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*Real Academia de Ciencias Económicas y Financieras*

# **COMPLEJIDAD ECONÓMICA: UNA PENÍNSULA IBÉRICA MÁS UNIDA PARA UNA EUROPA MÁS FUERTE**

**SOLEMNE ACTO ACADÉMICO CONJUNTO  
ENTRE LA UNIVERSIDAD DE BEIRA INTERIOR – PORTUGAL  
Y LA REAL ACADEMIA DE CIENCIAS ECONÓMICAS Y  
FINANCIERAS DE ESPAÑA**

*Portugal, 19 de junio de 2019*





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Real Academia de Ciencias Económicas y Financieras de España

19 de junio de 2019

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# COMPLEXITY OF THE POLICIES OF THE MEDITERRANEAN OF REGIONS

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## ABSTRACT

Complexity is a key characteristic of the Mediterranean. This is the result of a remarkable and probably unmatched stratification of histories: of civilisations, people and even individuals. However, such complexity is not always reflected in the dominant narratives of human and economic geography in the Mediterranean. The Mediterranean is one of the most complex areas in the world. It is severed into different sub-regions. Most of these sub-regions, in turn, suffer of an internal divide that imperils their possibility to generate inclusive and sustainable growth. There are different forces at play that negatively affects the creation of a more connected Mediterranean area. Among others are the lack of collective goods and common identities. The OECD place- based approach could be a tool to deal more effectively with some of these challenges.

**KEYWORDS:** Complexity, Development, Growth.

**JEL code:** O1, O18, O21

*Events are the ephemera of history; they pass across its stage like fireflies, hardly glimpsed before they settle back into darkness and as often as not into oblivion. Every event, however brief, has to be sure a contribution to make, lights up some dark corner or even some wide vista of history.*

*Fernand Braudel, The Mediterranean*

The Mediterranean is one of the most complex areas in the world. It is severed into different sub- regions. Most of these sub-regions, in turn, suffer of an internal divide that imperils their possibility to generate inclusive and sustainable growth. There are different forces at play that negatively affects the creation of a more connected Mediterranean area. Among others are the lack of collective goods and common identities. The OECD place-based approach could be a tool to deal more effectively with some of these challenges.

The first section of this document provides some information about the Mediterranean area and the main regions that form it. The second illustrates the main challenges, including migration, policy- coherence, and international relations. The third, and last, section introduces the OECD place-based approach and explains how this could help achieving a more interconnected, democratic, and sustainable Mediterranean.

## **THE MEDITERRANEAN BASIN, A JIGSAW OF REGIONS**

Complexity is a key characteristic of the Mediterranean. This is the result of a remarkable and probably unmatched stratification of histories: of civilisations, people and even individuals. However, such complexity is not always reflected in the dominant narratives of human and economic geography in the Mediterranean. These narratives are often based on simplistic dichotomies. For instance, there is a strong narrative which splits the Mediterranean into two parts: the affluent north and the impoverished south.

This narrative opposes the affluent European coast – which displays a good level of institutional stability and welfare for its citizens – to the impoverished Southern coast – which suffers of weak institutions and economies. While powerful in its simplicity, this narrative overlooks the differences existing within regions belonging to the two coasts of the Mediterranean. For instance, the international crisis has caused economic recession in most regions on the European coast. This, in turn, has generated political instability, which may



negatively affect institutions. Conversely, the so-called Arab Spring brought about hope and change in the Southern coast. Although structural socio-economic challenges remain, in some areas citizens are benefitting of more transparency, accountability, and possibility to participate in policy making.

Another popular dichotomy is that between the West and the East of Mediterranean. This dichotomy depends on the historic divide between the “Latin West” and the “Greek East”. It generates a narrative that focuses on the quality of institutions, on the capacity to achieve accountability and transparency in the public sector (*Byzantinism*). Once again, evidence demonstrates that this narrative is not accurate. Several local communities living on the Eastern coast of the Mediterranean have been able to set an efficient public sector.

These narratives based on simplistic dichotomies generate an “us-and-them” idea of the Mediterranean, and fail to achieve a good definition of the area, which is an archipelago of places with different trajectories in terms of economic performance, institutional stability, and – more in general – wellbeing. Most importantly, they impinge upon the possibility to improve connections and linkages in the area, and cultivate isolation and divide. Overcoming narratives based on dichotomies and diversity could be a first step to capitalise on common traits rather than stressing difference and separation.

Taking into account evidence could help achieving a better and more inclusive definition of the Mediterranean. For instance, although there is a lack of territorial statistics for the Middle-East and North-Africa (MENA) region, evidence illustrates the presence of some areas with a good economic potential in the MENA region. Evidence also helps identifying the causes of wide regional disparities existing within this area, which is a first step to set policies to solve them. These disparities depend on a series of factors. A first one is the rural-urban split that features MENA countries. Cities, and especially Capital cities, tend to have a better socio-economic performance than rural areas. This is also reflected by the very high urbanisation rate in MENA: urban share of total population grew from 48% in 1980 to close to 60% in 2000, and it is expected to exceed 70% by 2015 (against an average of 54% for all

developing countries). Another difference is related to proximity to the sea or more specifically to the presence of a port and logistics infrastructure. Coastal zones tend to be better off than internal areas. Another difference is about openness to tourism. Tourist places are more developed than communities with lower attractiveness.

To take full advantage of its potential, the Mediterranean needs to become a more connected place. This would provide several advantages. First, it could be possible to achieve a better allocation of human capital. Currently, several Mediterranean countries suffer of ageing, while others have very high percentage of youth within their overall populace. Second, establishing common interest through trade and enhanced economic integration would enhance democracy, peace and institutional stability. Third, it could be possible to improve the environmental sustainability of the area, and set common strategies to deal with climate change mitigation and adaptation.

## THE CLUSTER ANALYSES OF MEDITERRANEAN AREA

The strong worries expressed in the foreword, regarding the processes of exploitation which could be intensified following the creation of an area of free trade which is not adequately sustained by policies of cohesion, redistribution and sustainability, led us to abandon idealised or even demagogic visions, studying limited territories which may represent in some way **specificity** and which may show the **inherent complexity** of the real context in a progressive journey from the macroscopic towards local communities.

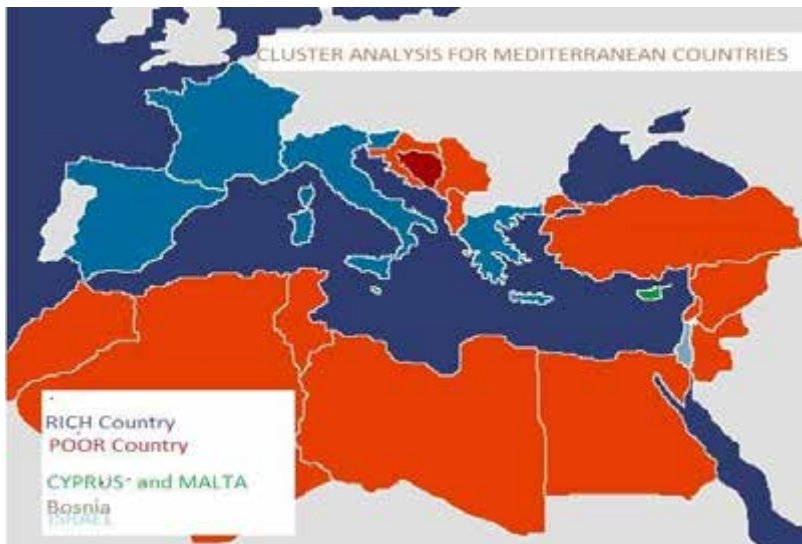
The territorial *atoms* of the analysis are the Nations which border on the Mediterranean. The decomposition of the territories, on each scale of observation, was followed by a new regrouping using an intelligible and scientifically *robust* statistical instrument: cluster analysis. This method makes it possible to study the characteristics of the statistical units by grouping them into clusters which have within them a minimum and maximum «variance»<sup>1</sup> with respect to the other groups which make up the universe of available data<sup>2</sup>.

The indicators considered as identifying coordinates of the socio-economic and cultural conditions of the nations on the coasts of the Mediterranean are as follows:

- Population;
- Annual growth;
- Fertility rate;
- Infant mortality;
- Life expectancy;
- Percentage of doctors per inhabitant;
- Further education and training;
- Internet access;
- Annual growth; Per capita GDP;
- Rate of unemployment;
- Indicator of human development<sup>3</sup>.

The results of the cluster are shown in Figure 1.

**FIG. 1.- Cluster analysis for Mediterranean Countries**



The first cluster includes the countries of the Maghreb, those of the Nile Valley and those of the Balkan peninsula emerging from the experience of the war (apart from the case of Bosnia). These are problematic and complex nations, some of them characterised by strong internal tensions and/or recent involvements in conflicts. In all of them the annual rate of demographic growth is high (apart from Albania), as are fertility and infant mortality rates. The values of all the sociocultural indicators are however extremely low. There are high levels of unemployment, and an extremely low GDP per capita, but high economic annual growth (1990-2000), apart from the case of Serbia (-7%), which however in 2001 grew by 6.2%.

The second cluster is Bosnia, which while being characterised by similar characteristics to those of the Weak Countries, is distinguished by a terrifying unemployment rate of 40% and extremely low GDP per capita.

The third cluster groups together the rich parts of the Mediterranean basin. Characterised by extremely high socio-economic performance, but by demographic *sadness*:

The cluster of the *Rich Countries* is characterised by a GDP per capita which on average (? 20.238) is four times higher than that of the *Weak Countries* and 12 times higher than that of Bosnia. The average unemployment rate (10.6%) in the *Rich Countries* is on average half that in the *Weak Countries* and a quarter that of *Bosnia*. Similar levels of inequality are also seen in the socio-economic indicators. From the demographic point of view, meanwhile, the *Rich Countries* are confirmed as *sad* communities: their annual rate of growth (1995-2000) is 0.18% against 1.44% of the *Weak Countries* and the fertility rate (1995-2000) is 1.33, while it is 2.95 in the *Weak Countries*.

The *Mediterranean islands* represent the fourth cluster. They may be considered *small rich countries* in the heart of the Mediterranean.

Lastly we have Israel, which in the heart of the Weak Countries, inside a framework of strong territorial conflict, has socio-economic performance typical of the rich and predatory countries, but, unlike the latter, also conserves strong demographic trends typical of the countries of the southern Mediterranean.

The cluster analysis so performed quantifies, beyond all rhetoric, the profound inequalities of the area. Alongside the extraordinary plurality of cultures and languages, then, observed on this scale, there exist two Mediterraneans from the socio-economic point of view: one rich, predatory (or potentially predatory), and sad on a demographic level; the other with weak economies, strongly in debt and thus dependent, but with higher growth, and more fertile from a demographic point of view. We are faced with an unintegrated Mediterranean, far from the critical threshold beyond which it is possible to develop reciprocal economic and social relationships, able to produce overall advantages from integration. We are also faced with a Mediterranean whose demographic imbalance is destined to change both the geographic distribution and the age structure of its populations (G. Signorino, *Mesogea* – 2002).

## THE KEY CHALLENGES

The key, and interconnected, challenges that need to be address to promote inclusive and sustainable growth in the Mediterranean can be organised in three basic categories.

### *a. People – migration, democracy, peace*

A general challenge is the lack of a common identity which affects solidarity. Due to the powerful narratives based on simplistic dichotomies, people in the Mediterranean tend to think in a narrow “us- and-them” fashion. The “rich” (or the former rich) feel threatened by the wave of “poor” migrants, despite these people do not migrate for economic reasons, but to escape war or civil strife. Frontex (2013), for instance, estimates that illegal border crossing on the Central Mediterranean route was 39 800 in 2008. This figure

dropped to only 4 500 in 2010 due to the economic crisis. The situations in Tunisia, Libya and Syria generated a spike in the following years (64 000 in 2011 and 31 000 in 2013).

Migrant integration is a key challenge that needs to be addressed by specific, realistic, and shared policy strategies. A first step is to identify the rationale of migration and tailor policy interventions to the different situations. A second one is to accept diversity as a feature of modern society. Diversity is an outcome of globalisation. It reduces the scope of common values within a society. The challenge is to find other ways or means to create a common ground for society. A first step in this direction is to produce public goods and services at a larger and more inclusive scale. The use of such collective goods matched with policy interventions that yield concrete results in field such as education, health care, and other key social issues, may trigger a process in which people start identifying themselves with a common system.

Scarcity of inclusive public goods and services negatively affects democracy and peace. While the international crisis challenges the availability of public goods also on the European coast of the Mediterranean, it is in MENA countries that communities have suffered the most of the scarcity of public goods and services. A better delivery of education, health care and enabling factors for business would have a positive impact on the relation between people and governments. It would also enhance participation and responsibility (favouring citizens' "voice" and "loyalty" towards the public sector, over their "exit" or disaffection – to use Hirschman's famous categories) and provide a feedback to constantly improve the quality of public services. Participation is the keystone of democracy, which in turn favours peace.

***b. Economy – policy coherence, international cooperation, employability and entrepreneurship***

Promoting inclusive and sustainable economic growth has become a key challenge across the Mediterranean. The experience of Southern European

regions demonstrates that development does not depend on the availability of public funds. Flooding a community with money does not spur endogenous development, but it actually dangerous as it can generate corruption. Development, conversely, depends on the quality of institutions, the availability of good public service, and most importantly on a dynamic business community that generates investment opportunities and valuable jobs.

After the Arab Spring, international cooperation has been focussing on MENA countries to promote development. International aid has played a key role in accompanying communities in managing the transition towards a more democratic system. However, it is challenging for international cooperation to support endogenous economic growth. This is also due to the lack of a common strategy and integration of aid, which has been traditionally focussing on humanitarian emergencies rather than proper development processes.

Policy coherence is another key challenge. In fact, while countries and supranational entities are active in international cooperation, there are policy frameworks and regulations impinging upon the possibility for MENA country to capitalise on their comparative advantages and to promote areas of free trade among them (see, for instance, the challenging implementation of the Agadir Treaty). For instance, the EU's Common Agriculture Policy, and related trade agreements, may have reduced the possibility for MENA countries to take full advantage of their potential in the primary sector. In other words, it seems that industrialised countries do not want to reduce their dominant role in international markets to favour the entrance of new players, such as the emerging economies and developing countries from the south of the world.

Another key economic challenge is the need to create job opportunities for young citizens. Due to the crisis, youth unemployment has become a common trait across the Mediterranean. However, the origins of high unemployment rates could be different. While the scope of this paper is not to discuss unemployment in OECD countries, in MENA countries this mostly depends on the lack of active labour policies, large informal

sector, and lack of specific skills. In particular, the lack of skills causes low youth employability in MENA countries. As a result, these countries cannot capitalise on the presence of a large number of young citizens that could support economic development.

Employability and entrepreneurship are other key challenges affecting competitiveness in the Mediterranean. Due to the international crisis, which negatively affected employability of young citizens in Europe, youth unemployment has become a common challenge across the Mediterranean Basin. Framework conditions are certainly different between the European coast and MENA, yet in both cases there is need of a human capital. For instance, MENA countries have very young population. One-third of MENA's population is under age 15 and, more in general, MENA's working-age population is growing very rapidly as huge cohorts of children reach adulthood. Yet, due to the lack of public services producing education, MENA countries cannot capitalise on their "demographic bonus", and face the challenge of producing job opportunities for an army of low skilled young people, while the skilled ones migrate to other places.

Several Mediterranean countries, particularly in the MENA region, are not capitalising on entrepreneurship. Entrepreneurs need an enabling environment to flourish and generate jobs and wealth for their communities. In most cases, entrepreneurs create micro and small firms. However, a large number of small firms can be as effective in generating job opportunities and economic growth for a given community as large plants. SMEs are more sensitive to the quality of the environment in terms of public goods and infrastructure, as their competitiveness depends on positive externalities: they are not able to internalise in the production all the services they need. This requires a radical change in current policies, especially in MENA countries, where policy interventions have focused mostly on attracting FDI, rather than taking advantage of the "animal spirits" of their own inhabitants.



*c. Environmental sustainability – sharing the same water*

Another dimension that depends on the quality and quantity of public goods produced at the Mediterranean scale is environmental sustainability. In an anthropized area such as the Mediterranean it is important to find common solutions to deal with pollution. In spite sharing the same water and the same challenges related to climate change and coastal erosion, the Mediterranean community has been unable to generate institutions dealing with environmental sustainability within the Basin, or producing comprehensive data about environmental issues. Evidence demonstrates that communities have started facing the same problems, which would make co-operation and exchange of good practices very important.

For instance, there are several communities across the Mediterranean confronted with the choice between reducing pollution and saving valuable jobs. Usually, these regions are industrial poles where heavy industry has been active for several decades, till the moment in which pollution got so bad that started affecting public health. Due to pollution, it is challenging to develop other industries such as agriculture or tourism, for instance. So, citizens have to decide whether voting for the closure of the polluting plant(s) or for protecting local jobs and income.

Implementing a Place-Based Approach in the Mediterranean– A New Way to Deal with Old Issues

National top-down approach to policy making has been ineffective to guarantee prosperity and peace to the region, so far. If we accept Braudel's thesis that even small events can affect the long-term trajectory of history, we need to detect those events that have the potential to generate a new and more integrated Mediterranean. To better detect potential we have to look at territories and promote multilevel governance.

Over the past two decades, the OECD has developed a New Regional Paradigm, which focuses on the place-based approach (Table 1). A key assumption of this approach (which is supported by empirical evidence) is that all regions have the potential to generate endogenous growth, and that the dominant approach to regional development that tend to concentrate investment in urban growth poles is generally inefficient due to the fact that such growth poles do not generate spillovers to surrounding regions (which actually tend to suffer of negative externalities) and is not sustainable over the medium-long term due to the fact that excessive concentration of population negatively affect local welfare and then a good allocation of factors of production. The New Regional Paradigm puts forward an approach to regional development that focus on functional regions instead of administrative units, aims at the integration of development projects and policy strategies, and is based on a mix of soft and hard capital. Another key characteristic of the New Regional Paradigm is the focus on multilevel governance, which is the only way to pool information about needs and potential and spur a more accountable, transparent, and participative way to policy design and implementation.

**Table 1. The OECD New Regional Paradigm – Place-based approach**

	<b>Old paradigm</b>	<b>New paradigm</b>
Objectives	Compensating temporarily for location disadvantages of lagging regions	Tapping underutilised potential in all regions for enhancing regional competitiveness
Unit of intervention	Administrative units	Functional economic areas
Strategies	Sectorial approach	Integrated development projects
Tools	Subsidies and state aids	Mix of soft and hard capital (capital stock, labour market, business environment, social capital and networks)
Actors	Central government	Different levels of government

The Mediterranean is an archipelago of (functional) regions. Some of these regions have good performances, while others are lagging behind. However, also relatively affluent regions are now suffering of increasing poverty which spatially concentrates within their territory, in depleted urban or periurban areas. Regional disparities and lack of territorial cohesion are not mere economic problems. They generate malcontent, political instability, and may ignite civil unrest. Large and stable disparities of income and in access to key public services hinder the possibility to generate inclusive and sustainable growth.

In many cases, however, policy solutions exist, and they may even be “low-hanging fruits” which would be easy to implement. There is however an informational gap to be filled. Information about the problem, its impacts, and possible solutions is dispersed across several agents, institutions and citizens. The policy should collect information, transform it into actionable knowledge, and implement interventions. A first step in this process is to create a better system of regional statistics. This would allow the identification of functional areas and labour market basins across the Mediterranean (and not only in European countries). Functional regions would guide the production of transport infrastructure and other public services that facilitate the matching of supply and demand of labour, for instance. Information, however, it is necessary but not sufficient.

There are also key gaps to be filled in terms of capacity. This does not concern only the Southern coast of the Mediterranean. Yet, the sudden political change in several MENA countries made capacity building more urgent. Also, capacity building should address both the public sector and civil society. Citizens stated playing a more active role in MENA counties. Experiences in Tunisia and Jordan, for instance, demonstrate that civic engagement can have a dramatic impact on the quality of policy making and policy outcomes.

For instance, in Gabés (Tunisia) open government is key to deal with environmental sustainability while protecting local jobs. The governorate of

Gabés (320 000) is home to a large industrial pole specialised in oil and phosphate transformation. The pole was started by a national policy in the 1970s.

The aim was to improve manufacturing in Tunisia. The investment generated 8 000 jobs in the region, yet the impact on the environment was devastating and traditional activities such as agriculture and fishery were affected by pollution. Nowadays, the region displays higher-than-the-average mortality rates. After the revolution, citizens got access to reliable information about the local situation and started seeking for a shared solution to deal with pollution while preserving local jobs at the industrial pole. The governor has supported this process by organising a round table involving local NGOs, business community, national authorities, and other key stakeholders. Although the round table has been implemented only recently, it has become an important “intermediate institution” and is mobilising civil society. The impression is that this round table could also become a forum where a vision for regional development is shaped.

More in general, a more advanced information system, a strategy supporting capacity building, and more citizen participation (Open Government) are instrumental to the clarification, alignment, and integration of policy objectives across the Mediterranean. A key role should be played by national and supranational entities to enhance connectivity and exchanges of good policy practices among local communities.

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