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The new Mediterranean trade routes

The return to protectionism on the international scene has, once again, put the spotlight on free trade agreements. At a time when America is closing up, other regions of the world have decided to open their doors, reshaping international trade alliances. This push towards liberalisation could give new momentum to a cooperation attempt set in motion nearly thirty years ago, in one of the world's oldest trading regions. In 1995, Mediterranean countries embarked on a major project to create an integrated economic area. This ambitious scheme, known as the Barcelona Process, was to be based on a comprehensive free trade agreement. It was to be built on the European model, with the aim of enabling free movement of goods within the Mediterranean region. Where exactly do we stand with this scheme today?

"Barcelona Process", "Euro-Mediterranean Partnership", "Union for the Mediterranean" – the name has changed several times over the years, but although the objectives were set in the 1990s, they still seem far from being achieved. While Asia has successfully risen to the challenge, Mediterranean countries trade relatively little between themselves. In fact it would seem that the share of intra-Mediterranean trade in the region is even diminishing. How can these disappointing results be explained? First of all, although the Barcelona Process had the aim of creating a regional free trade zone, so far it has only resulted in a multitude of bilateral agreements between the EU and individual Mediterranean countries. Regional agreements bind certain North African countries, whereas Turkey has developed its own network of cooperation. In summary, we are still far from achieving the model of a free trade zone. Trade liberalisation in the region, although incomplete, is not yet producing many results, due to a number of reasons. In addition to the economic similarities seen between the countries that make up the region, trade expansion has been limited by a complex institutional framework, persistent protectionist policies, the consequences of the 2009 crisis and the Arab Spring.

Nevertheless, there are reasons to give hope. The trade structure within the region has been evolving since the 2000s. Some southern and eastern economies are specialising in higher added-value sectors, in order to move upmarket. Information and communication technology exports have increased (Tunisia, Morocco), while the automotive sector is illustrating the booming integrated value chains in the region. In this upmarket context, lower value-added goods, such as the textile and clothing sector, are now less prevalent in the region's trade. Another positive trend evolving is that new actors supplying raw materials have emerged in the region (energy, chemicals and construction). More specifically, these new players are Greece, Cyprus, Malta and Egypt.

coface FOR TRADE

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1 INTEGRATION IS SLOWLY DECLINING IN THE MEDITERRANEAN

An increased willingness for trade cooperation since the 1990s…

The Mediterranean region[1] is characterised by its capillary network of maritime routes – one of the world's biggest transport networks. However, despite a long tradition of trading between the North and South shores, trade integration among the different countries is struggling to consolidate. Mediterranean countries began a trade liberalisation process in the 1990s, in the context of the Barcelona agreement. One of the objectives of this cooperation was to encourage the development of trade flows, with the end goal of creating a Mediterranean free-exchange area by 2010. This cooperation would extend between the EU and Southern countries as well as between Southern and Eastern countries. Although the initial aim was to remove regional trade barriers, the Barcelona Process actually brought about a multiplication of bilateral agreements between the EU and its neighbouring countries. Often qualified as partial, the Free Trade Agreements (FTA) that were established, mainly covered the removal of tariff barriers for manufactured goods, while agricultural products and services were barely taken into account, even though their liberalisation was incentivised.

Table 1:
Agreements between the EU and Mediterranean countries:

Countries	Status	Date signed	Entry into Force
Albania	Signed	June 2006	April 2009
Algeria	Signed	April 2002	September 2005
Bosnia-Herzegovina	Signed	June 2008	June 2015
Egypt	Signed	June 2001	June 2004
Israel	Signed	November 1995	June 2000
Lebanon	Signed	June 2002	April 2006
Morocco	Signed	February 1996	March 2000
Montenegro	Signed	October 2007	May 2010
Tunisia	Signed	July 1995	March 1998
Turkey	Customs Union	January 1996	December 1995

In 2005, the cooperation initiative between the EU and South Mediterranean countries was revived and given an additional dimension, with the integration of the Barcelona Process into the European Neighbourhood Policy. Free trade agreements were no longer to be restricted to developing relations between the EU and its Mediterranean neighbours. They now needed to fit into a broader cooperation framework aimed at helping to integrate Southern countries in the European area, whether they be EU candidates or not.

1 We have selected the following countries bordering on the Mediterranean basin: Portugal, Spain, France, Italy, Slovenia, Greece, Cyprus, Malta, Morocco, Algeria, Tunisia, Libya, Egypt, Israel, Turkey, Lebanon, Albania, Bosnia-Herzegovina, Croatia and Montenegro.

In 2013, a new phase of the cooperation was born. Negotiations concerning Deep and Comprehensive Free Trade Agreements (DCFTA) began between the EU and Tunisia and the EU and Morocco (2015). Similar initiatives are being considered with Egypt and Jordan. Set to replace the Euro-Mediterranean partnerships (FTAs), DCFTAs have the aim of creating additional opportunities for trade and investments through a greater integration of North African countries into the EU single market. Studies[2] produced by the EU have estimated the impact of these new agreements for North African countries, by assessing the effect of four liberalisation channels (customs tariffs, reduced tariff barriers, convergence towards European standards and knock-on effects) on trade growth, GDPs and labour markets. Although the impacts would vary from one country to the next, the implementation of DCFTAs should have an overall positive impact and contribute to strengthening trade with EU countries. In the case of Egypt, the DCFTA would be expected to lead to an 8% growth in trade in the short term and 25% over the medium term (GDP growth estimated between 1.2% to 1.8%). The results are expected to be more mixed for Morocco. Over the long-term, GDP growth would be 1.6%, but certain sectors could be negatively impacted. Morocco has carried out its own assessment, which is even less optimistic. The implementation of standards which comply with European regulations should benefit to structured industrial sectors but could have negative impacts on sectors such as agriculture and services (leading to potential social consequences). Tunisia is the country that would benefit the most from a DCFTA, with a GDP growth of 7% over the mid-term (although the agreement is being disputed NGO who are demanding an independent assessment). For the time being, DCFTA negotiations are more or less at a standstill.

Several bilateral and sub-regional agreements between Southern and Eastern countries have added to the multiplication of bilateral agreements between the EU and Southern countries. For example, North African countries are integrated into a free trade area with other Middle East and North African countries known as the Arab Free Trade Area[3] (AFTA) whereas Morocco, Tunisia and Jordan are regrouped under the Agadir agreements.

The Balkan region, which includes several countries that emerged as a result of the break-up of former Yugoslavia, is also in a unique situation. A preferential agreement with the EU is in progress, which aims to integrate Balkan countries into the common economic area in the medium-term. Just as for Southern and Eastern countries, the Balkan integration process translates into a number of bilateral agreements with each country of the sub-region. The region is also part of a wider free trade agreement including both occidental and oriental Balkan countries.

Turkey has developed its own cooperation network in the region. It is a full member of the Euro-Mediterranean partnership. It has also signed bilateral agreements with Egypt, Tunisia, Morocco, Israel and each of the west Balkan countries (Albania, Bosnia and Herzegovina, Montenegro and Serbia).

... which did not produce any convincing results

Several studies[4] focussed on the question of integration in the Mediterranean in the 1990s. They came to the conclusion that the share of intra-regional trade was relatively small in the Mediterranean. This share is even smaller if trade among European countries is excluded. Moreover, the multiplication of trade agreements put into place seem to have been fruitless. The share of intra-Mediterranean exchanges within regional trade flows is falling. In 2001, the weight of Mediterranean basin exports towards the Mediterranean as a share of total exports for the region was 31%. This share had slightly decreased to 29.1% by the end of 2016. To better understand trade in the Mediterranean, the twenty countries in the region were grouped into four sub-regions: European Union countries (Europe-Mediterranean, Euro-Med)[5], North African countries (South-Mediterranean, South-Med)[6], Middle-Eastern countries (East-Mediterranean, East-Med)[7] and the Balkans[8].

2 Sustainability Impact Assessment (SIA) for a potential Deep and Comprehensive FTA (Egypt 2014, Morocco and Tunisia 2013).

3 The Kingdom of Bahrain; Egypt; Iraq; Jordan; Kuwait; the Republic of Lebanon; Libya; Morocco; Oman; Qatar; the Kingdom of Saudi Arabia; Sudan; the Syrian Arab Republic; Tunisia; the United Arab Emirates; Yemen.

4 For an exhaustive literature review on the Mediterranean integration process, refer to Jarreau, Joachim, et al. *Economic integration in the EuroMed: current status and review of studies*. CEPII, 2011; or more recently, Cinzia Alcidi et al: *Trade and investment in the Mediterranean: Country and regional perspectives*. EMNES 2017

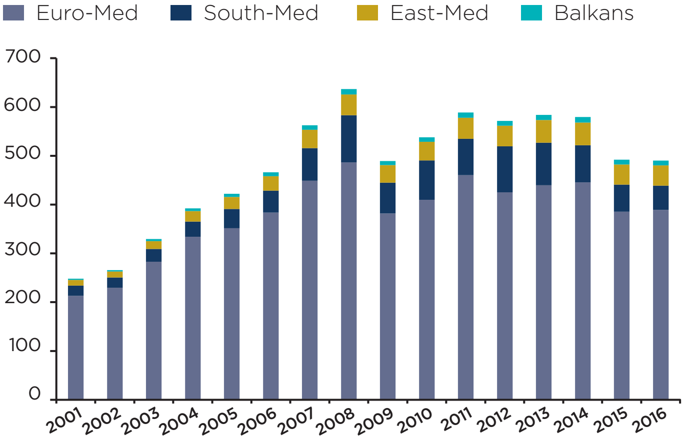
5 The Euro-Med sub-region comprises: Portugal, Spain, France, Italy, Slovenia, Greece, Cyprus and Malta. Croatia being part of the EU since 2013 only, it is included in the Balkans region.

6 South-Med comprises: Morocco, Algeria, Tunisia, Libya and Egypt.

7 East-Med includes: Israel, Turkey and Lebanon.

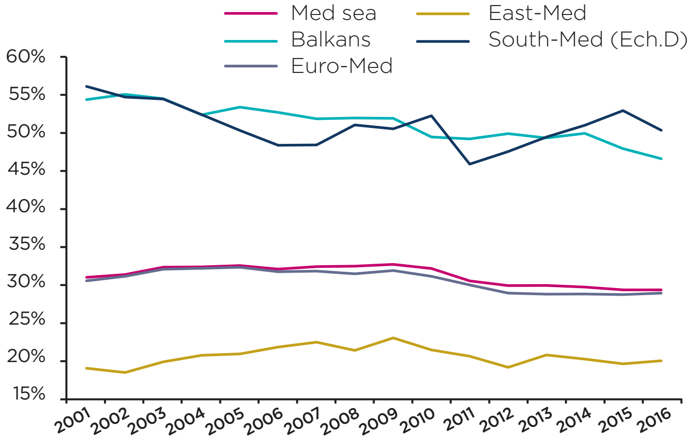
8 The Balkans include: Albania, Bosnia and Herzegovina, Croatia and Montenegro.

Chart 1:
Evolution of Total Exports By Sub-Region Towards the Mediterranean Sea (in Billion USD)



Source: Intracen

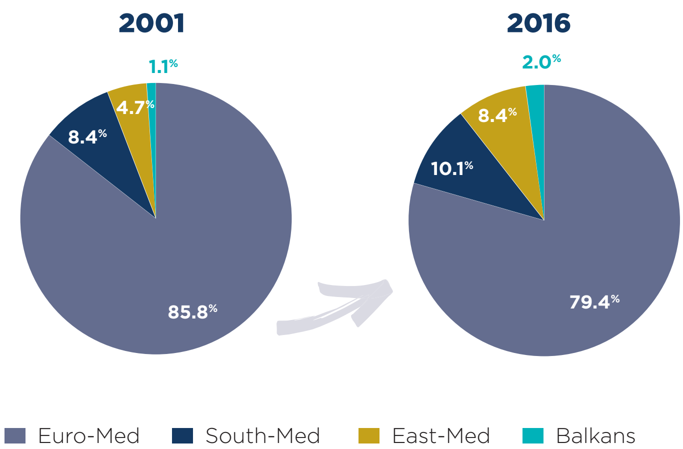
Chart 2:
Share of sub-regions' exports towards the Mediterranean (over total exports)



Source: Intracen, Coface's computations

Reduced trade integration has been observed in all four of the sub-regions. On average, 28% of Euro-Med exports were destined to Mediterranean countries in 2016 (against 30% in 2001, chart 2). The sub-regions having the lowest weight in regional trade are the Balkans and Southern countries (see chart 1), even though they are the most dependent on Mediterranean trade (see chart 2). The export flows of East-Med countries to the Mediterranean increased slightly until 2009, but subsequently decreased. Due to their size, European countries account for a major share of these flows and the Euro zone remains the most important partner for all the sub-regions - both with regards to imports and exports (see chart 3). Despite a slight increase, flows within the South Mediterranean and between the South and East Mediterranean remain limited (less than 10% of exchanges).

Chart 3:
Weight of each sub-region in regional trade



Obstacles to the development of trade linkage

Despite the attempts to develop exchanges in the Mediterranean region, trade integration is struggling to become a reality. The 2009 crisis and Arab Spring have contributed to a decrease in trade flows, although this only partially explains the weak integration. Looking beyond the European Union's economic weight in the area, competition among Southern and Eastern countries is often cited as the main reason for the lack of regional integration (most of these countries were initially specialised in the agricultural and textile sectors). Other possible explanations can however be given.

Arab Spring restricted trade within the region

An analysis of the development of trade flows within the Mediterranean would be distorted without taking into account the political and social events that have marked the region. Mediterranean exports to the Mediterranean dropped by 23% between 2009 and 2010 (and by 24% for exports to the rest of the world). Although they subsequently benefitted from a slight increase, they never regained the same level as before the crisis. The Arab revolutions of 2011 seem to have had deeper consequences on trade for Southern and Eastern countries. South-Mediterranean exports have gradually decreased since 2012. Imports have also decreased in the region since 2014. In Tunisia, trade openess index dropped from 106.5% in 2012 to 90.0% in 2016, although it has somewhat stabilised since 2015. The trend is similar for Turkey, as its openness index dropped from 52.7% in 2011, to 46.8% in 2016. The impact was even deeper in Egypt, where the index more than halved, dropping from 71.7% to 30.0% over the 2012-2016 period. The index for Algeria dropped from 76.7% to 56.3%, while Morocco was the only country where it remained stable.

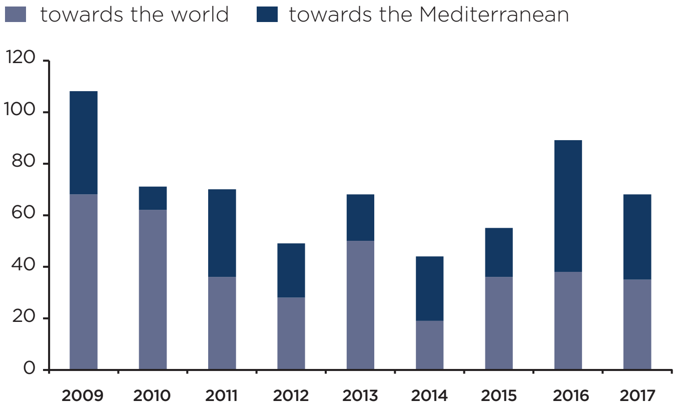
Detrimental side effects, due to the proliferation of Preferential Trade Agreements

Another potential explanation for the counter-performance of the regional integration process is the negative effect resulting from the multiplication and superimposition of free trade (or preferential) agreements. Sami Bensassi & al. (2012)[9] analysed the effects of the proliferation of PTAs (Preferential Trade Agreements) within the Mediterranean. The report highlights two consequences relating to the multiplication of agreements: a "direct" effect resulting from the implementation of an agreement (generally seen in an increase in trade), and an "indirect" effect stemming from the negative external factors created by the signature of other trade agreements with other partners. Concretely, the proliferation of agreements tends to complicate trade processes for a given partner, with different conditions from one agreement to the next (standards, quotas, etc.). This restricts the development of exports to several destinations. Indirect effects can halve or even cancel the intensification of trade exchanges made possible by a trade agreement between two partners. The EU-South and EU-East agreements have thus only contributed to significant increases in exports to the EU for two countries: Algeria (+13.6%) and Morocco (+13.9%). The authors of the 2012 report also demonstrated that South Mediterranean countries (Morocco, Algeria, Tunisia, Egypt) would gain greater benefits from integrating a common area of multilateral agreements among themselves, than from bilateral agreements with the European Union.

Increased protectionism despite a stated will to trade

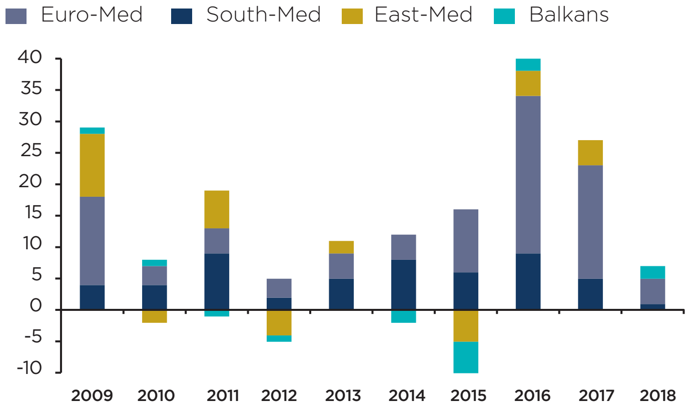
Despite the Barcelona cooperation strategy, there has been an increase in the number of protectionist decisions throughout the Mediterranean (Chart 4). These have included taxes on imports and exports, anti-dumping measures, public subventions, licences and quotas. Conversely, there have been less liberalisation measures initiated by Mediterranean countries (42 measures came into force in 2017, compared to 79 in 2012-2013).

Chart 4:
Number of net protectionist measures implemented by Mediterranean countries



Source: GTA

Chart 5:
Net protectionist measures by sub-region implemented towards Mediterranean countries



Source: GTA

Per sub-region, the Balkans implemented 141 protectionist measures during the period from 2012 to 2018. These have mainly targeted low added-value products (such as fruit, vegetables and nuts) and metals (such as steel and iron). 91% of these measures were implemented by Croatia, the largest economy in the region[10]. Other European Union countries in the Mediterranean took the most protectionist measures during this period (338 globally and 190 targeting Mediterranean countries between 2012 and 2018, Chart 5). These measures mainly concerned fruit, vegetables, heavy industry and chemicals.

South-Med countries have implemented 63 protectionist measures since 2009, compared to ten liberalisation measures. The liberalisation measures focus on facilitating trade in the agri-food sector (particularly cereals). In contrast, the metals sector (iron and steel) is the most affected by protectionist measures. Algeria, in particular, has temporarily suspended the import of 851 types of products in 2018.

Protectionism has also taken the shape of non-tariff barriers[11]. Technical barriers to imports are the most widespread in the Euro- and South-Mediterranean regions[12]. European product quality standards form part of these. In the East-Mediterranean region, health and phytosanitary measures prevail, with the notable exception of Turkey, where technical barriers are the most significant contingent (with 157 inspection measures).

9 Bensassi, S., de Sousa, J., & Jarreau, J. (2013). *Preferential Trade Agreements Proliferation: Sorting out the Effects* (No. 2013-04).
10 This inflation of protectionist measures can be explained by Croatia's implementation of EU regulations after its entry into the union in 2013.
11 The global non-tariff measures database of the UNCTAD lists all the non-tariff barriers per country, thus making it possible to measure different types of trade barriers whether they be regulatory, sanitary or normative. These barriers aim to protect a given country's local industries from international competition.
12 These measures refer to the technical regulations and procedures used to test the compliance of imported goods with the applicable standards and regulations.

Business environment: a difficult upgrade

The weakness of the business environment partially explains the difficulties in accessing certain markets – particularly in the South and Balkans. Most of the countries in these two sub-regions are classified between A4 to E (mid to weak level) in Coface's classification of business environments. Difficult access to information on companies and the length of time spent in customs and on administrative formalities are the most recurrent constraints. As an example, Egypt and Algeria do not have electronic databases for the management of customs data, which makes the declaration process slower and less effective. Moreover, close to 11 and 6 days respectively are required for imports into Algeria and Egypt, while only 2 days are required in Tunisia and Morocco. According to Djankov, Freund & Pham (2006)[13], one additional day's delay for exports can lead to a 1% downturn in trade flows.

13 Freund, C., Pham, C. S., & Djankov, S. (2006). *Trading on time.*

Table 2:
Business environment in the Mediterranean

	Business Environment
France	A1
Spain	A1
Israel	A2
Italy	A2
Malta	A2
Portugal	A2
Slovenia	A2
Croatia	A3
Cyprus	A3
Greece	A4
Morocco	A4
Turkey	A4
Bosnia and Herzegovina	B
Montenegro	B
Tunisia	B
Albania	C
Algeria	C
Egypt	C
Lebanon	C
Libya	E

Source: Coface Model

2 NEVERTHELESS, NEW TRADE ROUTES HAVE OPENED

Although integration in the Mediterranean region is receding on the whole, new sectoral specialisations have been emerging since the beginning of the 2000s.

Measuring new flows

In order to identify these new trade routes, four aspects were analysed: Mediterranean countries' exports to the world, to the Mediterranean, to the four sub-regions and to the nineteen other countries identified in the study sample. From a sectoral point of view, goods were grouped into eleven business sectors. These business sectors were Agri-food, Wood, Chemicals, Construction, Energy, Metallurgy, Paper, Pharmaceutics, Textiles & Clothing, Information & Communication Technology, Transports and Other.

The UN Comtrade database, on which we based our analysis, details the bilateral flows (imports and exports) for each category of goods. The classification system per two-digit tariff lines, Harmonised System, was favoured in order to group goods into sectors. The twenty Mediterranean countries were studied both as "reporters" (country initiating the flow) and "partners" (recipient of the flow). The World partner category includes all flows initiated by the "reporter" to or from the rest of the world. Two separate historic periods were compared – the 2000-2007 period (associated with the building of a true trade integration process in the region) and the 2012-2016 period (corresponding to the post-crises period following the global financial crisis and Arab Spring). The analysis focussed mainly on exports.

The distribution of exports per sector and destination (partner country, sub-region, Mediterranean and rest of the world) were calculated for each country and sub-region. The averages of the variables obtained (table below) were analysed over the two periods (2000-2007 and 2012-2016).

Table 3:
Sectoral variables methodology

VARIABLES	DESCRIPTION	EXAMPLE
Sector share – Global	Sector S share of total global exports (or imports) of country i	Share of Moroccan automotive exports in Morocco's total global exports
Sector share – Mediterranean	Sector S share in the total Mediterranean exports (or imports) of country i	Share of Moroccan automotive exports in the total Mediterranean exports of Morocco
Sector weight – Partner sub-region	Sector S share in the total exports (or imports) of country i to one of the four partner sub-regions	Share of Moroccan automotive exports in the total exports of Morocco to the East-Med region
Sector weight – Partner	Sector S share in the total exports (or imports) of country i to partner country j	Share of Moroccan automotive exports in the total exports of Morocco to Turkey
Partner weight – Sector	Partner j share in country i's global exports (or imports) for sector S	Share of Turkey in Moroccan global automotive exports
Partner weight – Global	Partner j share in total global exports (or imports) of country i	Share of Turkey in total Moroccan global exports
Partner weight – Mediterranean	Partner j share in the total Mediterranean exports (or imports) of country i	Share of Turkey in total Moroccan Mediterranean exports

Thresholds were established in order to identify new trends: the intensification (or disappearance) of existing sectoral flows and the emergence of new ones (due to the emergence of new sectors, or new partners). Two main criteria were adopted;

1) Flows to a partner representing over 5% of the exports for one sector to the rest of the world (in order to exclude small flows);
2) Those where the weight has increased (or decreased) by more than five percentage points between the two periods.

The results show that the regional trade structure changed little between 2000 and 2016. Agri-food and chemicals are among the sectors that have expanded in Mediterranean trade flows. On the whole, all other sectors (and above all, automotives and energy) are declining. The structure of exports per sub-region show differing trends from one sub-region to another (chart 7).

Chart 6:
Distribution of sectors within sub-regional exports in 2000 and 2016

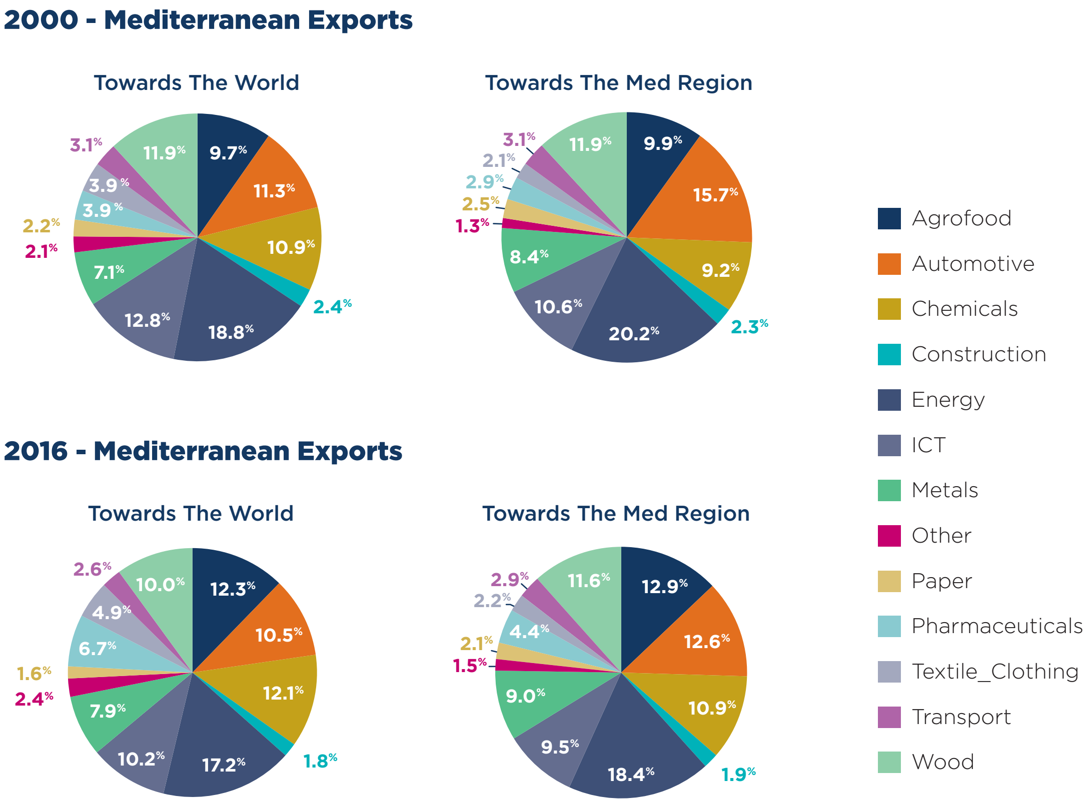
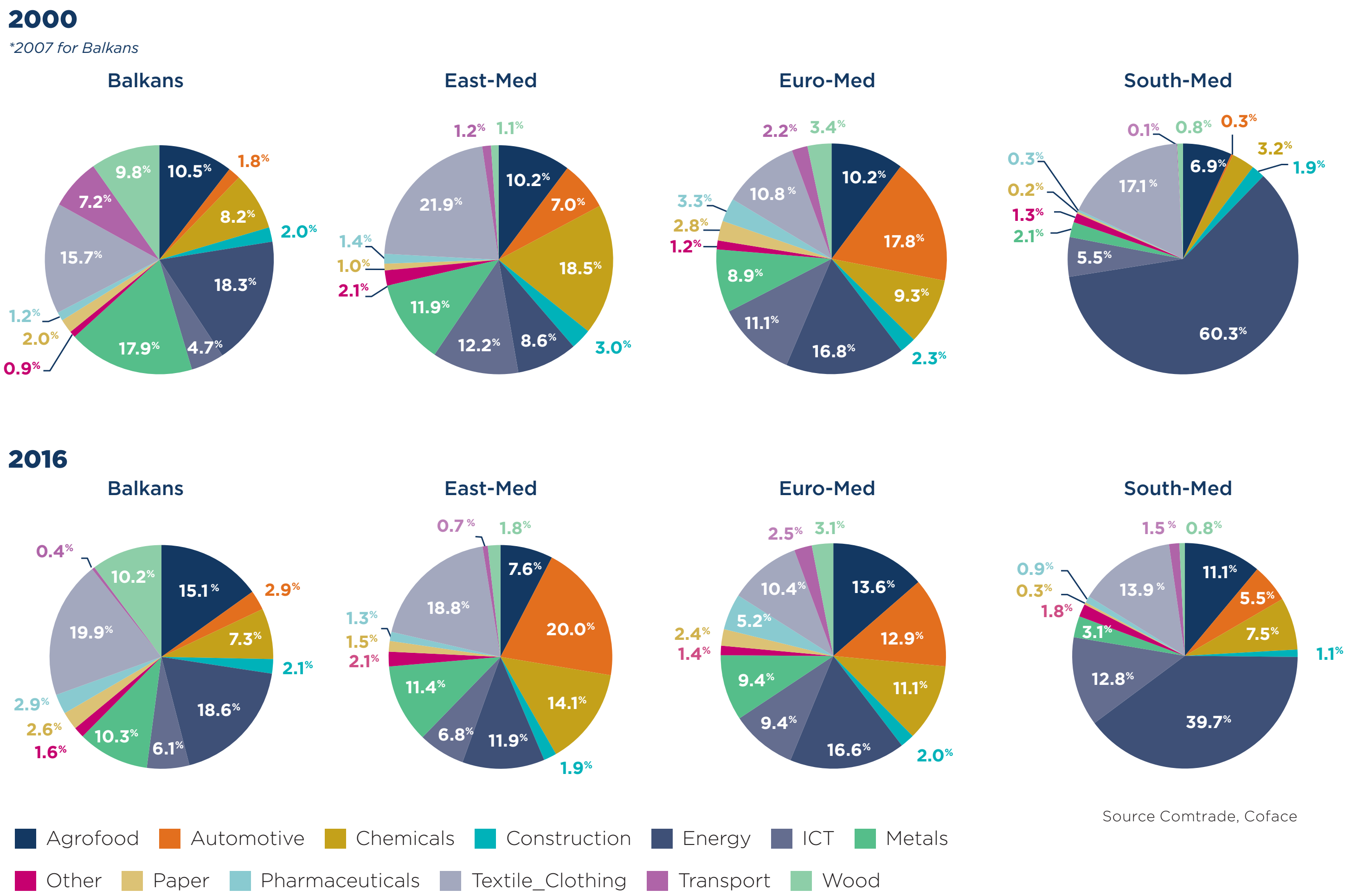


Chart 7:
Distribution of sectors within sub-regional exports in 2000 and 2016



Source Comtrade, Coface

East and South-Med are moving upmarket

The approach of using bilateral trade flows makes it possible to target emerging sectors in the sub-regions and to identify the countries at the origin of these exchanges as well as the destination of these exports. Tunisia and Morocco are coming out ahead in the ICT sector. Tunisia was the first country to record an increase in ICT flows, while Morocco is diversifying its partners. The growth of the automotive sector in the South and East Mediterranean is due to increased exports from Morocco and Turkey to the whole Mediterranean basin. Finally, this move upmarket is taking place to the detriment of traditional sectors such as energy and particularly textiles.

Tunisia and Morocco: a growing specialisation in information and communication technologies

ICT exports in Tunisia clearly increased over the two periods, rising from 15% of total exports in 2000-2007, to 28% in 2012-2016. Foreign direct investments have increased and the ICT sector now holds the 4th position in terms of manufacturing FDIs. Policies in favour of exports[14] have also contributed to the success of the ICT sector. This upturn is shown by the increase in exports to the Euro-Mediterranean area, which now represent close to 30% of exports to the sub-region (compared to 15% previously). France remains Tunisia's main partner, accounting for 42% of total exports (double than that of the previous period). Exports to Spain are also increasing. The main products exported are cables and cable harnesses, electronic assemblies, electrical components, lighting equipment and machined mechanical parts.

Morocco continues to export the same amount of ICT goods, but its main partners have changed since the beginning of the 2000s, shifting from France, Portugal and Malta to Spain and Italy. The sector now represents 25% of Moroccan exports to Spain and Italy, compared to 8 and 12% respectively before the crisis. Spain has caught up with France, accounting for 33% of Moroccan exports in this sector (compared to 34% for France).

14 A competitiveness centre dedicated to mechanics, electronics and IT, including microelectronics and a nanotechnology research centre, was created in Sousse.

Automotives:
the rise of the South and East

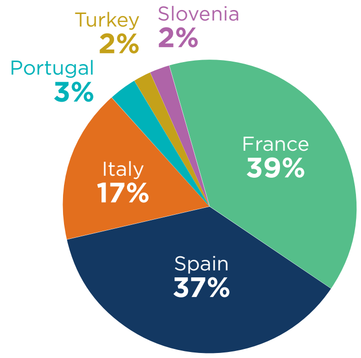
The rise of the automotive sector in the East and South Mediterranean is explained by the growth of Turkish and Moroccan exports. The development of the automotive sector in these two countries led to a reconfiguration of the sector's exports within the Mediterranean between the two periods (see charts). Since 2009, both countries have pursued policies for developing new industrial sectors, with the aim of better integrate themselves into global value chains.

Through its Emergence Plan launched in 2009, Morocco has implemented a series of initiatives to promote its automotive industrial fabric. The country set itself the challenge of developing an industrial ecosystem with an integration rate of 65%[15]. The Renault plant established in Tangier, which exports 90% of its production, was the first step towards this diversification. The arrival of the automotive manufacturer led several first and second level equipment manufacturers to establish themselves in the industrial zone of Tangier Med, in the north of Morocco. Moroccan automotive exports to the Mediterranean therefore dramatically increased between the two periods. They grew to represent 13% of Moroccan exports to the Mediterranean in the 2012-2016 period, compared to just 1% previously. Mainly destined for the European market, automotive exports are also developing to South and East Mediterranean countries, and are mostly made of finished tourism vehicles. Egypt and Turkey have both strengthened their position in the sector, increasing from 2% of exports over the first period to 7.5 and 8% respectively in the 2012-2016 period. These increases have occurred to the detriment of the French and Spanish markets, where their weight in terms of Moroccan automotive export destinations has decreased by 10 percentage points. Morocco's main input suppliers for the automotive sector remain Spain, France, and, to a lesser extent, Turkey.

In Turkey, an investment incentive scheme was introduced in 2012[16], with the aims of promoting specialisation into higher added-value activities and reducing territorial inequalities. The incentives[17], which did not specifically target the automotive sector, focused on both national and foreign compagnies. Turkey already had a relatively large automotive industry, but these measures made it possible to develop the sector's assembly capacity and helped improve quality. This led to an increase in export flows to the Mediterranean. The weight of the sector has remained stable in the total exports, even though total exports have increased in the region. The growing maturity of the sector led to increased exports to Euro-Mediterranean countries such as France, Portugal, Slovenia and Israel. However, flows to the South-Mediterranean (Egypt, Algeria and Tunisia) are decreasing, with the exception of Morocco.

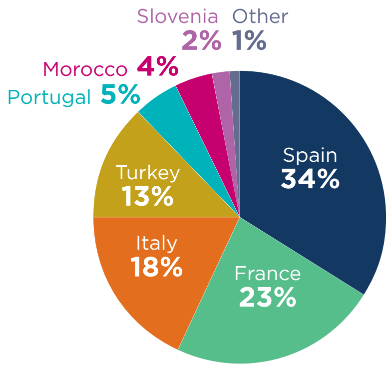
Chart 8:
The Automotive Sector in the Mediterranean Sea in 2016: Main exporters

2000



Sources: UN Comtrade, Coface

2016



Sources: UN Comtrade, Coface

Textile sector in decline

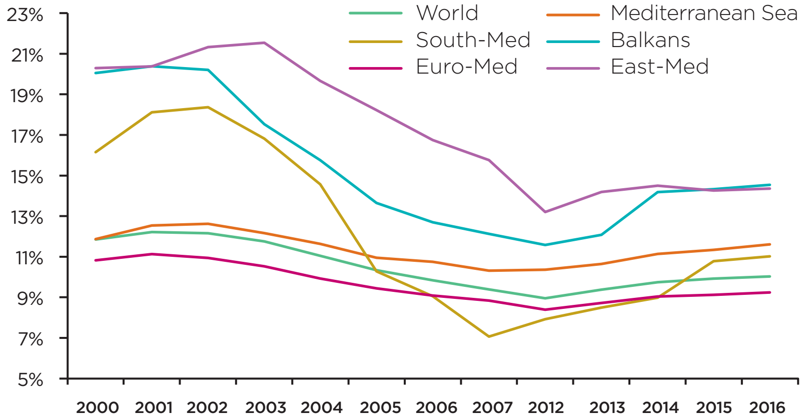
The weight of the textile sector in regional trade has been declining since the beginning of the 2000s.
The Eastern Mediterranean and South Mediterranean regions recorded the biggest decreases. They mainly concerned exports to the Euro-Mediterranean. Tunisia is the country which has recorded the biggest decline in textile exports (24 percentage points between the two periods), particularly to France. Turkey remains the leading textile exporter in the Eastern Mediterranean sub-region, although the strength of its textile exports to France and Italy has slackened. This decline was partly compensated for by increased sales to Spain, which has become Turkey's leading export partner in the sector (accounting for 6%). Over the past decade, Spain has become one of the largest buyers in the sector, due to its international-scale groups. However, textile exports to the South sub-region have intensified. The weight of East-Med textile exports to the South-Med increased by 10 points

15 In other words, 65% of parts required to produce finished passenger cards should be manufactured locally.

16 World Bank. 2017. *Measuring and analyzing the impact of GVCs on economic development*. Washington, D.C.: World Bank Group.

17 Among the measures implemented: value-added tax and custom tariff exemptions on inputs, land made available and lower social security contributions.

Chart 9:
Share of textile in sub-regions' exports



Source: Comtrade, Coface

between the two periods. The weight of East-Mediterranean exports to North African countries has also increased. This has included an increase in flows from Israel to Egypt and from Turkey to Tunisia.
The move upmarket by certain South-Med countries is not the only trend being observed. New sub-regional dynamics are emerging in the trade of raw materials.

Supply of raw materials: new players are emerging

In addition to the move upmarket by certain countries in the region, another major change is in the trading of raw materials and chemicals. New players have become more prominent in this sector. Energy remains the sector with the most weight within the Mediterranean, representing over 18% of export flows in 2016 (20% in 2000). Even though Algeria and Libya are still the region's leading hydrocarbon exporters, South-Mediterranean exports in this sector are on a decreasing trend, down from 60% to 40% of exports to the Mediterranean. Energy flow structures have also changed. At the beginning of the period, the two most-traded categories of goods were gas and crude oil. Exports of both of these have declined in favour of refined goods (for which demand has increased in both North and South countries). Among the countries benefiting the most from this change are Greece and Malta, which have both seen the weight of their exports to East-Med countries intensify.

Greece and Malta: the region's new energy suppliers

Energy has become one Greece's main exports, now accounting for 38% of its total exports (compared to 15% previously). This growth is even more perceptible in the Mediterranean zone, as energy represented 64% of Greek exports to the region between 2012 and 2016 (compared to 30% before the crises). Energy exports mainly concern refined oil products. Greece has four refineries – five counting one in Macedonia that belongs to Hellenic Petroleum, one of the largest energy groups in the Levantine basin. The increase in energy exports has accelerated rapidly since the Greek crisis. Faced with the drop in the domestic demand for refined products, refiners turned to external markets to find new prospects, particularly in bordering countries. There are three countries which are Greece's main partners in the sector:

- Turkey, already Greece's main partner in the sector during the pre-crisis period, with 9% of exports. It now receives 16.4% of Greek exports in the sector;
- Lebanon, a minor partner before 2007 (1.6% of exports), which now accounts for 7% of exports;
- Egypt with 5% of exports.

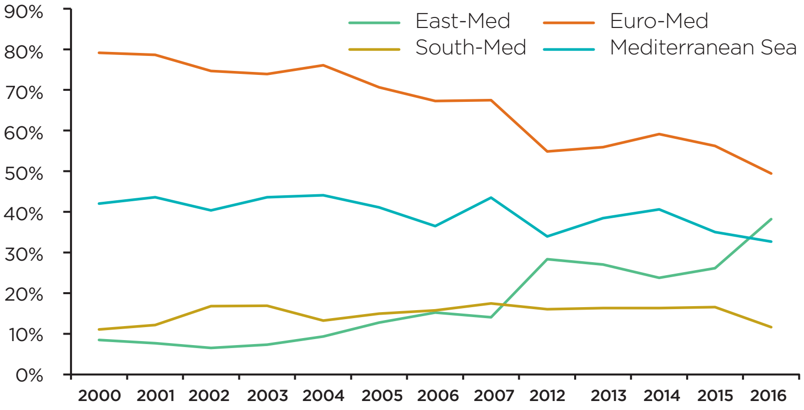
Energy has also become a prominent sector in Maltese exports, representing 41% of its total sales abroad (against 7% in 2000-2007). This increase has mainly been to the South-Mediterranean sub-region, particularly Tunisia and Egypt (21% of Maltese energy exports).

Turkey shows a different trend, as contrary to Greece and Malta, the share of energy in its exports has increased little (by just 3 percentage points, from 9 to 12%). The destination of its exports has, however, changed. Egypt has become a choice partner for Turkey, accounting for 6% of total exports in the sector over the 2012-2016 period (compared to 1% between 2000-2007). This is due to a significant intensification of the energy flow between the two countries (35% of total exports to Egypt now relate to the energy sector, compared to just 10% previously). This reassignment occurred to the detriment of the East-Mediterranean region (only 7% of Turkish energy exports, against 10% previously) and Italy (3% of Turkish energy exports, against 9% in 2000-2007). This trend is likely to be confirmed in future years. The discovery of new offshore deposits in the East Mediterranean (the gas fields of Zhor in Egypt and the Leviathan for Israel and Lebanon) should reinforce trade of energy product in the sub-region.

Chemicals: more intra-regional trade in the East Mediterranean

In addition to energy, the chemical sector is also gaining significance in trade exchanges in the east of the region. Within this sector, which represents 10% of the exchanges in the Mediterranean, Egypt, Cyprus and Israel are the current winners. Egypt's exports in the chemical sector represent 18% of its total exports to the world (compared to just 8% between 2000 and 2007). Chemicals and plastics is one Egypt's traditional sectors and has become an increasingly large component of the country's industrial production. The sector, which remains export-oriented, has benefitted from increased investments over recent years to become one of Egypt's highest-performing industrial export sectors. This increase has mainly been to destinations in the East-Mediterranean region, which accounts for 16.5% of Egyptian exports in the sector post-crisis (compared to 5% pre-crisis). Turkey is the leading customer

Chart 10:
South-Med Chemicals Exports Towards The Mediterranean



Source: Comtrade, Coface

for Egyptian chemical exports (40% of Egyptian exports to Turkey are chemicals, compared to 15% previously), although Lebanon is a rising destination with 24% of Egyptian exports to Lebanon belonging to the sector (compared to 4% previously). Flows to the Euro-Mediterranean have also intensified, particularly in favour of France. 49% of Egyptian exports to France pertain to the sector. This makes France Egypt's second partner in the sector after Turkey. Egypt's chemical exports should continue to increase in the years to come. The sector was among those to benefit the most from the liberalisation of the Egyptian pound in November 2016. Investments are also expected to continue. Several projects are underway which should increase production in the chemical industry. These projects included notably new production units for Misr Fertilizers Production Company (MOPCO) and Ethylene and Derivatives Company (ETHYDCO), to the tune of $4 billion, as well as a new fertiliser plant on the existing site of Egyptian Chemical Industries Company's (KIMA) Assouan complex.

Cyprus has also observed an increase in its chemical exports to the East-Mediterranean sub-region, which continues to be the leading recipient of Cypriot exports. Increasing from 5 to 13% of Cyprus's total exports to the world, chemicals now represent 40% of Cypriot exports to the sub-region (compared to 7% before the crisis). Israel is catching up with Greece, which remains the leading export destination for Cyprus in this sector. 37% of exports go to Greece (12% in 2000-2007), whereas exports to Israel represent 20% of exports, followed by Lebanon (5% of exports).

What about foreign direct investments?

Foreign Direct Investments (FDI) are another scope of analysis making it possible to assess the dynamism of regional trade. FDIs are present in all transactions conducted by agents resident in one economy through which they acquire a durable interest in a given country. Unsurprisingly, European countries are the main countries to receive FDIs in the region. France, Spain and Italy are among the 20 countries in the world receiving the most "Greenfield"[18] FDIs. On the whole, Mediterranean countries were dynamic as regards FDIs (as recipient countries), led by the Euro-Mediterranean. Indeed, 8,407 projects were announced between 2012 and 2016, i.e. a 23% increase. This growth is, however, below the global average (+39%). Although France and Spain were very dynamic in this respect (+27% and +50% of the number of transactions between the two periods studied), this was not the case for Greece (-42%), Portugal (-24%) and Italy (+0%), whose attractiveness was negatively impacted by the crisis. European countries are also the largest investors in the Mediterranean region. French investments accounted for 22% of FDIs in Morocco in 2016 and 28% of FDIs in Tunisia in 2015.

Conversely, the number of transactions announced has little increased (6%) for the North African region, mainly due to the consequences of the Arab Spring. In fact, these countries saw their FDI inflows diminish quickly. New projects dropped by 19% in Tunisia over the 2012-2016 period, compared to 2003-2007. A similar movement is observable in Algeria and Libya, where these respectively decreased by 53% and 56% over the same period. The situation in Morocco is different, as it is the only North African country to gain attractiveness, with a 46% increase in the number of projects. Finally, Turkey (+87%), Israel (+49%) and Montenegro (+96%) are outperforming their regions (East-Med and Balkans), where the number of projects overall has decreased.
As regards merger and takeover transactions, the picture is more positive. Companies have changed how they invest in the Mediterranean area and are now favouring M&Ts. These transactions increased by 24% in the region between 2003-2007 and 2012-2016 (against only 10% in the world). It should be noted that there was a strong increase in this type of transaction in the South-Mediterranean (+76% between the two periods) and East-Mediterranean (+64% between the two periods).

18 A greenfield investment is a type of FDI that occurs when a transnational company establishes itself in a third country to build new plants and/or shops.

RESERVATION

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