

## **2015 Femise scientific program**

**(1<sup>st</sup> Version)**

This scientific program gives the general orientations and directives proposed for the FEMISE research topics. The contents of this program are based on three main sources: (1) the priority areas as identified by the FEMISE coordinators and Scientific Committee; (2) affiliates' suggestions following the consultation launched by the Scientific committee and; (3) suggestions from the European Commission on issues of importance on the Commission's agenda.

This framework is indicative, and hence 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 the proposals to be funded are based on a number of criteria (e.g. value added, methodology, policy implications, etc.)

Some general points should be taken into consideration:

1. Comparative aspects are encouraged. Unless indicated otherwise or in the case of innovative approaches, the proposals shall avoid a single-country-approach and shall provide a comparative approach for least two countries (or regions).
2. In order to maintain the FEMISE value added on the common vision of North and South, each proposal submitted needs to include at least one member affiliate institute from the North and one member affiliate institute from the South.
3. The submitted proposal has to be original, with a value added to existent knowledge and needs to be theoretically relevant backed with empirical evidence.
4. The proposal needs to reflect on how the research outputs could translate into policy recommendations that could then be used by policy makers. All research questions, methodologies and results undertaken need to be designed with the aim of providing policy oriented operational recommendations.
5. Finally, the output of the research conducted will take the form of research reports (or working papers) with an average of 40-50 pages to ensure i) the analysis is focused and ii) to increase publications' potentials in scientific journals, articles and policy briefs.

The scientific program is divided into three main areas that are focused on South Mediterranean countries, and will address the following issues:

- I. Transition process
- II. Economic Modernization
- III. Integration and convergence

### **I. The Transition Process in the southern Mediterranean countries**

The transition process in Mediterranean countries was slower and less effective than in other regions of the world. In fact, their rankings in terms of effectiveness of institutions, business environment, infrastructure, development of the knowledge economy, competitiveness and innovation are rather low and highlight the slow progress of their transition. Most of the Mediterranean countries have made fundamental changes in their economic models during the 80s, becoming more private-sector oriented. This is impressive considering the fact that, compared to Eastern European accession countries, there was no perspective of becoming an EU member. Meanwhile, the financial support

offered to the South Med partners was substantially lower to that of the accession countries. It should come as no surprise that the transition progress has now slowed down in the South-Med.

This has placed the South Med countries in an unfavourable intermediate position facing the danger of remaining in the "middle-income countries trap". Such a challenge has increased with recent social-welfare policies in these countries to maintain social equilibrium (and to respond in short-term needs of the populations), such as the massive hiring of public servants, tax reduction, random increases in wages etc. This has added pressure on national accounts and increased budget imbalances.

Therefore, three questions are suggested for research analysis:

### **I.1. The first question concerns the economic and financial balances.**

This includes issues related to maintaining macroeconomic equilibrium, resilience to external shocks, the weakness of domestic investment and employment issues, particularly for the youth. These issues are considered as essential conditions for any change in the development model towards more growth. More specifically, research analysis is encouraged to address, but shall not be limited to, the following :

- (i) what types of medium term economic development programs need to be adopted in terms of sectoral policies, priority targets (youth, rural etc .) and are consistent with the overall strategy,
- (ii) what are the actions that need to be taken to resolve structural problems encumbering any policy, whatever its orientation. One can think of the insufficient capacity of the banking system to collect and channel savings into productive investment for SMEs, the need to reduce the size of the informal sector, the weight of grants and loans, the need for an evolution of pension systems etc,
- (iii) research can also provide a simulation of the return to equilibrium of major balances such as the budget account, external accounts, reserves, which have generally deteriorated significantly since 2011 and describe the needs that could be addressed to the donor community. It is also important to consider what possible contribution financial market development in the South may have.

**I.2. The second question concerns the transition of institutions,** which are recognized as a fundamental step to achieve an inclusive growth model and where current and future structural reforms are identified. More specifically, research analysis is encouraged to address, but shall not be limited to, the following points:

- Discuss how the **State** must be more efficient and transparent and needs to acquire systematic evaluation tools of public policy and fight against corruption. The literature has shown that State failures lead to misallocations of resources and benefits, which negatively impact development, and in particular the private sector. This also applies to the so-called "crony capitalism".
- The importance of **decentralisation of decision-making**: it is clear that if there are no economic incentives nor adequate infrastructure at the regional/territorial level, the development will remain concentrated in the coastal areas and urban metropolises and new activities will only be created in landlocked territories. There is a need to move towards decentralization and avoid the concentration of the decisions in favour of these regional areas.
- **The importance of the business environment** and of developing efficient micro-enterprises and SMEs. There is a need to better understand how these enterprises operate based on existent large enterprises' surveys that seek to identify their elements of success and failures. Research shall also address the reform of financing conditions, especially on the evolution of banking. It shall finally evaluate the various measures in

place that aim to promote the creation of new activities. In the field of the social and solidarity economy (SSE) and business incubators, it shall especially focus on the means to strengthen the link between public and private sector. A recommended topic would also be one focusing on the implementation of a "Small Business Act" in the Mediterranean.

- Discuss **what inclusiveness actions are needed to promote the participation of youth and women in social dialogue**, particularly through their representation in the various institutions, their contribution to the public debate through a free press, the incentives and opportunities to develop cultural actions. 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) while culture is certainly a factor of liberalization and integration for both women and youth.

**I.3. The third question concerns the relationship between distributive and inclusive approaches.** It would be interesting to develop arguments in favour of one approach versus the other and ultimately present the pros and cons of each approach. In the first case (distributive model), the objective would be to maximise the net gains in terms of GDP while compensating the "losers" from the integration process through an efficient system of redistribution. In the second case (inclusive model), 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. It would be desirable that research identifies each of these approaches in the Mediterranean countries (where clearly, a redistributive model was inefficiently privileged making room for inequalities). Could such model be sustainable today (especially commodity subsidies)? How can one make it more efficient and more responsive to the needs of the population ? How can it also be compatible with the current situation of fiscal balances?

The optimal strategy would require an improvement in the efficiency of the redistribution system and a move towards more inclusive growth. In the first case, efficiency of the tax system and social spending is concerned, while in the second one, there is need to produce opportunities through education and training and to act via substantial changes in the system of incentives. The challenge for the future would be to move towards a more effective distribution system in the Mediterranean countries, and to ensure that economic growth becomes more inclusive.

Concrete research proposals shall be made taking into account all of these elements, especially with regards to the inclusion of women and youth (through education and training, the evolution of the labour markets and business development and Cultural industries), the development of the social solidarity economy (SSE) and the evolution of its funding process, business creation schemes open to the youth and development policies for development etc.

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.

## **II. Economic Modernization**

Economic modernization needs to be directed towards the establishment of a new growth model that is based on the efficiency in the allocation of factors and aims pushing the technological frontier forward, thus including efficient innovation policies. In addition to

this, modernization strategy needs to include social innovations (new creative ideas that meet the social needs).

**II.1. If we first consider the efficiency in the allocation of resources**, this is made through: (i) competition and the implementation of an international relative price system based on free prices and international openness, (ii) major structural and industrial policies geared to certain sectors, or new public goods (the environment in particular through alternative energy), and (iii) major development projects.

In order to progressively increase the allocation efficiency one needs to: examine the conditions that facilitate the creation and shutting of firms, labour market conditions (flexibilities in hiring and firing), the ability to enhance the mobility of workers and capital among sectors and projects. Today, these are the main arguments used in the international framework to characterize the business climate. However, past work by FEMISE has shown that this is not enough for the suggested policies to be implemented, especially those concerning the labour market. Research that measures the progress and obstacles in terms of efficiency (in particular in relation to the export performance), and that proposes concrete solutions from best practices would be desirable.

Furthermore, issues related to the relative contributions of different sectors to development and their allocation of factors, the infrastructure, the various actions for the installation of technological centers of various kinds, the major development of operations carried out in PPP or the use of foreign direct investment, should be investigated. Here, the link between **public and private policies** and outcomes in terms of competitiveness and attractiveness could be addressed by research. Finally, the role played by the development of new sectors could also be addressed. In particular, research may address the role of alternative energy sources as an element promoting sustainable growth, as well as the development of innovative tools to integrate water management, alternative energy etc.

**II.2. Second**, it is clear that **creativity and innovation** can substantially increase the efficiency of labour within major implemented projects. In economic terms this is translated into: technological innovation and pushing the technological frontier, development of creative innovations (cultural industries, new products associated with ICTs), creation of new businesses, and social innovations. This is possibly one of the most effective way for the Mediterranean to get out of the 'middle income trap' as was done by the Republic of Korea, India and Malaysia, which had a strategic vision. Femise has already led several studies to highlight the importance of growth based on total factor productivity. This shall continue in the context of what has been said about the resource of micro-data now available in all countries. But research shall also consider four key areas:

- The first area concerns the **production of knowledge in the research system** which must evolve towards more innovative approaches and research assessment methods (mostly academic) and towards improving the higher education system while ensuring the coordination between these two systems and the professional world. The establishment of international networks of research centres, as well as greater operational autonomy for these centres, are considered important elements towards achieving production of knowledge and should be considered by research.

- The second area concerns the **dissemination of knowledge** to as many people as possible; this is the role of education and training. These two must be fundamentally reformed to increase their quality (especially in primary education), to enhance creativity in particular towards the creation of new firms and private professional jobs, rather than seeking public employment. This implies a significant rapprochement with the professional world, the development of all forms of training, encouraging mobility in the Euro-Mediterranean region, particularly those related to training for creative jobs,

doctoral and post-doctoral students. Previous FEMISE research has shown that such measures to improve the efficiency of knowledge dissemination are rather effective without the need to mobilise significant additional resources. This knowledge could be enriched with best practices and other countries' experiences that should be considered by research.

- The third area concerns the **appropriation of knowledge and its transformation into economic activities**. This is an important point, for both the functioning of the national innovation system and for autonomy at the fiscal level and among the financial operators at the regional level. Spreading of innovation in the broad sense of Schumpeter as "an idea that turns into economic activity" is of crucial importance. A central organizational issue here is the development of better cooperation between vocational training, universities and the industry sector. From this point of view, some countries (including Turkey) have made significant progress; these principles could be transferred to others. Researchers are here encouraged to examine the main obstacles and best practices in a comparative perspective, they could also address issues related to the ability of creating new activities, the necessary changes in the banking and financial system etc.

- The fourth area concerns the **modernization of social innovations**. This includes the following: **(i) women's participation in economic activity**. Increasing women participation implies addressing issues in the system that relate to the legal framework, education and access to the labour market. Education is a key factor to increase women participation while main studies have indicated that the share of women in the South med countries that still do not have access to education is still high. Favourable conditions must be put in place to encourage women are educated to the highest possible level (e.g. nurseries, care assistants). This needs to be supported by a gender-oriented policy that encourages employment. Support for the development of the social and solidarity economy is also a suggested mean to empower women through training and business creation; **(ii) personal achievement through schooling**, this includes not only increasing the number of years of education but also allowing for teaching to evolve (less authoritarian teaching, group work, development of creativity, skill target to be achieved at different levels) which should be the subject of renewed attention. This also concerns the possibilities of access to continuing education. Research conducted on the innovative methodologies implemented to achieve this and their outcomes in terms of employment in some countries in the region would be of great use to reflect on the organization of the system; **(iii) review of social innovations** that have been conducted in both rural and under-privileged or remote urban areas could identify some practices that could serve as a strategy to fight against poverty and unemployment. This could be done to identify how new collaborative actions not only produce improvements in living conditions, but how they may have changed attitudes and perceptions of stakeholders and played a role and by which process.

II.3. Third, an important part of the modernization of the southern Mediterranean countries is linked to issues of **environmental sustainability**. The environment and sustainable economic development, reducing energy dependence, high-tech industrial development, the reduction of energy poverty, skilled employees with a high level of educational skills, balanced geographical development are all factors clearly related to the issue of renewable energy sources which are a natural competitive advantage of several Mediterranean countries. Thus, among the topics to be researched one may find:

- What is the potential of the renewable energy sector that will boost trade, job creation and strengthen capacities of the South?
- What are the vulnerabilities of southern Mediterranean countries in the fields of renewable energy and agricultural production, what is the impact of climate change and water security, how to ensure intersectoral cooperation and environmental coordination taking into account mutual synergies?

### **III. Relations with Europe and international opening of the Mediterranean countries, what are the consequences in terms of integration and convergence?**

Since the beginning of the 90s Mediterranean countries have opted for more openness, particularly in relation to Europe and within a deep integration perspective. This opening-up process was scientifically supported by numerous FEMISE studies that evolved around the dominant theories of international trade and integration, this was supported by empirical evidence and the use of several generations of computable general equilibrium models.

Given this knowledge, it is important to make a step further to evaluate the resulting level of integration, whether the target of a consistent Euro-Mediterranean area was reached, and what remains to be done. One also needs to evaluate the issue of the positioning of the Euro-Mediterranean region in the global economy and the consequences in terms of development for the Mediterranean countries. Last but not least, one should discuss the policies that have been implemented and the changes that need to be made. Therefore, research shall tackle the following areas:

III.1. The first point shall analyse the situation of **trade in goods, of services and of foreign direct investment**. The purpose would be to attempt measuring the progress made in tariff dismantling, in liberalization of services, the policies to attract direct investment and portfolio investment. For instance, what is the impact of national plans such as "Morocco's Emergence Plan" on trade patterns and the quality of specializations? It should also investigate on whether clustering into groups occurred during those 20 years (hubs and spokes, South-South integration) in relation to countries of the region and how cooperation with Europe, especially in financial matters, might have contributed to this phenomenon.

**III.2. The second question concerns the process of persons mobility**, especially at the international level, so as to further develop cooperation. In the EU-Med region, migration has taken a new dimension, particularly following the political instability in the South and the increasing rates of qualified migrants. There could be a mutual benefit for both sides of the Mediterranean: on one hand, migrants enjoy better opportunities and quality of life and on the other hand, they occupy important jobs that are unoccupied by a European populations that are also aging. Issues related to social integration and the 'crowding out' of employment raise concerns in the host country, while the potential negative impacts on developing countries of origin could also be a problem. The following questions need to be asked:

- What are the impacts of migrant remittances? Is Return Migration or circular migration a potential compromise?
- The question on migration policy is still an unresolved issue between the north and south Mediterranean and given the current situation, it would be essential to assess the benefits, requirements and potential disadvantages of these migration flows, and propose a politically realistic and operational migration that could unlock the potential benefits for the entire region.
- There is also the problem of refugees especially in the present war conditions surrounding the Mediterranean countries (Syria, Iraq and Libya). What is their impact on countries in the region? The European commission is launching a new program, will this be sufficient? In addition, thousands of refugees trying to reach Europe and perishing on the way are a real challenge to solve.

III.3. The third point shall concern the **future developments** of the partnership agreements. It may include issues related to the transatlantic cooperation agreement, deep and comprehensive Free trade agreement (DCFTA) and various bilateral agreements. It may use different methodologies to better assess such as : the role of Harmonization Equivalence and Mutual Recognition for non-tariff barriers, the "reality" of bilateral agreements which have achieved slow progress in terms of trade flows etc.

Research could also address how the integration has contributed towards: a greater complexity of trade, fostering innovation and raise production on value chains, creating jobs (in a context where, the jobs created by exports were less than those lost by imports (e.g. Jordan)), how they may develop a more coherent system which could link trade in goods and services, direct investment and movement of people, 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, whether one needs to expand tariff dismantling to North America, Asia and Africa, whether the conditions for the development of direct investment are met and to what extent migration of workers is an important issue. All these issues should be addressed on the basis of an analysis of past events.

The main idea that is suggested here is that one needs to rethink the appropriateness and content of international opening in Mediterranean countries. One needs to deepen the direct consequences of opening-up to the economic and social cohesion of societies. Research on these issues shall allow combining the logic behind the redistributive Pareto models with more resilient inclusive models. This shall allow for some interesting debates.