

Executive summary

In 1995, countries from the Northern and Southern shores of the Mediterranean decided to reinforce links that had existed between them for centuries – to build a future of peace, stability and prosperity for the region. This was the beginning of the Barcelona Process, a Euro-Mediterranean partnership that in 2020 celebrated its 25th anniversary. A key milestone was the creation, in 2008, of the Union for the Mediterranean (UfM), with the mission of supporting regional integration and cohesion. Since then, the UfM has worked to promote regional cooperation, building on dialogue and the implementation of projects and initiatives with tangible impact on the region's citizens.

The study *Regional Integration in the Union for the Mediterranean: Progress Report* reviews the progress of integration in the Euro-Mediterranean region and identifies policy actions needed to foster continued integration. The COVID-19 pandemic has hindered integration efforts; notably, the containment measures implemented across the region to fight the spread of the virus have also severely affected many economies – especially in the Southern shore and in key sectors such as tourism – costing the jobs of millions of people. Regional integration can be instrumental in putting these economies on the road to recovery, by supporting green and digital transformation, boosting sustainable trade, investment and innovation; and creating decent jobs and social fairness.

The state of integration in the UfM: positive developments but progress is slow

The report's findings acknowledge advancements of integration in the UfM region, but at the same time show that progress has been slow and remains below the potential of the region in terms of capacities and resources. This is illustrated in the report by the analysis of missing trade opportunities in the region, where further trade expansion would require increasing industrial diversification in the Southern Mediterranean countries, with creation of jobs outside traditional manufacturing sectors.

Over time, **trade integration** within the Euro-Mediterranean region has progressed, in terms of both trade in final products and intermediate goods and integration in regional value chains. Many challenges remain, however, especially for countries on the Southern shore. These include the complexity of dealing with diverse trade agreements, continuing non-tariff obstacles to trade in goods and lack of an adequate regulatory framework for trade in services, inadequate transport and logistics infrastructure, and a business environment that is not supportive enough of firms' ambition to participate in international trade.

The UfM region remains diverse in terms of financial development across countries. **Financial integration** in the UfM region cannot overlook development priorities within the Western Balkans and MENA countries, which feature relatively low levels of financial development.

Infrastructure connectivity especially in the Southern and Eastern Mediterranean is insufficient or incomplete, thus reducing the speed of socio-economic integration. While in recent years countries in the region have built extensive transport and energy networks, the level of investment is not enough to meet the growing connectivity needs between countries.

Countries have taken significant steps to facilitate **movement of people in the UfM region**, including easing visa requirements and signing bilateral and/or regional agreements on labour and education mobility. However, progress achieved in terms of mobility has been unequal across countries in the region, including South-South movements. The European Union continues to play a central role in migration patterns in the region, including labour migrations.

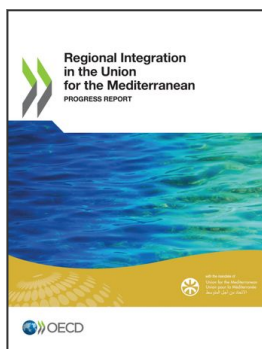
Integration in higher education and research in the region has increased unevenly in line with the growing but unequal capacity in education and research in Southern UfM countries and the Western Balkans. The intensity of scientific co-operation in the Euro-Mediterranean region is characterised more by North-South interactions than by South-South collaboration.

No time to waste: priorities to speed up the process of integration in the UfM

- **Address remaining obstacles hindering trade development.** Agreements on trade in services involving the many Southern Mediterranean countries currently not parties to such agreements should support the integration of important sectors of the UfM economies into regional value chains. In addition, political and administrative cooperation should be increased to reduce trade costs – for example, by increasing border cooperation with neighbouring countries, reducing administrative burdens for traders, enhancing regulatory transparency, and simplifying and digitalising procedures. Finally, policies that support industrial diversification are needed, including skills development, a digitalisation agenda and stronger integration in regional and global value chains – all aimed at promoting local jobs and sustainable economic models.
- **Develop financial markets across the region.** Governments should consider financial reforms to strengthen markets and institutions and modernise legislative frameworks in line with international best practice, notably in MENA countries and the Western Balkans. International frameworks like the OECD Code of Liberalisation of Capital Movements can provide guidance for raising the standards of financial systems to level the playing field. Governments should also enhance the investment climate and reduce regulatory restrictions to foreign direct investment (FDI), especially in the Southern and Eastern Mediterranean, in key sectors for regional integration such as transport and energy connectivity. Finally, international cooperation should facilitate the establishment of effective frameworks for transferring remittances through formal channels – thereby avoiding losses to informal channels and supporting greater financial literacy and financial inclusion.
- **Increase investments to develop high-quality transport and energy infrastructure.** Governments should focus on better planning, prioritisation and co-ordination of investment for connectivity infrastructure, between and within countries. This involves building truly multi-modal connectivity in transport and logistics infrastructure in the Southern and Eastern regions as well as improving the capacity and efficiency of ports in their role as national or regional gateways, linked with inland areas, special economic zones and research centres and universities. Governments should also promote reforms in the power sector to encourage competition and entry of private investors and the development of renewable energies. This includes creating conditions for investment in renewable electricity generation by unbundling generation, transmission, and distribution in the electricity sector, especially in the MENA region. When policies are necessary to address countries' national security concerns, governments should ensure that these statutory regulations are not more restrictive than needed. Lastly, governments should co-operate on international tools and instruments to ensure quality, compatibility and inter-operability of infrastructure networks across the region.
- **Promote a shared vision of mobility of people as a driver of economic and social development.** Governments could soften visa requirements to leverage the potential of different forms of mobility across the region, such as tourism, mobility of students and researchers, and

mobility related to trade in services. Governments should review the design of circular migration schemes to put migrants' rights at the centre and ensure the attractiveness of circularity for all parties – origin and host countries, employers and migrants. Finally, countries should invest in skills development and transferability to enable greater participation of Southern Mediterranean youth in mobility schemes between UfM countries. To that end, countries should move towards greater harmonisation of national qualifications frameworks in the region, develop cooperation between institutions working towards the socio-professional integration of youth across the region, and expand the reach of mobility schemes targeting new categories of migrants, including tertiary education students and young, highly skilled professionals.

- **Implement complementary policies in research, higher education and innovation.** Governments should promote investment in research infrastructure at the national level, to facilitate embedding technology in local economic production systems and attract international flows of research and development (R&D), human resources, and related high-value-added activities. By supporting infrastructures such as distributed research labs, governments can foster virtual mobility and “brain circulation” as an alternative to brain drain. Also, they should reinforce scientific co-operation in environmental sciences, given the impact of climate change on the region's water, food and agricultural systems, and should encourage student mobility as a vehicle for directing research towards common problems in the Mediterranean. Finally, governments should facilitate the diffusion and uptake of digital technologies for science and education, such as open science platforms, to enable countries to take advantage of new opportunities for regional co-operation – especially in the current context of the COVID-19 pandemic. As scientific research is increasingly data-driven, ensuring that research personnel are equipped with the digital skills necessary to engage with peers around the world will be important.
- **Build statistical capacity to properly monitor the progress of regional integration.** Governments in the MENA region in particular should sustain the development of sound and internationally comparable data to inform the design of effective integration policies and to monitor their implementation and impact in relevant policy areas where data gaps exist. They should also promote greater engagement between the national statistical systems of Southern Mediterranean countries, Eurostat and international bodies promoting the harmonisation of statistical methodology and data, such as the OECD.



From:
**Regional Integration in the Union for the
Mediterranean**
Progress Report

Access the complete publication at:

<https://doi.org/10.1787/325884b3-en>

Please cite this chapter as:

OECD (2021), "Executive summary", in *Regional Integration in the Union for the Mediterranean: Progress Report*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/7ce891a7-en>

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