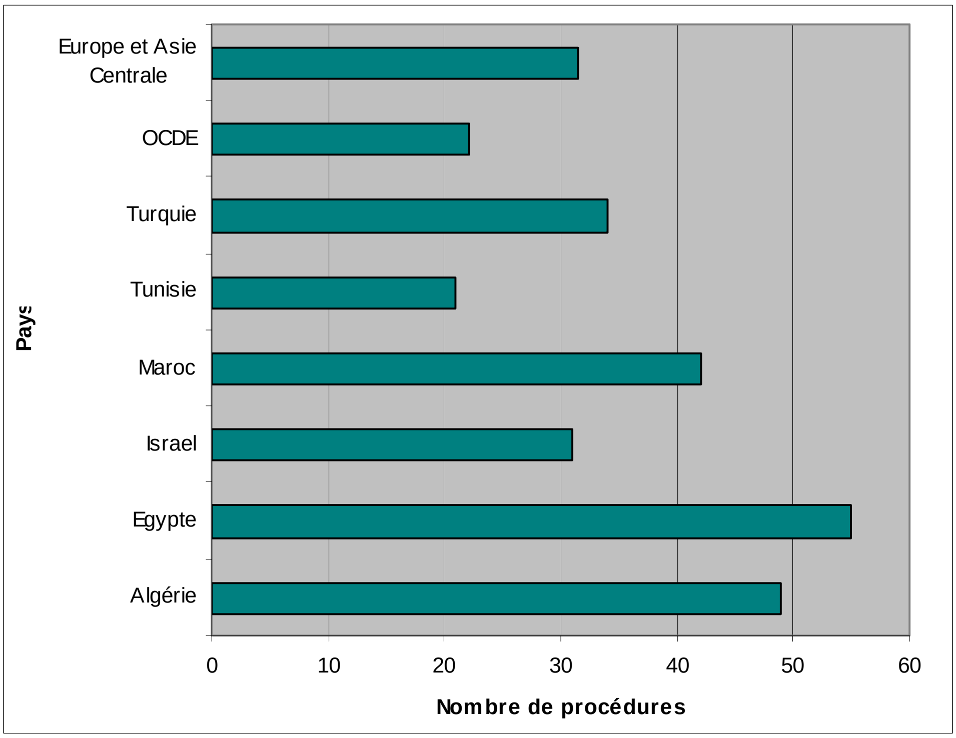
We note in this table the good ranking of Israël compared to other Mediterranean countries, concerning the number of procedures (only 5) as well as the cost in percentage of the gross national revenue (GNR or GNP) per head. But we should also highlight the efforts of Tunisia in this field in relation to the different criteria. Tunisia has a limited number of days (11) and it also reduced the installation cost (9,3%) in relation to GNR or GNP per head. There are still efforts to be made at the cost level.

The difficulties to create and liquidate a business, added to the high costs met by the entrepreneurs, contribute to developing the informal economy. Hence, in MPC, informal economy represents about 30% of gross revenue, over the 22% of Spain and the 17% average in OECD countries.

b- Enforcing Contracts

This criterion helps to evaluate the efficiency in contract enforcement by following the progress in a conflict in a sale of merchandise. It deals with evaluating the duration, cost and number of procedures involved from the time when the plaintiff starts a lawsuit until today. The Mediterranean countries have different levels concerning administration or juridical efficiency. Among these countries, Tunisia ranks first with a number of procedures reduced to 14. Egypt, on the contrary, has a long way to go with 55 procedures.

Graph 4. Contract enforcement (number of procedures)



Source : *Doing Business 2007*

In general, the number of procedures in all Mediterranean countries is high compared to the OECD average.

c- Recruiting workers

Many criteria are used to evaluate work regulation flexibility. The study « *Doing Business* » of the World Bank examines the difficulties to hire a new worker, the rigidity of the regulations concerning working hour extension, the costs of recruiting a worker besides payment, and the difficulties and cost involved when firing a worker.

Job rigidity on the South Mediterranean shore, i.e. the combined indicators of recruitment and dismissal difficulty, is among the highest, compared to European and international standards. This leads to massive use of sub-contracting, such as explained in a report on Morocco[22]. Indeed, to fend off job rigidity, about one third of the enterprises sub-contract a part of their production. Sub-contracting is often used as a solution to dismissal restrictions, according to rapporteurs, and corresponds to specific qualification needs.

Graph 5. Informal market in some Mediterranean countries
(in % of GDP)

Source : *World Bank*

The level of the informal market is higher than the international average of the 110 countries object of their sector study. The issue of recruitment is due to structural problems, dealing with the organisation of industrial activities and vertical and horizontal integration.

d- Protection of Investors: improving enterprise governance

One of the main criteria to attract FDI is governance. In terms of attracting foreign investments, governance means providing investors with reliable instruments to settle conflicts. One of the main parameters to attract FDI is governance. The main organisational, political and economic dysfunctions, observed in most South-Mediterranean countries, are due to a lack of reflection on the methods of improving

[22] Report of February 14th 2006.

governance. This latter calls for the implementation of a predictable and transparent regulatory framework, the prevailing of right and political and social stability present other elements that are necessary for the creation of an environment favourable to FDI in the region.

In Egypt, some concrete measures were introduced by GAFI aiming to improve enterprise governance. An internal control committee was implemented in insurance and re-insurance companies to guarantee a governance level to European standards[23]. The Egyptian reforms, together with the implementation of an appropriate « Guide for enterprise governance », could present a good example for the other Mediterranean countries. This guide tries to define a minimum protection and a balance in interests.

The example of Turkey is still more striking with the implementation of YOIKK[24], a structure including a specialised Technical Committee of 9 people. YOIKK is under direct State supervision (State Minister in charge of the Treasury), and it is responsible for the execution of its own reform programmes. Its main mission is to:

1. implement and supervise the various reform initiatives introduced by the Technical Committee ;
2. set priorities ;
3. plan and set deadlines.

The latest reforms in April 2005 implemented YOIKK Steering Committee to increase efficiency. This latter involves high level executives from six Ministries and government associations, and from the four main employer confederations in the country. This committee is working on various issues such as regulatory projects and the requisites to improve investment environment.

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[23] Walaa El Hussieny (GAFI), « Investment Climate in Egypt, « a New Investment Suit » », CT 2 Meeting, Cairo, September 12th 2006.
[24] Ümit İzmen (TUSIAD), « An Assessment of the Investment Reform Programs in the World and Turkey », CT 2 Meeting, Cairo, September 12th 2006.

Reducing the obstacles related to enterprise creation and liquidation, to sluggishness in contract enforcement is not necessarily subject to the legal instrument. A successful reform takes into consideration the way how a procedure may be applied, as shown in this box:

Box 2. The four steps in a successful reform

- Start simple, then think of reforming the administration procedures first, without amending any law.
- Eliminate useless procedures, which will reduce the number of bureaucrats the entrepreneur will have to deal with.
- Create standard application forms, and publish as much information as possible on the new regulation.
- Finally, bear in mind that all the difficulties facing enterprises are simply due to the way in which the regulation is applied. The Internet helps to eliminate some of these difficulties, without changing any small detail in the regulation spirit.

Source : *Doing Business 2007, How to reform ?*

The reforms alone cannot resolve the problem of FDI attraction. The Mediterranean region is particularly varied and has real imbalance between the countries. There is a ferocious competition facing the less well-off countries in the region, mainly in vulnerable sectors such as textile and clothing.

III) Regional co-operation as a vector for better competitiveness in the entire region

Regional co-operation is not devoid of constraints. But reform solutions need Euro-med dialogue and more European involvement.

2) The example of textile as a vulnerable sector

The enforcement of the Multi-fiber Agreement and, the end of quotas imposing limitations on Chinese textile production have had a drastic effect on the branches in Mediterranean countries producing textile, most particularly Turkey, Tunisia and Morocco. Indeed, the arrival of Chinese products in the European market occurred first at the expense of these countries. In Morocco, an unofficial evaluation mentions 75.000 jobs eliminated from many units closed down. The figure is less important in Tunisia with 50.000 jobs affected and units in redundancy. The problem also affects Egypt, Syria and in a lesser degree and in recent years Jordan.

In these countries, the textile and clothing industry is the main industrial employer, as it involves 30 to 50% of jobs (mainly female). This sector represents between 20 and 50% of exports. We can add the case of Turkey to these countries. Turkey is by far the most important textile producer in the Mediterranean region. According to estimates, 2,5 million workers are active in this sector in Turkey, a figure which is five times higher than official statistics. The importance of the textile sector for the region results from the fact that it presents alone 50% of exports of manufactured products from the MEDA region towards EU.

Harmed by Chinese competition, the Mediterranean textile producers appealed to the European Union (EU) through association agreements signed in 1995. If Europe agreed to some actions, disappointment is present among the area textile operators. They blame EU to have have abandoned them and their case is the main argument of those who criticise the Euro-Mediterranean process (called Barcelona Process).

3) Priority to the bilateral : a trend to invert

The progress in bilateral relations (10% only of MEDA programme means are devoted to the multilateral)[25], particularly with Asian countries such as Malaysia or Indonesia, the agreements signed with these States will have a more negative impact on the Mediterranean region. Southern countries, for example the Maghreb, do have their share of responsibility through a lack of regional integration in which attracting the right amount of projects in the market may be very costly. However, there is a clear lack of

[25] Bénédict de Saint-Laurent, « Giving a new impetus to Euro-Mediterranean co-operation concerning investments », French Agency for International Investments, March 2003.

reciprocity and symmetry in the current EC relations with the various components of the region.

Industrialists in the Mediterranean countries welcomed the Pan Euro-Mediterranean cumulation of rules of origin by the European Commission in October 2005. The cumulation of rules of origin in an instrument enabling goods can be found and manufactured in a number of countries, and keeping for the finished product the advantage of preferential tariff treatment when accessing EU.

This system has been applied successfully since 1997 between EU, EFTA[26] and PECO, then since 1999 with Turkey. For instance clothing Moroccan or Tunisian manufacturers may buy the cloth in Turkey and export the clothes to the European community with the benefit of preferential customs duties. Moreover, these clothes may be re-exported from the community to Switzerland or any other participating country, which will apply a preferential tariff regime. “Cumulating” will be effective between the countries and between those who signed the Free Trade Agreement with EU and EFTA.

The new regulation will lead to the creation of a free trade area between EU and 16 trade partners (Algeria, Bulgaria, Cisjordanie and Gaza Strip, Egypt, Féroé Isles, Iceland, Israël, Jordan, Lebanon, Morocco, Norway, Roumania, Switzerland, Syria, Tunisia and Turkey). These partner countries will have to take the necessary measures to introduce the new protocole on the rules of origin in order to harmonise them, and to, accordingly, expand the system Pan-Euro rules of origin to Mediterranean countries.

Some southern Mediterranean countries suggested that the existing « Made in Europe » should be replaced by « Made in Euromed ». This labelling, to be developed in all the Euro-Mediterranean area, will contribute to identify an identity for the textile product *Made in Euromed*. Equal treatment calls for defining this identity. This will help to avoid the fatal consequence of illegal competition and to reinforce the rules of ethical trade and to impose more respect of minimum social conditions for workers.

[26] Euro-med Free Trade Association

CONCLUSION

To conclude, we will attempt to formulate some recommendations in terms of regional reforms. Improving the region attractiveness to these operators calls for action on many plans in order to progress towards regional integration. This role must be assumed by both the Mediterranean governments and the European Commission.

1) Role of the European Union

a – Because of the specifics of each country and relating to twinning objectives, networks between SMEs and Investment Promotion Agencies must be strengthened in each country so as to implement a « Mediterranean Industrial Partnership Network ».

b – The creation of a European structural fund for the region : to be able to implement and achieve targeted reforms concerning investment in Mediterranean countries.

It is important to underline the fact that Euro-med partnership di not have any impact on FDI. Indeed, European direct investments go massively in priority to other emerging countries instead of the Mediterranean area. In 2003, the increase in investment was limited to 1,7 while they increased by 3,7% in South East Asia and by 5,09% in South America. This is not fatal, if a European Structural Fund is mobilised to this end. Thre is a need for, particularly, implementing the necessary financial instruments for:

- Support and incentives. They may be oriented towards enhancing mergers and acquisitions, technology transfer between Euro-med countries.

- a special arrangement for a Euro-med regional initiative, mainly in vulnerable labour-intensive sectors such as the textile and clothing.

Creating a European structural fund for the region: the European Commission and the European Investment Bank (EIB) have great experience concerning assisting the private sector in implementing reforms affecting the investment environment. A fund to reinforce local networks could be implemented.

c – Concerning vulnerable sectors, special arrangements could be opted for to provide technical assistance to Mediterranean countries in order to be able to elaborate special strategies for development.

2) Role of governments in Mediterranean countries

a) Implement structural reforms related to the improvement of the political, economic and juridical environment as well as administrative capacities. This calls for regulation simplification in order to reinforce competitiveness and reduce the attractiveness of informal economy.

b) Promote policies to develop the financial sector and the enterprises :

- implement a fiscal framework as well as incentives which enhances investments,
- Improve enterprise governance,
- implement structural measures supporting Venture Capital Funds,
- reinforce competition policy,
- simplify and improve technical and customs standards and sectoral licenses,
- facilitate and speed up enterprise creation,
- modernise the banking system, develp capital market institutions,
- protect intellectual property,
- privatise, etc…

c) Establish commercial integrity and fight corruption and parallel economy ;

d) Act in favour of the implementation of mechanisms that enhance public-private dialogue so as to accelerate micro-economic reform programmes. Hence, it is important to proceed to a restructuring that leads to the creation and reinforcement of powerful national and regional networks such as Investment Consultative Council.