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**INVESTMENT FROM THE GCC
AND DEVELOPMENT IN THE MEDITERRANEAN.
THE OUTLOOK FOR EU-GCC FINANCIAL AND ECONOMIC
COOPERATION IN THE MEDITERRANEAN**

by Bénédicte de Saint-Laurent, assisted by Pierre Henry & Samir Abdelkrim

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Abstract: Basic questions posed in this study were whether the trend of Gulf involvement in the Mediterranean economies was sustainable, what the specifics of those investments are, and could a triangular cooperation be envisaged? What is clear is that Gulf investors have become major players in the Mediterranean with an investment volume of more than 70 billion Euro in nearly 700 projects since January 2003. The Gulf now seems to have joined Europe as a sustainable second investment pillar. The complementarities between needs and resources of Europe, GCC and Med countries call for the implementation of an integrated co-operation model, similar to the Japan-China-ASEAN triangle.

Keywords: Gulf Countries / Foreign Direct Investments (FDI) / Mediterranean Region / Bilateral Relations / European Union

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1. The Gulf and the Mediterranean: The Beginning of an Affair?

During the last decade, Gulf investors have become a major player in the Mediterranean, sometimes surpassing Europe. Since the inception of the ANIMA observatory (January 2003), they have invested some 70 bn Euro in almost 700 projects (a ratio close to €100m per project, a rather big ticket), mostly in Mashreq and in Maghreb. They had announced even more (€160 bn), but this was partly communication and, of course, the crisis has reduced some ambitions. The acceleration has been recent (2006 and 2007), mainly thanks to the Emirates and somehow linked to a real estate/tourism bubble.

This paper tries to answer a set of questions:

- Is the trend of Gulf involvement in the Mediterranean economies sustainable?
- What are the specifics of these investments? Do they differ from projects originating in Europe or in the USA? What sort of value do they bring to the region and the countries' economy?
- Could a triangular (Mediterranean-Gulf-Europe) co-operation be envisaged, as a complement to the rather modest interest of Europe for its Southern and Eastern neighbours? How could a real partnership be developed, based on mutual interests?

In this paper, the Gulf is defined as the Gulf Cooperation Council (GCC) countries (Bahrain, Emirates, Kuwait, Oman, Qatar, Saudi Arabia), when *MED countries* (or MED-10) are Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey. Libya is sometimes added to this list (MED-11), as well as Cyprus and Malta for 2003 and 2004 (MED-13).

2. Global Picture of FDI in MED Countries

Four major players are involved in the FDI (foreign direct investment) business towards MED countries: Europe, the former colonial power and traditional investor; North-America, interested in resources and main sponsor of Israel; the Gulf, concerned in terms of Arab brotherhood and also looking for geographical/profitable expansion; and the MED countries themselves, poorly integrated, but developing some in-roads for industrial networking (see for instance the projects of Orascom of Egypt in construction or telecoms and the strategy of Turkish firms in Mashreq).

Once relatively neglected at world level in the early 2000s (less than 1% of global FDI inflows when they represent 4% of population), the MED countries have recovered a more significant attractiveness in the 2004-2008 period (around €40bn in FDI per year, or 3 to 4% of the world market). Two countries have accounted for most of this recovery, Turkey, a new EU candidate and Egypt, benefiting from strong reforms since 2004. However, the whole region is on an upward trend, for external reasons – proximity with Europe at a time of high energy costs and the search for lower labour costs – and internal reasons – continued growth since 2000, pressure of domestic

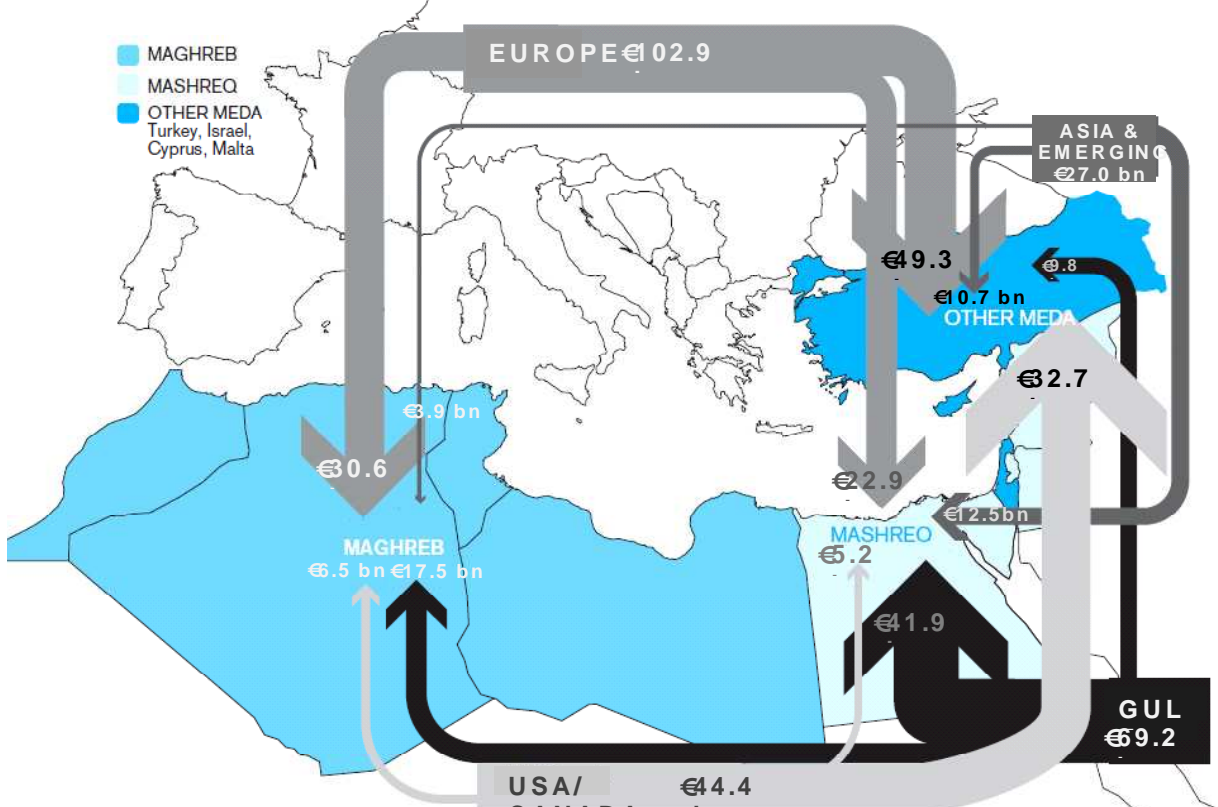
* Anima Investment Network.

demand, full conversion to market economy and business realism (e. g. Syria), clever public investment programmes (Tanger-Med, e-government in Jordan, Tunisian technopoles etc.). The smaller countries (Jordan, Lebanon, Tunisia and, above all, Israel) have relatively better FDI performances than the larger ones.

The MED region has received around €255bn in FDI in the last 6.5 years (Jan. 2003-Oct. 2009¹), according to the ANIMA observatory. These figures are similar to the UNCTAD records², which represent a different reality (macro-economic flows registered by the central banks, when ANIMA collects all the announcements made by companies). The main beneficiaries are, as was already mentioned, “other MEDA” (Israel/Turkey/Malta/Cyprus), capturing 40% of the flow, Mashreq (34%) and Maghreb (26%).

The geography of these flows, represented in the map below (Figure 1), illustrates the diversity of investment preferences of the principal FDI-issuing regions. Europe invests especially in Turkey, in the Maghreb and in Egypt, the Gulf mainly in Mashreq. The United States concentrates on Israel. These strong affinities are initially the product of geography, the most significant flows being established between the closest blocs (Europe-Maghreb or Europe-Turkey, Gulf-Mashreq). But physical geography can be overcome or reinforced by cultural or historical affinities: privileged business connections of the family and patrimonial capitalism of the Gulf with Jordan, Lebanon, Syria or Egypt, intimate relations between the USA and Israel.

Figure 1. Main FDI inflows into MED countries, per origin and sub-region of destination (in €bn)



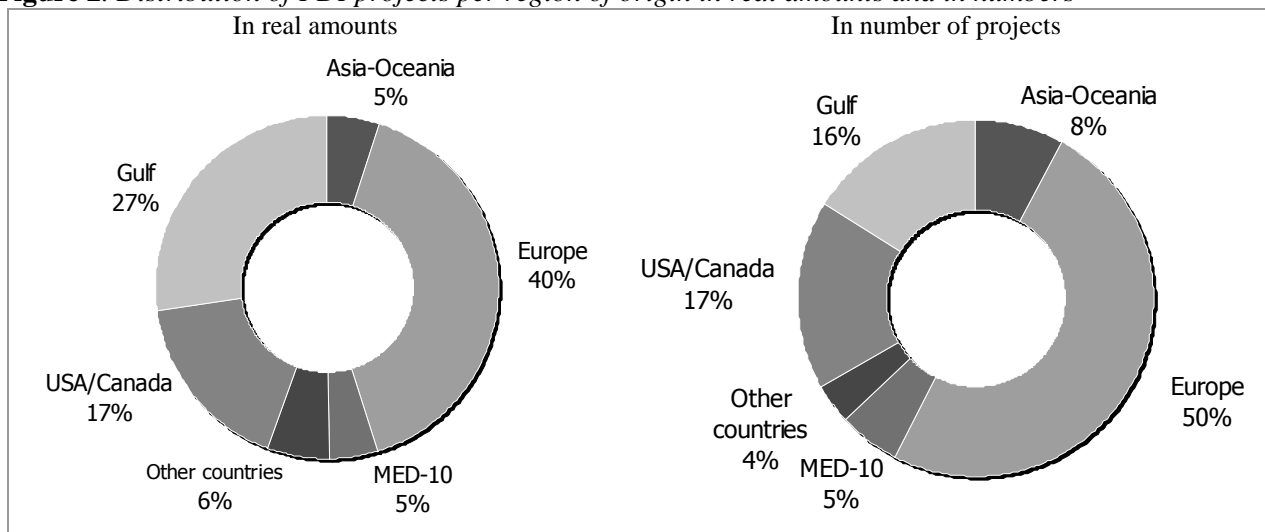
Source: ANIMA Observatory, IEMed map. Cumulated FDI amounts (real) over 2003-2009.

¹ 2009 is counted here as a half-year. This paper is based on data collected until October 2009, but the total might represent 50% only of yearly flows, since numerous projects are identified after a year-end review with peers.

² UNCTAD, *World Investment Report*, published every year in September. Average of €292 bn/year of FDI into Med-10 for 2003-2008, vs. 36.9 for ANIMA, same period.

Among the 4,222 projects recorded by ANIMA over the 6.5 year period 2003-2009, 681 projects originated in the Gulf (16% in numbers, but 27% in amounts), making this issuer second to Europe in the Mediterranean FDI market (Figure 2).

Figure 2. Distribution of FDI projects per region of origin in real amounts and in numbers

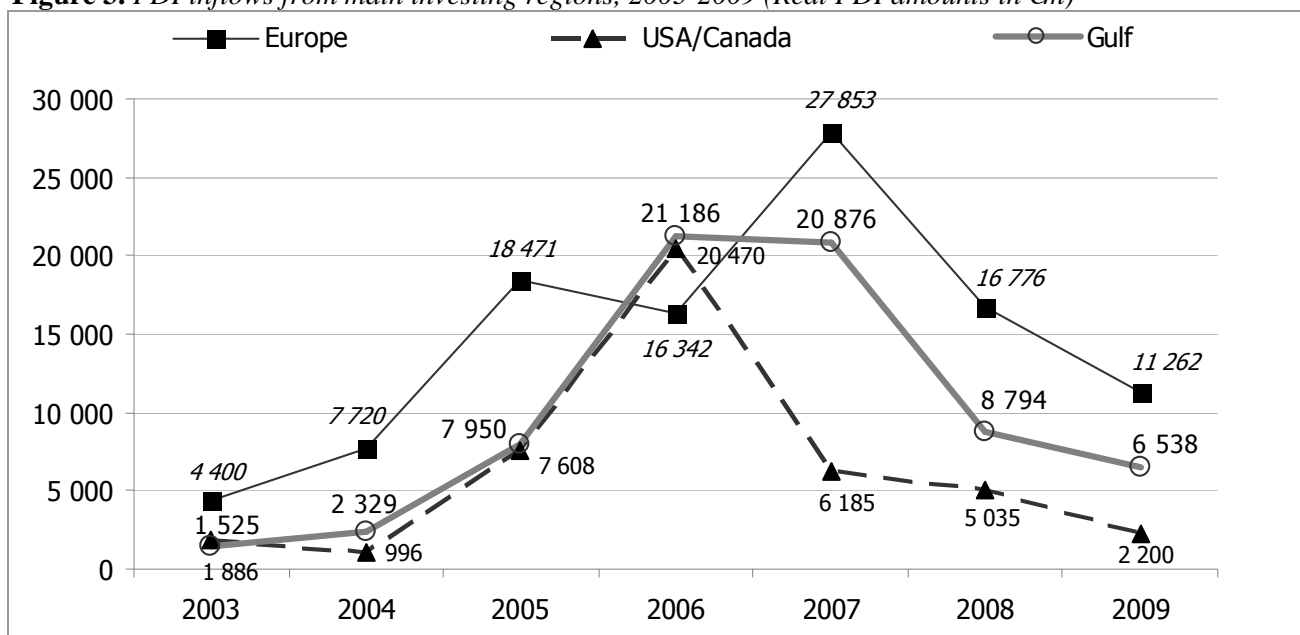


3. Gulf State and EU Investments in the Mediterranean

3.1 A recent Gulf boost, sometimes oversold

Europe and the Gulf dominate foreign investment flows in the Mediterranean, with a different historical background. Europe (and particularly France, which has the leading share of FDI) always had vested interests in the region –remember Rome... For the first time, the investors from the Gulf (GCC) surpassed Europe in 2006 as the main issuers of FDI. With the surge of European investments registered in 2007, and the net decline in North American projects, the Gulf now seems to have joined Europe as a sustainable second investment pillar, together accounting for two-thirds of the FDI inflows registered over 2003-2009.

Figure 3. FDI inflows from main investing regions, 2003-2009 (Real FDI amounts in €m)



Source: ANIMA Observatory. Data collected until Oct. 2009 (or ±50% of 2009 flows).

When comparing FDI announcements with actual projects (as empirically measured by ANIMA, considering the likelihood of project implementation, its breakdown into realistic stages and the news updates), it appears that Gulf investments show the biggest differences between gross and real flows (Figure 4). Only 43% of the projects seem deemed to be achieved, vs. 71% for EU projects and 78% for North-American projects. This is partly linked to the sectors in which the Gulf invests (construction), more prone to cancellations.

Figure 4. Cumulated FDI inflows 2003-Oct. 2009 as announced by projects' promoters (in €m)

Region of origin	Real FDI*, €m	% total	Gross FDI**, €m	% total	Ratio real/gross
Asia-Oceania	12 496	5%	24 269	6%	51%
Europe	102 928	40%	145 304	34%	71%
MED-10	11 938	5%	20 173	5%	59%
Other countries	14 542	6%	20 251	5%	72%
USA/Canada	44 380	17%	56 612	13%	78%
Gulf	69 198	27%	160 346	38%	43%
Total	255 482	100%	426 955	100%	60%

* Real FDI: as revised by ANIMA, especially for major projects which are generally phased into several stages (only the yearly amount is taken into account).

** Gross FDI: as announced by project promoters (total investment over several years).

Source: ANIMA Mediterranean Investment Project Observatory (ANIMA-MIPO).

Not surprisingly, the recent economic history of Mashreq and mainly Maghreb (further from Middle-East base) contains several examples of Gulf projects which have been either postponed or cancelled (Figure 5). The collection of information concerning the difficulties met by these projects and their official status is not easy – but the fact is that sub-contractors and local staff are not paid or are laid-off. Difficult discussions often take place with Governments.

Figure 5. - Examples of postponed or cancelled Gulf projects

- Algeria. **Emaar Properties** (UAE). Ambitious tourism project in Colonel Abbas, west of Algiers, to be developed on an area of 109 hectares (€2.9bn). Project cancelled due to difficulties in mobilising land.
- Algeria. **Mubadala Development + Dubal** (UAE). JV formed by Mubadala Development and Dubal to own 70% in a US\$ 5 billion aluminium smelter project, with 30% for Sonatrach-Sonelgaz. Project stalled (increase in construction costs up to \$7bn, Sonatrach request to have at least 49% of the project share etc.).
- Algeria. **Snasco** (Saudi Arabia). Cité de la Mer in Oran (Algeria), a US\$500m project now questioned by local authorities (10 ha of prime land on the seashore)
- Jordan. **National Industries Group/Noor** (Kuwait). A BOT led by a Kuwait/Spanish consortium to rebuild the Amman Zaral railway (€ 228m). Concession cancelled and project postponed due to financial difficulties.
- Libya. **Emaar Properties** (UAE) Zowara-Abu Kemash Development Zone a free zone and tourism mega-project close to Tunisia, delayed since 2007 “as details are worked out”.
- Morocco. **Sama Dubai** (UAE). US\$ 2bn Amwaj project in the Bouregreg Valley, Rabat. Contract interrupted by the promoter in January 2009 due to lack of funds.
- Morocco. **Dallah al-Baraka** (Saudi Arabia). Taghazout resort near Agadir, one of the major tourism centres to be developed according to Government plans, later sold to Colony Capital (USA) and now totally abandoned (after villages have been moved and landscape modified).
- Tunisia. **Dubai Holding/Sama Dubai** (UAE) Century City and Mediterranean Gate mega project in Tunis' southern lake area, US\$ 14 to 25 billion over 15 years. Project postponed for an indefinite period.
- Tunisia. **Gulf Finance House** (Bahrain). US\$3 billion Tunis Financial Harbour, supposed to be the Maghreb's first offshore financial centre, announced in 2007. Work has not started so far.

Source: ANIMA Observatory.

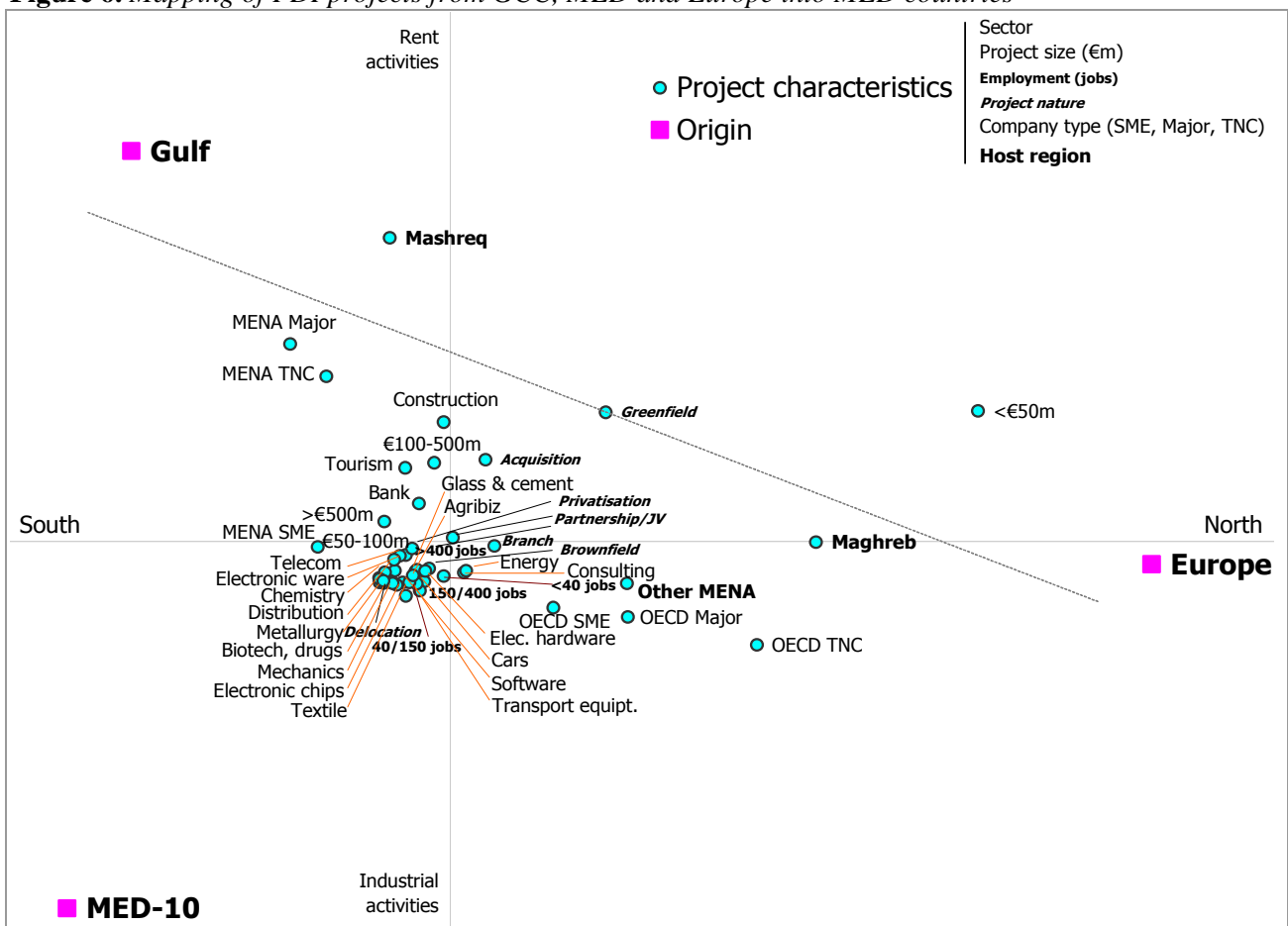
3.2. Comparison of Gulf and EU FDI profiles in the Mediterranean

In order to qualify the Gulf investments, it is useful to compare their characteristics with those of European FDIs.

By using a multivariate analysis, it is possible to present a mapping of the ANIMA FDI base (Figure 6), illustrating the differences in projects issued respectively by the Gulf and Europe (and MED countries themselves). In this mapping, the closer the two items, the more similar their profiles. It is not surprising to discover an almost perfect triangle, where Europe on the right opposes the Gulf and MED countries on the left. The y axis seems to depict the rent producing activities (construction, tourism, bank, telecom etc.) vs. the industrial activities (cars, textile, electronics, drugs etc.), with a clear attraction of Gulf investors for the first and Europeans for the second.

Similarly, the largest projects (in amount and jobs) are on the Gulf side, whilst the smallest projects are on the European side. The nature of projects is less distinct, but privatisation and acquisition lean towards the Gulf, when branches, greenfields and partnerships are more on the EU side. The positioning of the issuing and receiving regions is spectacular, along the dotted third axis: Mashreq is clearly in the Gulf field, whereas Maghreb belongs to the European area of influence.

Figure 6. Mapping of FDI projects from GCC, MED and Europe into MED countries



Source: ANIMA Observatory. Principal components analysis on 2,991 FDI projects of which 2,078 from Europe, 681 from the Gulf and 232 from MED countries themselves – January 2003 to October 2009. The projects from other origin, America, Asia etc. are not represented.

3.3. Sectoral preferences

As confirmed by Figure 7 below, Gulf direct investments are concentrated on a few sectors which generate economic rents: construction (public works, real estate, transport & utilities) represents 40% of real FDI flows (and above 66% of gross announced), while telecoms represent 15%, banks 11.5% and tourism 10.6%. These four sectors account for 78% of Gulf investments. Energy (more

of a European/American obsession) and, in general, industrial sectors are less attractive. European direct investments in MED economies are more balanced.

Figure 7. Sector share of cumulated FDI amounts 2003-Oct. 2009, Gulf vs. EU and North America

Sector	Gulf, €m	% Gulf	% EU	% USA/Canada	Comment
Public works, real estate, transport, utilities	27 964	40.4%	7.4%	6.7%	THE major sector for Gulf investors
Telecom & internet operators	10 580	15.3%	15.1%	1.3%	A strong interest (Oger, Watanya etc.)
Bank, insurance, other financial services	7 981	11.5%	18.6%	12.0%	Numerous creations of JVs and branches
Tourism, catering	7 348	10.6%	6.9%	2.1%	Numerous resorts
Energy	4 146	6.0%	23.2%	18.9%	Gulf not so interested in energy
Chemistry, plasturgy, fertilizers	2 810	4.1%	1.2%	2.7%	Petrochemicals
Glass, cement, minerals, wood, paper	2 363	3.4%	11.6%	1.3%	Cement plants
Agro-business	1 722	2.5%	3.4%	3.0%	Some interest in distribution (malls) and agro-business
Distribution	1 644	2.4%	3.6%	1.0%	
Other or not specified	1 536	2.2%	0.8%	1.2%	Weak Gulf investment in these industrial sectors
Car manufacturers or suppliers	532	0.8%	2.2%	0.5%	
Metallurgy & recycling of metals	265	0.4%	1.2%	0.0%	
Textile, clothing, luxury	167	0.2%	0.5%	0.9%	
Drugs	57	0.1%	1.2%	1.6%	
Electric, electronic & medical hardware	25	0.0%	0.8%	6.3%	
Furnishing and houseware	24	0.0%	0.0%	0.0%	
Aeron., naval & railway equipt.	12	0.0%	0.2%	0.1%	
Mechanics and machinery	7	0.0%	0.4%	7.4%	
Data processing & software	10	0.0%	0.8%	16.8%	
Consulting & services to comp.	5	0.0%	0.3%	0.2%	
Biotechnologies		0.0%	0.2%	0.8%	
Electronic components		0.0%	0.1%	15.2%	
Electronic ware		0.0%	0.4%	0.0%	
	69 198	100.0%	100.0%	100.0%	

Source: ANIMA Observatory

3.4. Greenfield projects often oversized

The size of Gulf projects in the Mediterranean is twice that of EU projects (€102m vs. €49m, ANIMA average 2003-2009). When considering the gross amount (announced at project launch), the difference is even bigger (€235m vs. €70m). The pharaonic dimension of some of these projects can be measured in Figure 8 below (top 20 projects, some already stopped). However, it would be foolhardy to consider Gulf investors only as conquerors with deep pockets, expecting high returns in the short term, contributing little to a sustainable MED growth and on the contrary fuelling property speculation. Several Gulf projects carry a remarkable design, add a real value to MED economies and are sustainable (e.g. in logistics).

The majority of the Gulf projects detected are launched by large private or public holdings³.

³ However, the detection of projects is more difficult for the Gulf than for Europe, insofar as the Gulf business environment is less conducive to transparency and publicity. Medium and small projects might therefore go unnoticed by the ANIMA observatory. Gulf SMEs could therefore be under-represented.

Globally, the 681 Gulf-originated projects have created 121,000 announced jobs (direct jobs), or 178 jobs per project, against 93 for European projects. The sustainability of these jobs is difficult to judge, but it can be assumed that part of the jobs created by Gulf investments might last only the time of the completion of the facilities (real estate projects), while EU projects usually generate more sustainable jobs in services or industry.

Gulf investors express a strong preference for *greenfield* projects (creation of new facilities, 93% in amounts, vs. 73% for Europe and 41% for North-America). *Brownfields* (extension of an existing unit) are ignored by Gulf investors, whereas they represent almost 30% of American projects. The remainder of the *modus operandi* for the Gulf investors goes to JVs/partnerships (6%) and branches (1%).

Figure 8. - Top Gulf investments announced in the MED countries (gross amounts)

- Egypt, 2006 (DP World, United Arab Emirates): €7bn. Dubai Ports World intends to invest in several projects in Egypt, including a new seaport and a container terminal at Eastern Port Said.
- Jordan, 2009 (Al Maabar, United Arab Emirates): €68bn. The consortium to build under a BOT the country's biggest real estate project, Marsa Zayed, which implies moving Aqaba port.
- Egypt, 2009 (Barwa Real Estate, Qatar): €6.65bn. The real estate company to develop a mixed-use community project over 8.4 km² in New Cairo.
- Turkey, 2005 (Oger, Saudi Arabia): €5.1bn. Saudi Ogr to get 55% of Turk Telekom for US\$ 6.55 bn; its Italian partner investing only EUR 137 mln.
- Tunisia, 2008 (Abu Dhabi Investment Authority (ADIA) / Abu Dhabi Investment House (ADIH) + Gulf Finance House, United Arab Emirates): €4.6bn. ADIH to launch in Tunis its Porta Moda real estate project land plots provided by Gulf Finance House.
- Egypt, 2007 (Damac, United Arab Emirates): €4.07bn. The UAE-based promoter to invest EGP 30 billion in a project in New Cairo, the first phase being called Hyde Park.
- Jordan, 2006 (Horizon Development, Lebanon): €4bn. A US\$ 5bn mixed-use real estate development in Aqaba on the Red Sea by Horizon Development.
- Tunisia, 2006 (Bukhatir Investment, United Arab Emirates): €4bn. Bukhatir Investment to start the construction of the US\$ 5bn Tunis Sports City project, expected to create up to 40,000 new jobs.
- Egypt, 2005 (Emaar Properties, United Arab Emirates): €3.2bn. Dubai property giant plans four-billion-dollar Cairo scheme.
- Turkey, 2005 (Dubai International Properties, United Arab Emirates): €3.2bn. The firm to invest five billion dollars in projects in Istanbul.
- Algeria, 2007 (Emaar Properties, United Arab Emirates): €2.9bn. The developer to invest an ambitious tourism project in Colonel Abbes, west of Algiers, to be developed on an area of 109 ha.
- Syria, 2005 (Emaar Properties, United Arab Emirates): €2.7bn. Emaar launches Damascus Hills for US\$ 3.4 billion, which includes luxury flats and a 'Digital City'.
- Egypt, 2006 (Majid Al Futtaim, United Arab Emirates): €2.4bn. After Dubai, Majid al Futtaim launches its Festival City concept in Cairo, a USD 3 bn project.
- Egypt, 2006 (Etisalat, United Arab Emirates): €2.34bn. Emirates telecom Etisalat has won the bid to run Egypt's third mobile network, paying 16.7 billion Egyptian Pounds for the licence.
- Morocco, 2006 (Al Qudra Holding, United Arab Emirates): €2.2bn. Al Qudra announces project investments with Addoha and Samed of more than US\$ 2.72bn over the next 10 years.
- Libya, 2009 (Gulf Finance House, Bahrain): €2.16bn. The promoter to team up with State-owned ESDF (60/40) to launch Energy City Libya in Sabratha, an economic zone for oil and gas firms.
- Tunisia, 2006 (Dubai Holding / Tecom-DIG, United Arab Emirates): €1.78bn. Tecom-Dubai Investment Group acquired 35% of the capital of Tunisie Télécom.
- Egypt, 2007 (Majid Al Futtaim, United Arab Emirates): €1.7bn. The UAE-based group plans to invest €12.5 billion over the next 5 years for 12 new outlets for retail and commodity distribution.
- Egypt, 2006 (Shaheen, Jordan): €1.6bn. Jordan's Shaheen to develop the US\$2 billion 'Serrenia' tourist resort at Sahl Hasheesh through Vantage Real Estate Development.
- Tunisia, 2009 (Qatar Petroleum, Qatar): €1.6bn. The group which won in 2006 the BOO contract for the refinery of Shkira, plans to launch its construction in 2009 and finish in 2011.

3.5. FDI geography: Emirates and Mashreq first

The Emirates are leading the league of Gulf investors into MED countries (52% in amounts, Figure 9), followed by Kuwait and Saudi Arabia (respectively 18% and 17%). Bahrain (7.6%) and Qatar (4.4%) are trailing, whilst Oman is almost absent.

In terms of sub-region, Maghreb is 2.4 times less attractive to the Gulf than Mashreq. The good “Other MEDA” score is linked to telecoms and construction investments in Turkey.

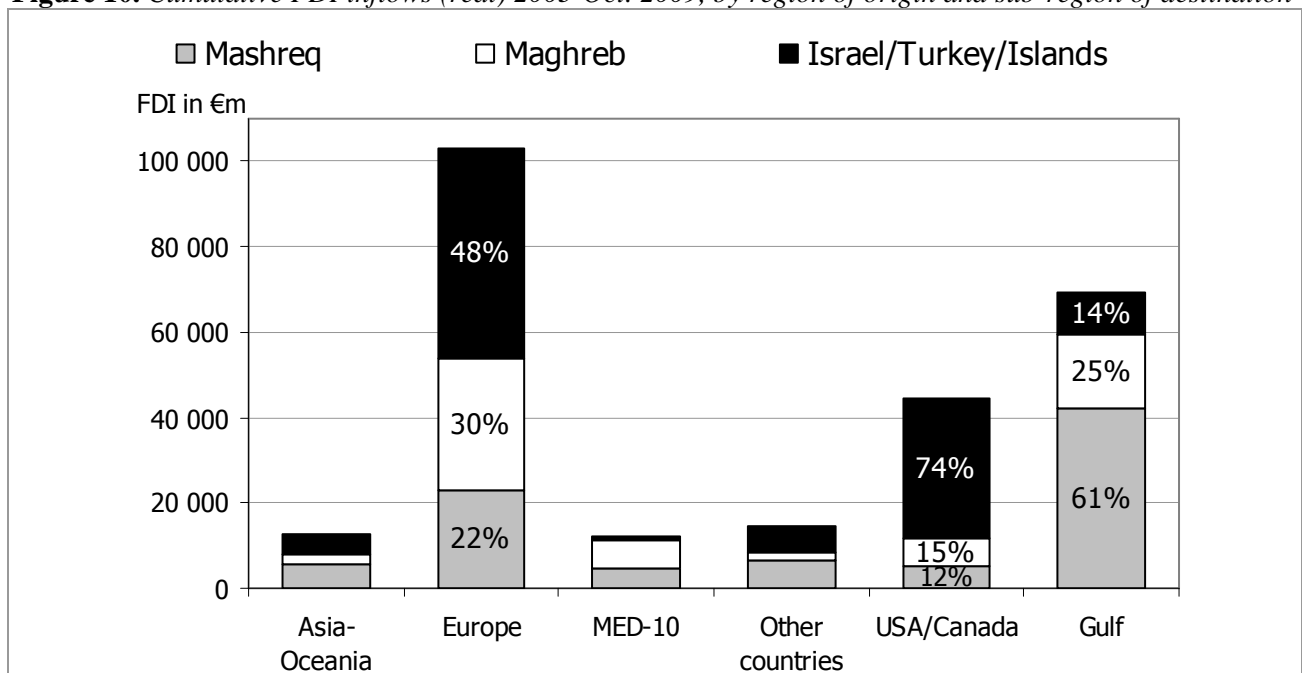
Figure 9. FDI flows per country of origin in the Gulf, 2003-Oct. 2009 (in €m)

Country of origin	Mashreq	Maghreb	Other MEDA	Total
Bahrain	1 374	1 585	66	3 024
Kuwait	7 794	3 488	1 322	12 604
Oman	7	365		373
Qatar	3 938	1 083	230	5 251
Saudi Arabia	6 292	1 617	3 945	11 854
United Arab Emirates	22 529	9 347	4 216	36 092
Total	41 934	17 485	9 779	69 198

Source: ANIMA Observatory

In terms of the sub-region of destination, Figure 10 below sums up the differences between Gulf, European and American portfolios.

Figure 10. Cumulative FDI inflows (real) 2003-Oct. 2009, by region of origin and sub-region of destination



Source: ANIMA Observatory.

3.6. Big companies ...

About thirty private or public holdings are the source of the bulk of Gulf FDI in the Mediterranean (Figure 11). Some are already global brands, others aspire to such status.

Figure 11. *Major investors from GCC in MED countries*

Saudi Arabia	Kuwait	Bahrain	UAE	Qatar
<ul style="list-style-type: none"> • Savola • Bin Laden • National Commercial Bank (Alahli) • Al Rajhi • Dallah al Baraka • Nesco • Oger 	<ul style="list-style-type: none"> • KIPCO • NBK • Global Investment House • M.A. Kharafi • Zain • National Industries Group (Noor) • Al Aqeelah 	<ul style="list-style-type: none"> • Ahli United Bank • Gulf Finance House • Batelco 	<ul style="list-style-type: none"> • Aramex • Abraaj Capital • Damac • Dubai Holding • DP World • Majid al Futtaim • Emaar • Etisalat • Dubal 	<ul style="list-style-type: none"> • Diar • Qtel

These Gulf champions have changed a great deal. They have attracted CEOs and top executives from the greatest multinational companies (half of the top management of Dubai Ports World is Anglo-Saxon for example) and their personnel is trained with the most modern management sciences. Their investment strategies have been rationalised and are now less related to prestige and more to profitability and long term expansion strategies.

These big companies often ally themselves to big local companies or public-owned structures and generally do not interact much with local SMEs.

4. Some other Gulf Financing Vehicles

Private investment by companies is the most frequent investment mode, but this corporate capital injection may be complemented by other instruments: private equity funds (experiencing strong growth in the region), sovereign wealth funds (extremely powerful in the Gulf, despite recent downturns), Sharia-compliant funds, NGOs and charities. The investments made via these instruments are recorded in the ANIMA FDI observatory.

4.1. Private equity funds: growing activism of Gulf in MED markets

A recent ANIMA survey⁴ region provides an in-depth monitoring of Private Equity (PE) activity in the MED region, from Morocco to Turkey, from 1990 to 2008. This study shows that Gulf investors account for 22% of the equity committed (Figure 12), while European investors are trailing (only 3%). Again, the Emirates are leading among Gulf countries, followed by Kuwait, Saudi Arabia and Bahrain.

The noteworthy trend is the massive involvement of Gulf funds in the MED region. While there were “only” 45 funds from the Gulf in MedFunds survey (14% of total), they raised US\$6.8bn (22% of total equity committed).

The real impact of this offensive is, however, limited by two aspects: 1. only a low share of the amount subscribed is actually invested (around 20% in early 2008 for the US\$15bn raised in the 3 previous years, according to the real portfolios detected by ANIMA) and 2. these funds often target MENA (Middle East North Africa) as a whole and do not focus only on the MED countries.

⁴ Raphaël Botiveau, Bénédicte de Saint-Laurent, *MedFunds Survey: an Overview of Private Equity in the MEDA region*, Marseille, ANIMA, September 2008 (Invest in Med Survey ; 2).

Figure 12. PE funds by country and region of origin, 1990-2008

Region of origin	Country of origin	Total funds (number and %)		Committed equity (amounts, US\$m, & %)	
Euromed		8	3%	392	1%
Europe	UK, FR, BE, I, Spain	13	4%	914	3%
Gulf countries	Bahrain	6	2%	1 178	4%
	Kuwait	6	2%	1 535	5%
	Saudi Arabia	8	3%	1 252	4%
	UAE	25	8%	2 800	9%
Total Gulf countries		45	14%	6 765	22%
MED-11	Algeria	1	0.3%	2	
	Egypt	17	5%	1 955	6%
	Israel	141	44%	11 162	36%
	Jordan	4	1%	432	1%
	Lebanon	4	1%	58	0.2%
	Libya	1	0.3%	20	0.1%
	Morocco	21	7%	1 187	4%
	Tunisia	9	3%	84	0.3%
	Turkey	7	2%	823	3%
Total MED-11		205	64%	15 723	51%
North America	USA/Canada	46	14%	7 164	23%
Other countries	Australia/ S. Africa	3	1%	40	0%
Total		320	100%	30 997	100%

Source: ANIMA MedFunds Survey.

Gulf funds tend to be much larger in size than their counterparts in MED (Figure 13), while US and European funds tend to be more balanced in size. 69% of MED funds have raised equity under US\$100m, with 49% under US\$50m.

The UAE, and especially Dubai, are leaders in both size and number of funds, with major PE firms such as Abraaj Capital (5 funds), Al Mal Capital (3 funds), Shuaa Partners (2 funds), Injazat Capital (2 funds), or Millennium Private Equity (2 funds). Among the Top 10 of Med/ MENA funds, ranging from US\$500m to US\$2bn in equity raised, 6 come from the Gulf.

In spite of the equity raised, deals seem to rarefy in the region. According to the Financial Times⁵, “Middle East funds made 69 investments worth US\$3.9bn in 2007 but in 2008 only about \$500m worth of deals were made, far less than the capital raised.”

Figure 13. Gulf funds by size

Out of 45 funds	Country of origin	< \$50m	\$50 to 100m	\$100 to 500m	> \$500m	Announced funds	Total
Gulf countries	Bahrain	2%	4%	4%	2%		13%
	Kuwait		2%	7%	2%	2%	13%
	Saudi Arabia	2%		9%	2%	4%	18%
	UAE	11%	7%	22%	4%	11%	56%
Total		16%	13%	42%	11%	18%	100%

Source: ANIMA MedFunds Survey.

4.2. Sovereign Wealth Funds

Gulf-originated investments in MED assets have grown quickly in recent years, to the point where MED economies have often competed for a “fair share of Arab investment”. Initially created to

⁵ Robin Wigglesworth, “Middle East private equity sees lower returns”, *Financial Times*, 22 January 2009.

stabilise Gulf economies dependent on volatile oil prices, the Sovereign Wealth Funds (SWFs) took riskier positions when the prices were booming (2006-2008). They started looking for investment diversification and higher returns – hence their relatively massive interest in Mashreq and Maghreb (see for instance Figure 14).

Figure 14. *Example of potential investment of a SWF in Mashreq*

CAIRO, JUNE 1, 2009 - Egyptian Investment Minister, Mahmoud Mohieldin, said that the Abu Dhabi Investment Authority (Adia) is carrying out a study to finance 52 new investment projects in Egypt at a cost of \$28 billion. He added that special committees from Adia will visit Egypt in the next two months to proceed with the projects, which will focus mainly on infrastructure, agriculture and housing. Bilateral trade between the two countries increased to \$1.4 billion in 2009 compared to \$825 million in 2007. The UAE's exports to Egypt account for \$900 million while Egypt's exports to the UAE stand at some \$504 million. UAE's investments in Egypt have doubled over the past four years and the number of UAE companies operating in Egypt has gone up to 425 from 233. The UAE is the third largest investor in Egypt after the UK and Saudi Arabia. (ANSAmEd).

With the global financial crisis and the collapse of global equity markets, most GCC SWFs have registered significant losses. This led them to abandon or reduce several projects and to consider investing at home rather than abroad.

Despite an estimated loss of around 30% during the recent financial crisis, the GCC SWFs still represent a considerable capitalisation (Figure 15). Among the world SWFs (assets valued at US\$ 3 811.7 bn in October 2009), the SWFs from GCC represent \$1402.8 bn, or 36.8%. They include the 1st, 3rd, 7th and 13th most powerful funds worldwide.

Figure 15. *The top 35 Sovereign Wealth Fund as of October 2009*

Country	Fund Name	Assets (\$bn)	Inception	Origin	Ratio to forex reserves	Transparency Index*
UAE - Abu Dhabi	Abu Dhabi Investment Authority	627	1976	Oil	13.9	3
Norway	Government Pension Fund – Global	445	1990	Oil	8.8	10
Saudi Arabia	SAMA Foreign Holdings	431	n/a	Oil	1.1	2
China	SAFE Investment Company	347.1	**	Non-Commodity	0.2	2
China	China Investment Corporation	288.8	2007	Non-Commodity	0.1	6
Singapore	Govern. of Singapore Investment Corporation	247.5	1981	Non-Commodity	1.4	6
Kuwait	Kuwait Investment Authority	202.8	1953	Oil	10.6	6
Russia	National Welfare Fund	178.5	2008	Oil	0.4	5
China	National Social Security Fund	146.5	2000	Non-Commodity	nil	5
China / Hong Kong	Hong Kong Monetary Authority Investment	139.7	1993	Non-Commodity	1	8
Singapore	Temasek Holdings	122	1974	Non-Commodity	0.7	10
<i>Libya</i>	<i>Libyan Investment Auth.</i>	<i>65</i>	<i>2006</i>	<i>Oil</i>	<i>0.8</i>	<i>2</i>
Qatar	Qatar Investment Authority	65	2003	Oil	8.6	5
Australia	Australian Future Fund	49.3	2004	Non-Commodity	1.8	9

Country	Fund Name	Assets (\$bn)	Inception	Origin	Ratio to forex reserves	Transparency Index*
Algeria	Revenue Regulation Fund	47	2000	Oil	0.3	1
Kazakhstan	Kazakhstan National Fund	38	2000	Oil	1.1	6
Ireland	National Pensions Reserve Fund	30.6	2001	Non-Commodity	36.6	10
Brunei	Brunei Investm. Agency	30	1983	Oil	1	
France	Strategic Investment Fund	28	2008	Non-Commodity	0.2	New
South Korea	Korea Investment Corporation	27	2005	Non-Commodity	0.1	9
US - Alaska	Alaska Permanent Fund	26.7	1976	Oil	0.5	10
Malaysia	Khazanah Nasional	25	1993	Non-Commodity	0.3	4
Chile	Social and Economic Stabilization Fund	21.8	1985	Copper	0.9	10
UAE - Dubai	Investment Corporation of Dubai	19.6	2006	Oil	1.8	4
UAE - Abu Dhabi	Mubadala Development Co.	14.7	2002	Oil	0.3	10
Bahrain	Mumtalakat Holding Company	14	2006	Oil	2.9	8
UAE - Abu Dhabi	Int'al Petroleum Investment Co.	14	1984	Oil	n/a	n/a
Iran	Oil Stabilisation Fund	13	1999	Oil	0.2	1
Azerbaijan	State Oil Fund	11.9	1999	Oil	0.6	10
US - New Mexico	New Mexico State Investment Office Trust	11.7	1958	Non-Commodity	0.2	9
Canada	Alberta's Heritage Fund	11.1	1976	Oil	0.4	9
Nigeria	Excess Crude Account	9.4	2004	Oil	0.2	1
New Zealand	New Zealand Superannuation Fund	8.6	2003	Non-Commodity	0.8	10
Brazil	Sovereign Fund of Brazil	8.6	2009	Non-commodity	nil	new
Oman	State General Reserve Fund	8.2	1980	Oil & Gas	0.3	1
Total (including 16 smaller funds)		3 811.7				

Source: SWF Institute, *Linaburg-Maduell Transparency Index*.

The difference between SWFs and purely private GCC investors lays in their *vision of national interests*, over returns. This is clear for instance for Mubadala or Dubai Investment Corp from the Emirates, which support the Emirates strategy of upstream industry diversification (e.g. aluminium, a by-product of UAE cheap energy, or logistics, alongside the world ambitions of Dubai Port World or the Emirates airline).

This is confirmed by the 2009 WIR Report (UNCTAD), according to which the recent oil price boom “led some SWFs to adopt a new approach, using part of their financial surplus to invest in industries that their governments perceive as particularly relevant for the development and diversification of their national economies. This led the more proactive SWFs to seek greater involvement in managing the companies in which they invested. (...) Mubadala, for instance, created in 2002, has over the past few years used its assets to develop a network of international and domestic partnerships in numerous industries, including energy, automotives, aerospace, real estate, health care, technology and infrastructure and services. These are industries that benefit the United

Arab Emirates' overall economic development objectives. For example, in acquiring a 5% stake in Ferrari in 2005, it improved the potential for increased tourism in Abu Dhabi in the form of the Ferrari theme park".

4.3. Islamic finance and charities

The ANIMA FDI observatory has noticed a strong growth in Islamic finance in recent years (1 project in 2004, 2 projects in 2005, 15 in 2006, 7 in 2007, 9 in 2008). Among these 34 projects having landed in MED countries, 28 came from the GCC: 11 from Kuwait (€ 802m), 6 from the Emirates (€ 85m), 4 from Qatar (€ 123m), 4 from Bahrain (€ 629m), 3 from Saudi Arabia (€ 36m). Around half of them are dealing with insurance. 16 are branches, 9 are JVs, 7 are acquisitions and only 2 are greenfields (pure creation of a new business).

Concerning charities, a few investments are generated by non-profit NGOs such as the Aga Khan Fund (3 projects in Syria, especially in microfinance or in the rejuvenation of a prestigious hotel in Old Damascus) or the Al Waleed foundation (projects in Egypt or Lebanon). Some other projects have a patrimonial or environmental dimension (restoration of medinas, museums etc.), but are integrated into wider profitable ventures.

It is obvious that in the Mediterranean, as in the rest of the world, business opportunities and returns remain the primary purpose for investment. While certain investment projects are launched for reasons of political prestige or in the name of Arab solidarity, the business presence of Gulf investors in the Mediterranean, seen as a booming and lucrative market, is fundamentally profit-oriented.

4.4. Gulf investments in the Northern rim (European economies)

Though this is not the focus of this paper, it is worth providing some information on the Gulf FDI strategy towards the Northern Mediterranean rim (Europe).

In Europe, in spite of the temptation to capture part of the oil-based Gulf liquidity to buffer the effects of the credit crunch, Gulf direct investments are carefully considered when originating from Sovereign Wealth Funds governed by potentially political motives. Before the ongoing crisis, Gulf FDI into Europe remained limited though progressing strongly. According to the latest Eurostat figures, Near & Middle Eastern⁶ FDI into the EU fell to €5.5 billion in 2007, after the 2006 peak of €10.7 bn, that is respectively 1.5% and 5.3% of total extra-EU inward FDI for the 27 European countries (the USA alone invested €194 bn into the EU in 2007).

MED investments in Europe are probably not very different in volume, but with specific patterns (much smaller projects, more job creations). The direct flow to Europe is unknown, but, according to UNCTAD, the total FDI outflows from Maghreb, Mashreq and Turkey were respectively US\$1.85, 8.6 and 12.3 bn in 2006, 2007 and 2008 (plus US\$14.9, 7.0 and 7.8 bn for Israel, same years). The average yearly amount invested in Europe may be estimated to around US\$5 to 10 bn, or €3.5 to 7 bn.

According to extrapolations based on data provided by the Invest in France European FDI projects observatory⁷ (which excludes most M&A and non-productive FDI), Gulf and Med-based investors issued in EU-27 about €12 billion of direct investment in 263 projects, creating more than 11,000 jobs over the period January 2001-March 2008. Two thirds of the extrapolated amounts came from

⁶ Eurostat, Near & Middle East (AE, AM, AZ, BH, GE, GJ, IL, IR, IQ, JO, KW, LB, OM, QA, SA, SY, YE).

⁷ Invest in France Agency (IFA/AFII), Vigie Observatory, data covering January 2000 to March 2008.

the Gulf, while 79 % of projects and 90% of job creations came from MED investors, mostly from Israel and Turkey. Conversely, European investments in the Gulf may be estimated at around €10 bn per year in the last period⁸.

5. MED trade relationships with GCC and EU

The trade patterns between MED countries and respectively Europe or the Gulf resemble FDI patterns (Figure 16). Globally, the MED countries are tied to the EU, mainly for their exports (almost 50%) and a little less for their imports (40%). The GCC bloc represents only around 3% of both exports and imports, but is significant for Mashreq (exports from Jordan, Lebanon and Syria). North America absorbs a good share of Algerian, Israeli and Jordanian exports.

Maghreb has a strong trade orientation towards Europe, especially Tunisia and Morocco, less for Algeria; the trade relationships with the Gulf are very limited. Mashreq is less dependent on the EU for its trade and relies more on the Gulf (especially Jordan, Egypt, Syria, Lebanon).

Figure 16. External trade of MED countries, 2007

	Value 2007 * US\$m	Share of external trade				
		EU-25	GCC	NAFTA	Intra-MED	RoW
EXPORTS						
Algeria	52 760	43.6%	0.0%	38.0%	5.4%	13.0%
Egypt	16 200	28.8%	4.1%	7.1%	12.3%	47.8%
Israel	54 065	29.0%	0.1%	36.8%	3.0%	31.1%
Jordan	5 725	3.2%	17.1%	27.8%	15.3%	36.7%
Lebanon	3 574	17.1%	20.5%	2.8%	23.4%	36.2%
Morocco	13 864	71.9%	0.8%	3.5%	3.5%	20.3%
Palestine Territory	513	5.2%	1.5%	1.0%	92.0%	0.3%
Syria	9 174	43.0%	16.3%	2.6%	23.8%	14.2%
Tunisia	15 029	79.2%	0.6%	1.2%	9.6%	9.3%
Turkey	107 136	51.9%	5.2%	4.4%	7.1%	31.5%
MED countries	278 040	46.6%	3.3%	18.3%	6.9%	24.9%
IMPORTS						
Algeria	20 985	51.1%	0.8%	10.1%	5.8%	32.2%
Egypt	27 063	22.3%	14.1%	10.1%	5.3%	48.3%
Israel	59 039	36.2%	0.0%	14.7%	3.1%	45.9%
Jordan	13 511	24.2%	24.9%	5.2%	12.3%	33.4%
Lebanon	12 251	35.0%	8.6%	10.1%	13.5%	32.7%
Morocco	30 149	51.4%	6.4%	7.0%	7.4%	27.9%
Palestine Territory	3 141	7.8%	0.2%	1.0%	78.4%	12.6%
Syria	10 862	24.4%	9.9%	2.6%	12.2%	50.9%
Tunisia	18 980	64.3%	1.2%	4.1%	9.5%	20.9%
Turkey	169 792	37.4%	1.9%	5.5%	3.1%	52.1%
MED countries	365 773	39.9%	3.2%	7.3%	5.8%	43.8%

* When in *italics*, figures of 2006 or 2005. Palestine has a high intra-MED trade because of transshipment via Israel, but the figures are small.

Source: CASE, UN Comtrade.

⁸ This estimate is fragile (absence of origin-destination matrix) and based on the following assumptions: the total inward FDI into GCC for the last six years amounts to US\$199.5 bn, or €25 bn per year (UNCTAD). Based on the EU share in M&As (the biggest investment driving force in this region), or 38%, the EU share of FDIs into GCC would be €9.5 bn per year.

The intra-MED trade is extremely limited. MED is trailing other economic blocs in this respect, despite a recent positive trend (Figure 17). Although significant efforts have been pursued during the last 5 years to reduce trade barriers among MED countries (bilateral agreements, signature of the Agadir Agreement in 2004 between Tunisia, Morocco, Egypt and Jordan), a lot remains to be done (Figure 18). Trade between the Agadir or Arab Maghreb Union signatory countries remains low. Narrow local markets prevent local SMEs from specialising their industry and thus becoming competitive in regional and international markets.

Figure 17. *Intra-bloc exports as a share of total exports among prominent regional integration agreements*

Economic bloc	2000	2005	2007
Intra-MED trade	4.5%	6.2%	6.9%
PAFTA (Pan Arab FTA)	7.2%	9.9%	10.6%
ASEAN	23%	25.3%	25.2%
MERCOSUR	16.4%	11%	12.8%
SADC (Southern Africa)	9.5%	9.3%	10.1%

Source: World Bank, IMF.

Figure 18. *Share of total trade with partners in regional agreements (imports plus exports)*

Country	Agadir Agreement	Arab Maghreb Union
Algeria	Not member	1.2%
Libya	Not member	2.7%
Morocco	1.2%	2.2%
Tunisia	1.4%	6.7%
Jordan	3.0%	Not member
Egypt	1.5%	Not member

Source: World Bank, IMF, 2006.

Finally, for strategic reasons of energy and security, the trade relationships between EU and GCC are not totally exempt of difficulties and distrust. In 2007, the EU-GCC volume of trade amounted to US\$105 bn (vs. \$275 bn for EU-MED trade, \$21 bn for MED-GCC trade and \$40 bn for intra-MED trade). EU imports from GCC are mainly hydrocarbons, when EU exports to GCC are mainly transport equipment and machinery, from cars or aircraft to desalination plants. Both parties experience a long history of stop-and-go relationships, with the 1988 Cooperation Agreement still pending for the full implementation of a free trade area.

6. The Existing MED-EU-GCC Co-operation

In terms of economic relationships, a MED-EU-GCC triangle presents great logic, as it mixes:

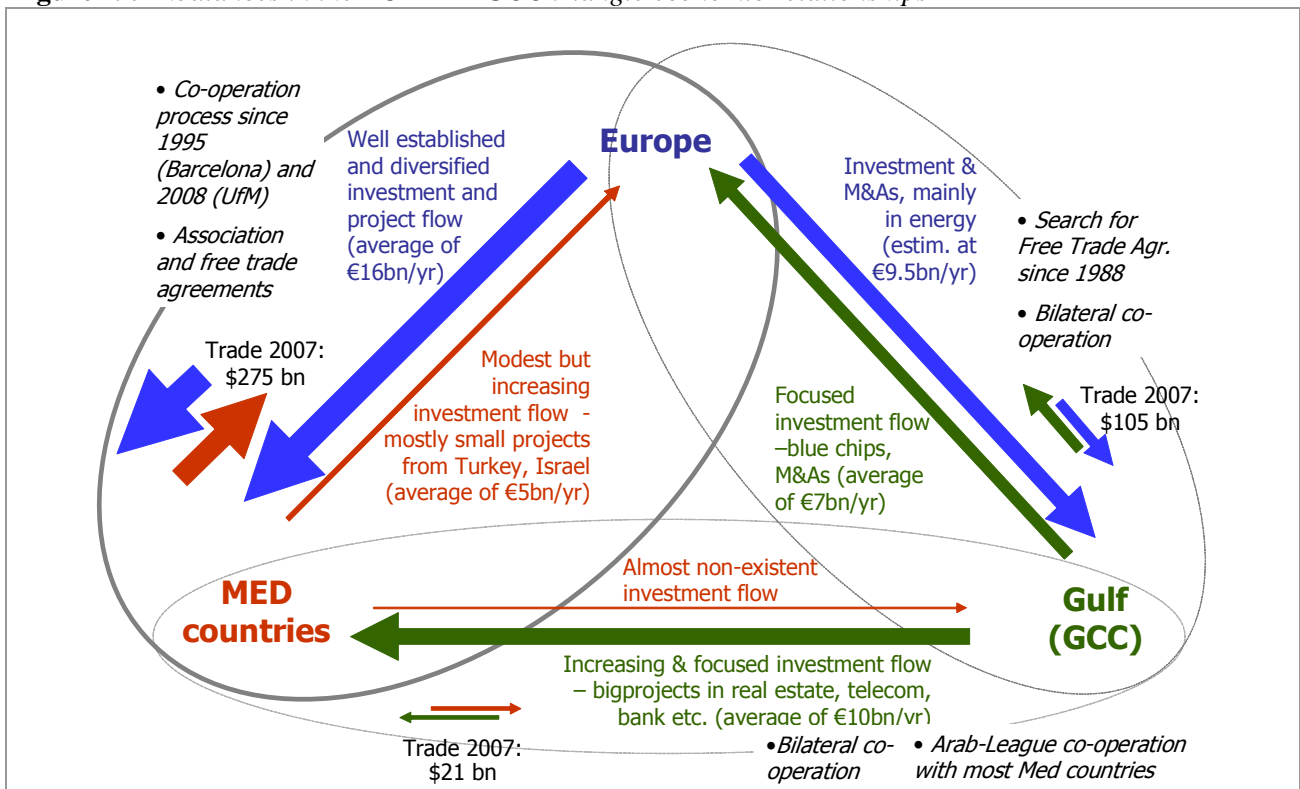
- The know-how, technology, savings surplus and labour needs of Europe;
- The human and natural resources, but also gaps in infrastructure, social needs and consumption of MED countries;
- The energy, financial resources, need for secure investments and a safe neighbourhood for the Gulf States.

The above analysis shows that this triangle -similar to that of Japan-China-ASEAN, but much less well-integrated - starts existing as a reality for business operators, but is rather unbalanced (see Figure 19) and seems still far from an *organised co-operation playing field*. Furthermore, the triangle has a strong side (EU-MED), an average side (EU-GCC) and a relatively weak side (MED-GCC).

The main reasons explaining the unachieved status of this co-operation (and thus the lack of synergy) are:

- The huge cultural differences not only between Europeans and their Southern and Eastern neighbours, but maybe even more between North-Africans and ‘Arabs’ (as the Gulf population is designated in Maghreb);
- The large imbalances in demographics, migration policies, human rights and social contract (EU reluctance on migrations, Gulf net importer of labour, two-level citizenship etc.);
- The more or less hidden mistrust or that shown by various stakeholders (and expressed for instance in the refusal of some Gulf investments in Europe -see the Italian presidency proposal for a ceiling of 4% in major companies-; a similar rejection sometimes exists in MED countries against Gulf operators perceived as having benefited from too favourable deals);
- The lack of MED willingness for political and economic integration (compared with the EU and GCC achievements or efforts to create a Customs Union, a possible common currency etc.);
- The differences in the fate of each country, depending on whether or not it benefits from oil and gas resources...

Figure 19. Imbalances in the EU-MED-GCC triangle economic relationships*



* FDI and trade flows are not represented at the same scale.

Because of this context, it is clear that EU-MED-GCC relationships are not optimised:

- The EU, still the major investor and donor in the MED countries, does not fully play its expected role –limited private investment except from Latin countries, atomisation of aid in narrow bilateral programmes (wished by the MED countries themselves), lack of EU vision and political will (most MED countries perceived the “new neighbourhood” policy as downgrading) and above all, insufficient structural funds for a real convergence (less than €100 per capita since 1995 for the 270 million MED population, vs. around € 500 per capita for the Marshall plan -Western Europe 1948-1951-, €1,000 per capita over 5 years for the 8 central European States who joined the Union in 2004 and over € 30,000 per capita for German reunification). The UfM is a positive (though awkward) attempt to resuscitate the

- sleeping (but technically efficient) Barcelona process, with high risks of political obstructions, partly mitigated by the primacy given to projects.
- The Gulf-MED relationships play a complicated psychological game -the relative contempt of rich oil producers in the face of the pride of their MED counterparts. From 2003 to 2007, the pouring of multibillion projects into Maghreb was warmly welcomed by local decision-makers – who can resist mega-projects in countries suffering from unemployment and lack of productive capital? The best pieces of land and the most profitable operations were offered. Since then, the non-completion of some projects, the feeling that urban heritage, natural land, facilities, licences, plants and other opportunities were given to foreigners and the counter-lobbying of some national competitors have modified the balance of forces. The financial crisis is often a good occasion for an in-depth revision of once idyllic relationships. Closer to the Gulf and more integrated in its hinterland, the Mashreq did not experience such a disappointment. Officially, all over the Arab MED countries, the co-operation goes on, but practically, the signals sent by the companies mean a much more cautious attitude from both sides.
 - The EU-GCC relationship is plagued by the non-signature of the long-expected FTA agreement. Both parties need the other in order to become partners. The trade volume has still increased in recent years (but less rapidly than the Asian-GCC trade). Hindered by its stringent requirements (region-to-region dialogue mirroring the EU concepts, human rights, removal of all trade barriers), the EU is losing ground to China, India, ASEAN. Politically, the EU decision-makers have difficulties in considering GCC as an equal partner, rather than a mere oil supplier. The same risk exists in the case of trilateral economic co-operation – reducing the Gulf to the simple role of financier, without seeing (for instance) its major strategic role of bridge to Asia (the former route to India). The shadow of Uncle Sam, more pragmatic and quicker to decide, makes European strategy even more difficult to define and implement (see for instance the EU reluctance vis-à-vis the Greater Middle East initiative of former President Bush, hence the non-integration of the Gulf in the UfM process, despite French attempts).

7. Three Proposals for an Improved Euro-Gulf-MED Relationship

7.1 Building confidence via a permanent dialogue platform

Confidence is certainly the element missing for the creation of a trilateral environment delivering all the expected synergies. Western institutions (World Bank, OECD) have designed instruments to measure the real business conditions and the status of reforms (Doing Business etc.). Remarkable progress has been possible in the implementation of the rule of law, protection of investors, property rights etc. (e. g. in Egypt, “best reformer” in 2007). However, the inner feeling of numerous operators (e. g. in Northern Europe, where business applies more stringent standards) is that they would not enter the market until the game becomes totally fair.

In this field, provided it is followed by concrete action on the ground, the political message could be decisive. One proposal could be to launch a permanent MED-EU-GCC dialogue aimed at closing the economic divide between the 3 regions. The ASEM (Asia-Europe Meetings) -an informal process of dialogue and co-operation bringing together EU-27, the EC, 16 Asian countries and the ASEAN Secretariat⁹ – could serve as example. The idea is to create synergy through enhanced inter-regional linkages, spurring the further economic growth of the regions concerned and using minister-level meetings to exploit this potential.

⁹ The ASEM dialogue addresses political, economic and cultural issues, with the objective of strengthening the relationship between these regions, in a spirit of mutual respect and equal partnership. See <http://www.aseminfoboard.org>.

Making a better world from the three economic sets represented by EU, MED and GCC would imply *making the problems of some a solution for others*. This seems possible for instance in terms of the satisfaction of the social needs of the MED population (housing, public transport, water management etc.) which may generate markets for EU or GCC suppliers looking for growth – provided that a viable business model can be implemented. The future lack of workers in Europe or the surplus in EU savings (and even more in the GCC) correspond to the excess of workers in MED countries -also looking for investment. The current gap in GDP per capita between the two rims of the Mediterranean is good neither in terms of business development nor in terms of security. This is why *economic convergence* is a priority and a win-win game for all parties concerned.

7.2 Developing SMEs

Convergence cannot happen without the *massive creation of value-added activities in MED countries in the two next decades* (the period when the most populous young generations will enter the job market –later on, pressure will decrease). 3 to 5 million jobs are to be offered each year in the MED region (270 million inhabitants now). The ANIMA observatory shows that FDI creates around 100,000 direct jobs per year and maybe 2 or 3 times more indirect jobs. This is not sufficient. If the MED countries are to rapidly close their gap with Europe, it cannot be only via public projects (though catalyst projects such as Tanger-Méditerranée, or global internet coverage, are necessary) or via the mega-projects or regular projects developed by transnational companies from Europe or the Gulf.

Most of the job creation will come from the *informal sector* (hence the importance of microfinance) and from *SMEs*:

- existing SMEs to be reshuffled so that they may grow, become international, be transformed into large companies for the best of them; this is a domain addressed by professional networks, coaching or capacity building (despite its limitations) and private equity funds;
- and SMEs especially non-existent in these new fields linked to services and ICT. These start-ups cover a wide range, from franchise or activities transferred by diaspora entrepreneurs to hi-tech companies or JVs with foreign partners. Financing is a major obstacle for most of these ventures, which generally cannot provide collateral guarantees and are out the scope of private equity funds (equity gap under US\$2 million).

The EIB and the UfM are currently studying a *Mediterranean Business Development Initiative*, which could lead to the creation of instruments such as an SME agency, new guarantee schemes, funds for microfinance or seed capital, etc. (and later on, a more ambitious Development Bank). These improvements are welcome, provided they find a practical route for implementation. The challenges are multiple: donors (EIB, WB, AfDB, SWFs) are talking billions, but this would rapidly saturate a still limited SME market. In addition, there is a need for a down-to-local capillarity to get in touch with the 20 million (or more) MED SMEs. This implies implementing a full transformation chain (major institutions- banks - funds of funds - branches - investment offices - local funds etc.). Another challenge is to make capital available at acceptable cost (due diligence to low costs). This in turn implies training investment bankers all over a region where commercial banks are poorly engaged in the financing of industry and where mature capital markets seldom exist (scarce outputs, lack of instruments such as forward currency coverage, weak stock exchanges etc.).

The challenge is also technical –improve projects, generate a flow of thousands of yearly projects to be submitted to banks and therefore multiply the incubators, clusters, technoparks, networks where nascent companies can be nurtured, informed, coached, internationalised. The SME challenge in MED countries can be compared to a soccer match where two teams (the entrepreneurs and the

investors) cannot really meet because the playing field does not exist yet. This type of platform (information, matchmaking) is precisely what the Invest in Med programme is proposing to the MED Business Development Initiative.

This is an area where EU, GCC and MED countries could co-operate. Beyond finance, the value possibly added by the Gulf partners (not really strong in terms of SME experience) lies in the complementarities suggested by their industrial positioning (e. g. logistics, aluminium chain, niche tourism etc.).

7.3 A sustainable investment charter for the Mediterranean

North Africa, Southern Europe and the Middle East have woven century after century a complex fabric of cultural, economic and political relations. Pending the completion of a physical infrastructure which will further strengthen this proximity (power grids, telecommunications, pipelines, trans-Maghreb motorway, projects of a bridge between Egypt and Saudi Arabia and of a tunnel under Gibraltar) and the advent of a tentative great Euro-MENA free trade area, *cross investments (private equity, foreign direct investment or sovereign holdings) constitute a strong means to bind these 3 blocs in the long term*, while fostering the material convergence of their economic interests.

The considerable Gulf investments in MED countries create an opportunity for a real lift-off. However, the frequent choice of rent sectors represent a risk: the absorption capacity is limited; the crowding-out effects which affect local operators may feed resentment towards foreign interests; the rapid urbanisation and the establishment of polluting industrial facilities, or mega-resorts on the Mediterranean seashore, involve significant environmental risks. The unbalanced economic development which is taking place may generate a hidden cost for the community.

A major positive step forward would for all to work all together –EU, GCC and MED beneficiaries– on a *sustainable investment charter for the Mediterranean*. Improving the quality of FDI is essential in a fragile eco-system –a closed sea or the overcrowded band occupied by most Southern dwellers, with many millionaire cities. The MED governments would be entitled to maximise the positive impact of FDI in terms of local content, sustainability, or social care, in exchange of the preferential treatment often granted to investors (land at low prices, tax exemptions etc.). This is more or less, the approach followed by the development banks (EIB, WB, etc.) in the projects they support, mostly major infrastructure. The challenge would be to generalise this *concern for sustainability and social responsibility* to all projects, public and private, big and small, in order to make the Mediterranean a pilot area, at world level, for exemplary, long-term and balanced development.

In conclusion, if a full participation of the Gulf in the two pillars of the UfM process (the political secretariat and the union for projects associating pioneer groups) would seem difficult at the moment, it would be interesting to offer GCC a partnership based on the second pillar (projects, with variable geometry). A reasonable share for the Gulf States of the capital of the future Mediterranean Development Bank would be a perfect illustration of concrete cross interests.

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