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The Mediterranean – an opportunity?

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Dear students

Before commencing my address I extend my best wishes to all of our Muslim friends present here this afternoon – Eid Mubarak.

I would like to thank the London School of Economics European Institute for its invitation to come to London to deliver this lecture. I accepted with pleasure the invitation to share some reflections on the Mediterranean region, particularly on the challenges and opportunities that it currently faces.

Just three weeks ago, Malta hosted the second 5 + 5 West Mediterranean Forum Heads of State summit. The gathering of leaders from Malta, France, Italy, Spain and Portugal together with those from Libya, Tunisia, Algeria, Morocco and Mauritania earlier this month was the first regional Mediterranean meeting of its kind since the historic transformation of the Mediterranean commenced in 2011.

The Summit itself embodied the spirit of this regional transformation with three democratically elected Presidents who replaced long-standing dictators.

The crowds in the streets of Benghazi, Tripoli, Misurata, Tunis and Cairo have fought and laid down their lives to set in motion this transformation.

We have seen the people of the region express their yearning for a better future, for democracy, for the respect of fundamental rights, and for more economic opportunities, for themselves and future generations.

Their courage carries the hope and desire of a better life, greater respect for human rights, pluralism, social justice and the fundamental freedoms.

We are all aware that the process of democratisation and transition will be long. I am certain that during this new phase, we will witness events that will register setbacks and frustrations. But we will also experience a fresh way of doing things, a sense of urgency for economic growth, and a higher level of sensitivity for issues relating to human rights, freedom of expression, freedom of association, freedom of speech – all issues that will continue to come to the fore thanks to the use of a free media – especially social media tools that were so obviously catalysts of this movement for change.

While we have to focus on the short-term setbacks, we must not lose sight of our long-term goals and vision.

We know that the forces of changes that are taking place will not automatically result in stable political systems. It will take time. We must therefore weather these risks without losing sight of our long-term common objective: a democratic, stable, prosperous and peaceful North Africa.

The opportunity for political reform in this region is unprecedented. However, structural political changes cannot be disassociated from further economic reforms. The interdependent structural challenges faced by many countries – such as chronic unemployment, low female participation rates and low levels of private sector development, amongst others – will need to be addressed.

Indeed, political reform cannot fully respond to citizens' demands if it is not accompanied by better living standards. For the Arab Spring to be meaningful in the long-term it must also be accompanied by an economic spring in the region.

The events that we have witnessed provide us with a unique opportunity to develop a more transparent and effective governance system to overcome the region's economic challenges and unleash its economic potential.

The Arab Spring has brought to light key economic challenges in the region that had already existed for some time. These challenges include high unemployment levels, particularly among

youth; inflated public sectors that stifled private sector growth and weak governance systems. Given that these challenges are both structural and interconnected, they can be addressed only through a coordinated and comprehensive strategy that involves governments, the private sector, civil society, and the international community.

Before speaking about the opportunities and the way forward for the region, I would like to delve into some specific economic challenges which were outlined and discussed in the 5+5 Malta Summit.

Macroeconomic stability

Macroeconomic and financial stability remain essential fundamentals of any economy. To date, governments have always increased subsidies and wages to quell any social pressures. We know all too well that these policies are not sustainable in the long-run. Across the region, governments need to focus more on sustainable fiscal policies as well as establish a functioning financial and banking framework which will allow access to credit and spur the development of the private sector.

Unemployment remains pervasive

Long-term structural unemployment represents a daunting challenge for the region. Ranging between 10 and 25%, unemployment was one of the main triggers of the revolts that led to the sweeping change across the region. Unemployment is particularly acute among the youth, with rates being significantly higher than OECD averages. The regions face losing a whole generation if governments, business and civil society do not develop the opportunities for employment creation.

Unemployment is also high among the educated and women. Failure to involve women in the workforce is in fact a lost opportunity for growth and development. While skill mismatches can be attributed as one of the main reasons of high unemployment rates of youth and the educated, prevailing cultural attitudes, gendered laws, and weak support services for women can be regarded as main contributors to the prevailing gender gap.

As a result of the lack of economic opportunities that exist in the region, the human tragedy of irregular migration is expected to increase and countries like Malta and Italy are already experiencing the increase in migratory flows towards Europe.

Lack of private sector development

Throughout the years, corruption, weak accountability and the lack of an enabling environment have fuelled the growth of public sectors in the region crowding out the private sector. Apart from endemic corruption, traditional barriers to the growth of the private sector include lack of access to capital and poor infrastructure. As a result, the level of entrepreneurship in the region is weak. Foreign direct investment in the region is concentrated in resource-rich countries and is more focused on exploiting the existing resources rather than on developing the creation of a thriving private sector. As a result of this lack of private sector development, economic diversification is low together with intra-regional trade. Subsidised industries based on import substitution and protectionist policies are still prevalent in some countries further reducing the forces of competition to facilitate the development of a thriving and diversified private sector.

The opportunities for the Mediterranean

Notwithstanding the huge challenges that the region faces, the historic changes that are taking place in the Mediterranean offer unprecedented opportunities. As countries continue to embark on the process of political transition, they must also in parallel embark on structural economic reforms based on a number of opportunities that the region itself offers.

A young population

With an average age much lower than that of developed countries, particularly of its European neighbours, the North African young population represents a great opportunity both as a labour force and as a domestic market. This also has important ramifications on future dependency and social security systems which will further liberate economic resources. However, the availability of such a resource is not an automatic guarantee of economic development. The investment in education, in creating an enabling environment and the creation of well-functioning institutions will be important catalysts in utilising such a precious economic resource. Also, investment in education particularly in vocational training and in reducing the skills mismatches is imperative.

Private sector and SME development

In the Mediterranean region, SMEs are the backbone of the economy creating both wealth and employment. An opportunity is therefore to develop the creation and longevity of SMEs in these transitional countries. Traditional barriers such as lack of access to capital need to be addressed particularly through financing schemes that can be made available in the absence of financial

institutions that are geared towards the provision of capital. There are opportunities for both manufacturing and services and the development of economic zones to encourage investment can be an important vehicle for the development of the private sector.

Renewable energy

The Mediterranean, particularly the Maghreb countries, has great potential for the development of large-scale renewable energy projects. Coupled with the long-standing energy security challenge of Europe and the need to diversify its supply more towards renewable sources, this area can be a source of both investment and employment creation.

The Mediterranean itself

Throughout the ages, the Mediterranean was always a key economic hub with the trade of goods between continents. The merchant emerges as a central figure in the region's history, carrying not only food and goods but also ideas and bridging the gaps between cultures and worlds. As countries continue in their transition towards democracy, the Mediterranean itself offers an immense economic opportunity. The geographical proximity to large European markets is a potential source of economic growth, diversification and private sector development.

The way forward

Of course, the region's destiny lies ultimately with the region itself; however the international community, especially the European neighbours also have a responsibility to help in this transition.

Sharing history and a common fate around the Mediterranean Sea, all actors - European and Arab - need to address together the numerous challenges of the region. We need to engage in a political dialogue which requires mutual understanding and respect for universal values. We also need to engage in economic support through financing and technical assistance.

The challenges that I have outlined cannot be contained within any one nation's borders. It is the interconnectedness of the Mediterranean region that has to become a source of strength in these trying times. Shared strategies, best practices in job creation and SME development, and assistance in institutional design can benefit the region at large by creating the conditions to realise the region's potential.

Malta is committed to assist and to share its experience with these countries. Following independence in 1964, Malta had to build its economy as it was fully dependent on being a military base. Throughout the years that followed, we built our institutions, diversified our economy, invested heavily in education, attracted foreign investment and today, when faced with the economic crisis, our economy has shown immense resilience. We are therefore well placed to assist countries in the journey they have embarked upon.

The basis of enhanced regional cooperation has been sealed in Malta during the recent 5+5 summit. The Malta Declaration agreed upon during the Second Summit of the Heads of State of Government of the Member States of the West Mediterranean Forum highlights clearly the commitment to enhance political dialogue and increase regional security and stability in the Mediterranean. It also seeks to introduce a more concerted effort that focuses on social and economic stability and development including job creation, environmental protection, regional integration and reduction of social disparities across the region. The Malta Declaration also pays particular attention to the importance of creating more educational opportunities for the region's youth.

During the 5+5 Summit it was evident that the countries undergoing transition are also inspired by the European Union as a bearer of free trade and of democratic values and institutions. We know all too well the importance of free trade as a precondition of growth and employment creation. It is therefore pertinent to ask whether one day these countries will form a Union of Maghreb states based on the idea of the European Union where a single market can be established in the North African region.

It is therefore evident that the time has come to focus more Euro-Mediterranean political energy on delivering practical cooperation in areas where such measures are urgently required. Such forms of cooperation are essential if a future Euro-Med Partnership is to be perceived as relevant to the people of the Euro-Mediterranean area.

Such modalities of cooperation would of course adopt all of the existing mechanisms of partnership including association agreements, action plans, trade provisions and financial cooperation that already exist through the Euro-Mediterranean Partnership and European Neighbourhood Policy. The main goal of this initiative would be to create a more positive atmosphere between Europe and the Arab world in all sectors, including politics, education, culture and business. The success of this initiative will lie in the informality of regular interaction between the two shores of the Mediterranean.

This is especially the case in the human tragedy of irregular immigration. This tragedy cannot be pigeon-holed to a particular region. It is Europe's problem as much as it is Sub-Sahara and North Africa's problem. It is above all a humanitarian problem that uncovers the desperation, hunger, malnutrition and violence that these people endure in their country of origin. Their voyage of hope is itself the fruit of despair. It is to this problem that we as international community have to respond to. The response to this tragedy is not only about burden sharing or repatriation but above all it has to direct aid to the countries of origin.

Unless the issues are tackled at source by the international community, irregular migration will continue to be a humanitarian tragedy. This is why regional cooperation is needed – so that together we can invest in people's lives in their own country.

There should be no compromise when it comes to democratic values, human rights and fundamental freedoms. Our role should be to listen to what assistance the respective countries going through this transformation would like from us and to help deliver on their aspirations of a more stable and prosperous future. It is important that the EU budget outlay for 2014-2020 sends a clear signal that we are prepared to stand shoulder to shoulder with our Mediterranean counterparts during this historic moment in Euro-Mediterranean relations and assist them in their daunting political and economic challenges.

We also look forward to contribute and to engage with other regional organisations such as the Arab League and the Union for the Mediterranean. Aware of the difficulties that have plagued the process, I am confident that the Union for the Mediterranean can be a catalyst for developing projects that can be supported by member states, the private sector and financing institutions.

Although the challenges are daunting, the opportunities that await us encourage us on our path.

Ladies and gentlemen

The Mediterranean has always and even more so today, represented an opportunity.

The Mediterranean Sea and the region have always been and will be about people.

The opportunities lie in educating the millions of children in the region, in creating the right conditions to create jobs for the youths, in building an economy that generates wealth which can be shared and distributed fairly.

The opportunities lie in achieving together the hopes, dreams and aspirations of a people yearning and who were ready to lay their life for a better way of life.

The opportunities in front of us are not merely economic ones but the biggest opportunity is in providing an answer to some of the basic human yearnings: the yearning to live in peace, to access good quality education for all, to achieve respect and dignity; to find work and earn an honest living; to be able to express oneself freely and to be able to partake in civil society..

It is our political will and initiative - together with the entrepreneurial skill that have been synonymous with this region throughout history - that will determine whether we will seize the unique opportunity the Mediterranean has presented us with.

Thank you.

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