



FEMISE 2015 Internal Competition: First round

The FEMISE Scientific Program

The scientific program of FEMISE will address the following three main themes:

- I. Transition of the South Med countries
- II. Economic modernization of the South Med countries
- III. EU-Med convergence and integration

For this first round, interested Affiliates are invited to submit their research proposals under the first theme **of this program on: I. Transition of the South Med countries'** before the **10th of July 2015.**

Under this theme, proposals could address one of the following four topics:

- 1. Economic Transition**
- 2. Political and Institutional Transition**
- 3. Social Transition**
- 4. The Role of the EU-Med in the Transition**

The following are some ideas of issues that could be addressed under these topics. These are only suggestions and researchers from the affiliates' institutes are encouraged to submit proposals according to their different and complementary interpretations in the context of intellectual freedom. The selection of proposals to be funded is based on a number of criteria (e.g., valued added, methodology, policy implications, etc.).

I. The Transition of the South Mediterranean countries

Following the events of the Arab Spring, most of the South Med countries are going through important transition at the economic, political and social levels. It is crucial that these economies navigate through this transition in a way that puts them on the right track towards building more modernized economies.

Past transition processes in these countries have been slower than in other regions of the world, such as in Eastern Europe and Latin America. Moreover, these countries are ranking low on effectiveness of institutions, business environment, infrastructure, development of the knowledge economy, competitiveness, and innovation, further highlighting this slow progress. This has placed South Med countries in the unfavourable position of facing the risk of remaining in the "middle-income countries trap." Such a challenge has increased with the recent adoption of social-welfare policies in these countries to maintain social equilibrium (providing a short-term response to the needs of the populations), such as the massive hiring in the public sector, tax reductions, unsystematic increases in wages, etc. This has added pressure on national accounts and increased budget imbalances.

Thus, the Barcelona process and EU-Med partnership programs were enacted to open new channels for more integration, while increasing the pace of the transition. Despite the relatively low level of financial support offered for the Southern Med Partners, compared to that given to Eastern Europe, some progress has been achieved. Still, this progress falls short of achieving the true potential of these countries.

Accordingly, four issues related to the transition of the South Med countries can be addressed:

I.1. The issue of economic transition

Following the political uprisings in 2011, one of the most important challenges facing South Med economies has been to achieve macroeconomic equilibrium. This includes achieving financial balances; maintaining resilience to external shocks; strengthening domestic investment; addressing employment challenges, particularly for the youth; and achieving environmental sustainability. These issues are considered essential for any change in the development model towards more growth.

More specifically, research analysis is encouraged to address, among other matters, the following:

- What type of short-term **macroeconomic management** program needs to be adopted to ensure the restoration of balance on different levels, and put the economies on the right-track for further development (this includes fiscal and monetary policy)?
- **Investment and capital flows** were severely hit by recent instability, what measures need to be taken in the short term to restore the confidence of foreign investors?
- The capacity and **efficiency of the banking system** need to be restored to encourage and channel savings into productive investment. Research could address issues related to financing SMEs, reducing the size of the informal sector, challenges in acquiring grants and loans, the need for an evolution of pension systems, etc., how can this be achieved?
- What actions need to be taken to resolve **structural problems**? This is in terms of sectoral policies and priority targets (youth, rural etc.) that would be consistent with the overall strategy.
- Research can also provide a simulation of the return to **equilibrium of major balances**, such as the budget account, external accounts and reserves, which have generally deteriorated significantly since 2011. Along with describing the needs that could be addressed to the donor community, it is also important to consider what possible contributions the development of financial markets in the South may have.
- Within the economic transition, governments have to consider issues related to **environmental sustainability** and water management to ensure setting-up the bases for modernized economies.

I.2. The issue of political and institutional transition

Managing the current political shock and meeting public demands is challenging. During this transitional phase, it is important to ensure that institutions can be adapted to absorb this shock and satisfy these demands in the short term. Suggested measures include undergoing institutional transition, which is recognized as a fundamental step to achieve an inclusive growth model and identify current and future structural reforms.

More specifically, research analysis is encouraged to address, among other matters, the following points:

- How the role of the **State** should be more efficiently and transparently adapted to the needs of this transitional phase. This should include institutional reforms, fighting corruption and acquiring systematic public policy evaluation tools. The literature has shown that State failures lead to misallocations of resources and benefits, which negatively impacts development and, in particular, the private sector. This also applies to the so-called "crony capitalism."
- **Decentralisation** is an essential element to achieve overall development, especially during this transitional phase. There is a need to avoid the concentration of decisions and development policies in central metropolitan urban and coastal areas. This requires fundamental changes to economic incentives and the implementation of adequate infrastructure projects in remote and under-developed areas.

- **Structural transformation** is the backbone of the transition process. Despite the achievement of some progress, South Med countries are well below their potential in terms of moving towards more market-based and liberalized economies. How can such goals be achieved in the future? What policies should be adopted and which actors should be involved?

- **Improving the business environment** can speed up transitions and can enhance the development of efficient SMEs. There is a need to better understand how these enterprises operate, based on existent large enterprise surveys that seek to identify elements of success and failures. Research can also address the reform of financing conditions, especially on the evolution of banking, and can evaluate the various measures that aim to promote the creation of new activities. In the field of the social and solidarity economy (SSE) and business incubators, it can especially focus on the means to strengthen the link between the public and private sectors. One suggested topic is to focus on the implementation of a "Small Business Act" in the Mediterranean.

I.3. The issue of social transition

Following the Arab Spring, governments of the South Med countries have faced pressure to respond to the increasing and immediate social demands of their populations. This has led to the adoption of unsystematic social policies. In this context, research analysis is encouraged to address, among other points, the following:

- During the transition phase, it is important to pave the path that these governments will take so that they respond in a more institutional way to social demands. One basic requirement would be to improve the efficiency of the **redistribution system**. This could be done through the maximization of net gains in terms of GDP, while compensating the "losers" from the process through an efficient system of redistribution. This means a more efficient and fair tax system, targeted social spending, insurance, subsidies, etc.

- At the same time, in order to achieve **inclusive growth**, there is a need to produce opportunities through improvements in **education and training**. This can be done through substantial change to both the incentives and attributions schemes. The objective would be to mobilize and "include" all strata of the population (especially youth, women, rural residents and landlocked territories) in the value creation process. The challenge for the future would be to move towards a more effective distribution system in the Mediterranean countries, and to ensure the inclusiveness of the economic growth model.

- **Participation of youth and women in social dialogue**, particularly through education, training, labour markets, representation in various institutions, contribution to the public debate through a free press, and the provision of incentives and opportunities to develop cultural actions, is very important. Even though culture is certainly a factor of liberalization and integration for women and youth, there are reasons to believe that several Mediterranean countries are lagging behind in terms of cultural production (let alone the development of so-called creative industries).

- In this social transition phase, the challenges facing the **labour markets** and the rising unemployment rates and decreasing participation rates need to be addressed. Important incentive schemes and improvements in the technological and innovation capacity need to be implemented. Also, the consideration of new activities that create jobs, such as the

development of the social solidarity economy (SSE)¹ and the evolution of its funding process, business creation schemes open to the youth, and development policies for development etc., is of vital importance.

I.4. The role of the EU-Med in this transition

Since the mid 90s, Mediterranean countries have opted for more openness towards Europe within a deep integration perspective. One of the main objectives of this integration was to provide support to the transition of the South Med partners. This process was slower than expected, and integration failed to achieve much of the expected benefits.

More specifically, research analysis is encouraged to address, among other matters, the following points:

- The EU-Med integration aimed at providing a boost to **trade** (goods and, services) **and foreign direct investment**. It would be interesting to assess how much of this has been achieved, including measuring the progress made in dismantling tariffs, liberalization of services, policies to attract direct investment and portfolio investment.
- The difficult transition of the South Med countries had led to an increase of **migration** outflows from these countries, which could be considered a loss of human capital. At the same time, migrants could be benefiting from better opportunities. How can migration achieve mutual benefits between the two shores (e.g., circular migration, remittances, etc.)?
- The **future development** of this partnership is still not clear. Issues related to the Deep and Comprehensive Free trade Agreement (DCFTA) and various bilateral agreements are under consideration. How much of these could help the transition of the South Med countries? Research could use different methodologies to better assess the role of Harmonization Equivalence and Mutual Recognition for non-tariff barriers, the 'reality' of bilateral agreements that have achieved slow progress in terms of trade flows etc.
- Research could also address how integration has contributed to greater complexity of trade, to **fostering innovation and raising production on value chains, and to creating jobs** (in a context where the jobs created by exports were less than those lost by imports (e.g., Jordan)). Moreover, it can address how integration can develop a more coherent system that could link trade in goods and services, direct investment and movement of people. It can also address how small businesses can benefit from this additional opening (technological efficiency vs. technical efficiency using available microeconomic data), especially outside of urban and coastal areas.
- Other suggested topics could include: **The liberalization of agricultural trade**, and how far should the South Med countries go? The status of trade in services and its possible implications; and whether expanding tariff dismantling to North America, Asia and Africa could bring benefits to the South Med countries.

¹ *Concerning the SSE, research should describe examples and successful practices as well as tools for accompanying high social impact and development projects, which deserve to be considered and be supported by national and international actors. Regarding funding, it would be useful to develop an array of tools adapted to the SSE sector in the Mediterranean (association contracts, associative seed funds, impact investing tools etc.) that would enhance traditional means of financing.*