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Internationalization of Southern European Enterprises in the Middle East and North Africa Region. The Zara case study.

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To my Mother and Father,

who have always taught me that merits are nothing
but the reflection of the hard work that one does in life.

SINTESI INTRODUTTIVA

Made in M.E.N.A.: Internationalization of Southern European Enterprises in the Middle East and North Africa Region. The *Zara* case study.

È forse possibile, in tempi di crisi economica e finanziaria, considerare l'area Mediterranea come la nuova frontiera del rinascimento globale? Rispondere a questa domanda è stata la grande sfida che ci si è proposti in questa tesi di laurea. Cina, India e Brasile sono indubbiamente paesi performanti; ma se una potenziale via d'uscita alle problematiche economiche d'imprese europee meridionali, come ad esempio quelle italiane o spagnole, fosse da ricercare proprio dietro l'angolo?

Sotto il profilo del business, l'area geografica del Medio Oriente e del Nord Africa potrebbe essere a buon diritto considerata tra le più promettenti a livello globale, come testimonia il crescente fenomeno d'internazionalizzazione che si colloca alla base di scelte di delocalizzazione e investimento da parte di numerose aziende europee all'interno della regione. Tuttavia, un'attenta analisi in merito non può prescindere da una distinzione tra le due differenti aree che la compongono: da un lato i paesi mediorientali del Golfo Persico e dall'altro il Mediterraneo vero e proprio, area su cui verrà concentrata maggiormente l'attenzione. Indubbiamente, mentre l'area del Golfo continua a rappresentare per l'Europa principalmente un partner energetico dal quale importare gas naturale e petrolio, investendo eventualmente in termini di energie rinnovabili, quella del Mediterraneo si è ormai consolidata da decenni come una zona cruciale d'interscambio commerciale, la cui prossimità garantisce un promettente mercato di sbocco per l'esportazione di manufatti europei. L'area

mediterranea dunque, frapponendosi tra l'Europa e l'area propriamente mediorientale, costituisce da sempre un partner vitale per i commerci e le relazioni culturali tra le due parti, offrendo oggi più che mai diverse opportunità di prim'ordine, soprattutto nei settori degli investimenti infrastrutturali e logistici, delle tecnologie dell'informazione, del turismo e delle biotecnologie.

Prima di focalizzare propriamente l'attenzione sull'area d'interesse, per motivare la tesi iniziale, si è cercato innanzitutto di capire quali siano le strutture portanti del rapporto esistente tra globalizzazione e internazionalizzazione. Interconnessione, interscambio e interazione continua tra diverse parti del mondo sembrano essere le parole chiave caratterizzanti tale rapporto, al quale si relazionano di conseguenza quei nuovi processi di scomposizione internazionale del lavoro, derivati appunto dalla crescente globalizzazione. In questo contesto, è stato pertanto necessario analizzare il ruolo determinate delle multinazionali, le quali hanno colto in maniera innovativa le occasioni derivate dalla globalizzazione per imporsi a livello mondiale attraverso differenti processi delocalizzativi. Alla luce di queste considerazioni, è stato opportuno dunque definire i principali modelli teorici di delocalizzazione di un'impresa e catalogare inoltre i diversi vantaggi localizzativi che possono indurre a intraprendere scelte di delocalizzazione in un altro paese, facendo riferimento in particolar modo al ruolo che negli ultimi decenni ha assunto il costo della forza lavoro.

Una tale analisi ha permesso di valutare successivamente i legami esistenti tra globalizzazione, apertura dei mercati e regionalismi, i quali, nonostante possano essere percepiti apparentemente come fenomeni contraddittori, hanno reso possibile un maggiore interscambio anche all'interno dell'area mediterranea. Pertanto, un riferimento alla dimensione economica di cooperazione sorta nella regione a partire dalla Conferenza di Barcellona del 1995 non è potuto mancare. Sotto il profilo legislativo, infatti, le relazioni tra i Paesi mediterranei della sponda Sud e i paesi europei sono regolate dai cosiddetti Accordi di Barcellona, stipulati in seguito alla Conferenza sopramenzionata e fortemente voluti da Francia, Italia e Spagna. Meglio

conosciuti con l'appellativo di Partenariato Euro-mediterraneo, tali accordi, oltre a determinare obiettivi di carattere politico e culturale, si sono proposti come finalità l'affermazione di condizioni volte a garantire uno sviluppo economico sostenibile all'interno della regione mediterranea, anche mediante la stipulazione di appositi accordi bilaterali fra l'Unione Europea e ciascun partner appartenente alla sponda meridionale, con l'obiettivo inoltre di istituire una zona di libero scambio a medio termine.

È proprio attorno a questa dimensione regionale, dunque, che si è cercato di valutare la potenzialità di quest'area, considerando tanto gli accordi istituzionali derivati dal Partenariato che possono facilitare la cooperazione e incrementare gli scambi commerciali, quanto le facilitazioni concrete e gli strumenti di supporto agli imprenditori, nati e promossi nel quadro dell'Unione Europea. Infatti, le maggiori difficoltà d'investimento nell'area, nonostante un quadro di crescente interesse commerciale, derivano dalla lontananza di questi paesi dalle consuetudini europee in termini non solo di cultura, ma soprattutto in questo contesto di prassi commerciali e stili negoziali. Per questo motivo, la Commissione Europea si è adoperata per istituire un progetto – ANIMA Investment Network project – che miri a facilitare la scelta della delocalizzazione, soprattutto per le piccole e medio imprese, operando più concretamente attraverso il cosiddetto programma Invest in Med e l'osservatorio MIPO, impegnato nel registrare i flussi d'investimento nell'area. Questo progetto, operando in maniera simile alle cosiddette società di business consulting, si propone infatti come una piattaforma, dedicata alle imprese in fase d'internazionalizzazione, volta a promuovere l'attività imprenditoriale in paesi a rischio medio-alto come quelli che sono stati considerati. Un tentativo quindi di offrire un appoggio critico su come fronteggiare la concorrenza, con l'intento di guidare alla scelta del paese, all'orientamento nella scelta del partner e alla definizione dei settori e delle nicchie di maggiore attrattività.

Inoltre, vista la centralità degli Investimenti Diretti Esteri (IDE) nelle attività d'internazionalizzazione, largo spazio è stato dato al loro ruolo in entrata per i

paesi mediterranei, considerando inoltre la loro distribuzione nell'area e la loro provenienza. Indubbiamente, l'attuale crisi economico-finanziaria ha contribuito a rallentare gli investimenti diretti europei indirizzati all'area mediterranea, determinando una flessione negativa negli ultimi anni. Ciononostante, si tratta di una zona che continua a essere rilevante in termini d'investimenti, come si è cercato di dimostrare attraverso gli strumenti forniti dal progetto ANIMA Investment Network. Tale analisi ha permesso di individuare dunque i fattori più attrattivi di ciascun paese appartenente allo spazio mediterraneo, facendo luce inoltre sull'intorno legislativo, dalle facilitazioni fiscali agli incentivi in materia burocratica, che caratterizza ogni singolo paese dell'area in termini di flussi in entrata e permettendo di far luce su paesi molto spesso sconosciuti, ma che progressivamente si sono aperti al mercato mondiale. Consulenza legale, fiscale e contabile sono servizi dai quali le imprese che investono in quest'area non possono assolutamente prescindere: per questo motivo, si è cercato di proporre una sorta di guida all'investimento, che rendesse più comprensibile la realtà di questi paesi sotto il profilo finanziario e legale, in modo tale da mettere in risalto le agevolazioni proposte da ciascun paese mediterraneo in termini d'investimenti. Questo perché, nonostante gli errori derivati molto spesso dall'improvvisazione e dal fai-da-te, l'area mediterranea complessivamente risulta essere fortemente attrattiva, avendo aperto innumerevoli opportunità economiche e commerciali per i paesi europei meridionali, i quali, soprattutto per la loro collocazione geografica, potrebbero assolvere un ruolo determinante di cerniera.

Per questo motivo, il discorso sull'internazionalizzazione si è concluso con un'analisi delle nicchie di mercato considerate maggiormente attrattive per l'intera regione nel suo complesso. Ciò che ne è emerso, è sicuramente una panoramica interessante, in quanto molti sembrerebbero essere i settori bisognosi di attrarre investimenti. Dalle biotecnologie all'ecoturismo, dal settore agroalimentare a quello della logistica e delle infrastrutture, molte sono le opportunità da cogliere per i paesi europei. In particolare, si è considerata

l'attrattività del settore tessile, sia dal punto di vista dei tessuti organici e industriali, quanto dal punto di vista della cosiddetta fast fashion. Nello specifico quindi sono stati considerati i processi di delocalizzazione di un colosso della moda quale *Zara* (Gruppo Inditex) proprio all'interno dell'area mediterranea, e in particolare in Marocco. Nonostante le opportunità per le piccole e medio imprese siano innumerevoli, si è volutamente fatto riferimento a un'azienda multinazionale di tali proporzioni, in quanto si tratta di un esempio peculiare nel settore. Infatti, non va dimenticato come tale esperienza d'impresa sia cresciuta mantenendosi ancorata a un contesto locale e abbia deciso solo recentemente di adottare una politica di delocalizzazione produttiva. Questo sta a indicare che l'area mediterranea può convertirsi dunque in una vera e propria fonte di opportunità su tutti fronti, tanto per le piccole e medio imprese, così come per le grandi aziende transnazionali, facilitate tutte, se non incentivate, proprio dai progressi istituzionali che si sono raggiunti in termine di cooperazione sulla scia del Partenariato.

Dunque, alla luce di questi approfondimenti, è possibile affermare che alcuni segnali incoraggianti sembrano provenire da questi paesi, nonostante si tratti di realtà alquanto differenziate, dove liberalizzazioni e riforme si alternano a svolte illiberali e non di rado autoritarie. Tuttavia, solo nei prossimi anni sarà forse possibile intravedere i frutti delle manovre in atto, in parte ostacolate ancora da forze reazionarie interne piuttosto radicate e fortemente ostili alla penetrazione economica occidentale. Infine, sarebbe nondimeno illusorio sottovalutare l'esistenza di differenze che osteggiano ancora oggi le attività imprenditoriali straniere in quest'area. Differenze che emergono principalmente in contesti negoziali e commerciali, ossia laddove sorgono maggiormente le barriere linguistiche e le incomprensioni sociali, spesso derivate dall'ignoranza della storia e delle tradizioni locali da parte di chi va in quei territori per fare impresa.

Uno spiraglio di maggiore cooperazione e crescita complementare è comunque percepibile e, se non altro, auspicabile, attraverso un'attenzione sempre viva all'analisi degli scenari e alla comprensione di quelle aree dove il

“fare impresa” fa ancora rima con il “fare politica”. Ripartire da qui quindi, dai paesi mediterranei, è possibile. Ripartire da quei paesi che, in una fase di debolezza del quadro finanziario mondiale, potrebbero presentarsi come la soluzione nascosta, ma neppure troppo, dietro l’angolo.

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INTRODUCTION

Despite some drawbacks resulting very often from entrepreneurial improvisation, the Mediterranean area appears to be strongly attractive, having opened countless economic and trade opportunities especially for Southern European countries, which could play a determining role of hinge due to their geographical location. Thus, is it possible to consider the Mediterranean area as the new frontier for a global renaissance in times of economic and financial crisis? Answering this question has been the great challenge which this thesis aimed at facing. China, India and Brazil are undoubtedly performing countries. But what if a potential way-out to the economic problems of southern European companies, such as Italian and Spanish ones, notably damaged by the current crisis, was to be found just around the corner?

In terms of business, the Middle East and North Africa (M.E.N.A.) area could be rightfully considered one of the most promising zones at the global level, as the growing phenomenon of European internationalization, based on relocation and investment choices within the region, has recently demonstrated. However, a careful analysis on the issue cannot ignore the existing distinction between two different sub-areas composing the whole area: the Middle Eastern countries bordering the Persian Gulf and the Mediterranean itself, the latter being properly analyzed more in detail. Undoubtedly, while the Gulf countries are still primarily considered crucial partners exporting natural gas and oil to Europe, the Mediterranean has been establishing for decades as a central area of trade exchange, whose proximity ensures a promising market outlet for European manufactured exports. Thus, the Mediterranean area, placing between Europe and the Middle East area, has always been a vital partner for trade and cultural relations between the two sides, offering now more than ever different priority

opportunities, notably in infrastructure and logistics, ITCs, tourism and biotechnologies.

Firstly, before focusing specifically on the geographical area of interest, it has been explained in Chapter 1 the supporting structures existing in the relationship between globalization and internationalization so as to motivate the initial thesis. Interconnection, exchange and continuous interaction between different parts of the world are supposed to be the keywords characterizing this relationship, which relates consequently to those new processes of International Division of Labor derived precisely from the globalization phenomenon. In this context, it has been necessary then to analyze the specific role of MNCs, which have seized in an innovative manner the opportunities resulting from globalization in order to establish themselves worldwide, employing different delocalization processes. In the light of these considerations, it has been therefore appropriate to define the main theoretical relocation models, considering the proposals of authors such as Vernon, Hymer and Dunning, categorizing then the different location advantages prompting relocation choices, with a focus on the role assumed by labor costs in recent decades.

Successively, such an analysis has allowed considering in Chapter 2 the links existing between globalization, open markets and regionalisms, which, although being apparently perceived as contradictory phenomena, they have instead permitted an even greater exchange within the Mediterranean area. Therefore, a reference to the economic dimension of cooperation arisen in the region from the Barcelona Conference of 1995 could not be missed. On the legislative front in fact, the growing relations between the countries bordering the southern Mediterranean rim and European countries are governed by the so-called Barcelona agreements, signed after the abovementioned conference and strongly desired by France, Italy and Spain not surprisingly. Better known as Euro-Mediterranean Partnership, such agreements, as well as determining political and cultural objectives, have been proposed to establish common conditions aimed at ensuring sustainable economic development in the

Mediterranean region, including the adoption of bilateral agreements, with the aim of establishing a free trade area in the medium term.

Thus, it is just around this regional dimension that it has been attempted to assess the potential of this area, considering both the institutional arrangements derived from the Partnership, which can facilitate cooperation and increase trade, as well as the facilities and concrete tools created and promoted in the framework of the European Union with the aim of supporting entrepreneurs in their relocation choices. In fact, the major difficulties in investment, despite a context of increasing commercial interest, usually derive from the remoteness of these countries from European traditions not only in terms of culture, but notably of business practices and negotiating styles.

For this reason, the European Commission has been working hardly to establish the ANIMA Investment Network project, which aims to facilitate relocation choices, particularly addressing to SMEs, operating more concretely through the so-called Invest in Med program and the MIPO observatory, which is engaged in recording the flow of investment in the area. Operating similarly to the so-called business consulting companies, the project is proposed as a platform dedicated to those companies involved in the internationalization process, so as to promote entrepreneurial activity in countries with a medium or high risk. An attempt therefore to offer critical support on how to cope with competition, guiding the choice of the country or the commercial partner, and defining the most attractive sectors and niches markets.

Moreover, given the centrality of Foreign Direct Investment (FDI) in the internationalization process, great importance has been given in Chapter 3 to their role in the Mediterranean countries, especially considering their distribution in the area and their origin. Undoubtedly, the current economic and financial crisis has contributed to slow European enthusiasm to invest in the area, leading to a negative lowering in recent years. Nevertheless, this is an area that continues to be relevant in terms of direct investment, as it has been

demonstrated using the tools provided by the ANIMA Investment Network project.

This analysis has thus allowed identifying the most attractive factors of each country belonging to the southern Mediterranean rim, shedding light also on the legislative environment, from tax benefits to streamlining bureaucracy incentives characterizing every single country in the region in terms of FDI inflows. Legal and tax consultancy is information that companies investing in the area cannot leave aside: for this reason, Chapter 3 has been structured as a sort of guide to investment, which makes it easier to understand the reality of these countries under the financial and legal perspective, in order to highlight the benefits offered by each Mediterranean country in terms of investment.

This approach has been adopted since the Mediterranean area appears to be strongly attractive, having opened countless economic and trade opportunities especially for Southern European countries, which could play a determining role of hinge due to their geographical location, in spite of some drawbacks resulting very often from entrepreneurial improvisation.

For this reason, the discourse on internationalization concluded in Chapter 4 with an analysis of those market niches that are supposed to be the most attractive in the whole region. What has emerged is certainly an interesting overview, as many seem to be the sectors in need of investment. From biotechnology and ecotourism to agro-food industry and infrastructure, there are several opportunities to be seized by European countries. Accordingly, the pioneer experiences of many southern European companies investing in the considered niche markets have been further detailed, so to give a concrete witness of the opportunities already existing in the area. Certainly, the attractiveness depends both on the sector and on the selected country, depending also on the grade of political stability characterizing each Med partner. In particular, it has been considered the attractiveness in the textile and garment industry, both from the point of view of organic and industrial fabrics, as well as from the point of view of the so-called fast fashion.

More specifically, Chapter 5 has been entirely dedicated to the relocation process adopted by the fashion giant *Zara* – Inditex Group – just inside the Mediterranean area, particularly in Morocco. In fact, despite the opportunities for small and medium businesses are innumerable, it has been made reference deliberately to a multinational company of such proportions, as it is a peculiar example in the field. In fact, it is necessary to consider that its entrepreneurial experience has grown remaining anchored to the local context, while deciding to adopt a policy of production relocation only recently, opting for close countries, as Morocco and Turkey. Certainly, producing nearby the core centers costs more, but it allows the company to react more quickly to new trends, since the supply chain is shorter. Thus, it may be stated that the short distance between Southern Mediterranean countries and the European continent has allowed restocking in record time which Asian competitors cannot beat, in spite of their lower product prices. This is why, the company is planning to transfer even more part of its Asian production to Spain and Morocco, with the objective to increase the rate of proximity and reduce even more distribution costs.

This indicates that the Mediterranean area can then be converted into a real source of opportunities on all fronts, both for small and medium businesses, as well as for large transnational corporations, all facilitated, if not encouraged, by the institutional progress that has been achieved in terms of cooperation in the wake of the Euro-Med Partnership.

So, in the light of these insights, it can be stated that some encouraging signs seem to come from these countries, although they are actually quite different realities, where liberalization and reforms alternate with illiberal and often authoritarian turnings. However, only in the next few years it may be possible to see the fruits of the operations underway, which are still hampered in part by internal reactionary forces, rather strongly entrenched and hostile to Western economic penetration. Finally, it would be illusory to underestimate the existence of differences that are still opposing to foreign business activities in the area. Differences that emerge primarily in negotiating and commercial contexts,

where language barriers and social misunderstandings arise mostly, often derived from historical ignorance of those who go to these areas to do business.

Thus, a glimmer of greater cooperation and complementary growth is still perceptible, or at least desirable, through a careful attention towards the analysis of scenarios and understanding of the area, where the "doing business" is still synonymous with the "doing politics". Starting from here, then, from the Mediterranean countries, should be possible. Starting from those countries that might represent a possible hidden solution – but not too much – in a period of economic world weakness.

CHAPTER 1

THE GLOBAL NETWORK: A SYMPTOM OF GROWTH ADDICTION

1. BUSINESS AND GLOBALIZATION: THE CREATION OF A GLOBAL NETWORK

1.1 The role of MNCs and TNCs

When one tries to define the birth and evolution of a social-economic process, it is rarely common he can immediately face with a unitary route, but rather with disparate stimuli in different areas of research, numerous responses to problems and priorities of the moment, and also various descriptive elements of a changeable reality. Only from a certain point on, answers and descriptions started to be welded into a coherent vision that often takes normative characteristics, and in which questions, instances and solutions already emerged in a separate manner are finally included.

Relocation and internationalization processes connected to economic globalization are no exception, especially if one considers an enclosed area of the globe such as the Mediterranean one, which has always represented a place of meetings and clashes at the same time, distinguished by high levels of interaction and just as high levels of conflict among its component parts.[1]

For these reasons, the theoretical main axis of this first chapter aims at defining firstly the importance achieved in quite recent times by multinationals (MNCs) and transnational corporations (TNCs) and the subsequent increasing role of the New International Division of Labor (NIDL), as they represent the core of the contemporary global network based on economic interdependence; thanks to this brief analysis, the chapter is so intended to define the new

[1] BIN, Alberto, *Mediterranean Diplomacy? Evolution and Prospects*, in Jean Monnet Working Papers in Comparative and International Politics, January 1997, p.1 (available also at http://www.fscpo.unict.it/EuroMed/jmwp05.htm)

structures of the complex globalized system in which boundaries are more flexible and production processes are unevenly distributed. This direction will permit to define the theoretical basis of internationalization and relocation processes, without exploring the study area, so as to enable the understanding of its adaptation to the more concrete and specific perspective adopted in the following chapters, that is the consideration of the M.E.N.A. region.

One of the most meaningful images of the contemporary economic globalization certainly refers to the growing importance achieved from the 70s on by MNCs and TNCs. Although some critics are used to describe MNCs and TNCs as different structures[2], they can both be defined as large companies that are able to operate simultaneously in a multiplicity of different national and local markets through a complex network of foreign subsidiaries, generating in many cases higher turnovers than the GDP created by entire nations.[3]

Undoubtedly, it is evident that contemporary patterns of economic globalization have been strongly connected to a reframing of the relationship between markets and states. Even though the global economy as a single entity is by no means as highly integrated as the most robust national or local economy, the trends reveal an unambiguous intensified integration within and across regions, as it will better explained in the following chapter. This implies that the multinational and transnational corporations operations integrate local and national economies into broader regional and global production networks. Under these conditions, the distinction between domestic and worldwide economic activity is becoming increasingly difficult to sustain, since national economies are no longer working as autonomous systems. In this chapter, we will try therefore to understand why enterprises are likely to adopt more and

[2] Some authors distinguish between TNCs and MNCs: while TNCs usually coordinate and monitor activities in more than one country through an international breakdown of production chains, the concept of MNCs is more limited, simply referring to companies that perform operations in more than one country. Since this distinction is hardly ever used, it is not adopted in this project and the two expressions are used as equivalents.

[3] VANOLO, Alberto, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, Torino, UTET Università, 2006, 3rd edition, p. 98

more these relocation strategies, although they may lead to a progressive impoverishment of the economy in which the head office of the company itself is located, as it is actually revealing the contemporary economic crisis in various European developed countries.

According to the 2010 UN data, there are currently 82,000 MNCs worldwide with 810,000 foreign subsidiaries employing together approximately 80 million people and representing 4% of the global workforce.[4] Their turnover, defined as the total value of their sales, is estimated at 74 trillion dollars, while the net value of production amounts to some 16 trillion dollars, corresponding to 25% of the gross world product. What is more, they have arrived to control 70 per cent of world trade.[5]

Certainly, this scenario derives from that dynamic process of openness, liberalization, and international integration across a wide range of markets, from goods and services, to labor, capital and technology. This perspective is essentially based upon freedom:

> "The freedom to trade with the rest of the world and capitalize on each country's comparative advantage; the freedom to invest where returns on capital are greatest, within a tolerable level of risk, and the freedom to set up a shop in the country of one's choosing".[6]

Undoubtedly, in terms of finished products the liberalization of exchange of goods, services and capitals has represented the driving force of the globalized world economy. But, what goes on behind the scenes? From this perspective, it might be noticed that trade liberalization has generated significant changes in the distribution of economic activity worldwide, inducing to a different allocation also of labor and capitals, by allowing each competing subject to specialize its production according to its comparative advantages in the factors of production. As a consequence, transnational production considerably exceeds nowadays the level of global exports and has become not only the primary means for selling

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[4] UNCTAD, *World Investment Report 2009*
[5] UNCTAD, *World Investment Report 2011*
[6] DE LA DEHESA, Guillermo, *Winners and Losers in globalization*, Oxford, Blackwell publishing, 2006, pp. 1-2

goods and services abroad, but also the primary means for producing goods and services abroad and selling them at home. It can be interesting to notice that in fact the subsidiaries turnovers in their domestic markets in 2008 reached the value of 30.3 trillion dollars; considering that, in the same year, the total value of goods exports has stopped at around 15.7 trillion dollars, one can conclude that "the creation of a multinational structure is currently the main instrument to penetrate a foreign market, instead of the traditional exports".[7]

However, it should be emphasized that, even if the role of multinational companies represents a vital element in the contemporary economy, at the same time, the globalization has invested also small and medium enterprises (SMEs), which tend to imitate processes and levels of internationalization and relocation not dissimilar to those of giant multinational and transnational corporations. Not surprisingly, it is not unusual to find SMEs that are completely integrated into international networks of supply and distribution, but this direction represents instead a phenomenon increasingly characterizing the realities of countries such as Italy, for example, whose production was once centered on the local level.

1.2 The New International Division of Labor and its consequences

What is more, these contemporary patterns of economic globalization have been accompanied by a new global division of labor. With this expression Hymer (1979)[8] referred to a spatial division of labor on an international scale, which operates in parallel with other types of subdivisions of work, related for example to the social distribution of production or the spatial segmentation on smaller geographical scales. This consideration represents the basis for the definition of highly internationalized enterprise systems, connected to a systematic decentralization of many segments of production especially characterized by use of low cost labor.

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[7] VANOLO, Alberto, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, Torino, UTET Università, 2006, 3rd edition, p. 98

[8] COHEN R.B. et al. (Eds.), *The Multinational Corporation: A Radical Approach. Papers by Stephen Herbert Hymer*, Cambridge University Press. Cambridge, Mass, 1979

The idea of a new international division of work clashes with the "ancient" organization of the global system, which theorizes the systematic dichotomy between the core countries, representing the producers of manufactured goods, and the periphery countries, representing the suppliers of raw materials.

Therefore, the processes of breakdown of production cycles and the changed conditions described above have allowed the decentralization of industrial functions to the so-called Southern countries, in regard to standardized industrial activity and high labor intensity, through a physical and sometimes functional redistribution of activities, especially if one considers the primary stage of internationalization and relocation process.

Since the 80s, the strategies of the first stage of internationalization started in the 60s in the US underwent instead a significant change because of the rapid technological transformations and the increasing international competition. As a consequence, the traditional system of MNCs changed into a different approach to production, which is still representing the preferred model of internationalized production. From a rigid organization which used to internalize functions, the new direction consisted in adopting a more flexible structure able to operate in different sectors and with different locational logics, favoring international supply and assembly models. In fact, the growing integration of markets has progressively led to the effective disintegration of the production process, by locating different layers of the value of chain in different geographical areas belonging to different countries. This implies that nowadays productive activity can take place elsewhere, becoming more and more disintegrated and less agglomerated, since the cost advantages of delocalized production are greater than the transaction costs this generate.[9]

Consequently, the increasingly large investments in research and development activities, the increasing integration between different technologies and the rapid turnover of products led companies to re-define new

[9] VANOLO, Alberto, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, Torino, UTET Università, 2006, 3rd edition, p. 100

strategies based on a more consistent differentiation of activities and a deeper penetration into new markets through new forms of alliances and partnerships with other companies. The new type of company that emerged had a "global" multinational character involving SMEs and also becoming more and more geographically differentiated, focusing on research and cooperation agreements with other economic subjects relocated in various areas of the world. In this way, a greater organizational flexibility overlapped and often replaced a previous rigid structure, creating different foreign subsidiaries which were no more second level units, hierarchically lower than their head offices, but rather more autonomous centers in a global production network. As a consequence, the joint presence of highly qualified or standardized-mass productions started to imply the adoption of very different location strategies: the production could take place in different countries and types of companies, while supply phases might be entrusted to fully independent companies operating on different geographical scales - from international subcontracting to regional business networks – or to subsidiaries enterprises supplying industrial facilities distributed in different countries.[10]

2. HOW CAN RELOCATION BE EXPLAINED? THEORETICAL APPROACHES AS MODELS OF GROWTH ADDICTION

Why do companies decide to organize their production through subsidiaries and affiliates settled in different countries, rather than adopting exporting strategies and selling directly from production plants in their home countries?

As previously mentioned, and as will be more exhaustively and concretely detailed in the following chapters, the concept of relocation refers to all those cases where a certain productive activity, or a part of it, is abandoned in a determined country because these same products are purchased in an enterprise of a foreign country offering better prices compared with costs the home

[10] *Ibidem*, pp.100-101

enterprise would have to sustain to produce the same products by itself. This is due to the fact that production has become a process developed by many companies in many countries and through many plants.

Therefore, delocalization of a production unit is generally connected to the quest for lower production costs, so to obtain greater profits and permit the firm to grow. As a consequence, savings deriving from reduced costs can influence labor or tax costs, since, the company can pay lower wages and lower taxes compared to those it would be obliged to pay in Italy or in any other developed country, simply by shifting production.

Certainly, relocation processes can take various forms and respond to different demands. In fact, besides seeking cheaper labor and lower tax pressure, companies pursue not only new markets, but also cheaper raw materials and energy sources, as it usually happens in the textile sector for example.

This is why, considering what has been said so far, economic theory has sought to provide an explanation for relocation processes characterizing the evolution of the economic globalization phenomenon since the 60s.

2.1 Classical approaches: internationalization from the economic perspective

In this section, we will define each of the theories attempting to explain the reasons why international expansion of business can take place and the conditions under which the optimal location decisions of production might be determined. These approaches have emerged between the 60s and the 80s intending to explain the existence of the MNCs, so that the common feature of these studies lies in the definition of decision making and business behavior as an entirely rational process.

So, from this economic perspective, purely based on costs and economic benefits of relocation, the authors of reference in this view are in principle three: Stephen Hymer, Raymond Vernon, and John Dunning.

2.1.1 Hymer

The first author introduced his pioneering studies concerning MNCs and internationalized enterprises around the 60s. In his writings, foreign investments are not brought back to the macroeconomic outlook related to the movement of international capital and the differences in interest rates, but to the choices and strategies of individual companies. In particular, Hymer emphasized the importance of local factors such as technological knowledge and access to local financing resources that can represent then real benefits for the company who decides to internationalize and open a foreign branch.[11]

As a matter of fact, this author believes that companies with foreign production plants must have some kind of unique competitive advantage. This competitive advantage can be caused by production, technology, organization, management or marketing strategies, and has a monopolistic nature, which means that these companies can compete in the markets of their own foreign competitors. Furthermore, although these foreign rival companies may be better established and have greater knowledge of the market, they may be forced to assume the costs to develop this advantage and, therefore, may be unable to compete with firms coming from outside their own markets. [12]

According to his approach, it is necessary to examine what kind of benefits can possess or acquire companies and market structures in which it is more likely to concentrate foreign production, since the existence of such a unique competitive advantage involves some kind of failure of the market structure. A company may have a competitive advantage that enables to overcome the drawbacks of being foreign and to find it profitable to export abroad. As a consequence, the contractual agreement to use will depend on the degree of markets imperfection, but it will mainly choose the license or own subsidiary forms.[13]

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[11] *Ibidem*, p.102
[12] *Ibidem*, p.102
[13] This approach is fully explained in: PLÀ BARBER, José, and SUÁREZ ORTEGA, Sonia María, "¿Cómo se explica la internacionalización de la empresa? Una perspectiva teórica

Hymer (1976) also considered as a cause of abroad investment the elimination of conflict between competing firms when markets have imperfect conditions. This is due to the concentration processes which occur in certain sectors. In this type of situations, when companies cannot increase their market share, many conflicts consequently arise between different competitors, causing decrease of profits in turn. [14]

2.1.2 Vernon

The name of Vernon is closely related to the 1966 model of the Product Lifecycle Management (PLM) which takes historically significant importance in the panorama of economic geography. The model, based on the observation of the behavior of a number of U.S. companies, identifies three successive stages in the life evolution of a product, to which correspond different ways of production and organization of business functions.[15] (**Fig.1**)

The introduction or development phase of a new innovative product requires special conditions, being fundamental technological knowledge and high skills in business and management. In this phase, technology is concentrated in the hands of few subjects, requiring at the same time several qualified resources (such as suppliers of semi-finished products and other technology inputs) and highly specialized labor. These factors continue to be available only in major metropolitan centers of the industrially advanced countries. Therefore, companies and facilities intended to work to introduce a new product pursue a location in countries and areas belonging to the central economic system, which

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integradora", in *ICADE: Revista de las Facultades de Derecho y Ciencias Económicas y Empresariales de la Universidad Pontificia Comillas*, n.52, 2001, Madrid, pp. 155-175.

[14] More details about market imperfections and involved sectors can be find in: RIALP I CRIADO, Alex: "Los enfoques microorganizativos de la internacionalización de la empresa: una revisión y síntesis de la literatura", in Información Comercial Española (ICE), Revista de Economía, n.781, 1999, pp. 117-128.

[15] VANOLO, Alberto, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, Torino, UTET Università, 2006, 3rd edition, p. 102

are characterized by high incomes and advanced infrastructural and functional conditions.[16]

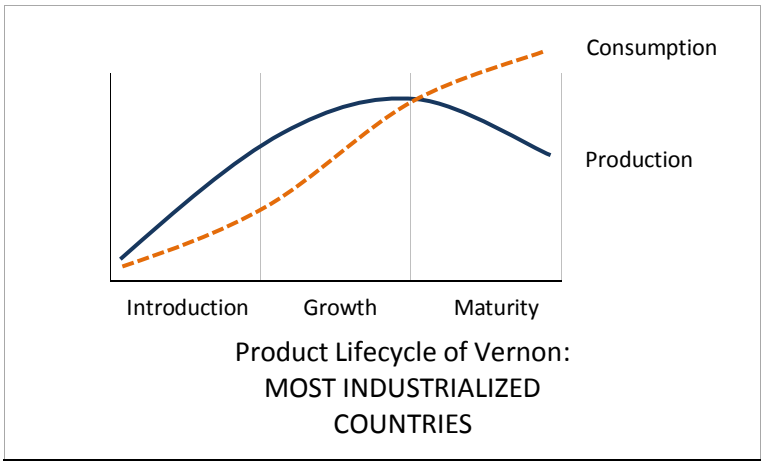
The growth phase requires instead different conditions. If the person introducing the product retains a comparative advantage, other manufacturers can imitate and make improvements in terms of both product and process. From the moment the market expands, the conditions to start mass production are created, so the large enterprise, having adequate managerial and financial levels, can count on a definite advantage. Furthermore, since the relative reduction of production costs is critical to the success of the company, the latter will consider convenient to relocate and decentralize part of its facilities both in other regions of the same country and in other technologically "intermediate" nations. However, the company itself will continue technological research and the development of the same product and process.[17]

The maturity stage or complete standardization phase is achieved when the product is settled and is no longer possible or convenient to make significant innovations. When the demand approaches to a saturation level, cost reduction becomes a key strategic variable. The whole process is based almost entirely on unskilled labor, the search for cheap workforce induces the firm to decentralize production to countries and regions with a lower technological development and lower income levels. At this stage, while the spread of the markets in which it originally appeared innovations continues, in the same markets the production of already standardized goods decreases, while it increases in areas which are selected by the target of new production facilities.[18]

This model approximates very well to the processes adopted in the 70s and introduces a first interpretative explanation to the new international division of labor. However, it is widely recognized that this is no more a valid explanatory model: considering the increasing complexity of transnational networks, it is unrealistic to assume a linear model that assumes the passage of businesses

[16] *Ibidem*, p.102
[17] *Ibidem*, p.102
[18] *Ibidem*, p.102

from economic horizons from purely national to international. Even in the case of companies operating in highly innovative sectors of the economy, the introduction phase may refer to geographical areas that differentiate from that of the seat of the company.



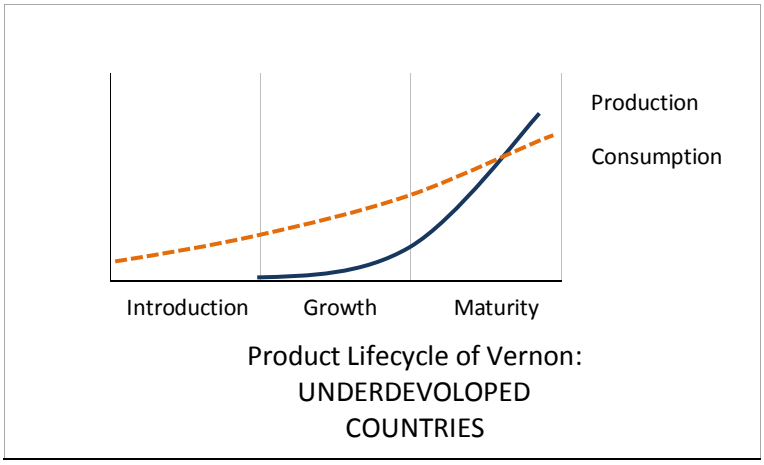


Fig. 1: Conti (1996), page 282: Product Lifecycle of Vernon.[19]

[19] CONTI, Sergio, *Geografia economica. Teorie e metodi*, Torino, UTET Università, 1996, p. 282

2.1.3 Dunning

The theoretical framework of Dunning is defined as eclectic as it combines the contributions of disciplines and different schools, that are theories of the firm, business organization, trade and location. His model is known as OLI (Ownership, Location, Internalization) paradigm, since its theoretical framework identifies three general principles listed below which, if met, determine the choice of transnational relocation. [20] (**Fig.2-Fig.3**)

- "O" - Ownership advantages (or FSA - Firm Specific Advantages): production technique, trademark, entrepreneurial skills, returns to scale.

  A company can enjoy specific advantages connected to the property of a foreign branch, for example benefits related to the acquisition of skills, or to the consolidation of monopoly positions, justifying the costs associated to the work in a foreign market. Usually, these specific advantages give rise to lower costs and higher revenues that can offset the costs of operating at a distance in an abroad location. Certainly, if a TNC is to be successful, it must have some kind of benefits overwhelming the costs of operating in an abroad market, since operating in a foreign country should usually face additional costs (e.g., failure of knowledge about local market conditions; institutional and language diversities; higher costs of operating at a distance) compared to a local competitor. Consequently, the company must be able to have lower costs for the same revenues or to earn higher revenues for the same costs than comparable local firms in order to be able to stay in business. Advantages must be particular to the company and readily transferable between countries and within the firm. For example, a series of advantages may result from the large size of the enterprise. The increase in size in fact, connected to the opening of new plants abroad, brings with it a number of benefits related to the structure of the market: in general large

[20] *Ibidem*, p.106

companies are more likely to acquire their production inputs at reasonable prices thanks to an increased financial possibility and a higher bargaining power. In addition, in respect of the markets, the large size offers a number of advantages in terms of image, increasing the visibility of brands and products.

- "L" - Location Advantages (or Country Specific Advantages - CSA): existence of raw materials, low wages, special taxes or tariffs

A firm can enjoy geographically specific benefits that are difficult to transfer. This means that the company must use some foreign factors in order to earn full rents. The benefits of location refer to non-transferable and non-reproducible factors representing externalities to local firms. These advantages may include both the reduction of production costs, and tax incentives or subsidies, but also the proximity to productive inputs and markets, and the particular political and cultural affinities with the foreign country.

Certainly, it is useful to classify internationalized companies by distinguishing between market-oriented and cost-oriented productions. With regard to the first, they respond to the attempt to penetrate the foreign market by opening a foreign branch. It is a phenomenon which is especially important in the case of economic activities which require proximity between producer and user, as in the case of those goods or services that require rapid deployment. Anyway, this strategy may be adopted also in other cases: in fact, the physical presence of a firm in a foreign market can have a strategic value that cannot be acquired in the case of export. The products can be identical to those produced at home, or they may slightly differ to get closer to local tastes and preferences. The choice of opening a foreign branch is therefore of particular importance to the structure of local markets. In this sense, the richest countries may represent the most attractive geographical areas since they

are characterized by high levels of consumption. Differently, costs-oriented productions are subjected to location choices. Of course, the process of geographical dispersion of the production cycle varies widely depending on the industry. However, compared to the 60s, it should be noted that the new transportation and communication technologies have greatly reduced the importance of certain traditionally used costs, such as those related to geographical proximity to natural resources. In fact, the minimization of costs is addressed nowadays to labor. This is why, in production maturity and standardization stages, the cost of low-skilled labor represents a strategic factor for internationalized companies.

- "I" - Internalization Advantages (IA): advantages by producing through a partnership arrangement such as licensing or joint ventures.

The company gets more profit from the direct use of these advantages, rather than transferring them to other companies. TNCs have several choices of entry mode, ranking from the hierarchy to the market, opting for this choice where transactions expenses are high. The existence of a particular know-how or core ability is an asset that can increase economic rents for the firm: in fact, benefits can be found in vertical integration processes, since they allow the complete control of the various stages of the production, reducing uncertainty in terms of reliability, costs and times that can derive from the choice of using suppliers and external operators. As already mentioned, the internalization process is particularly strong in the case of knowledge creation: as companies are investing heavily in research and development activities, hence the need to protect their innovations from any external imitators. For this reason, rather than selling patents and know-how to foreign firms, many companies prefer to use

directly the results of their research and development activities by opening subsidiaries abroad.[21]

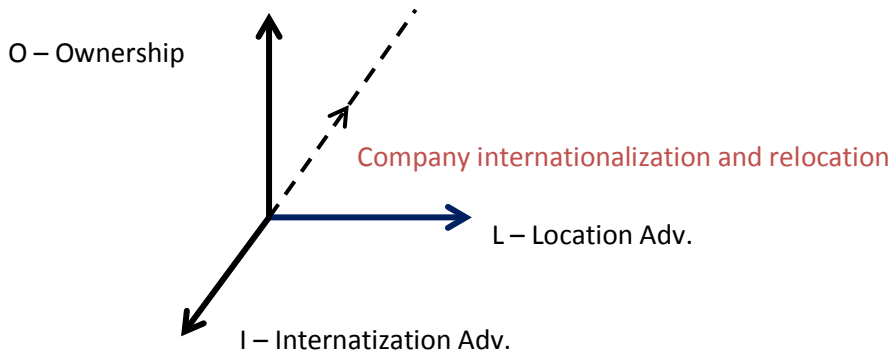


Fig. 2: Eclectic OLI paradigm, conditions to internationalize and relocate production, own elaboration.

FUNCTIONS	**Categories of advantages**		
	O	**L**	**I**
Search for natural resources	Contractual power due to the large size of the firm	Presence of natural resources and related infrastructure; Taxes and other incentives	Control of markets; ensure stability to the supply
Search for markets	Information and skills acquisition; Economies of scale and brand advantages	Labor and materials costs; Characteristics of the local market and government policies	Reduction of transaction costs; Protection of property rights

[21] The information on the eclectic paradigm have been sourced from: DUNNING, John H., *Trade, location of economic activity and the MNE: A search for an eclectic approach* in: OHLIN, B. et al. (Eds.), *The International Allocation of Economic Activity*, London, Macmillan Press, 1977, pp. *395 – 418;* in addition, further resuming information have been sourced in: VANOLO, Alberto, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, Torino, UTET Università, 2006, 3rd edition, p. 106-110

Quest for efficiency in **a) products** **b) processes**	Easy access to markets; Geographic diversification in the acquisition of inputs	a)Economies of specialization b) Low labor costs and production incentives of local governments	a) Economies linked to the common government b) Economies of vertical integration and horizontal differentiation
Trade and distribution	Access to markets	Proximity to customers; Organization of after-sales services	Quality control; Avoid foreign representation
Support services	Customer experience in countries of origin	Markets availability	Characteristics listed previously

Fig. 3: Table to summarize OLI Advantages and MNC choice factors, Vanolo (2006), page 107

2.2 New horizons: internationalization from the born global perspective

From a different perspective, it might be interesting to present a review of the literature dealing with the phenomenon known as *born global*, according to which new international companies follow a global approach from their creation, that is they internationalize since their first two years of life. This approach as new emerging perspective on relocation processes is useful to understand the internationalization of company especially in the XXI century.

Several studies on this phenomenon, which begins to be actually considered by different researchers as another theory on internationalization, have focused on specific sectors, such as high technology and craft activities. For example, Madsen and Servais (1997) relate the occurrence of born global companies with the consideration of three main factors:

- new market conditions;
- technological development in production, transportation and communication areas;
- better personal skills and capabilities, including in this last point, entrepreneurial skills.

According to this perspective, the falling communication and transportation costs, as well as easier access to new information technology and further integration between various regional economies, have generated a set of circumstances that facilitate international activities at the time of firms creation.

Changes in market conditions mean an increased specialization and, therefore, a more detailed definition of market niches. Consequently, there are more companies producing specific parts or components of a product to be sold in international markets, since domestic markets have not enough demand to absorb the minimum efficient size. Therefore, especially innovative high-technology products must be sold worldwide. Furthermore, there are also industries that are involved in global supply developing networks outside their borders. As a result, innovative products spread quickly through markets around the world, because consumers' tastes have been progressively unified. This means that the new market conditions force companies to settle in different markets as quickly as possible.[22]

Moreover, this perspective also promotes the need to understand the characteristics of the founder of the company, since they form part in its international behavior. Getting into this idea, authors researching in this field attempted to integrate literature on internationalization and entrepreneurship, in order to better understand the *born global* phenomenon. In order to develop their model, they established significant differences in the size of the company,

[22] The reference authors for this *global born* perspective are certainly Madsen and Servais, since they collaborated together with other authors to the definition of the concept. The reference work is : WILKINSON A.J., HIRSCH P.B., MADSEN T.K.; SERVAIS P., "The Internationalization of Born Globals: an Evolutionary Process?", in *International Business Review*, Vol. 6, n. 6, Elsevier, 1997 , pp. 561-583

separating the analysis of SMEs from the definition of large MNCs in their respective relocation processes. When analyzing small *born global* companies, it is necessary to conduct a review of entrepreneurship theories. In fact, such *global born* entrepreneurial ability is skipping the typical intermediate stages of internationalization to make firms become major global competitors in a short period of time. It is consequently necessary to identify a set of entrepreneurship skills, such as obtaining competitive benefits, having a global view, adopting a focus to develop business, or having the ability to recognize and capitalize on technological opportunities, without neglecting the performance of these features together with the intrinsic founder or business decision maker abilities.

Therefore, specialization, customization and niche production are viable alternatives in contemporary markets. What is more, transportation of people and goods is nowadays less expensive, and more reliable and frequent, so that business costs barriers have increasingly disappeared. This is also the inevitable result of the development of new technologies and communications, permitting markets to become more accessible and day-by-day business to develop in different countries directly from home. Similarly, international market information can be collected, analyzed and interpreted in one place without moving.

Finally, the factor associated with increased human resources skills and capabilities to exploit technological changes in international markets also contribute to describe why firms increasingly arise as *global born*. Many people have gained international experience through decades. This experience, related to mobility between nations, creates a number of potential employees with the ability to communicate, understand and do business with other cultures. These capabilities are a basic requirement needed to exploit opportunities offered by new production, communication and transportation technologies. Another consequence of increased mobility and transcultural education is that markets become more homogeneous, and consumer preferences are no longer local. For this reason, the human resources are one of the driving forces of the appearance

of *global born* companies. In particular, past experiences and current ambitions of founders and directors must be considered.

So, internationalization behavior developed by these companies based on high technology levels is described as a specialized and functional global network needing very careful management. In a certain way, one might say that *born global* phenomenon represents a challenge to classic internationalization theories, as small technology-oriented companies operate in international markets since the early days of their establishment and tend to be led by visionary entrepreneurs who see the world as a single market without borders.

Undoubtedly, this perspective may be compared to those results obtained in the craft industry, whose production in most cases cannot be considered to belong to high-tech products. Most companies engaged in handicraft focus on manual production methods developed in many cases for hundreds of years. Despite this, some of these companies decide to rapidly internationalize developing international networks, offering products tailored to customers and generally being more flexible and faster in their businesses than their larger competitors. In this way, despite their limited resources, small businesses can compete with large companies by operating in niche markets and using distinctive competences.

Anyway, it might be concluded that this approach represents perfectly the contemporary adopted model, actually creating an international system of economic interdependence which symbolizes nowadays the most important metaphor of the globalized network, where both MNCs and SMEs are involved and contribute to the definition of the economic and trade processes worldwide.

3. WHY DO ENTERPRISES DECIDE TO RELOCATE? A BRIEF FACTUAL ANALYSIS OF THE DIFFERENT FACTORS INVOLVED

Broadly speaking, companies seek through relocation markets with higher growth prospects taking advantage of location in some cases, and aim at cheapening those parts of production processes needing very intensive low-skilled labor, which enterprises are able to achieve thanks to low wages of the economy in which they decide to establish. In a certain way, they enter a kind of spiral based on growth addiction.

Certainly, it is necessary not to confuse an offshoring and relocation process with a foreign direct investment, which represents just a part of the broader theory on internalization and to which Chapter 3 will be entirely dedicated, as the latter depends on whether a company aims exclusively at opening new markets abroad, without having to eliminate or move jobs in the territory of origin. This means that a foreign direct investment can be the result of the expansion of a company and not the corporation restructuring or its total relocation.

Therefore, coherently to what has been explained hitherto, it might be noted that enterprises consider a possible relocation of the territory pursuing mainly three different reasons:

- Access to new markets with potential for production and sales, manufacturing in other countries what is usually produced in a domestic market to benefit from tariff reduction, and other measures; easier adaptation to local tastes and requirements and defense of intangible assets: technology, brands, and other firm-specific assets.

- Efficiency of production and distribution processes looking for inputs, components, processes, services, either through the company itself or through supply contracts, in order to achieve lower unit costs of

production factors (labor, subsidies and capital cost) and increased production and distribution efficiency.

- Flexibility and continuous improvement in production processes to respond to innovation needs and changes to survive in global markets; flexibility to adapt to demand when acting in rigid environments as continental Europe, to enable breakdown and reconfiguration in the development of business.

3.1 The central role of labor costs

Clearly, one of the main reasons for relocation is represented by focusing on cost factors, particularly the labor costs. Relocation seems to look like a simple corporate response to differences in labor costs, since there are no such differences in capital costs, and other basic inputs do not differ unless some significant gaps in relation to energy costs and certain specific inputs.
According to Eurostat statistics, labor cost is defined as:

> "Employer's expenditure that is related to employing personnel. It encompasses employee compensation (including wages, salaries in cash and in kind, employers' social security contributions); vocational training costs; and other expenditure (such as recruitment costs, expenditure on work clothes, and employment taxes regarded as labor costs minus any subsidies received)." [23]

According to the increasing relocation trend, it is important to consider this definition, since labor costs represent undoubtedly the most decisive factor when deciding to settle a new plant in a foreign country, although it might be noticed that it includes also other expenditures which do not directly depend on labor costs.

[23] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Wages_and_labour_costs#Labour_costs_2 These labor cost components and their elements are defined in Regulation 1737/2005 of 21 October 2005

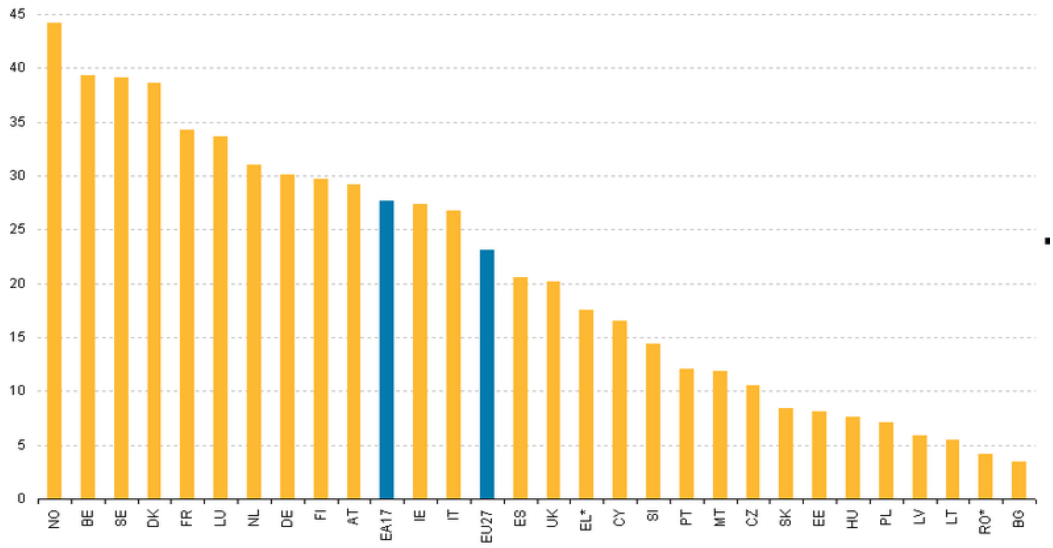


Fig. 4: Estimated average labor cost per hour in the business economy (manufactured goods and services) in 2011, Source: Eurostat, OECD [24]

As it might be noticed in the previous graph (**Fig.4**), average hourly labor costs varied widely across the Member States in 2010. Hourly labor costs in the business economy ranged from EUR 38.44 in Denmark, EUR 37.70 in Belgium and EUR 39.99 in Sweden, to EUR 3.10 in Bulgaria and EUR 4.20 in Romania. As already mentioned, one should know that the considered data include not only the compensation of employees, but also vocational training costs, other expenditure, taxes and subsidies incurred or received by the enterprise.[25] As far as South European trends is concerned, being the Mediterranean area the main study axis of this project, one can notice that costs vary slightly also within this region, since the hourly labor cost in Italy and Spain, representing approximately

[24]http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Labour_cost_index_-_recent_trends The euro area, comprising the European Union (EU) Member States which adopted the euro as their common currency, started in January 1999 with 11 countries and has expanded through a series of enlargements to 17 countries, so far. The current EA-17, as a result, consists of: Belgium (BE), Spain (ES), Austria (AT), Cyprus (CY), France (FR), Portugal (PT), Germany (DE), Italy (IT), Slovenia (SI), Estonia(EE), Luxembourg (LU), Slovakia (SK), Ireland (IE), Malta (MT), Finland (FI), Greece (EL), Netherlands (NL).
[25] Ibidem

the 70-60% of the EU average, differ from Greece and Portugal. Anyway, although labor costs in these countries are less high than in Northern countries, it might be said that they are high enough to make companies adopt relocation strategies and delocalize their production where costs are convenient.

As shown in the following chart, labor costs have significantly increased in EU countries in the last decade (**Fig.5**). In particular, it might be said that the adoption of the euro along with the rising taxation have contributed greatly to intensify this phenomenon. Just considering the last year, for example, hourly labor costs in the euro area (EA-17) rose by 1.6 % in the year up to the second quarter of 2012, while in the EU-27, the annual rise was 1.8 % up to the second quarter of 2012. This means that in European countries the growth rate is real, since the two main components of labor costs, being wages and salaries and non-wage costs, are increasing. In fact, in the euro area, wages and salaries per hour worked grew by 1.7 % and the non-wage component by 1.2 % in the year up to the second quarter of 2012. To summarize, in the EU as a whole, hourly wages and salaries rose by 1.9 % and the non-wage component by 1.4 % in the year up to the second quarter of 2012, compared with 1.5 % and 1.6 % for the first quarter of 2012.

	2008	2009	2010	2011
EU-27	21.6	22.1	22.5	23.1
EA-17	25.8	26.5	26.9	27.6
Belgium	35.6	37	38.2	39.3
Bulgaria	2.5	2.9	3.1	3.5
Czech Republic	9.3	9.3	9.9	10.5
Denmark	35.4	36.5	37.6	38.6
Germany	28.4	29	29.1	30.1
Estonia	8	7.9	7.7	8.1
Ireland	27.2	28	27.9	27.4
Greece	16.5	17.6	17.5	:
Spain	18.9	20.0*	20.2*	20.6
France	31.8	32.1	33.1	34.2
Italy	24.5	25.6	26.1	26.8
Cyprus	15.3	15.9	16.2	16.5
Latvia	5.9	5.9	5.7	5.9
Lithuania	6	5.6	5.3	5.5
Luxembourg	30.8	32	32.7	33.7
Hungary	7.9	7.3	7.3	7.6
Malta	11.2	11.3	11.5	11.9
Netherlands	29.2	29.8	30.5	31.1
Austria	26.5	27.7	28	29.2
Poland	7.5	6.4	7	7.1
Portugal	11.5	11.9	12	12.1
Romania	4.1	4.0*	4.2*	:
Slovenia	13.4	13.8	14.1	14.4
Slovakia	7.6	7.9	8	8.4
Finland	27.6	28.7	28.9	29.7
Sweden	33.8	31.7	36	39.1
United Kingdom	21.1	18.9	20	20.1
Norway	37.8	36.9	41.4	44.2

Fig. 5 : Average labor cost per hour in euros
(for enterprises with 10 or more employees), 2008-2010, Source: Eurostat, OECD

Now, the labor cost per hour is not the only key concept, but also unit labor costs represent a crucial factor. This means that it is necessary to consider that also productivity cost is what can makes difference and prompt to relocation.

3.2 Other relocation factors

The following relocation factors should not prompt us to underestimate the importance of labor cost variables explaining the delocalization process, but aim at emphasizing the importance of other variables that are often not considered in explaining offshoring decisions.

Firstly, the importance achieved nowadays by infrastructure and telecommunications cannot be ignored. Physical infrastructures in some cases constitute a very necessary condition, but they are not sufficient for economic growth. It is therefore logical to assume that the lack or deterioration of infrastructures, both in telecommunications structures as well as in physiscal organizational and structural elements, involving a good transport network, lead inevitably to relocate where infrastructures are present or they may be created in medium terms.

Secondly, another variable generally accepted as a relocation factor is the need for R&D. In enetrprises it usually depends on access to quality technological inputs, learning ability and complementary resources, such as human capital. Furthermore, it is fueled by the market needs, sophistication and required scientific level. Undoubtedly, it is curious to see how many Southern European governments insist on R&D need, although many times their actual decisions and facts contradict it. Certainly, the problem of R&D in Italy, Spain or Greece is an institutional problem, but it might be noticed in the following table (**Fig.6**) that a scarce commitment in this direction concerns also enterprises. For example, at national level, the highest R&D intensity in 2010 was recorded in Finland (3.87 %), Sweden (3.42 %) and Denmark (3.06 %), that is Northern countries. On the contrary, without mentioning Eastern European countries, the regions with the lowest R&D intensity were generally located in southern Europe.[26]

[26]http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/R_%26_D_expenditure

	Business enterprise sector		Government sector		Higher education sector	
	2005	2010	2005	2010	2005	2010
EU-27	*1.15*	*1.23*	*0.25*	*0.27*	*0.41*	*0.49*
Euro area (EA-17)	*1.16*	*1.27*	*0.27*	*0.30*	*0.40*	*0.48*
Belgium	1.24	1.32	0.15	0.19	0.41	0.46
Bulgaria	0.10	0.30	0.31	0.22	0.05	0.07
Czech Republic	0.86	0.97	0.27	0.30	0.22	0.28
Denmark (1)	1.68	2.08	0.16	0.06	0.60	0.90
Germany	1.74	1.90	0.35	0.41	0.41	0.51
Estonia	0.42	0.81	0.11	0.17	0.39	0.62
Ireland	0.81	1.22	0.09	0.06	0.34	0.51
Greece	0.19	:	0.12	:	0.28	:
Spain (2)	0.60	0.71	0.19	0.28	0.33	0.39
France (3)	1.31	1.38	0.37	0.37	0.40	0.48
Italy (4)	0.55	0.67	0.19	0.18	0.33	0.36
Cyprus	0.09	0.09	0.13	0.10	0.16	0.25
Latvia	0.23	0.22	0.11	0.14	0.23	0.24
Lithuania	0.15	0.23	0.19	0.14	0.41	0.42
Luxembourg (5)	1.35	1.16	0.19	0.29	0.02	0.19
Hungary	0.41	0.69	0.26	0.21	0.24	0.23
Malta	0.38	0.37	0.03	0.02	0.16	0.23
Netherlands	1.01	0.87	0.24	0.22	0.66	0.75
Austria	1.72	1.88	0.13	0.15	0.61	0.72
Poland	0.18	0.20	0.21	0.26	0.18	0.27
Portugal	0.30	0.72	0.11	0.11	0.28	0.59
Romania	0.20	0.18	0.14	0.17	0.06	0.12
Slovenia (2)	0.85	1.43	0.35	0.38	0.24	0.29
Slovakia	0.25	0.27	0.15	0.19	0.10	0.17
Finland	2.46	2.69	0.33	0.36	0.66	0.79
Sweden (6)	2.59	2.35	0.18	0.17	0.78	0.90
United Kingdom	1.06	1.08	0.18	0.17	0.44	0.48
Iceland	1.43	:	0.65	:	0.61	:
Norway (7)	0.81	0.88	0.24	0.28	0.47	0.55
Switzerland	:	:	:	:	:	:
Croatia	0.36	0.32	0.21	0.20	0.30	0.21
Turkey	0.20	:	0.07	:	0.32	:
Japan (8)(9)	2.54	2.70	0.28	0.29	0.45	0.40
United States (9)	1.79	2.02	0.31	0.30	0.36	0.36

(1) Break in series, 2007.
(2) Break in series, business enterprise sector, 2008.
(3) Break in series, business enterprise sector, 2006.
(4) Break in series, higher education sector, 2005.
(5) Break in series, government sector, 2009.
(6) Break in series, business enterprise sector and government sector, 2005.
(7) Break in series, government sector and higher education sector, 2007.
(8) Break in series, higher education sector, 2008.
(9) 2008 instead of 2010.
Source: Eurostat (tsc00001), OECD

Fig. 6: Gross domestic expenditure on R&D by source of funds, 2005 and 2009 (% of total gross expenditure on R&D), Source: Eurostat, OECD

This means that the future depends not only on the need of more public investment or more public subsidies to technological projects belonging to private companies, but a change in mindset of companies based on innovation and product development since they should consider R&D as a primary differential element to slow current relocation processes.

Moreover, Southern European countries also occupy lower positions regarding entrepreneurship, due to administrative burdens for new businesses, bureaucratic procedures and times. These factors act more and more as a barrier to the creation of new business activity, especially SMEs. In addition, tax advantages of emerging countries represent another reason to be studied very carefully. Except for Portugal, corporate tax rates are extremely high in Southern European countries, since they often overtake the European average. No doubt these differences are essential in considering where locating businesses, together with cultural and political circunstances.

But, when a country can be considered attractive for relocation? Briefly, it might be confirmed that being an attractive destination depend on three competitive advantages, whose percentages vary depending on the particular interests of each company. This brief index can be a useful tool to identify strengths and weaknesses points of each country compared to another. These competitive advantages and the percentages might be summarized in the following:

- Costs 40%
- Business environment 30%
- Human capital 30%

The 40:30:30 distribution[27] for the considered criteria recognize the primary importance of costs, but it gives also a significant weight to business environment and human capital. The following table (**Fig.7**)[28] explains more particularly the different involved aspects which outline each competitive advantage derived from relocation.

[27] A.T. Kearney Consulting, *The shifting geography of offshoring*, Chicago, A.T. Kearney inc., 2009, p.18
[28] *Ibidem*, p.18

Categories	Subcategories	Metrics
Financial Attractiveness 40%	Compensation costs	• Average wages • Median compensation costs for relevant positions (call-center representatives, local operation managers, IT programmers)
	Infrastructures costs	• Rental costs • Commercial electricity costs • International TC costs • Travel to major customer destinations
	Tax and regulatory costs	• Relative tax burden • Corruption perception • Currency appreciation or depretacion
People Skills and Availability 30%	Remote services sector experience and quality ratings	• Size of existing IT sectors • Contact centers and IT center quality certifications • Quality ratings of management schools and IT training
	Labor force availability	• Total workforce • University-educated workforce • Workforce flexibility
	Education and language	• Scores on standardized education and language tests
	Attrition risk	• Relative IT sector growth and unemployment rates
Business Environment 30%	Country environment	• Investor and analyst ratings of overall business and political environment • Security risks • Regulatory burden and employment rigidity • Government support for ITC sector
	Infrastructure	• Infrastructure quality (Internet, telecom, electricity)
	Security of intellectual property (IP)	• Software privacy rates • IP protection • Information security certifications

As it might be seen the previous figure, many variables have to be considered when establishing the final relocation. A successful choice should be based on a complete balance of all of them, since a low-labor costs country lacking some minimal infrastructure networks or a stable political-economic climate will not be attractive to the entrepreneur at all. In fact, according to this perspective, it is suitable for a company to avoid geopolitical instabilities or socio-cultural and language differences to settle its plants abroad. Certainly, the biggest challenge of this project consists in questioning whether this balance can be encountered for Southern European enterprises just around the corner, in the M.E.N.A. region.

Therefore, considering what has been emerged so far, in this first chapter, we have tried to outline and catalogue the main theoretical lines through which general internationalization and relocation models are developed. The considered models together with the brief analysis of relocation factors will enable to understand in which way and in which terms South European enterprises can decide to consider relocation as a vital and suitable element to their growth in a foreign country rather than in another. So, it might be assumed that it represents a first and generic, but essential reading key that will be more concretely contextualized in relation to the study area in the following chapters. Accordingly, to do so it will be necessary to firstly consider the existing links between globalization, opening of markets and regionalisms, making particular reference to the economic dimension which arose in the Mediterranean region from the 1995 Barcelona Conference on. Undoubtedly, it is evident that contemporary patterns of economic globalization have been strongly connected to a reframing of the relationship between markets and states. In fact, even though the global economy as a single entity is by no means as highly integrated as the most robust national or local economy, the trends reveal an unambiguous intensified integration within and across regions, as already explained in the first part of the chapter. It is precisely around this regional dimension that next chapter will be centered, permitting to consider whether this regionalism can

contribute to represent the horizon in which Southern European companies decide to relocate their production to improve not only their profits, but also to improve local workforce skills and to transmit know-how for a joined growth.

CHAPTER 2

THE WORLD CHINESE BOX: THE EURO-MEDITERRANEAN PARTNERSHIP IN THE GLOBALIZED WORLD

1. GLOBALIZATION VS. REGIONALISMS

One of the most significant aspects of economic globalization consists in the increasing extension and intensification of international trade relations. Therefore, it is evident that trade is a phenomenon which cannot be separated from the dynamics of international division of labor, relocation of production and productivity processes of international supply and assembly line, as explained in the previous chapter.

Then, it is clear that the processes related to globalization have radically changed the organization of industrial production: just consider how changes in trade flows do not affect only finished products, but also capital goods – such as machinery and technologies used in the production of other goods – intermediate products and semi-finished products that are then used by other companies located in other countries, or tertiary services and business in general. In addition, it can be said that globalization has not only witnessed a growing geographical extension of commercial networks thanks to greater speed in goods and services movements or progressive intensifications of global trade flows, but also the actual creation of a global market, with its own rules and institutions created over the years, enabling companies not only to increase the scope of their trade flows, but also to invest and relocate their production outside national borders.[29]

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[29] VANOLO, Alberto, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, Torino, UTET Università, 2006, 3rd edition, p. 163-164

Certainly, the reasons for this considerable trade growth are generally attributed to three orders of explanations, relating to the importance of technological innovations, the international division of labor and the progressive liberalization of markets.

As far as XX-century technological innovations are concerned, it is evident that they have allowed reducing considerably the costs of transport, increasing at the same time the industrial productivity. The technological revolution has been even more radical in the case of information technology since information transfer costs, in contrast to know-how transfer, is now virtually zero, while the cost of computers has been declining over the years. In addition, it is necessary to consider also the importance of the contraction of the transfer time for goods and services. These technological innovations have facilitated on the whole the processes of vertical decentralization and international division of labor, allowing not only multinational companies but also SMEs to break down their production cycles in different parts of the world, taking advantage of different locational externalities, according to the different benefits explained in the previous chapter. Inevitably, this implies the movement of goods and semi-finished products as well as information and capitals between different plants, contributing both to a strong growth in international and intra-firm trade. This involves that the growing international division of labor arises then also behind the rapid growth of trade in recent years. Finally, it should be taken into account that this growing economic interdependence also depends on the progressive liberalization of world markets, or the removal of tariffs, taxes, customs and other protectionist measures.[30]

As a consequence, it might be deduced that the phenomenon of globalization is generally associated with a progressive unification of the world. Nevertheless, a more careful analysis of the phenomenon can reveal that, both

[30] *Ibidem*, p.165

in its economic as in its political repercussions, this interpretation is likely to be in some sense reductive. In fact, although the intensification of financial and commercial flows inevitably involves an increase in social, political and strategic information interconnection between different areas of the globe, however, economic interdependence can cope with processes of articulation of certain regions or certain countries. Thus, on the one hand, the historical development of globalization itself entails the multilateral market opening and the reduction of trade barriers since the establishment of the General Agreements on Tariffs and Trade (GATT) in 1948, which will become later the World Trade Organization (WTO) in 1995.[31] On the other, it might be noticed how globalization has been accompanied with an apparently contradictory process of fragmentation, which has permitted to identify the world with the Chinese box metaphor, according to which regionalisms are inserted into each other in a wider framework of WTO deregulations.

In this sense, the emergence of clusters and regional blocks both in the economic and in the political and cultural life should not be seen necessarily as antithetical to globalization. In fact, although regionalisms refer to the case in which two or more countries join forces to break down or reduce trade barriers between them in order to facilitate economic exchange, excluding these facilities from countries outside the agreements, this aptitude does not interrupt the progressive increase of markets liberalization and trade growth.[32]

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[31] http://www.wto.org/english/thewto_e/whatis_e/who_we_are_e.htm

[32] The coexistence of these phenomena, regionalism and multilateralism, is mainly due to political reasons: the sudden abolition of regional agreements, established before the birth of the WTO, would be with its creation in 1995 a breakthrough in economic relations too abrupt and impractical, which would lead to the dissolution of regional agreements as the European Community, the NAFTA or the ASEAN. So, as part of the WTO agreements, the article 24 was ambiguously introduced so to authorize in a more or less explicit manner the presence of regionalism as "special exceptions" subjected to the approval of a specific committee which has to verify their compliance with certain basic criteria.
(http://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c1s5p1_e.htm)

In this regard, therefore, being the M.E.N.A. area a natural extension of Southern Europe, is it possible to establish the existence of a kind of regionalism in the area, and then a set of political and economic facilities shared by the countries belonging to it? Certainly, the existence of some regional processes involving Mediterranean countries need to be contextualized in this chapter so to define not only the economic perspectives on the area, but also the importance of an overview of EU policies in relation to Southern Mediterranean countries, in order to understand what can prompt and facilitate Southern European companies to invest and relocate their production just behind the corner. Accordingly, to do so it will be necessary to refer firstly to the political and economic dimension which arose in the Mediterranean region from the 1995 Barcelona Conference, and then to consider which goals have been achieved so far.

2. THE EURO-MEDITERRANEAN DIALOGUE

Since the Mediterranean has always represented a place characterized by instability and conflict among the countries bordering the basin, the recent degree of interdependence among its component parts explains most of the increased interest aimed at creating a framework of political, cultural and economic cooperation in the area. Undoubtedly, this direction explains perfectly the proliferation of several diplomatic initiatives emerged since the early Seventies, determining the growing importance of not only of multilateral relations and agreements, but also the role of bilateralism in the so-called Barcelona Process.[33] Thus, according to this perspective, it is so possible to affirm

[33] BIN, Alberto, *Mediterranean Diplomacy? Evolution and Prospects*, in Jean Monnet Working Papers in Comparative and International Politics, January 1997 (available also at http://www.fscpo.unict.it/EuroMed/jmwp05.htm)

the existence of a new regionalism in the area. But, if that is the case, in what respect?

Certainly, in the current context of global crisis and in the perspective of a possible revival of economic development in terms of greater sustainability, the Mediterranean area may offer interesting opportunities to European business. In fact, despite the crisis has affected also the most prosperous and dynamic areas in the world, Mediterranean countries still retain some good growth prospects. In this context, the European strategy moves on different levels, from the political to the private economic dimension.

Undoubtedly, for European countries belonging to the Northern shore of the Mediterranean, there are broadly relevant economic perspectives that could improve the possibility of trade, investment and industrial and technological cooperation with the countries of the Gulf, in spite of the serious political tensions that led to the definition of the Arab Spring phenomenon within the Southern Mediterranean countries themselves. At the same time, these same possibilities can represent a significant opportunity to non-European countries permitting them to improve their economic status and commercial.

Historically speaking, it might be assumed that the beginning of this long regional dialogue might assume two perspectives, the European and the non-European one, which both aim at creating a framework for market and political integration.

2.1 The Southern shore perspective: the Gulf Cooperation Council

On 25th May 1981, State of Bahrain, Sultanate of Oman, State of Qatar, State of Kuwait, Kingdom of Saudi Arabia and Their Majesties of the United Arab Emirates (UAE) met in Abu Dhabi, where they reached a cooperative framework joining the six states in a regional organization – the Gulf Cooperation Council (GCC) – to promote coordination, integration and inter-connection in order to achieve unity among the area.

The decision was not the product of the moment, but rather the institutional embodiment of a common historical reality, since the GCC has always represented the practical answer to the challenges of security and economic development in the area. In fact, the basic objectives aim at coordinating and integrating the six Member States by strengthening and formulating similar regulations in economy, finance, trade, customs, and administration, as well as fostering scientific and technical progress in industry, mining, agriculture, water and animal resources, establishing scientific research centers, setting up joint ventures, and encouraging cooperation in the private sector. [34]

In this regard, it may be interesting to notice the positivity of this cooperation system, since the GCC planned a possible strategic value expansion in 2011. Anyway, these proposals came under scrutiny, because of the decision of the GGC itself to consider the possibility of including the two remaining Arab monarchies, Jordan and Morocco, into the grouping. In fact, this hypothesis left more questions than answers, as Gulf observers questioned the benefits of the possible expansion for current Member States (**Fig.1**). To date, negotiations are still in progress, even if for the moment a real and concrete opening of the Council towards the two considered countries not occurred. [35]

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[34] CORAZZA C., *Il ruolo UE per promuovere investimenti e commercio con i paesi Med-Golfo*, in GUANDALINI, M., UCKMAR, V., *Med-Golfo, la terra promessa del business. Dal Qatar al Marocco le buone notizie dai paesi del dopo crisi*, Fondazione ISTUD, Mondadori Università, 2010, pp.22-39

[35] http://www.mepc.org/amid-turmoil-gcc-extends-invitation-jordan-and morocco?print (Middle East Policy Council website)

Fig. 1: Possible expanded GCC union at the moment under scrutiny

On the other hand, from a European perspective, it can be assumed that since 1988 the EU has intensified its political and commercial dialogue with the GCC, aiming at reaching a free-trade agreement with this particularly dynamic and strategic area since 1990.

To date, negotiations did not succeed in spite of growing trade ties: the Gulf is currently the fifth largest export market for the EU (more than 61 billion euros in 2008) and in 2007 the volume of trade between the two areas reached more than 105 billion. In addition, the industrial co-operation existing between the EU and the GCC is quite notable, producing investments with a value of about 9.5 billion in 2007, centered especially in the energy sector.[36]

Moreover, the EU has developed the ICI tool, Instrument for Cooperation with Industrialized countries, which provides approximately 172 million euros for 2007-2013 and aims at strengthening the cooperation with the most high-income industrialized countries of the area, such as the Gulf ones.[37] This instrument supports all forms of cooperation (bilateral, regional or multilateral)

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[36] CORAZZA C., *Il ruolo UE per promuovere investimenti e commercio con i paesi Med-Golfo*, in GUANDALINI, M., UCKMAR, V., *Med-Golfo, la terra promessa del business. Dal Qatar al Marocco le buone notizie dai paesi del dopo crisi*, Fondazione ISTUD, Mondadori Università, 2010, pp.22-39

[37] Data source: Regulation CE/1934/2006

and promotes partnerships between companies and research institutes. The funds may be provided in the form of subsidies, public calls and subsidized loans, which are later invested in priority areas for R & D, that is energy, transport, and environment sectors. In particular, the EU-GCC cooperation in the field of renewable energies is carried out through a group of energy experts, representing the first instrument of cooperation aimed at identifying key areas in the field since 1990. In March 2009, the EU-GCC Clean Energy Network was launched, establishing a practical platform aimed at developing concrete cooperation activities on clean energy, including the related technology and policy aspects, in order to respond to those common interests of players and stakeholders active in the field across the EU and GCC countries.[38]

2.2 The Northern shore perspective: European policy in the Mediterranean

With a potential of about 750 million consumers, the euro-Mediterranean market is a real considerable possibility for Europe to withstand the increasing competition with other large emerging markets, as particularly China and India. The development potentials of Southern countries are enormous, as long as they proceed quickly towards a real integration with the European markets and the modernization of local economies. But, in which ways can this integration be concretely achieved?

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[38] As it might be noticed in the EU-GCC website (http://www.eugcc-cleanergy.net) The EU–GCC Clean Energy Network works in the field of clean energy providing a broad variety of services to offer to its members. The provided key services include the creation of a strong network and the support of partnership between EU and GCC institutions. Certainly, the structures established (network and discussion groups) need to be able to provide useful services in a sustainable manner. To this purpose, it is necessary that the stakeholders who actively take part in these structures effectively make use of them so to concretely own the network. Only in this way, the Network can contribute to achieve an EU-GCC cooperation in the field of clean energy.

3. THE EURO-MEDITERRANEAN PARTNERSHIP OR THE BARCELONA PROCESS, AND ITS EVOLUTION

Historically speaking, in spite of previous attempts to dialogue often failed because of a context still dominated by the East-West confrontation, access to these new markets has been favored by the Euro-Mediterranean Partnership, launched by the Barcelona Declaration in 1995. In fact, the Euro-Mediterranean Conference of Ministers of Foreign Affairs, held in Barcelona on 27th-28th November 1995, marked the starting point of this new regional relationship, also defined as the **Barcelona Process**, which is a unique and ambitious initiative, representing a wide framework of political, economic and social relations between the Member States of the European Union and Partners of the Southern Mediterranean.[39]

According to the Barcelona Declaration, the Euro-Mediterranean partners established the three main objectives of the Partnership on the model of the Conference for Security and Cooperation in Europe (CSCE) in Helsinki (1975):

1. "Political and Security partnership": Establishing a common area of peace and stability through the reinforcement of political and security dialogue;

[39] This process was initiated by the European Union, which at the time had 15 member states and 9 other countries in the region (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territory, Syria, and Tunisia). Libya maintains an observer status since 1999. Cyprus, Malta and Turkey are three countries that were part of the Barcelona Process at its launch. However, the latest EU enlargement in 2004 has brought Cyprus and Malta into the European Union, while in December 1999 at the Helsinki European Council, Turkey became a candidate country for EU accession. The Euro-Mediterranean Partnership thus comprises nowadays 43 members, 27 EU Member States and 16 Mediterranean Partners (9 initial members plus Albania, Bosnia and Herzegovina, Croatia, Mauritania, Monaco, Montenegro, and Turkey later included in the partnership). Info source: http://www.eppgroup.eu/euromed/readmore2_en.asp

2. "Economic and Financial partnership": Creating an area of shared prosperity through an economic and financial partnership and the gradual establishment free-trade area.
3. "Partnership in Social, Cultural and Human affairs": Developing human resources, promoting the rapprochement between peoples through a social, cultural and human partnership aimed at encouraging understanding between different civil societies;[40]

To re-launch the framework for cooperation within the region, the EU fostered the **European Neighborhood Policy (ENP)** in 2004 going beyond the already existing relations in order to offer deeper economic integration and increased mobility through political association, and including to the Mediterranean countries the so-called "eastern neighbors" because of the EU enlargement. [41], The most important innovating element is the approach process to the EU dimension, which develops a progressive system differentiated by country that allows each member to participate in elements of the European internal market. This implies that the ENP introduces an approach of "variable geometry", since those countries that are more willing and more capable to implement their adaptation measures can advance in co-operation with the EU without being blocked by delays and difficulties of others. So, as far as implementation is concerned, it is up to the EU and the partner countries to define priorities that each country must fulfill to move closer to and then proceed to the integration in the European single market. These priorities are set out in the so-defined Action Plans – with a duration of three to five years – which cover a wide range of issues. Financial perspectives for the period 2007-2013 have been provided over €12 billion in support of activities agreed in the Action Plans already signed since 2005, as well as some activities of regional and cross-

[40] Barcelona declaration adopted at the Euro-Mediterranean Conference - 27-28/11/95, available at: http://ec.europa.eu/research/iscp/pdf/barcelona_declaration.pdf
[41] http://ec.europa.eu/world/enp/policy_en.htm

border cooperation. All Mediterranean countries except Algeria, Libya and Syria have drawn up Action Plans, aiming at achieving a progressive liberalization of trade. In the same direction, other loans are provided by the European Investment Bank (EIB) in the form of subsidized loans.[42]

Thus, the launch of the ENP attempted the revival of the Barcelona process, since its results have proved to be rather disappointing also because of a certain resistance to reforms in the Med countries. So, the ENP aims to go beyond, providing additional tools to economic and commercial cooperation in key areas such as energy, environment, infrastructure, transport, SMEs, R&D and border control.

Finally, the danger of a removal of the Barcelona objectives even after the ENP re-launch prompted the EU to a new attempt. In 2008 on the initiative of the EU then-president Nicolas Sarkozy, after elaborating negotiations, the **Union for the Mediterranean (UFM)** was established and the Barcelona process has so developed in a new framework, recasting the existing partnership on an even more political base with the aim of consolidating a true union among the 43 countries involved.[43] In this context of increasing EU attention to the area, economic and trade agreements have been re-launched and gradually signed, to provide higher intensity of cooperation. The re-launch has represented an opportunity to make relations both more visible and more concrete with the implementation of new regional projects with a more significant relevance for peoples living in the region, addressing areas such as economy, energy, environment and culture.

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[42] CORAZZA C., *Il ruolo UE per promuovere investimenti e commercio con i paesi Med-Golfo*, in GUANDALINI, M., UCKMAR, V., *Med-Golfo, la terra promessa del business. Dal Qatar al Marocco le buone notizie dai paesi del dopo crisi*, Fondazione ISTUD, Mondadori Università, 2010, pp.22-39

[43] http://www.ufmsecretariat.org/en/who-we-are/

Along with the 27 EU member states and the 9 initial Southern Mediterranean partners [44], the UFM permitted the partnership to be extended to other Southern Mediterranean partners, including Albania, Bosnia and Herzegovina, Croatia, Mauritania, Monaco, Montenegro, and Turkey. Moreover, the Union has also been provided with a co-rotating presidency, consisting of a representative of the EU countries and a representative of the partner countries, besides a new Secretariat based in Barcelona.[45]

Certainly, the aims are essentially similar to those of the ENP, which remains the main instrument of the political and financial support for the UFM: promoting regional and bilateral projects in priority areas, such as the improvement of infrastructural networks, energy, environment, transport, and SMEs. The UFM has so a number of key initiatives on its agenda, from the de-pollution of the Mediterranean Sea to the Mediterranean Business Development Initiative which aims to support small businesses operating in the region by providing technical assistance and access to finance, the establishment of maritime and land highways so to facilitate movement of people and goods connecting ports and improving rail connections, and finally a Mediterranean solar energy plan to explore opportunities and develop alternative energy sources.

Commercially speaking, thanks to the UFM relations between partners have further intensified, allowing a significant revival of trade, attributable to the conclusion of negotiations on some agricultural and fisheries products with Egypt, Israel and Morocco (and the one with Tunisia is on the home straight). Furthermore, negotiations on the free movement of services and freedom of establishment were concluded with Egypt, Jordan, and Lebanon, while they are still ongoing with Israel, Morocco and Tunisia. What is more, in December 2009

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[44] Since 1995 the initial partners are Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territory, Syria, and Tunisia.
[45] http://www.ufmsecretariat.org/en/ufm-countries/

trade ministers of the UFM countries met in the 8th Union for the Mediterranean Trade Ministerial Conference[46] to discuss firstly the next steps towards completing a deep and comprehensive Euro-Mediterranean Free Trade Area by 2010 and then to promote the Euro-Mediterranean Trade Roadmap[47] beyond 2010 aimed at an effective integration of markets. In fact, the way forward has been set by this new initiative, which aims to:

- implement concrete initiatives in order to bring the Euro-Mediterranean trade partnership closer to the business;

- reinforce and complete the network of Free Trade Agreements in the Euro-Mediterranean Region (both North-South and South-South);

- turn the Association Agreements and South-South Agreements into a deeper and comprehensive Euro-Mediterranean Free Trade Area beyond 2010 results.

3.1 An economic overview of the partnership

Undoubtedly, in this context, it is inevitable to give priority to the economic and financial dimension, since it will enable to understand in which framework relocation processes are developed and which conditions facilitate their concrete accomplishment. Nowadays, it cannot be denied that Euro-Mediterranean trade relations are healthy and growing, since trade growth in the area has been strengthened by the Euro-Mediterranean partnership.

In fact, among the principal aims above mentioned, the strengthening of economic and financial cooperation, and the creation of an area of shared prosperity and economic transition are developed in the following main ways:

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[46] Information source: MEMO/09/47
[47] http://www.enpi-info.eu/mainmed.php?id_type=1&id=20284

- "Fostering the economic growth conditions"

In order to promote the economic growth, numerous initiatives have been launched supporting market instruments, investments, legal harmonization, and exchange of good practices between different countries. For example, the European Commission has developed several cooperation instruments with most International Financial Institutions, such as the IMF and the WB so to promote the economic and commercial enhancement. But there is more. In fact, Euro-Med Ministers have created an ad-hoc group to discuss the best policies to promote sustainable investment flows in the Mediterranean region.

- "Reforming key sectors"

It might be assumed that the success of the partnership tightly depends on a coherent reform in key economic sectors [48], representing the main driving force behind the reform process and its achievements. In fact, the latter is mainly focused on creating regulatory framework defining the harmonization of policies regulating the most significant key sectors as sustainable development and infrastructure.

- "Establishing a Free Trade Area by 2010"

Undoubtedly, the establishment of a Euro-med Free Trade Area by the target year 2010 should have permitted to achieve substantial progress in terms of trade flows. The aim of negotiations has been

[48] The main key sectors in the area are supposed to be: sustainable development, energy, environment, water, agriculture, health, transport tourism, industry, information society.

> gradually extended from goods to services and right of establishment and also to agricultural and fisheries products. Certainly, significant progress has been made towards this objective, although to date a Euro-Mediterranean Free Trade Area is not yet complete in terms of both scope and geographical coverage. In fact, the initial objective aimed at creating a free trade area covering essentially trade in goods, whereas today, it proposes to include also services and investment, in order to create a deep and fully-fledged free trade area across the whole Mediterranean. To date, only Israel, Jordan, Morocco, the Palestinian Authority and Tunisia have signed the corresponding treaties, while negotiations with other countries are well under way.[49]

Thus, one might assume that the most significant objective of the trade partnership has been the attempt to create a deep Euro-Mediterranean Free Trade Area by 2010, aiming at substantially liberalizing trade flows between both the EU and Southern Mediterranean countries (North-South), and also between Southern Mediterranean countries themselves (South-South), in order to improve trade relations between the two shores. To date, the amount of trade relations is undoubtedly significant, as can be observed in the following chart (**Fig.1**), describing import and export flows in the area in 2011.

[49] http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146863.pdf

Trade in goods in 2011

- EU exports to the Southern Mediterranean countries:
  € 130 billion
- EU imports from the Southern Mediterranean countries:
  € 159,8 billion
- EU total trade with the Southern Mediterranean countries:
  € 289,8 billion (approximately 8.5% of total EU external trade)

Fig. 1: Source: European Commission data on trade flows in the Euro-med area[50]

As previously recalled, while the Union for the Mediterranean represents the main regional forum, Euro-Mediterranean relations at bilateral level are managed mainly through Association Agreements, which represent a different methodological approach with respect to the multilateral framework. Being essential in the definition of trade flows, they have been adopted to replace the first generation of agreements, adhering to democratic principles and fundamental rights.

Despite providing for specific arrangements with each State, they share a similar structure, intending to promote regular dialogue on political and security matters, social and cultural cooperation, and economic, trade and financial cooperation, aimed in particular at gradual trade liberalization.

Economically speaking, this means that Association Agreements provide for the gradual establishment of a Mediterranean free trade area in accordance with the rules of the WTO, in order to promote the prohibition of restrictions on

[50] http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/euromed/

exports and imports, the gradual removal of customs duties, and any other discriminatory measure on the free movement of goods between the EU and the Mediterranean countries. Undoubtedly, the adoption of this type of rules will have particular relevance not only for trade in agricultural and fisheries products, but for any type of imports and exports of industrial products.

As one can notice in the following chart (**Fig.2**), apart from Syria, every Mediterranean country belonging to the Euro-Mediterranean partnership has concluded Association Agreements with the EU. Thus, to date, the EU has concluded Association Agreements with Algeria, Egypt, Israel, Jordan, Lebanon Morocco, the Palestinian Authority, and Tunisia. At the same time, although Libya was not a member of the Euro-Mediterranean Partnership, it belongs to the Union for the Mediterranean: this is why, negotiations started only in November 2008 and are currently on-going on a Framework Agreement between the EU and Libya. [51]

Consequently, this means that the partnership have progressively promoted the development of economies and especially the opening of markets and the relative harmonization of rules and standards. In fact, these agreements, which cover essentially trade in goods, have been later complemented with a number of additional negotiations to open up additional agricultural trade, liberalize trade in services and investment, as well as establish bilateral dispute settlement mechanisms for trade matters, as abovementioned.

[51]http://ec.europa.eu/trade/creating-opportunities/bilateralrelations/regions/euromed/index_en.htm

EUROMED ASSOCIATION AGREEMENTS (Situation August 2011)			
Country	**Status**	**Date signed**	**Entry into Force**
Algeria	Signed	April 2002	September 2005
Egypt	Signed	June 2001	June 2004
Israel	Signed	November 1995	June 2000
Jordan	Signed	November 1997	May 2002
Lebanon	Signed	June 2002	April 2006
Morocco	Signed	February 1996	March 2000
Palestinian Authority	Signed	February 1997	Interim Agreement July 1997
Syria	Initialed (December 2008)	…	…
Tunisia	Signed	July 1995	March 1998
Turkey	Customs Union (January 1996)	Customs Union	December 1995

Fig.2: Source: European Commission data, 2011

Anyway, within the Euro-Mediterranean Process, besides bilateral agreements and multilateral negotiations promoted by the Union for the Mediterranean, the EU also promotes multilateral agreements established between neighboring Southern countries themselves. In fact, deepening South-South economic integration is a key goal of the Euro-Mediterranean trade partnership, since it represents a main element towards the establishment of a fully-fledged Free Trade Area in the region. However, economic integration between Southern Mediterranean countries is still quite limited: in 2009, total

intra-regional trade amounted to €15 billion, one of the lowest levels of regional economic integration in the World.[52]

Nevertheless, the EU continues to support the strengthening of trade relations among Southern Mediterranean countries, fostering several negotiations that are underway between Mediterranean countries to establish similar agreements. One of the most relevant examples is the Agadir Free Trade Agreement between Tunisia, Morocco, Jordan, and Egypt in force since 2006, which promotes the liberalization of trade between the members, regardless of the gradual alignment to European economic standards. Similarly, Israel and Jordan have consensually signed a Free Trade Agreement, while Egypt, Israel, Morocco, the Palestinian Territories, Syria and Tunisia have already signed bilateral agreements with Turkey.[53]

To date, the objective of integration with the European market including also services or any type of products seems to be still far away, although for certain countries free trade is already a concrete reality. It is clear that besides lacking reforms in some countries and economic concern for the interests at stake, problems of good governance in certain countries have represented one of the main drawbacks inhibiting the concrete establishment of these processes, including also the persistent tensions and instability linked to the Israeli-Palestinian conflict which certainly did not help.

However, interesting projects has been promoted by the European Commission and the European Investment Bank (EIB) since 1995, providing financial support and technical assistance for about € 20 billion in the framework of the signed agreements in order to support the development of trade and economic relations. In this meaning, the principal instrument of economic and financial cooperation under the Euro-Mediterranean Partnership is the MEDA

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[52] http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/enpi-south/documents/regional_indicative_programme_2011-2013_en.pdf

[53] http://www.agadiragreement.org/AgadierAgrement/Agreementtext.aspx and http://www.agadiragreement.org/AgadierAgrement/Aboutus1.aspx

program [54] which has provided more than € 5.3 billion for the 2000-2006 period in cooperation programs, projects and other supporting activities.[55]

So, the main objective of this program intends to implement cooperation and reform measures in the Mediterranean basin, enabling the EU to provide financial and technical assistance to the countries belonging to the Southern shore. By replacing several bilateral protocols with the southern countries, it aims at assisting Southern Mediterranean countries in the establishment of their economic and social structures, trying to mitigate the social and environmental consequences deriving from the support of economic development and fostering their economic transition.

Thus, it might be asserted that the MEDA program promotes the establishment of a Euro-Mediterranean free trade area by encouraging social and economic reforms for the development of the private sector and the modernization of enterprises. In this regard, the EU ought to give particular emphasis on supporting for job creation and small and medium-sized enterprises (SMEs), promoting also private investment, trade and industrial cooperation between the various partners and permitting the opening-up of markets. In addition, it should be paid attention to develop economic infrastructure, including financial and taxation systems. Accordingly, this type of inducements should permit the consolidation of the major financial balances and consequently the creation of an economic environment favorable to accelerated growth derived from these measures.

Undoubtedly, the new financial instrument created in the ENP context has been working in this same direction since 2007. In fact, the European

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[54] EC Council Regulation N. 1488/96 of 23 July 1996 on financial and technical measures to accompany the reform of economic structures in the framework of the Euro-Mediterranean partnership

[55] CORAZZA C., *Il ruolo UE per promuovere investimenti e commercio con i paesi Med-Golfo*, in GUANDALINI, M., UCKMAR, V., *Med-Golfo, la terra promessa del business. Dal Qatar al Marocco le buone notizie dai paesi del dopo crisi*, Fondazione ISTUD, Mondadori Università, 2010, pp.22-39

Neighborhood and Partnership Instrument (ENPI) was created to support economic and social transition and reform, considering also the importance of the specific needs of each country and supplying for this objective the significant amount of over € 12 billion for the 2007-2013 period.

Under the ENPI framework, each program has been funded according to the priority objectives identified in the Regional and Country Strategy Papers in order to achieve the key policy goals outlined in the 'Action Plans' that each country had previously adopted with the EU.

It is interesting to note that, the Commission announced in 2010 an increase of ENPI funds for more than € 5.7 billion from 2011 to 2013. So, new bilateral programs have been approved to support reforms with the following funds distribution: € 172 million to Algeria, € 449 million to Egypt, € 6 million to Israel, € 223 million to Jordan, € 150 million to Lebanon, € 58 million to Morocco, € 129 million to Syria, € 240 million to Tunisia and € 60 million to Libya (included for the first time)[56]. In general, the funds have been targeted to support a more efficient and modern market economy, as well as the promotion of sustainable development. Some funds have been tied to the promotion of cross-border cooperation, while the majority of new funds will be used to strengthen the action in key sectors such as transport and energy.

Furthermore, the European Commission created in 2008 together with the European Investment Bank and the Member States a fund to promote the development of network infrastructure (NIF – Neighborhood Investment Facility) providing € 700 million for the period 2007-2013. The fund is also open to the contribution of the Member States as well as to any private funding, while the trust fund has been made available by the EIB.

As far as the EIB is concerned, it has historically played a vital role in supporting the development of the economic partnership with Southern

[56] http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/enpi-south/documents/regional_indicative_programme_2011-2013_en.pdf

Mediterranean countries. Already in the 1995-1999 period, € 4.8 billion were allocated, and then followed by other € 6.5 billion in the 2000-2007 period. What is more, in 2002 it also created the so-called Facility for Euro-Mediterranean Investment and Partnership (FEMIP), through which the EIB has been helping the private sector with € 10 billion until 2009. This instrument represents a key tool because it provides financial services which are not normally available on the local markets: investment capital for risk operations, loans and technical assistance especially to SMEs. In fact, FEMIP also supports microcredit operations at the local level, with particular benefits for small business owners who cannot normally get guarantees for traditional loans.[57]

3.2 Together for a competitive Mediterranean: how to achieve this aim

From a concrete industry perspective, the Mediterranean context offers in addiction other mechanisms aimed at implementing not only trade relations, business exchanges and economic growth in the area, but also at fostering the attempt of revival of that European entrepreneurship which has been trapped in the grip of low-costs production, which had characterized the rise of the Asian tigers, often weakening the potential of European manufacturing. Certainly, the abovementioned instruments have permitted to give priority to several measures that could have not been certainly completed without the governmental intervention, since they permitted to raise the amount of trade relations between the two shores thanks to the progressive creation of a Free Trade Area in the region.

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[57] CORAZZA C., *Il ruolo UE per promuovere investimenti e commercio con i paesi Med-Golfo*, in GUANDALINI, M., UCKMAR, V., *Med-Golfo, la terra promessa del business. Dal Qatar al Marocco le buone notizie dai paesi del dopo crisi*, Fondazione ISTUD, Mondadori Università, 2010, pp.22-39

Anyway, according to the main line followed by this project, which aims at presenting a complete view on delocalization processes in the Mediterranean area, it is also necessary to consider the importance of local entrepreneurs in order to develop economic and trade relations within the countries of the basin.

For example, as it will be more deeply explained in the following chapter, it is fundamental to focus on the importance of Foreign Direct Investment (FDI) in the area, since data from the Association of Investment Promotion Agencies in the Mediterranean observatory, the so-called ANIMA Investment Network [58], has estimated that the latter can create at least three to five million jobs for the entry of new generations in the market over the next twenty years.

Project logo,
ANIMA Investment Network

It is clear that most of these new jobs can be created only with the development of a more entrepreneurial culture and the creation of new SMEs. For this reason, the European International Bank and the Union for the Mediterranean are planning together the definition of the Mediterranean Business Development Initiative, opting for the creation of agencies aimed at

[58] ANIMA Investment Network is a multi-country platform gathering around 80 governmental agencies and international networks which support the economic development of the Mediterranean basin. Mainly, it aims at contributing to a better business climate in the area, fostering the investment and the growth of capital flows. It is operated from Marseille (France) by a team of 15 people and the majority of its funding derives from the management of European Commission's programs.

promoting investment, access to credit, and a networking system for the more than 20 million SMEs existing in the region.

Not surprisingly, the European Commission is working in this same direction, implementing the ANIMA multi-country platform. This project deserves due consideration since it is particularly interesting in the outlining of relocation processes, being mainly based on two central objectives.

Firstly, it aims at fostering the promotion of the Mediterranean territories, supporting a new sectorial and industrial environment. For this purpose, the ANIMA platform leads the Invest in Med program. In fact, since design incubators and technology clusters in which start-ups could develop their potentials are needed, in this sense, the main tools are provided by the EU and the FEMIP. Today, as it will be better explained in the following chapter, the EU is promoting the work of development and incubation of the business opportunities in the Mediterranean through this extremely useful instrument, the so-called Invest in Med project, which has been supported by ENPI with €9 million euro for the 2008-2011 period.

Invest In Med logo

This three-year regional program is based on a platform that encourages partnership and exchange of good practices among enterprises belonging to both the Mediterranean rims, facilitating networking and access to local markets. So, it has been created to support business development, investment promotion and trade/enterprise partnerships and it contributes to a sustainable economic development through the creation of business forums and staff exchanges, but also through Euro-Mediterranean clusters for the key competitive sectors. Thanks to this platform, more than 500 finance professionals, 1,200 economic

development actors, and 5,000 SMEs, have been involved to date in the Invest in Med program.[59]

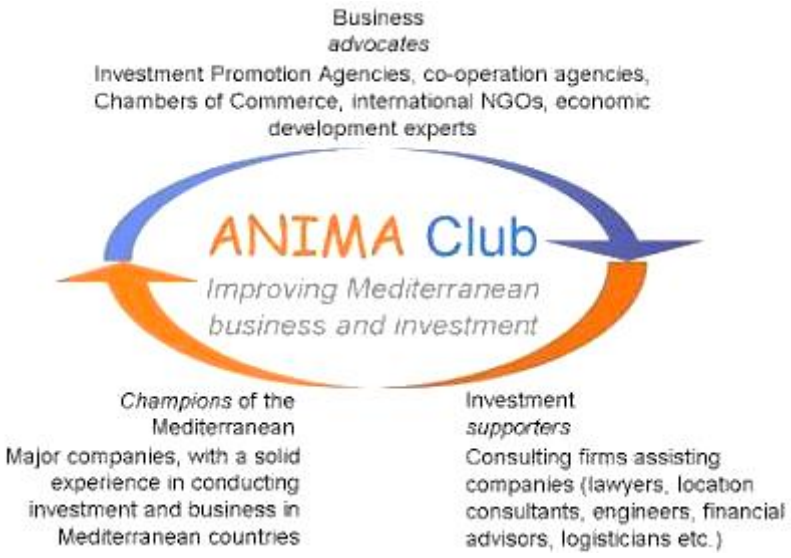
Secondly, it is also interesting to notice in this context that ANIMA promotes innovation and entrepreneurship by carrying on the MedVentures initiative, which is organized in the framework of the EU Invest in Med program and aims at helping Mediterranean start-ups in their internationalization and relocation process. This initiative contributes to facilitate the establishment of a network between the intermediary organizations supporting innovative companies. So, to boost Mediterranean start-ups growth, business meetings with investors and strategic partners and also business plan competitions are organized for new enterprises who want to establish in this area.[60]

MedVentures logo, main actors participating in the project

More generally speaking, ANIMA network is also working through the ANIMA resource center for investment in the Mediterranean, which aims at helping actors interested in the development and financing of SMEs in the

[59] ANIMA Invest Network, *Together for a competitive Mediterranean,* Presentation note 2011 (http://www.animaweb.org/uploads/File/Ain_note%20Presentation%20EN_16-06-11.pdf)
[60] http://www.medventures.biz/mission.php

Mediterranean. The center targets large industrial corporations and SMEs, but also financial actors, economic development agencies, and innovation networks wishing to develop part of their activities in direction of the Mediterranean countries. More concretely, this set of tools performs an active and selective monitoring on key sectors in the Mediterranean, identifying any possible investment and partnership opportunities as well as key stakeholders in order to connect with them and develop business events or partnership projects.



ANIMA Involved Actors:
Business advocates, Champions of the Mediterranean and Investment supporters

In order to gain its objectives, this resource center works in different directions, being composed by the following different tools[61]:

[61] ANIMA Invest Network, *Together for a competitive Mediterranean,* Presentation note 2011 (http://www.animaweb.org/uploads/File/Ain_note%20Presentation%20EN_16-06-11.pdf)

- **MIPO** (available on www.anima.coop)

The Mediterranean Investment Project Observatory registers every foreign direct investment and partnership project (joint ventures, franchises, technological cooperation, commercial representative offices, stores, etc.) involved in the Southern Mediterranean countries. Since 2003, it has detected approximately 5,000 FDI flows and nearly 1,500 partnerships, corresponding to the amount shown in the following figure (**Fig.3**). It is targeted to any company (industrial, banking, consulting,) and any actor who wants to be aware of investments and partnerships existing between companies in the Southern Mediterranean countries.

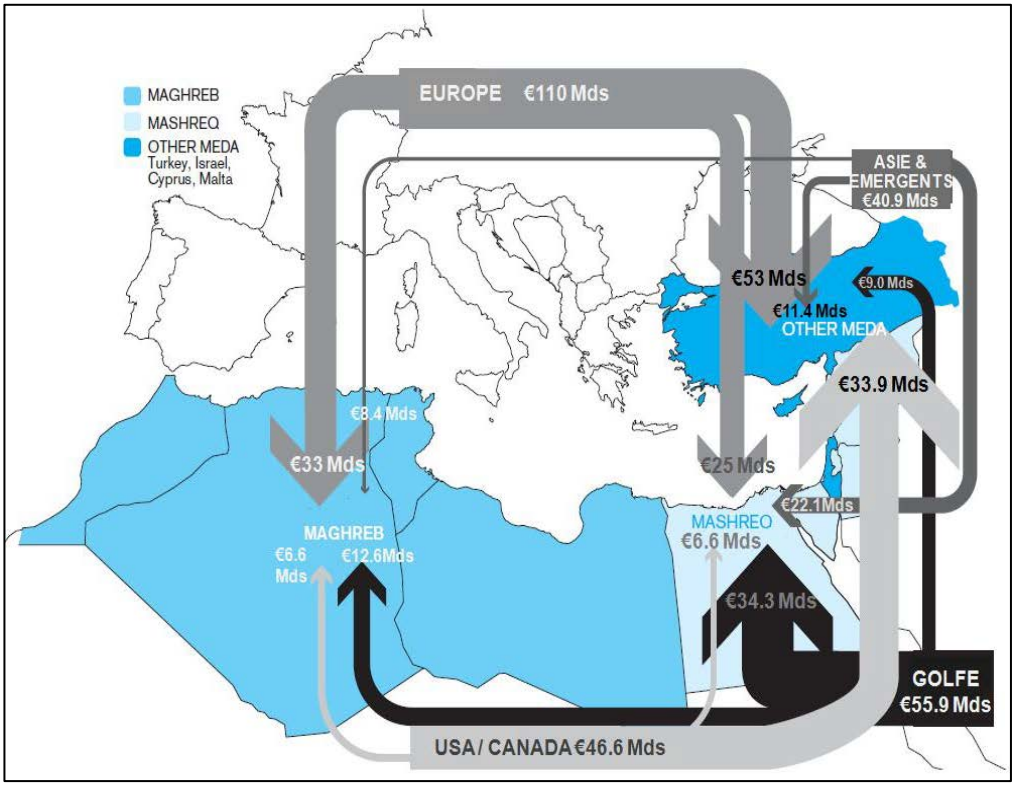
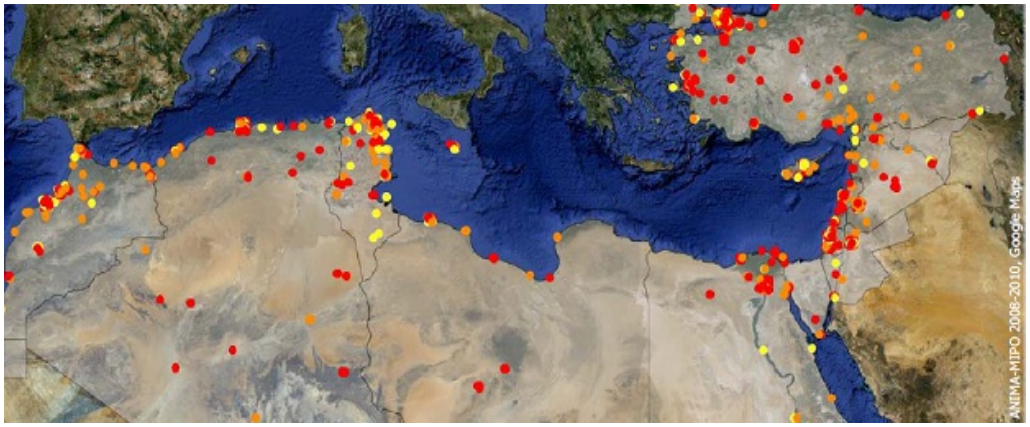


Fig.3: FDI flows detected by ANIMA-MIPO, source: ANIMA-MIPO 2010

- **Med Maps** (available on www.medmaps.eu)

All FDI and partnership announcements are geo-localized on the Med Maps Atlas. Med Maps is an on-line mapping system that permits to view and position in real time all FDI trends and partnership projects registered in the MIPO observatory as well as the most attractive economic activity zones in Mediterranean countries. It helps all those entrepreneurs and economic actors wishing to gain a foothold in the Mediterranean markets or to get relevant details about FDI in a determined geographical area, allowing them to locate online every business project in an extremely detailed manner (name of the investor, sector targeted, etc.) and the economic activity zones located on the Southern shore (clusters, technological and industrial parks, incubators, etc.). An example of a monitored map is represented immediately below (**Fig.4**) in order to permit to understand the logic of territorial and sectorial location of foreign enterprises referring to the period from January 2008 to April 2010 in the Mediterranean.



SMEs

Major co.

TNCs

Fig. 4: Evolution of number of projects (FDI and partnerships) by type of company since 2008. Source: ANIMA – Med Maps Atlas.

- **Agenda Med** (available on www.agendamed.biz)

Agenda Med is a new and free online agenda which enables users to identify, plan and promote business events in the Mediterranean region. This tool is especially targeted to enterprises, economic actors, development organizations and events' organizers who aim at raising wider awareness on up-coming events and valorizing, integrating and planning their business activities in the area. In this business events calendar more than 1,000 events have been already registered since 2002. Each event has its own qualification enabling users to develop simple searches by country, by industry, or by type of event.

- **Document database** (available on www.anima.coop)

This database in composed by a series of 43 documents listed by category and easily accessible through the search engine on line. This section includes sectors studies to identify opportunities, guides to facilitate the establishment in the South of the Mediterranean, economic data, fact sheets, directories of key actors, and press releases, all aimed at helping enterprises and business support organizations.

- **Link in Med** (available on www.linkinmed.biz)

Finally, Link in Med is the first online Mediterranean business community, which has maybe the closest and most concrete approach to the industrial and economic reality. Certainly, data confirm this hypothesis, since it already counts 4,000 members, including 3,500 enterprises.

This online platform gathers those companies that are both registered in the ANIMA-MIPO observatory or involved in the Invest in Med program and new candidates. Each actor of this on-line community has a fact sheet that

contains its profile information, its recent investments and its latest business or partnership opportunities.

Link in Med Advertisement, Source: ANIMA – Invest in Med

3.3 Taking stock of the situation

Undoubtedly, the detailed analysis of these tools is essential in this study context, since it allows understanding which incentives and facilities actually prompt both European SMEs and MNEs to relocate their branches in the Southern Mediterranean shore, seeking not only new markets opening, but also different business opportunities and production strategies that could make awaken the decadent European economies.

Thus, it is extremely important to consider the existence of these shared instruments, since they allow mobilizing economic initiatives centered on Mediterranean promising niches, as it will be further detailed in the following chapters. In fact, they support European entrepreneurs in their relocation choices establishing which methods and strategies are the most suitable for each of their purposes. Not by chance, these projects aims at strengthening not only the promotion of a more entrepreneurial local culture so to put into practice the Barcelona process aims and strengthen EU instruments themselves, but they particularly attempt to implement the faith of European entrepreneurs in the Mediterranean partners, so to promote SMEs and also TNCs establishment in

North Africa and Middle East and, as it will be further explained in the next chapter. Certainly, this is one of the widest priorities for EU policies, since the Mediterranean challenge is vital for Europe itself, also considering the increasing Chinese competition in the area.

Thus, a great opportunity that the EU cannot afford to lose. But, why?

To summarize, considering what has been explained so far, the Mediterranean region can offer a 320 million people market, one of the most consuming in the developing world. Foreign enterprises have identified this opportunity and the region has recently faced unprecedented investments, as the FDI inward flow increased even six times between 2000 and 2006.

What is more, this area seems to be crucial not only in terms of FDI, but also in terms of international trade, since the EU is the first trade partner for Southern Mediterranean countries, as already explained, representing its largest market for exports and its first source of imports.

Although EU-Med trade registered a significant contraction in account of the impact of the global crisis (-20% compared to 2008), since the first quarter of 2010 the trend has progressively recovered. As indicated in the following chart (**Fig.5**), EU exports to the Med countries represented in fact around €160 billion in 2011, while imports from the same countries were worth around €130 billion.[62]

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[62] http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146863.pdf

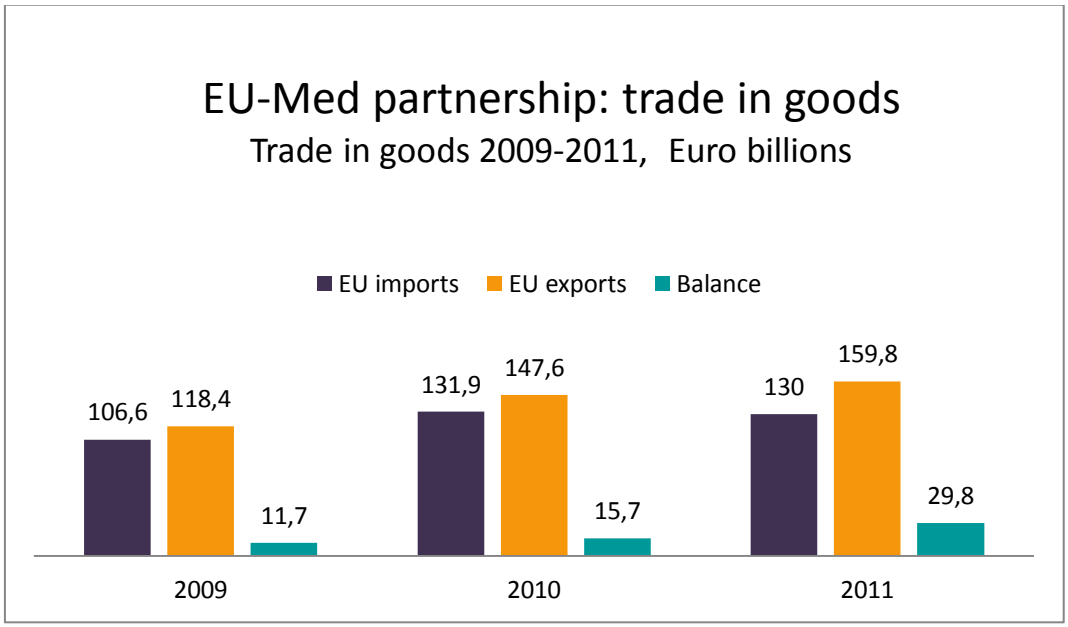


Fig. 4: Own Elaboration from European Commission statistics on Euro-Mediterranean partnership

It might be interesting to note that since the mid-1990s EU exports to the Med countries have increased at an annual average of 8 percent, marking a rise in export value of about 250 percent between 1995 and 2011. In this sense, Turkey, Morocco, Jordan and Algeria have recorded the largest average annual growth rates, although the West Bank and the Gaza Strip have reached the peak from a low level.[63] Moreover, it can be remembered to summarize that EU exports to MED countries are mostly centered on the category of manufactured products, which accounts for 80 percent of the total exports.

On the other hand, from the Med perspective, EU imports from the Mediterranean countries represent around 47 percent of Med exports with an annual average rise of more than 10 percent since 1999. The EU receives an amount of Med exports that has thus doubled over ten years, with imports increasing particularly from Turkey and Algeria. Certainly, Med exports are dominated by fuels, which represent 22 percent of EU imports from the MED

[63] Information source: MEMO/08/472

countries, followed by textiles and clothing (18.3 percent), and machinery and transport equipment (17.5 percent).[64]

Furthermore, through a general analysis of the area, it might be noticed that among the MED countries, Turkey occupies the most significant and singular position because of the Customs Union Agreement which came in force in 1995 and its status of a candidate country to join the EU since 1999, but also its demographic weight.

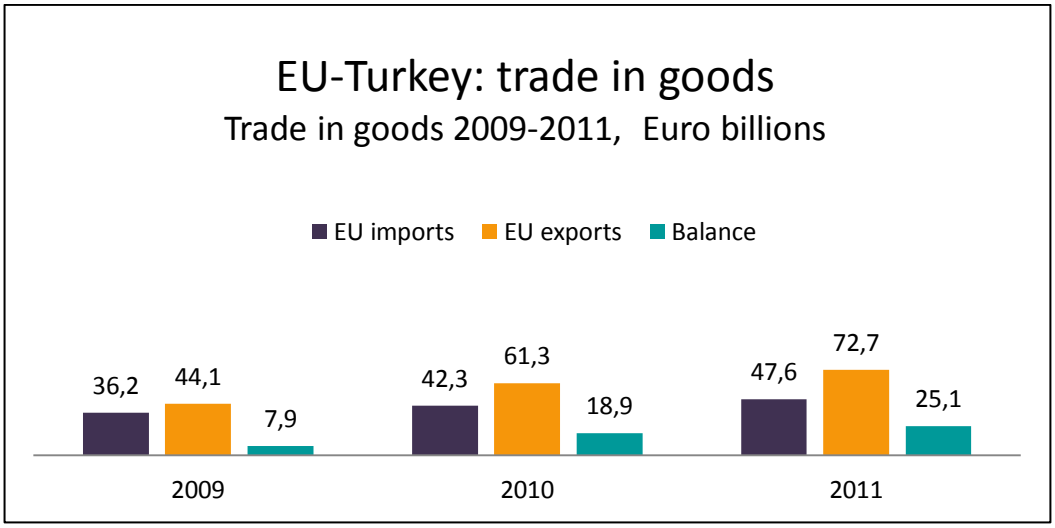


Fig.6: Own Elaboration from European Commission statistics on EU-Turkey partnership

In fact, as can be noticed in the previous chart (**Fig.6**), Turkey receives a constantly growing amount of EU exports (€72,7 billion in 2011), while providing approximately 3.3 percent of EU imports in 2011, corresponding to some €47,6 billion. EU exports to Turkey concern mainly manufactured products, especially transport equipment, machinery and chemicals, determining an annual average

[64] http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146863.pdf

rate of EU export growth that has marked an increase of 12 percent between 1995 and 2007.

In addition, it is necessary to refer to the Association Agreements concluded by the EU with all of its Med partners, which have all entered into force except the one with Syria, as previously indicated. Undoubtedly, these agreements have contributed to implement trade flows between the two opposed shores and permitted to double Med exports to the EU since 1995, since they foresee not only the gradual liberalization of trade in all industrial goods, but also the duty-free access for 80% of agricultural exports.

Furthermore, what has emerged from this analysis is that although most Southern Mediterranean states are making significant progress in implementing their economic integration with each other, North Africa still remains, however, the least regionally integrated regional market in the world. Despite the entering into force of the Agadir Agreement in 2006, which permitted to create a free trade area between Egypt, Jordan, Morocco and Tunisia, mitigated results have emerged so far in terms of rise of trade flows amongst the partners. Consequently, this implies that through the creation of a free trade area the EU has agreed to create a Euro-Mediterranean accumulation system which aims at ensuring that any good produced in more than one and only country in the whole region will continue to benefit from preferential access to the EU or to other Mediterranean markets. Concretely speaking, this means that in the textile sector for example, if fabric is produced in Turkey, it can be sewn into a shirt in Morocco, finished in Tunisia, packed in Algeria and then exported to the EU while still benefiting from preferential access.

Thus, it is clear that in this study context it is important to analyze both the factors that might prompt enterprises to relocation choices and the instruments that help to decide where to relocate.

This is why this chapter together with the first one represents the backbone of the following chapter, determining the background on which next analysis will lean. In fact, in the following chapters it will be possible to understand to what

extent and in which niches production relocation can be actually appropriate. Not surprisingly, on the one hand, it has been essential to firstly investigate the importance of internationalization theories and strategies and also the role of key factors (financial attractiveness, labor costs, people skills availability, business environment) in prompting relocation. On the other hand, it has been inevitable to consider in this chapter the role of useful facilities which concretely belong to the Euro-Mediterranean area, allowing enterprises to rely on new markets and strengthen FDI flows in the region in order to compete with the growing Chinese interest for the partner countries.

Therefore, having defined so far the pillars of this project, the next chapter will actually reflect on the importance of FDI flows in the area in relation to those key factors, such as labor costs and business environment, that permit to relocate production on the Southern shore. Finally, the definition of those niches markets where investments seem to be more appropriate will be further investigate, so to permit the concrete functioning of the Euro-Mediterranean tools described so far.

CHAPTER 3

A POSSIBLE *EL DORADO* JUST AROUND THE CORNER: INVESTING IN THE MEDITERRANEAN

1. DEFINING FOREIGN DIRECT INVESTMENT (FDI)

After having analyzed in the previous chapters both the different general types of factors that might prompt enterprises to relocation choices and the concrete instruments that can help to decide how and where relocate in the Mediterranean area, it will be possible to define in this chapter those factors that allow enterprises to rely on new markets and strengthen FDI flows in the region in order to compete with the growing Chinese interest for the Mediterranean partner countries. Thus, in order to achieve this aim, it has been essential to investigate in the previous chapters the importance of internationalization theories together with the role of key factors (financial attractiveness, labor costs, people skills availability, business environment), considering also the importance of tools and facilities that concretely belong to the Euro-Mediterranean area.

Thereby, it will be possible in the following sections not only to reflect on the importance of FDI flows in the area, but also to notably define the regulatory frameworks of each country belonging to the area, so to evaluate where investments are more suitable, easy and appropriate. Certainly, this approach will be developed by firstly considering also the importance of those key factors, such as labor costs and business environment, that permit to relocate production on the Southern shore, permitting to concretely focus on those parameters that are supposed to be essential in relocation choices for each Med country.

Having considered in the previous chapter the role of international trade and import-export flows in the area, another specific measure of the

internationalization process and the growing role played by MNCs is represented by the amount and nature of Foreign Direct Investment (FDI). According to the definitions provided by the IMF and the OECD in 2003, FDI is international investment into production carried out by a subject (investor) with the aim of establishing lasting interest in an enterprise located in a different country, either by expanding operations of an existing business in that country or by buying a company in the target country.

The *lasting interest* concept implies the existence of a long-term relationship between the investor and the company, as well as a significant degree of influence on the management and the definition of business strategies. These characters are conventionally deemed to be satisfied if there is at least a 10% ownership of the company ordinary shares or the analogous proportion of voting stock: below this percentage it is not possible to consider the investment a FDI.[65]

Thus, FDI meets perfectly the needs of internationalization and relocation choices, since it is due to take advantage of cheaper wages and special investment privileges, such as tax exemptions offered as an incentive to gain tariff-free access to the markets of the country or the region in which the investor decide to relocate, usually involving at the same time his participation in management, joint-venture, transfer of technology and expertise.

But, which are the factors that drive companies to expand abroad through FDI? Since FDI represent the typical instrument to invest abroad, it might be noticed that TNCs can be stimulated to do so because of a wide variety of factors.

Firstly, it might be generally concluded that if the company purpose is the supply of agricultural and mineral products, its choice will provide the relocation of its plants in countries rich in natural resources, thus creating supply-oriented FDI. This strategy was widespread until the early 20th century, but today only those companies operating in the mining, metallurgical and energy sectors are wont to adopt it yet. On the other hand, companies carrying out FDI in order to

[65] VANOLO, Alberto, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, Torino, UTET Università, 2006, 3rd edition, p. 135

supply foreign markets of manufactured goods, with branches that produce the same products as the parent company, adopt different market strategies, providing horizontal FDI.[66] Nowadays, this strategy, which has been adopted until the Sixties by companies in industrialized countries, is especially widespread among firms in the newly industrialized countries and countries in transition.

Moreover, since the mid-Sixties a new strategy in which the investment decision is motivated by the presence of favorable conditions in terms of costs of different production factors has been increasingly developing. This happens, for example, by locating labor-intensive production phases in countries with low labor costs, thus creating vertical FDI. Certainly, this strategy of production rationalization implies that branches produce components of the product for the parent company, but not the finished product. Thus, this permit to achieve an international integration of production processes for a single product, generating a breakdown of the international production process which is only possible if the product is composed of multiple components that can then be produced independently by different branches of the company, which selects the host countries on the basis of comparative advantages for each stage of production.

On the other hand, the technical and financial strategy, which started to spread from the Eighties ahead of the global strategy of internationalization discussed in the first chapter, unlike other strategies, is implemented through the use of different means from FDI, such as new forms of investment, alliances between MNCs, subcontracting and management of activities abroad by technology as well as the financing of a parent company or a holding company, possibly located in a tax haven. This strategy, focusing on the technological and financial expertise resources and on the relationships between firms, may determine a shift away from the sector of origin.

[66] A clear distinction is usually made between horizontal FDI and vertical FDI. This distinction depends on the allocation of the production process and the geographical breakdown of this in two phases: an intensive skilled labor and an intensive unskilled labor. If both phases reside in the same host country FDI is horizontal, whether they are located in different countries, FDI is vertical.

Finally, another strategy is represented by the transfer of all stages of the production process in a foreign country, which is chosen because of its location advantages of both a horizontal and vertical origin, from which subsequently serve markets of a whole and broader region. In this case FDI is regional.

In addition, the choice of relocation is also influenced by some elements associated with attraction factors of the potential host country, as you can see from the following chart. The framework of factors synthesized by UNCTAD[67] has two sets of typical characteristics of the milieu of the company, attributed to political and social factors, with particular attention to the political stability and market arrangements, as well as tax, incentives for the production and for the reception of foreign investment, as it will be further explained in this chapter in relation to the Med zone. More specifically, the second part of the pattern refers to the location factors depending on the orientation of the enterprise. These are largely different depending on whether the company is oriented to find markets or to exploit natural resources and cost minimization.

[67] UNCTAD, *World Investment Report*, 1998

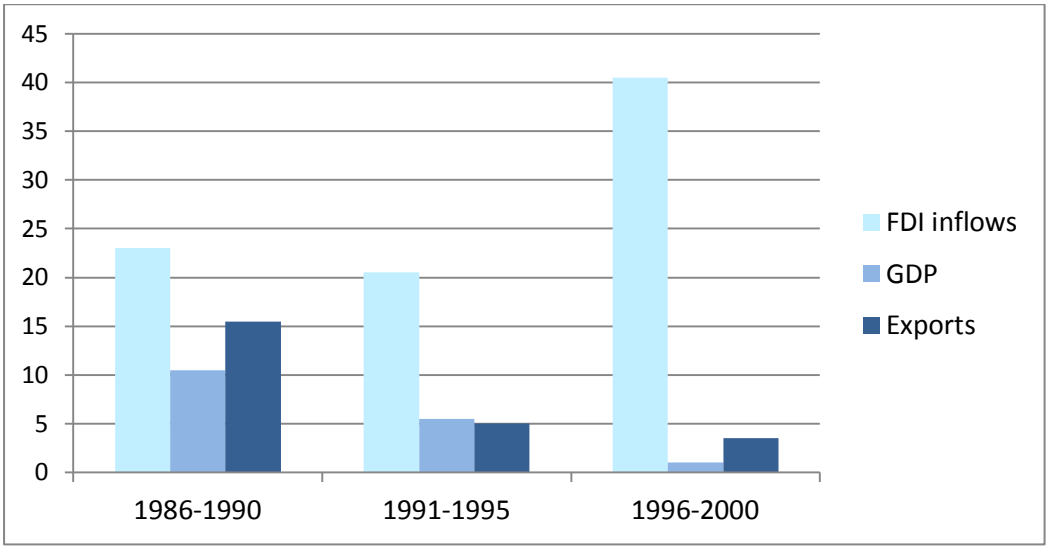
Characters of political interest:	Business support and environment:
• Social, economic, political stability • Rules of entry and management • Standard of foreign affiliates treatment • Attention to competition, M&A • International agreements on FDI • Privatization • Market policy and tariffs • Fiscal policy	• Incentives and investment promotion • Institutional asset, government efficiency, degree of political corruption • Social benefits (life, bilingual schools) • Services

Market-oriented FDI	Resource-oriented FDI	Efficiency-oriented FDI Costs savings
• Market size and per capita income • Market growth rate • Access to regional and global markets • Consumer preferences • Market structure	• Natural resources • Low-cost unskilled labor • Infrastructure (ports, and airports, electricity, telecommunications) • Existing technological and innovative structures	• Resource and labor costs • Transport and communications costs • Access to regional business networks, existing agreements, regional network projects, free trade agreements

Source: UNCTAD, WIR 1998

Certainly, it is also necessary to define some historical and empirical evidences. In fact, it might be noticed that the internationalization of TNCs activities in terms of foreign investment has exponentially increased since the years following the Second World War. During the Sixties investments grew twice as fast as GDP and 40% faster than exports. Then, in the Seventies and the first half of the Eighties the three economic indicators (trade flows, FDI and GDP) grew at similar rates, but since the mid-Eighties up to the end of the last century, FDI have experienced an unprecedented expansion, as it can be noticed in the following chart. However, after this period of rapid growth, FDI started to experience a period of strong contraction at the end of 2002, since the inward

investment fell to 651 billion dollars, that is to say the lowest level since 1998.[68] The causes of this reduction relates to the general economic and stock market crisis, the slowdown of the privatization process in some economies, the gradual economic instability resulting from the fragile geopolitical balance after 9/11 events and the so-called technology bubble, or the slowdown in the ICT sector after years of rapid growth.



Growth rates of global exports, GDP and FDI inflows, Source: UNCTAD, 2004

[68] VANOLO, Alberto, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, Torino, UTET Università, 2006, 3rd edition, p. 137

2. A CURRENT OVERVIEW ON MEDITERRANEAN FDI

The Mediterranean area appears to be strongly attractive, having opened countless economic and trade opportunities until today, especially for Southern European countries, which could play a determining role of hinge due to their geographical location. What is more, as it will be further explained in the following chapter, several promising niche markets, including primarily the textile industry, continue to need investment. Nevertheless, so as it has happened all over the world, the European debt crisis together with the political transitions which have recently overwhelmed several MED countries have resulted in a decrease in announcements of FDI and partnership projects in the southern shore. The fall in the number of announced projects in 2011 has substantially characterized all Arab countries except for Algeria and Morocco, where the 2011 FDI situation proved to be similar to that of 2010, while Turkey and Israel proved to be the first FDI recipients in 2011 in the whole MED region.[69]

Anyway, it is certain that investment intentions in 2011 fell back to their 2009 level, since after the FDI upturn in 2010, investment intentions unsurprisingly encounter a new slowing down in 2011.

Not by chance, according to the ANIMA-MIPO with the support provided by the Invest in Med project, the number of FDI project announcements in the MED countries during the first three quarters of 2011 decreased by 26% compared with the same period in 2010, since 467 projects have been detected in 2011, against 625 in 2010. The decline in announced amounts has also been severe, as around 25 billion Euros have been announced in the first 9 months of 2011 against 40 during 2010, that is to say -34% as it can be observed in the following graph.[70]

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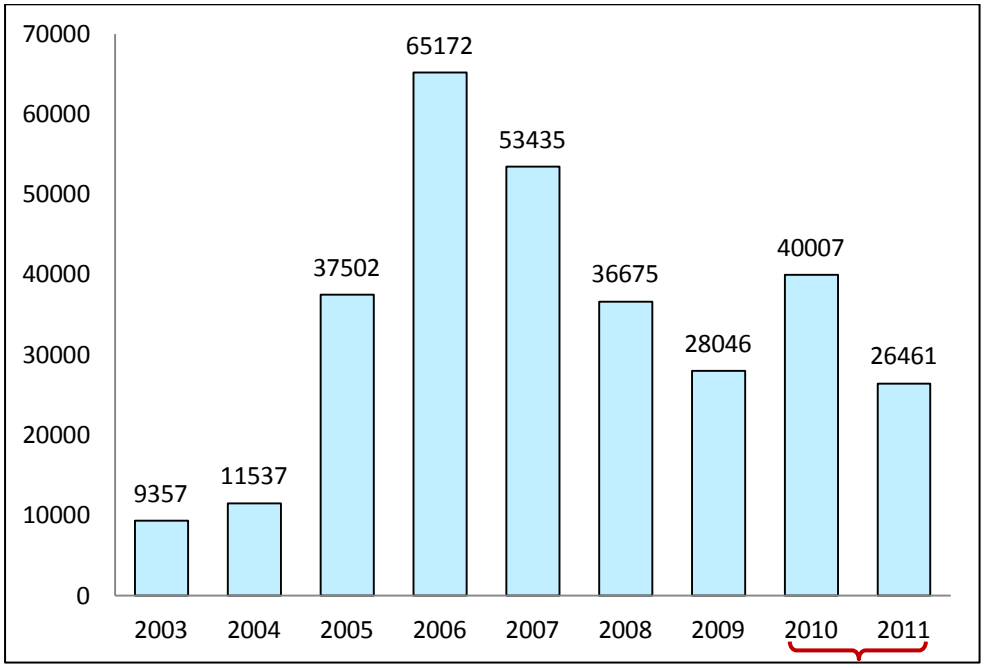
[69] ANIMA-MIPO(Mediterranean Investment and Partnership Announcement Observatory), *Review - First three quarters of 2011,* p.1
(available at: http://www.animaweb.org/uploads/File/AIN_ReviewMIPO_Q3-2011_22-12-11.pdf)

[70] *Ibidem*, p.1

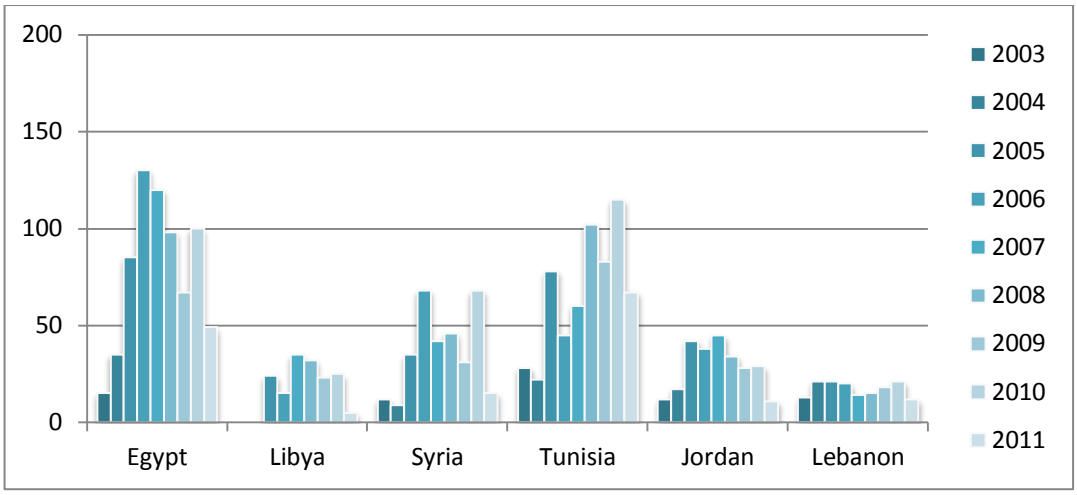


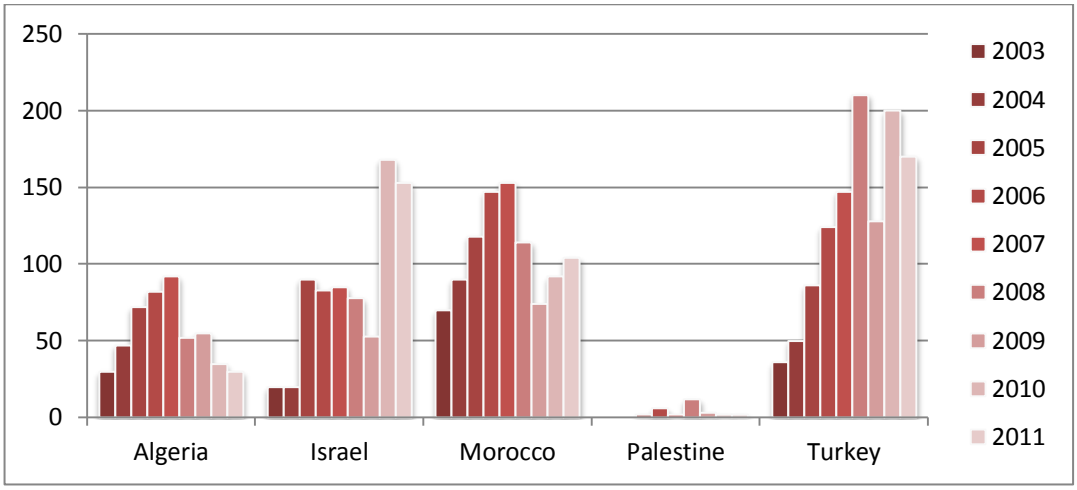
Amounts of FDI projects announced in the MED countries in million Euro (2003-2011)
Source: Own elaboration from ANIMA-MIPO

What is more, partnership projects[71] recorded an even stronger drop, with 517 projects detected for the whole year 2010, against 223 reported during the first three quarters of 2011, to a decrease of 38%. Certainly, it must be recalled that the fall in number of FDI announcements detected by the ANIMA Observatory in 2011 was sharper in Egypt, Libya, Syria, and Tunisia, namely in those countries subject to ongoing political changes and subsequently, in their close neighborhood, that is Lebanon and Jordan, as it can be observed in the following graph.[72]

[71] Partnership projects are defined as projects where a foreign company approaches a domestic market by opening a local representation, branch or network, or by identifying a domestic partner.

[72] ANIMA-MIPO(Mediterranean Investment and Partnership Announcement Observatory), *Review - First three quarters of 2011,* p.1-2 (available at: http://www.animaweb.org/uploads/File/AIN_ReviewMIPO_Q3-2011_22-12-11.pdf)





Number of FDI projects announced by country (2003-2011)
Source: Own elaboration from ANIMA-MIPO

The trends detected by the ANIMA Observatory and shown in the previous graph are perfectly in line with the results of the survey conducted by the World Bank group in summer 2011 for the preparation of the World Investment and Political Risks 2011 Report. According to this study, based on the purposes of 115 large MNCs regularly investing in developing countries, over half of the considered companies with an investment project in the MENA region decided to reconsider or delay their current plans, by placing them on hold or cancelling them because of the recent political unrest.[73]

[73] *Ibidem*, p.2

Thus, the previous graph shows that the number of FDI announcements in Tunisia decreased by 40% in comparison with 2010, while 2011 appeared to be even more difficult in Egypt, where, according to the ANIMA Observatory, the number of FDI projects was reduced by approximately 50%, especially affecting tourism, hardly hit by the ongoing political events.[74]

Similarly, the situation was hardly any better in Jordan, Lebanon, Libya and Syria. While the sharpest drops were registered in Libya and Syria, where the number of announced projects decreased by around 75% in comparison with 2010, Jordan and Lebanon lost half of their investment announcements.[75]

However, Algeria and Morocco seem to be two singular exceptions within the area. In fact, although in Algeria the number of FDI announcements has to be put in perspective with the discouraging bad record achieved in 2010, investment projects remained stable in 2011, and grew by 15% in Morocco in comparison with 2010, which results in Morocco ranking third in number of FDI projects behind Turkey and Israel. Nevertheless, it has also been found that investors have started to further lower their financial involvement even in Morocco, as in the majority of the other MED countries, according to a continuous decreasing trend since 2009.[76]

Thus, as far as FDI attractiveness in 2011 is concerned, Turkey and Israel confirmed their leading position in the region, with almost one quarter of total regional FDI announcements for Israel and over one third for Turkey, both in announced flows and in number of projects. Ranking first among the MED countries, Turkey seems to widen the regional gap, since, according to the ANIMA Observatory, it was able to attract a record share of announced flows. Likewise, the Central Bank of Turkey has released recent data confirming this trend: in the first ten months of 2011, Turkey managed to attract over 8 billion

[74] *Ibidem*, p.2
[75] *Ibidem*, p.2
[76] *Ibidem*, p.2

Euro of FDI, an 84% increase when compared with the same period of the previous year.[77]

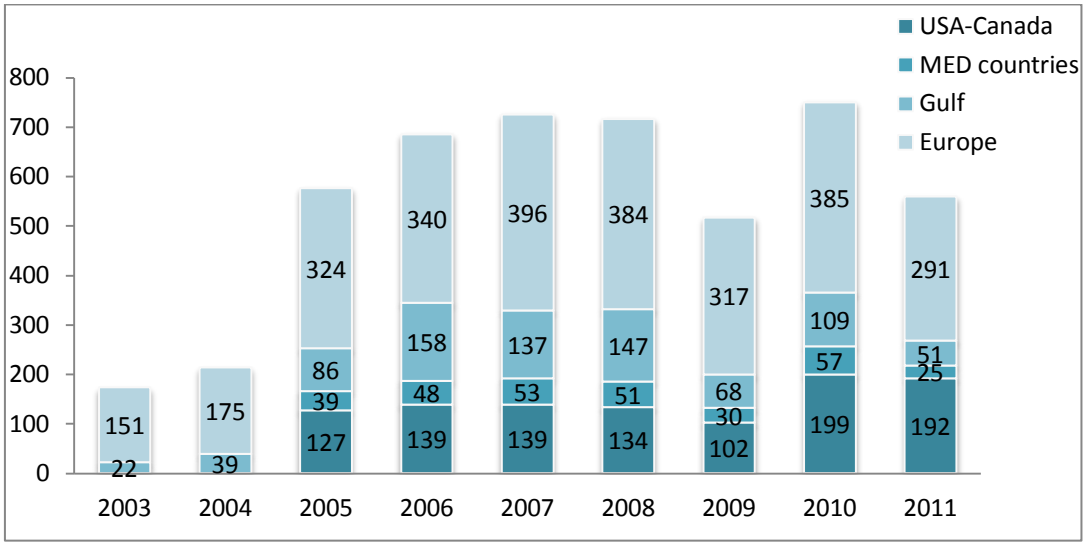
Turkish FDI projects originating from Europe since 2008
Source: Atlas ANIMA-MIPO

Thus, Turkey represents undoubtedly the most attractive country, especially for European partners. Not by chance, with 51 billion Euro, Europe-based investors represent 54% of the 95 billion Euro of FDI injected in the Turkish economy since 2003. Certainly, the most chased sectors are represented by the banking and the telecommunication sector, especially developed in Istanbul and Ankara, while distribution is another key niche sector anchored to other areas of the country, such as Iskenderun, Malatya, and Tarsus.[78]

Generally speaking, although Gulf investments are supposed to be at their lowest level since 2005, it can be assumed that European investment is still predominant in the region. Not by chance, despite the euro area debt crisis, investment intentions from European countries still accounted for almost half of the FDI announcements in 2011, as shown in the following graph. In addition, since in 2011 the number of FDI announcements from the US and Canada has

[77] *Ibidem*, p.2
[78] ANIMA-INVEST IN MED, Atlas of investments and partnerships in the Mediterranean, in Mediterranean Economic Atlas, Study n.15, May 2010, p.7

decreased for all the other regions of the world, its stability in MED countries is undoubtedly noteworthy, as the weight of North American investments reached about one third of the total number of FDI announcements in 2011 (against 20% on average since 2003).[79]



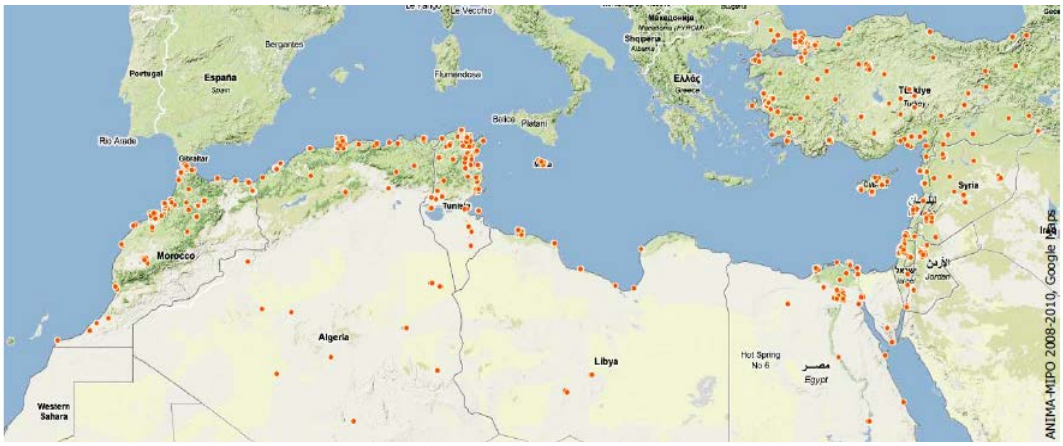
Number of FDI announced by region of origin (2003-2011)
Source: Own elaboration from ANIMA-MIPO

Certainly, the overall dynamic of investment in the region obviously depends not only on the global economic conditions, but also on the political situation of each country. It is interesting to notice that a few weeks before the end of 2011, the World Bank forecasts indicated that FDI flows towards MED countries will generally decrease in 2012 before starting to recover in 2013. Moreover, according to its survey, in the medium and long term the region nevertheless remains attractive thanks to several economic and demographic factors, which will be further explained in this chapter, and thanks to an attractiveness which could be even more strengthened if a reduced bureaucracy and a better governance were finally achieved.

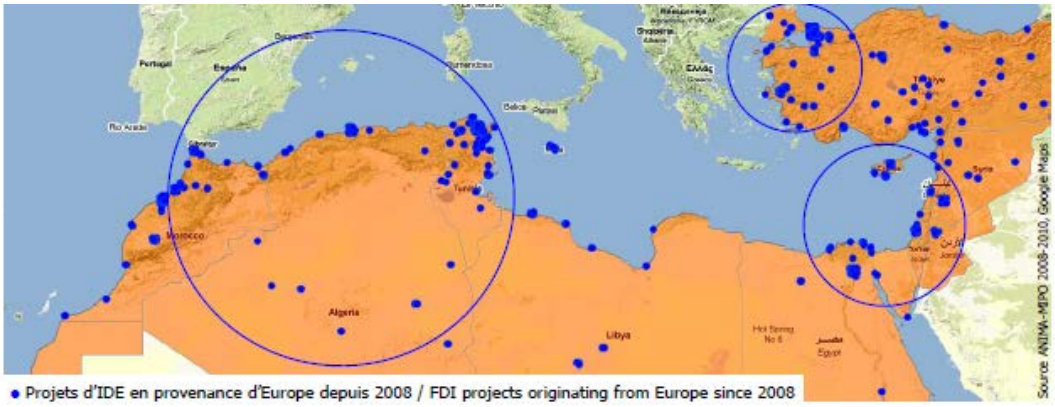
[79] ANIMA-MIPO(Mediterranean Investment and Partnership Announcement Observatory), *Review - First three quarters of 2011,* p.3 (available at: http://www.animaweb.org/uploads/File/AIN_ReviewMIPO_Q3-2011_22-12-11.pdf)

Thus, due to the significant role played by the MENA region in terms of FDI, it has been necessary to give a concrete and visible location to FDI projects, in order to actually consider all investment projects developed in the Mediterranean area in real time. This analysis has been accomplished through the use of the Atlas of investments and partnerships in the Mediterranean, a strategic tool provided by the ANIMA-MIPO Observatory which contains 15 thematic maps referring to the period from January 2008 to April 2010 aiming at providing decision makers and entrepreneurs with snapshot of FDI in the MED area.

As it can be observed in the following map, the distribution of FDI projects developed since 2008 demonstrates that the whole region has been rather attractive. Certainly, the Mediterranean countries are small and quite open economies with close ties to the European area. Accordingly, most of their economies are vulnerable to declines in tourism flows, exports, oil revenues and especially in FDI flows. Certainly, Med countries did not escape the global economic crisis, but they demonstrated to be well placed to respond to it. Anyway, they could not escape from secondary effects, though to a varying degree depending on category and country. It is evident that most of the projects were directed in the last two years both to the Maghreb coast, involving especially Algeria, Morocco and Tunisia, and to the eastern side of the Mediterranean, namely to Israel, Jordan, Lebanon and Syria. At the same time, it is clear that the most attractive country since 2008 has been Turkey, since it has attracted FDI projects quite uniformly all around the country, as it has previously indicated.



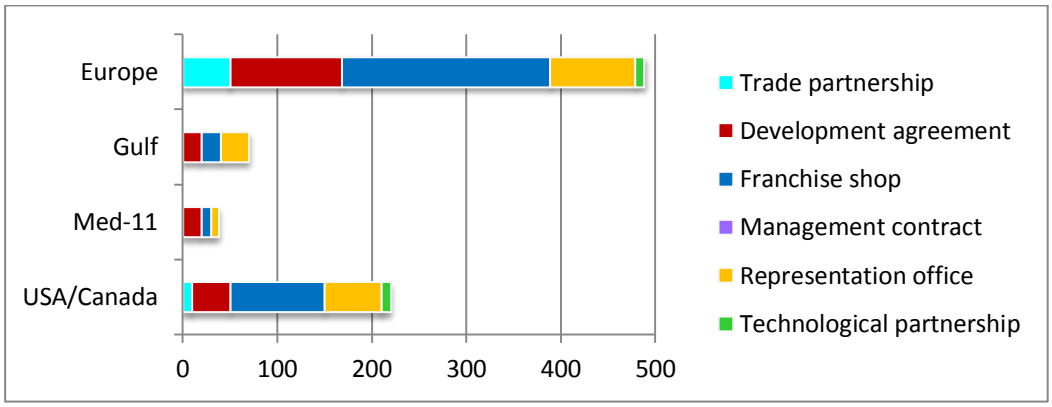
FDI projects since 2008, regional distribution
Source: Atlas ANIMA-MIPO



FDI projects originating from Europe since 2008
Source: Atlas ANIMA-MIPO

Thus, the previous maps are intended to give an even more clear idea of the attractiveness of the Mediterranean areas, providing a precise overview of the geographical FDI projects distribution since 2008 and in particular the FDI projects originating from Europe. Certainly, in spite of the whole drop in FDI inflows following the world economic crisis in 2008-2009, it is evident that the area appears to be still quite attractive for investors. Certainly, Med countries have been somehow less affected by the world financial crisis, since their low level integration in the global financial economy permitted to cushion its impact

on them and, at the same time, their financial markets were far less exposed to sophisticated financial products. On the contrary, second-round effects, in particular a drop in exports towards Europe, foreing investments and tourist flows, had a more negative impact on the economic performance of Med countries, although their GDP growth continued to remain modestly positive and higher than that of their Northern neighboring countries, for instance.

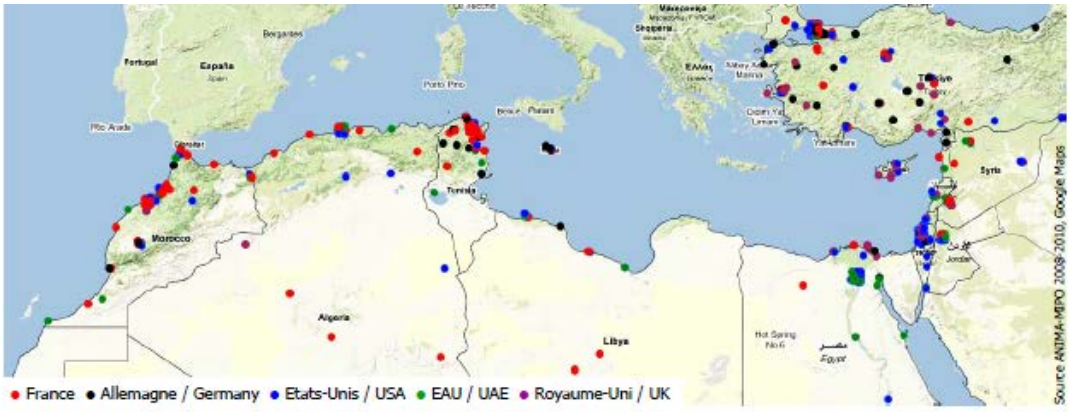


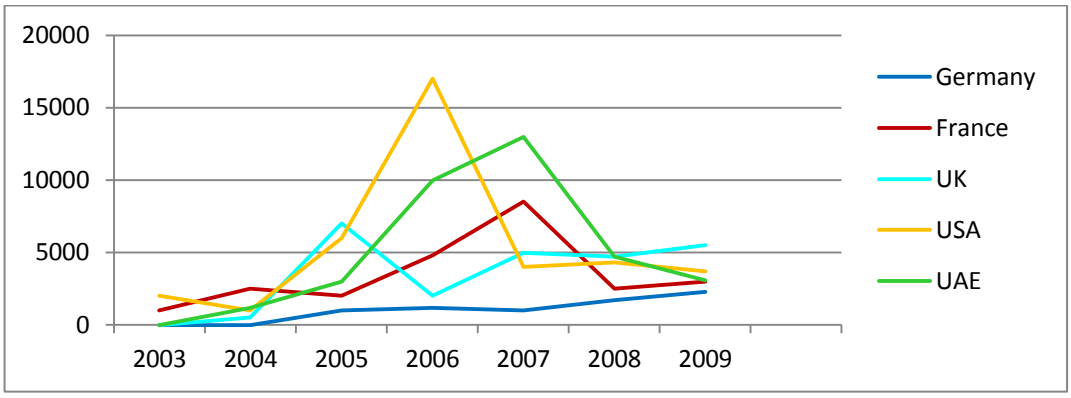
European partnership projects announced since 2008
Source: Own elaboration form Atlas ANIMA-MIPO

In the same way, it is evident that European interest in the area is quite equally distributed in terms of partnerships, as it can be noticed in the previous map, which shows all partnership projects that have been announced since the launch of the Invest in Med programme and have then been registered in the ANIMA-MIPO database. What clearly emerges is the greater concentration of partnerships in the Maghreb countries, Morocco and Tunisia mostly. This implies

that the Maghreb is better industrially integrated with Europe, since it plays host not only to MNCs, but also to slightly more partnerships with SMEs. Accordingly, as indicated also in the previous graph, Europe has achieved a dominant position in the area in terms of partnerships, mostly regarding trade partnerships, development agreements and franchise shops.

Moreover, although Med partners could be potentially important for Southern-European economies, it is evident that the top 5 investor countries in the Mediterranean area are not Spain, Italy, Greece or Portugal. Certainly, since in the European context the debt crisis has affected the least solid economies, namely the Southern European ones, the economic growth for these countries has been even more improbable since 2008, since their economies have been deeply damaged by the crisis. On the contrary, as it can be noticed in the following graph, among European countries, UK, France and Germany seem to have quite important interests in the area, as they belong to the top investors. On the other hand, as it has been previously mentioned, the US continues to keep a significant interest in the area while Gulf passion for Med countries has slowed, even though it did not recede. Undoubtedly, these data show that the interest in these areas of some major world economies, as well as the growing interest of China and India in the Mediterranean, should serve as a warning for the southern European economies, increasingly stifled by debt and severe economic downturn.





5 FDI top investor countries since 2008 and their FDI inflows evolution in million of euros since 2003
Source: Atlas ANIMA-MIPO

3. ATTRACTIVE FACTORS AND FDI INCENTIVES IN THE REGION: TRACKS FOR AN INTERNATIONAL POSITIONING OF MED COUNTRIES

General elements associated with attraction factors of a potential host country have been already mentioned so far. Thus, after having broadly considered these attractive elements, it is now necessary to understand which factors among them actually contribute to make each Mediterranean country a potentially attractive zone for investors, considering which are FDI incentives involved for each Med partner.

The following remarks on the issue illustrate clearly the challenges facing the region. In fact, on the one hand, it can be assumed that the Mediterranean countries remain a low-cost production destination, and as such attract a significant number of industrial activities largely needing human or energy resources, as in the case of Algeria in particular. Undoubtedly, Mediterranean labor costs are not as appealing as Chinese ones, but they are quite affordable if compared with European standards, as it can be observed in the following chart.

Monthly Minimum Wages (unskilled workforce) (Lowest remuneration according to each national Law: 2010 IMF data)				
Southern European Countries		**Principal Med Countries**		
Greece	684 euros	Algeria	18000 Algerian dinars	(173 euros)
		Egypt	*Not available*	
Italy	*Not available*	Israel	4300 Israeli new shekels	(870 euros)
		Jordan	190 Jordanian dinars	(201 euros)
Malta	680 euros	Lebanon	800000 Lebanese liras	(400 euros)
		Morocco	1900 Moroccan dirhams	(170 euros)
Portugal	566 euros	Palestine	*Not available*	
		Syria	6110 Syrian pounds	(65 euros)
Spain	784 euros	Tunisia	218 Tunisian dinars	(106 euros)
		Turkey	886 Turkish new liras	(373 euros)

One the other hand, it cannot be ignored that MED countries continue to lean on those of the Northern shore, notably on utilities, infrastructure and transportation, residential and commercial real estate, evolving so progressively through a European perspective, but remaining at the same time subjected to this same view. However, it is possible to clearly see some sectors growing in all countries of the region, as it will be further analyzed in the following chapter,

permitting to build de facto a global positioning on a significant number of value chains, such as textiles, tourism, agri-business, ICTs, and other new growth sectors such as healthcare and logistics.[80] Thus, it is evident that the region continues to offer different interesting opportunities and to appear as a quite attractive zone, although many chances still remain regrettably untapped.

Accordingly, it is certainly not simple to consider the area as a unique block, since its complexity does not permit to evaluate its potentiality as if it were a single state. This is why, it has been necessary to consider each Med partner belonging to the Southern rim in its own, in order to better understand which are actually the factors that influence and facilitate FDI flows and relocation choices in the area.

For this reason, in the following section it will be possible to consider, the significant role of investment frameworks and policies, determined by FDI regulatory mechanisms and laws adopted for each country, besides a brief overview on specific attractive factors characterizing each Med partner.

[80] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 17

3.1 Algeria

TOP REASONS TO INVEST (OR NOT) IN ALGERIA:

- Natural resources and energy: hydrocarbons, natural gas, phosphate
- Low-cost workforce
- New encouraging industrial policy
- Quite restrictive FDI policy (compared to other Med countries)
- Fragile banking sector and bloated bureaucracy

It might be assumed that Algerian FDI[81] policy has an ambivalent position. In fact, FDI inflows represent a relatively small share of total investment in the country. However, since they have increasingly contributed to the improvement of innovation capacities and the transfer of technology, a specific policy has been defined under the new industrial strategy, given their growing importance. Accordingly, if foreign investors are committed to hold on to the business, modernize the company and maintain employment, they can take advantage of specific benefits. Thus, the Government has recently started to recognize their determining role for the competitiveness and growth of the country, although they have not yet provided to grant FDI a preferential treatment compared to domestic investments, which are instead deemed essential for the economic sustainability of the country.

Thus, it might be assumed that the new plan of action presented in May 2009 toughened this position, since it has forced foreign companies to sell to domestic

[81] The top reasons to invest in Algeria have been sourced from: http://www.animaweb.org/en/pays_algerie_en.php and from http://www.andi.dz/en/?fc=salaire; on the other hand, information on FDI policy have been sourced from: NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 20-25 and from: Market guide provided by ICE (Istituto Commercio Estero) available at: http://www.ice.it/paesi/africa/algeria/index.htm

partners. In fact, according to the new plan, FDI can only be achieved in a partnership where at least 51% of participation in investment is national and, at the same time, foreign trade activities can be exercised by foreign investors only in a partnership where at least 30% of the share belongs to Algerian shareholders. Thus, this decision confirms the tighter regulations on FDI already adopted in 2008, which included for instance the obligation to locally reinvest profits generated by tax exemptions, and the specific taxation of capital gains from non-residents shares and transfer of stocks.[82]

Moreover, another important problem to be solved is represented by the fragile and inefficient public banking system, which is too immersed in the culture of the great sovereign guarantee operations. In addition, the private banking sector is virtually non-existent, especially after the failure of some private banks. With their failure in fact, which had prevented several companies to observe their contractual commitments, trade disputes with foreign companies, including Italian ones, significantly increased.

Finally, a bloated bureaucracy contributes to further complicate the investment framework, since it is quite archaic, even in the sectors that are more directly related to the development of the productive sector. Nevertheless, the whole machine is facing a slow transformation, which will surely contribute to attract new FDI.

Undoubtedly, all these decisions cannot be neutral for foreign investors. Nevertheless, the country offers some incentives in order to encourage FDI and foreign investors, in spite of its restrictive framework. Particularly, some appealing factors may be the progressive simplification of customs procedures, the taxation regime, the labor market and the low-cost workforce, and most importantly the improvement of the business environment thanks to the creation of integrated industrial zones.

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[82] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 23

Thus, the past uncertainty due to domestic instability seems to have partially overcome. Certainly, this factor has never affected the consolidated presence of large companies operating in the hydrocarbons and electricity sectors, or in the public works and civil engineering. On the contrary, this problem was experienced by smaller newcomers, which are anyway proving to be more interested in a country which had intimidated until recently.

3.2 Egypt

TOP REASONS TO INVEST (OR NOT) IN EGYPT:

- Strategic location
- Booming petroleum and gas sector
- Energy expertise
- Facilitated FDI legislation
- Reformed financial sector
- Business environment: specific industrial and free zones
- Greenfield and infrastructure projects
- Administrative delays and lack of transparence

With a quite different policy compared to Algeria, Egypt[83] has positioned both domestic and foreign private investment at the heart of its development strategy, exploiting them to finance infrastructure development and boost exports. In fact, according to the Government's perspective, investment should help the country enhance its industrial and technological capabilities, earn foreign exchange, and so develop its international trade flows.

This is extremely significant since in the recent past, private investment substantially grew by 40% per year between 2004 and 2007, while FDI rose from $

[83] The top reasons to invest in Egypt have been sourced from: http://www.investment.gov.eg/en/Pages/default.aspx; on the other hand, information on FDI policy have been sourced from: NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 42-47 and from: Market guide provided by ICE (Istituto Commercio Estero) available at: http://www.ice.it/paesi/africa/egitto/index.htm

407 million in 2003-2004 to 13.2 billion in 2007-2008.[84] Since its onset in 2004, the Ministry of Investment in fact adopted several measures which greatly contributed to this spectacular increase. To achieve its objectives, its action focuses mostly on optimizing the management of public economic assets, improving rapidly the business environment by reforming the financial sector, and promoting the creation of industrial zones with special status.

Thus, investments are currently regulated since 1997 by Investment Law No. 8 and its subsequent amendments, which permit the establishment of a 100% foreign capital company whatever the sector, as well as the repatriation of profits. Moreover, this law provides automatically for the investment projects approval in priority sectors as agriculture, construction, transport and logistics, tourism, healthcare, ICT, etc. So, such guarantees and incentives are currently applied to projects belonging to priority areas of activity, which are developed in special industrial zones indicated as Free Zones. Launched 40 years ago, these zones are meant to attract foreign investment, then introducing advanced technology, increasing exports and creating new job opportunities. Currently, there are 10 public free zones, particularly among them Alexandria, Nasr City, Port Said and Suez, where incentives and guarantees consist in: exemption from all import/export regulations; exemption from all taxes and customs; and limited exemptions from inland labor provisions.[85]

Moreover, significant incentives for investors are also provided by the Law No. 83 on Special Economic Zones adopted in 2002, which particularly integrate administrative, customs and tax procedures and settle disputes, licenses as well as general investors' services for projects incorporated within the zones. Particularly, Upper Egypt is the subject of a further special program, since it is the most potentially significant part of the country for development, having a diversified economy with a great availability of workforce and natural resources. Thus,

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[84] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 45

[85] *Ibidem*, p.50

additional incentives to the inland regime are provided by this special program, which guarantees free land to investors in the area, technical assistance, fast establishment procedures and feasibility studies to encourage private investment especially in agriculture, manufacturing, tourism, and transport.

Finally, besides all these incentives, Egypt is gradually developing also special incentive schemes to encourage investment in priority sectors and regions, providing further additional benefits to sectorial clusters, according to the investment zones regime, settled by the Law No.19 created in 2007.

Nevertheless, the general investment environment in Egypt still suffers from certain weaknesses in different areas. For example, administrative delays, lack of transparency, inconsistent application of customs tariffs and procedures for control of goods, and costs and slowness of commercial disputes resolutions are all elements that are not neutral to investors and can consequently curb FDI.

3.3 Israel

TOP REASONS TO INVEST (OR NOT) IN ISRAEL:

- Business climate: groundbreaking entrepreneurship
- R&D and pioneering technologies
- Profitable business opportunities and high investment returns
- Skilled workforce: Highly Educated & Trained Professionals
- Multilingual context
- Encouraging FDI framework
- Innovation Ecosystem

Historically open, the Israeli economy[86], provides liberal investment schemes, whereby most activities are open to private capitals. Generally, foreign investors

[86] The top reasons to invest in Israel have been sourced from: http://www.investinisrael.gov.il/NR/exeres/2A0C0440-141C-4199-922F-1FB0775C623F.htm; on the other hand, information on FDI policy have been sourced

are entitled to receive certain benefits, allowing the country to be one of the most attractive receptor of FDI in the area. In fact, Israel encourages investment by offering a wide range of incentives and guarantees aimed at favoring foreign investment enterprises – especially in the various techno-parks of the country – and at permitting foreign investors to enjoy significant tax cuts in the free zones.

To manage FDI projects, the country has provided two different legislative bodies, namely the Investment Authority, under the Ministry of Finance, which assists investors during the installation stage, and the Investment Promotion Centre, under the Ministry of Industry, Trade and Labor, which notably labels, approves and supports projects.

Generally, the provided benefits depend mainly on the investment location, since the country has been divided into three different zones in order to grant the sake of a territorial rebalancing. For example, in prioritized zones A and B[87], as long as the project is fully completed within 5 years from date of approval, the subsidy program covers a part of land, buildings and equipment costs. At the same time, companies can benefit during the first 7 years from tax cuts depending on their localization and on the degree of foreign participation.

Moreover, also free zones and incubators have been developed to encourage the establishment of foreign and domestic export-oriented industries. In fact, to encourage international trade and local production, the Israeli authorities established in 1985 the first free zone in Eilat, which is the only Israeli port on the Red Sea. Enterprises which decide to establish there enjoy many benefits, including exemption from income tax for 7 years. Due to the positive effects of

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from: NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 60-65 and from: Market guide provided by ICE (Istituto Commercio Estero) available at: http://www.ice.it/paesi/asia/israele/index.htm

[87] Zone A includes the Galilee, the Jordan Valley, the Negev and Jerusalem for hi-tech activities, while Zone B consists of Lower Galilee and Northern Negev and Zone C encompasses the rest of the country.

these choices, Ports of Haifa and Ashdod have subsequently been declared free zones.

In addition, also over 25 technology-intensive techno-parks settled in the country. They are administered either by the local authority or corporate real estate developers, as Gav Yam, which controls the Matam, namely the largest high-tech park in the country. Its offices host prestigious lessees, including Google, Microsoft, and Philips, and employ about 8 000 people.

Furthermore, 24 technology incubators have been established throughout the national territory to help entrepreneurs and foreign investors implement their technological innovation projects. The latter are selected on the basis of their export potential and are usually hosted for 2 years, during which they receive assistance at different stages. According to the decision provided by the public or private management authority, incubators can focus on one particular industry, concentrating on activities in a given sector, such as computer, environment, and health. By the end of 2006, over 1000 projects had carried out and left the incubators: 57% of them have successfully attracted domestic and foreign private investments, while 41% are still up and running.

3.4 Jordan, Lebanon and Syria

In spite of being a historically outward country because of its lack of natural resources, **Jordan** plays a significant role in the geopolitics of the Middle East. Recently, Jordan has benefited from a large number of FDI inflows, originating especially from Gulf countries, which have heavily invested in the banking sector. At the same time, real estate, tourism and light industry have shown a sharp attractiveness, stimulating continuous reforms to encourage foreign investment. Spurred by these dynamic sectors, FDI started to grow in 2008, amounting to 2.4 billion dollars, while the trend is supposed to increasingly continue in the years to come. Certainly, this important attractiveness derives from the ongoing government efforts, aimed at improving the business environment and attracting

more FDI. For example, as major initiative, the development of a new investment strategy has permitted to define a map representing 150 investment opportunities distributed in 15 key sectors of the Jordanian economy, together with a new law to promote investment. Moreover, the Development Zones Law established in 2008 a regulatory framework to encourage investment in priority areas, also exploiting different tax incentives. In order to facilitate investment, the Jordan regulatory framework grants to foreign and domestic investors exactly the same treatment: for example, foreign investors may therefore manage a project as they wish, or decide to transfer the entire capital and income abroad. Besides these investment guarantees, Jordan regulatory framework grants exemptions from customs duties and tax in many sectors, as agriculture, health, hydrocarbons, industry, leisure, maritime and rail transport, tourism, call and contact centers, research and development, according, as for Israel, to the different area of the country in which the company is located, so to promote the upgrading of backward regions.[88]

The bloody events of 2005, followed by the war of June 2006, marked a new setback to growth in **Lebanon**, prompting the country to increasingly move towards a service economy to regain its title of *Middle East Switzerland*. In fact, being poor in natural resources but offering a highly qualified workforce, Lebanon has actually directed towards a service economy, seeing a promising development in ICT, banking and finance, and tourism**.** Before this new wave of interventions, responding to the call for reconstruction after the 1975-1990 civil war, investment originating from Arab countries had achieved $ 4.7 billion during the 1995-2004 period, thus positioning Lebanon at the forefront of the inter-Arabs investments receivers. Particularly, services gained in this period 83.2% of the total investment capital, explaining the rapid development of the sector. Certainly, this strong attractiveness is derived from a wide process of economic reforms, which aimed

[88] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 76-80

at improving the investment climate and the international openness of the country, to regain its place in the region. On the eve of the events of 2005, the main advances and structural reforms have been achieved with the launch of the Five-Year Plan during the 2002-2004 period. Besides the improvement of the legal and administrative regulatory framework, this strategic plan has therefore permitted to remove trade and investment barriers and reduce costs for doing business. Anyway, generally speaking, FDI remain relatively low, since their regulation law could not enter into force until 2003 because of the turbulent political situation which characterized the 1975-1990 period. Nevertheless, this law has permitted to define the 3 main investment zones, in which the granted incentives are important at different stages. This is why a new strategy has recently been prepared to stimulate foreign investment, targeting not only Gulf investors as in the recent past, but also international businesses and the Diaspora. To this aim, a particular communication effort is being made with the Lebanese who do not live in Lebanon anymore and who are at the head of foreign companies. Indeed, their expertise in several different fields and their recommendations on desirable reforms may be enormous value for their country of origin.[89]

In accordance with its open economy, **Syria** is gradually adopting measures to encourage investments, particularly foreign ones, to modernize the industry and attract export activities. Consequently, a new investment law has replaced in 2007 the previous one, dating from 1991, formalizing the advanced position of the country towards FDI. Among other things, the new law allows foreign investors to become owners of their land, notably protecting them against the risks of confiscation and nationalization and permitting them to repatriate all the invested capital in case of disposal. Moreover, it enables investors to create a business without the support of a Syrian partner, providing also tax exemptions. In particular, foreign investors are exempted from the payment of customs duties on

[89] *Ibidem*, p. 94-98

those goods that are imported for the implementation of their project. What is more, a national investment agency has been established and placed under the authority of the PM, to replace the former Investment Board and to contribute with several new advantages to foreign investors' intervention. In addition, the development of free zones and industrial cities should facilitate foreign establishment in the country, while the signing of new trade agreements[90] manifests itself this openness towards FDI and international markets. In this perspective, six free zones were opened in the 70s, offering special benefits to enterprises which decided to relocate there: tax exemption for 5 to 10 years; exemption from customs duties; exemption from property or exercise tax. Likewise, three industrial cities were built on the outskirts of the principal cities to encourage domestic and foreign investments. Thanks to this mechanism, in 2007, 2 343 plants were under construction and 313 had already entered production. Among the established companies, 168 were foreign, particularly attracts heavy industries, mechanics, textile industries chemical, food and mechanical ones.

Certainly, it is possible to assume that the Government efforts have been rewarded by a strong increase in FDI. Notably, from 2007 to 2008, total investment in the first half of the year rose from 2 to 3.5 billion dollars, marking an increase of 70%: FDI have significantly contributed to reach these rates.[91]

[90] Among new trade agreements: the establishment of the Greater Arab Free Trade Area (GAFTA) in 1998; the beginning of negotiations with the EU in 2004 considering the future signing of an association agreement; the entering into force of a bilateral free trade agreement with Turkey in 2005.
[91] *Ibidem*, 146-151

3.5 Morocco

TOP REASONS TO INVEST (OR NOT) IN MOROCCO:

- Encouraging FDI framework
- World Class Infrastructure
- Sectorial plans
- Constantly improving business climate
- Costs competitiveness
- Low-cost but qualified workforce:
  Trained professionals
- Stable macroeconomic performances

Having hosted the WTO ministerial meeting in April 1994, Morocco[92] is a country historically open to foreign operators, which has long opted for economic openness. Having adopted a positive right which does not discriminate between national and foreign investment, the country is open to foreign capital, which has become an important part of total investment. The economic reforms have been steadily adopted in the country, improving the general business climate for the benefit of all operators, who are asked to establish a stable and positive relationship between the company and the country. Moreover, having a notably skilled workforce close to Europe – only 14 km separate its coast from Spain –, Morocco aims at positioning itself as platform for the production and the export of European know-how.

Not surprisingly, the establishment of numerous foreign enterprises is continuously encouraged by its advanced status, since the country has developed a particularly favorable relationship with the European Union under the European

[92] The top reasons to invest in Morocco have been sourced from: http://www.invest.gov.ma/?lang=en&Id=3.htm; on the other hand, information on FDI policy have been sourced from: NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 110-115 and from: Market guide provided by ICE (Istituto Commercio Estero) available at: http://www.ice.it/paesi/africa/marocco /index.htm

Neighborhood Policy, made a free trade agreement with the United States and adhered to the Arab League already: historically companies who decide to invest and relocate in Morocco are French and Spanish enterprises, while recently there are also Chinese and Japanese ones.

This foreign investment is operated in a context of liberalization and privatization, whose gradual opening, which affects almost all sectors, has been accompanied with the establishment of an investment-friendly environment, particularly for foreign investors. Thanks to the adoption of the Investment Charter in 2005, the country has been engaged in an extensive remodeling of the tax system in order to provide all necessary incentives and guarantees to investors. Its main objectives aims at lowering and distributing the tax burden, reducing tax rates on income and profits, and strengthening guarantees for investors. In addition, it also assures that each operator could find a business location corresponding to its needs, that is to say free zones, near-shoring parks, and integrated industrial platforms.

Thus, except for a handful of highly strategic subsectors, such as postal services, tobacco distribution, nuclear waste management, or water and electricity production, all sectors are supposed to be open to FDI. Profits and losses can be fully transferable abroad, guaranteeing an even more attractive and secure environment for FDI.

Notably, a special attention will be paid to Moroccan FDI inflows in the last part of this chapter. In fact, since the study case of this survey aims at considering the internationalization process of a Spanish company, namely Zara group, in the Southern rim of the Mediterranean, special attention has been paid to Spanish investment in the Maghreb. In fact, being Morocco the most attractive partner of Spanish FDI, particular consideration will be given to Spanish direct investment in this Med country.

3.6 Palestinian Authority

TOP REASONS TO INVEST (OR NOT) IN PALESTINE TERRITORIES:

- Incentive FDI framework
- Agreements with other countries
- Political instability
- Challenging economic environment
- Difficult movement of people, goods and services

To attract investment in the Palestinian territories[93], the Government has created a protective and incentive regulatory framework favorable to investors, under the non-discrimination principle. In fact, the regulatory law provides several benefits that are available to both domestic and foreign investors, whether they act alone or in partnership with local Palestinian companies.

Notably, several amendments were added in 2005 to the 1998 investment encouragement law to provide foreign investors with additional advantages, although they have not been approved by the Palestinian Legislative Council yet. Anyway, the 1998 law already includes guarantees of capital and profit repatriation, protection against expropriation, tax exemptions and other different incentives. More specifically, it grants exemptions from customs duties for all goods that are imported into industrial and free zones or that are intended to be used by the company itself, as equipment, machinery, and supplies. Moreover, further exemptions can be granted if prices increase on the local market or in case that the company exports more than 30% of its production, while investments of over 100 000 dollars are exempt from corporate tax for 7 years if the company is established in a free or industrial zone, otherwise for 5 years.

[93] The top reasons to invest in Palestine have been sourced from: http://www.pipa.gov.ps/; on the other hand, information on FDI policy have been sourced from: NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 128-133 and from: Market guide provided by ICE (Istituto Commercio Estero) available at: http://www.ice.it/paesi/asia/palestina/index.htm

In addition, strongly based on the Jordanian model, a new enterprise law is also awaiting approval, aiming at providing a modern and unified business environment to all companies established in the country.

Likewise, in order to facilitate foreign trade, Palestinian authorities have signed several agreements with numerous countries, from the EU, the United States and Canada, to its neighboring countries, namely Egypt, Israel, Jordan, and Turkey. For this reason, also export activities receive additional incentives, since exemptions from taxes are granted to all goods sold abroad, if they are produced in free or industrial zones.

Numerous major international companies have already established themselves in Palestine, operating in different sectors of activity. Curiously, they often rely on investment originating from Palestinian expatriates who, representing a key player for the future, wish to offer their international experience for the benefit of their origin country. Finally, while in the past business and trade development were primarily oriented towards Europe and the Gulf countries, more recently, local companies have started to call for American groups to transfer technical expertise or to establish partnerships and joint ventures.

3.7 Tunisia

TOP REASONS TO INVEST (OR NOT) IN TUNISIA:

- Clear and investment-friendly legislation in a single code: legal protection for the investor
- Simplified administrative procedures
- Numerous advantages for totally exporting companies
- Low-cost skilled workforce (rapidly master of new technologies)
- Foreign exchange market with freedom of transfer
- Continuously improving functional infrastructure

During the past 40 years, the Tunisian strategy[94] has always focused on economic development for export. However, it is important to notice that 80% of exports are generated by foreign enterprises or companies with foreign capital operating in Tunisia. Not surprisingly, in late 2008, foreign or mixed-capital companies were supposed to be approximately 2970, while FDI inflows grew from 208 million euros in 2006 to 283 million euros in 2007, helping to boost the industry and increase value-added exports. In fact, about one half of the total amount was invested in the engineering industries and in textiles and clothing.

Certainly, this significant attractiveness is due to the legal framework adopted as soon as 1994 in order to ensure the freedom to invest in most sectors. This regulation is to be applied to both domestic and foreign investors, who can decide to implement their projects without necessarily establishing a partnership with a local company. Moreover, numerous measures aimed at removing barriers to investment and improving the business environment have been recently adopted: investment incentives and tax exemptions, administrative simplification, dismantling of customs barriers are just some examples of them, proving to be particularly favorable for exporters.

Despite being historically oriented towards low value-added activities, which are usually highly labor-consuming, the country has recently targeted a wider range of projects, especially focused on technology-intensive activities, requiring a great R&D capacity and qualified workforce. Undoubtedly, this new target involves a shift in FDI policy, which should be more centered on measures related to education, R&D and innovation.

Moreover, it might be interesting to notice that Tunisia has currently about 155 industrial zones covering a wide area concentrated on the coastal axis. What

[94] The top reasons to invest in Tunisia have been sourced from: http://www.investintunisia.tn/; on the other hand, information on FDI policy have been sourced from NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 166-171 and from: Market guide provided by ICE (Istituto Commercio Estero) available at: http://www.ice.it/paesi/africa/tunisia /index.htm

is more, the new industrial strategy also foresees by 2016 the development a similar area almost as large as the existing one, which will be partially managed by private companies. Anyway, this implementation for the development of industrial areas will permit the realization a big area also in the central part of the country, in order to balance the high concentration of activities on the coast, which constituted 84% of industrial zones in 2006.

Finally, to improve ICT development by connecting the economic fabric of companies, specialized institutes, universities and research centers, the country has recently established a first techno-park, which provides incentives for innovation in the sector. Provided with modern infrastructure and quality services, the ICT cluster needed to meet the growing demand from technology companies and foreign investors, by widening several times in new areas nearby. These poles investigate different sectors, from renewable energy, water, environment and biotechnology, to mechanics, electronics and computers, but also textiles and clothing. Moreover, following its success, six new parks are now under construction, aiming to promote the development of innovative industries.

3.8 Turkey

TOP REASONS TO INVEST (OR NOT) IN TURKEY:

- Expanding successful economy (important national market)
- Qualified and competitive workforce
- Liberal and reformed investment climate
- New highly developed and technological infrastructure in transport, energy, telecommunications
- Central location: natural North-South and East-West bridge
- Energy corridor and terminal for European energy supply
- Fiscal benefits, low taxation and incentives
- Customs union agreement with the EU since 1996
- Quite complex tax system and excessive bureaucracy

As it has already been supposed, Turkey[95] appears to be the most attractive country of the Mediterranean area, being the most close to the EU. Its attractiveness is especially due to the last program of investment incentives, which has been specifically designed to encourage investment in order to reduce dependence on semi-finished products imports vital to strategic areas of the country. The new decree, which provides for the reorganization of the incentives system for investment in Turkey, entered in force in January 2012, replacing the former system of reference. Among the primary objectives of the new program, it possible to distinguish basic incentives that aim at increasing investment to support the less developed regions of the country, promoting aggregation activities and supporting investments that create technologies transfer. Contrary to the previous system, which was based on a unique program of investment incentives, the new system includes four different programs, which provide local and foreign investors with equal access. Each program provides different support systems and is implemented considering the socio-economic level of development of each region.

Certainly, it is possible to identify the support tools provided in the context of the various programs of investment incentives[96], as follows:

- <u>Exemption from VAT:</u>
  The VAT is exempt for imports or distribution of on-site equipment and machinery within the framework of the certificate of incentives for investment.
- <u>Exemption from customs duties:</u>
  Customs duties are exempt for import of machinery and equipment within the framework of the certificate of incentives for investment.

[95] The top reasons to invest in Morocco have been sourced from: http://www.invest.gov.tr/it-it/investmentguide/Pages/10Reasons.aspx; on the other hand, information on FDI policy have been sourced from: Market guide provided by ICE (Istituto Commercio Estero) available at: http://www.ice.it/paesi/europa/turchia /index.htm

[96] http://www.invest.gov.tr/it-it/investmentguide/investorsguide/Pages/Incentives.aspx

- Reduction of taxes:

  The income tax or the tax on companies is calculated on the basis of reduced rates until the total amount of the reduced taxes does not reach the amount of the investment subsidy.

- Social insurance (Part borne by the employer):

  To create additional jobs through investment, the part by the employer's social security contributions calculated on the basis of the minimum wage will be covered by the Government.

- Facilities interest:

  Facilitation interest is an instrument of financial support for investment loans with a term of at least one year obtained within the framework of the investment incentive certificate. A portion of the share of interest on the equivalent of the loan will be covered by the Government.

- Land allocation:

  To promote investment, lands can be assigned with a certificate of incentives for investment, according to the rules and principles set by the Ministry of Finance.

- Refund of VAT:

  The VAT collected on construction costs made within the framework of strategic investments with a fixed minimum investment of 500 million Turkish liras will be returned by the Government.

Moreover, it is important to consider the significant role played by free zones in the country. These zones are in fact special sites, which are considered to be settled outside the customs area, even though they are positioned within the political borders of the country. These zones are specifically conceived to increase the number of exports and focused investments. Thus, they are areas where it is offered a more attractive business climate in order to increase the volume of trade and investment of foreign companies, since it is possible to operate without any special requirements.

In Turkey, with the aim of increasing investment, raising productions directed to exports, and accelerating the foreign capital entry, 19 free zones have been authorized and are currently operational, performing their functions towards the EU and Middle Eastern markets, being adjacent to major Turkish ports on the Mediterranean, Aegean, and Black Seas, with access mainly to the principal international trade routes.

Free Zones in Turkey
Source: Invest in Turkey

Companies settled in Turkish free zones can export their products under the guarantee of a complete exemption from customs duties for import of materials, but can also exploit the free transferability of profits abroad as well as a the simplified regime for each type of transaction in foreign trade.

3.8.1 Problems detached by foreign companies investing in Turkey

A special summit to invite the CEOs of major foreign companies with investments in Turkey is held every with the intervention of the PM to discuss obstacles encountered when investing foreign capitals in the country.

Despite being an extremely attractive country, the most recent statement, issued at the end of the last meeting, has presented several critical issues that

have been identified as follows: complex tax system, excessive bureaucracy, lack of protection of intellectual property rights, slow and inefficient judicial system, and widespread shadow economy.

Certainly, less concern has emerged about macroeconomic factors – notwithstanding the global difficulty of the current economic situation – and about political instability, accordingly to the progress made by the country in recent years. Anyway, problems in this regard might occur in the future, unless the country improves its stability as reference area in the Middle East.

Moreover, regarding SMEs investing in Turkey, added problems may derive from the difficulties arising from language and cultural barriers, especially in small towns and in the relationship with local SMEs. Anyway, it should be affirmed that the attitude of local entrepreneurs is usually open to collaborations with other countries and mutual misunderstanding covers the difficulties in this regard.

Finally, an observation about the legal framework needs to be made: Turkey has a law similar in many aspects to that of many European countries. Not surprisingly, what in some cases leaves much to be desired is the practical application of the same, and this is just what the EU Commission often accuses to Turkey. Nevertheless, both individual operators and international organizations (IMF, World Bank), as well as the same EU last opinion, perfectly agree on the enormous improvements that have recently been made in this direction by the country.[97]

[97] Information have been sourced from: Market guide provided by ICE (Istituto Commercio Estero) available at: http://www.ice.it/paesi/europa/turchia/index.htm

4. THE MAGHREB MAQUILADORAS: A SPECIAL FOCUS ON SPANISH INVESTMENT IN THE MAGHREB

4.1 Spanish investment in the Maghreb

Since the study case of this survey aims at considering the internationalization process of a Spanish company, namely Zara group, in the Southern rim of the Mediterranean, special attention has been paid to Spanish investment in the Maghreb.

As it has been demonstrated so far, this region is opening its economy to trade and foreign investment, offering great business prospects. In recent years, Spanish companies have significantly increased their presence in North Africa. In this area, Morocco is certainly the country that captured the largest Spanish investment. The investment has been very high not only because of the proximity of the North African country to the Peninsula, but also thanks to economic liberalization, multiple reforms and particularly privatization processes initiated by Morocco in the early 90s. Several Spanish companies, such as Altadis, Fadesa, Alsa, Tecmed (subsidiary of ACS), Endesa, Gamesa Wind or Isofoton have been awarded major projects in snuff, tourism, urban transport, solid waste collection and energy sources (in the case of the three last) respectively. Alongside these important references, Morocco hosts more than five hundred Spanish companies, mostly SMEs, engaged in textiles and food processing.[98]

Relations between Spain and Morocco are regulated on one hand by the Association Agreement that this country has signed with the EU and, on the other, by the Treaty of friendship, good-neighborliness and cooperation signed between the two countries in 1991. With the latter a framework of bilateral political

[98]http://www.oficinascomerciales.es/FicherosEstaticos/auto/0606/ma_inversionesmarruecos_ 17521_.pdf (*La inversión española en el Maghreb*, provided by the Embassy of Spain in Rabat, Economic and Commercial Department, 2009)

contacts was finally institutionalized, in which the annual meetings between the respective Heads of Government, settled alternately in Spain and Morocco, are regulated. In late 2008, Morocco became the first country in the European Union (EU) to receive the Advanced Status of Bilateral Relations. Thanks to it, the country has been allowed to access to certain EU programs and enjoy a privileged political, economic and social setting, which have a decisive influence on the relations with Spain.

Moreover, the Association Agreement with the EU contributes to encourage FDI inflows in Morocco, besides the importance of different free trade agreements, as the one with the United States through which the Moroccan manufactured products can access these markets with advantageous tariffs. The Agreement with the United States, signed in 2004, came into force in 2006: this date has meant immediate elimination of tariffs duties on 95% of in the bilateral trade of consumer and industrial goods. Thus, Morocco became also an excellent platform for Spanish companies interested in the U.S. market. [99] Nevertheless, Spanish relations with the other Med countries are less fluid.

Algeria is undergoing a privatization process. Many public companies are going to be controlled by foreign private capital in some cases. Undoubtedly, the privatization process is the main source of attractiveness for foreign investment in the country. Thus, Spanish investment is also important, but it is quite less diversified than in Morocco, mainly in the hydrocarbon industry. Thanks to oil and gas, this country has managed to balance its trade balance, stabilizing the Algerian economy and attracting interest from Spanish investors. The positive undergoing economic situation that Algeria is facing significantly increased public investment in various projects, some of which have been awarded to Spanish companies, as in the case of Repsol YPF (Treasury Petroleum Fields), Natural-Gas in the energy sector, CAF and Sener in the transport sector, and Inima and Geida in the desalination sector. However, the process of reform and opening up of the Algerian economy is minor compared to that of Morocco, attracting fewer Spanish

[99] *Ibidem*, p. 1

investors. In addition, the political uncertainty does not help in clearing the doubts of foreign investors, who carefully limit their interest to targeted sectors as hydrocarbons, energy or transport.[100]

In the case of Tunisia, despite the agreement signed in 1991 with Spain for Promotion and Reciprocal Protection of Investments, investment operations are not very important. While Tunisian investment is virtually nonexistent in Spain, Spanish investment accumulated in Tunisia is not very high and is quite irregular due to its exceptional character. In Tunisia around 50 Spanish companies have already installed, and the process of privatization is slower compared with that carried in Morocco. Anyway, some Spanish companies managed to succeed in some sectors, including agriculture and food, constructions and hospitality.[101]

Finally, economic relations with Libya and Egypt are not very relevant and have historically been marked by the importation of hydrocarbons, which caused a significant deficit. Moreover, it seems that expectations will not improve in the short term, since, despite the progressive liberalization of Libyan economy, there are still some significant political problems. In Egypt, the structural deficiencies bind a closed market that has developed in the recent years.

So most of investments directed to Libya have focused on the motor vehicles sector. For example, the most important investment a Spanish company in Libya is the one provided by Repsol YPF, even if it not but accounted in the Investment Registry as a Spanish investment, as it was made from Repsol subsidiaries located in Netherlands and Switzerland. Libya desperately needs foreign investment, but it is not able to create the right regulation framework, except in the oil industry.[102]

As for Egypt, investments have usually been not relevant, except in 2005 when it was reached the total amount of approximately 375 million euros. This high amount was due to CEPSA investment, which, along with the Italian ENI, managed

[100] *Ibidem*, p.1
[101] *Ibidem*, p.2
[102] *Ibidem*, p.2

to achieve a contract for the exploration of hydrocarbons in the Egyptian Western Desert.[103]

The following table shows the evolution of Spanish investment in millions euros in the North African countries from 1997 to 2009. Undoubtedly, it shows that, compared to other countries in the region, Morocco maintains the most regular path as receptor of Spanish investment.

	Morocco	Algeria	Tunisia	Libya	Egypt	Total
1997	10,84	0,54	0,29	0,04	-	11,71
1998	14,08	0,46	136,22	-	-	150,76
1999	172,81	1,67	24,68	0,04	0,13	199,33
2000	49,61	-	0,47	-	0,03	50,11
2001	28,86	0,25	3,93	-	6,61	39,65
2002	185,72	0,12	113,53	4,50	8,67	312,54
2003	1.397,45	-	2,17	4,50	214,68	1618,80
2004	646,73	0,24	3	3,87	7,85	20,99
2005	5,66	2,23	0,59	-	374,56	457,88
2006	80,5	127,94	0,01	0,09	3,43	778,20
2007	153,67	3,96	87,24	-	3,34	248,21
2008	563,96	69,71	63,89	0,29	21,34	719,19
2009	48,18	5,02	10,52	0,05	36,48	100,25
Total	3.358,07	212,14	446,91	13,38	677,12	

Gross investment flows (without depreciation) from Spain to Maghreb in million euros, 1997-2009
Source: Own elaboration from Datainvex

4.2 Spanish investment in Morocco in recent years

Spanish direct investment in Morocco according to statistics from the Moroccan Exchange Office in 2009 recorded more than 150 million euros, facing a significant decrease (-35.9%) compared to 2008, year in which direct investment

[103] *Ibidem*, p.2

from Spain was 234 million euros. Despite the decrease in Spanish investment in Morocco, the European country still maintains a good position as a source of FDI. In fact, in 2009 it was the 3rd largest investor behind France (with 671 million euros) and Kuwait (with 270million euros). Thus, in 2009 Spanish investment has significantly fallen, although several operations have been recorded. The largest ones have been the sale by Telefónica of 32% of the communications company Meditel for 400 million euros and the sale by Grupo Santander of 10% of the share capital of the Moroccan Attijariwafa Bank.[104]

1999	2000	2001	2002	2003	2004
184,66	50,5	84,0	34,8	1.618,5	42,6
2005	2006	2007	2008	2009	
129,00	643,03	546,4	233,9	150,5	

Spanish direct investment to Morocco in million euros, 1999-2009

The main sectors of Spanish private investments in Morocco were in 2008 the real estate and tourism. These sectors, along with the industrial sector, which has traditionally been a major recipient of Spanish investments, and the textile one, representing 80.4% of the total investment.[105]

Anyway, the presence of Spanish companies in almost all sectors of the Moroccan economy in recent years can be seen in the following table.

[104] *Ibidem*, p.4
[105] *Ibidem*, p.4

	2003	2004	2005	2006	2007	2008
INDUSTRY	1540,8	13,8	36,3	469,3	28,8	13
TRADE	0,3	1,8	3,8	9,6	2,9	0,5
REAL-ESTATE	3,2	6,2	17,7	60,1	170,5	100,1
AGRICOLTURE	1,4	-	0,1	0,5	1,5	0,6
ENERGY	8,7	11,6	3,5	0,5	4,7	3,2
FISHING	9	0,7	1,7	-	0,2	0,4
BANKING	-	-	3,2	1,7	154,5	-
HOLDING	-	0,8	-	1,4	18,1	0,6
TURISM	3,5	2,14	57,8	101	156,7	61,6
PUBLIC WORKS	-	-	-	0,8	4,2	0,07
TRANSPORT	0,9	0,7	0,5	0,6	4,1	1,3
TEXTILES	0,6	0,6	0,1	1,1	0,1	9,2
TELECOMMUNICATIONS	47,8	0,5	0,6	3	-	-
OTHER SERVICES	7,3	7,1	12,6	21,5	5,8	10,9

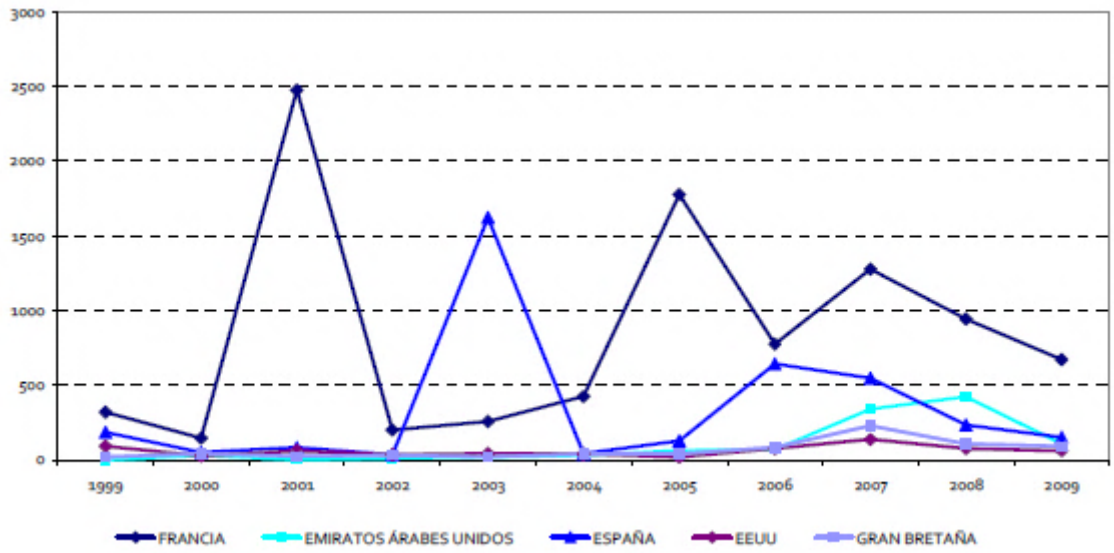
Spanish private investments and loans by sector in Morocco in million euros, 2003-2008
Source: Bureau of Changes "Balance of payments"

4.3 Spanish investment in Morocco in relation to other foreign investment between 1999 and 2009

The flow of foreign capital into Morocco, which is originated in various countries, recorded in the 1999-2009 period a significant increase. In the breakdown by country an important role is played firstly by France, with a total amount of 9,261 million euros between 1999 and 2009 of direct investment in the country, namely 44.8% of total investments in these years. Anyway, it was immediately followed by Spain with 3,718 million euros of FDI, 18% on the total amount of investment, then United Arab Emirates (5.1%), Britain (3.6%) and the U.S. (3.2%). Certainly, it is important to notice the positioning of Spain, which

ranks the second place in the 2000-2009 period from the fifth in the 1990 -2000 period as investor in Morocco.[106]

The following graph shows the evolution of the top 5 countries (France, Spain, US, GB and UAE) in the volume of investment in Morocco in the 199-2009.



FDI in Morocco: Top 5 countries 99-09 (data in million euros)
Source: Bureau of Changes "Balance of payments"

Moreover, it may be interesting to consider the trend in FDI received by Morocco since 1999, together with Spanish participation in this process.

Firstly, it can be assumed that the year 1999 confirmed and improved the trend begun in 1997, when Spain placed as the fourth largest foreign investor in Morocco, behind Portugal, France and the Netherlands. Spanish investment amounted to a total amount of 185.6 million euros, marking an incredible increase compared to the amount of 45.6 million euros recorded in 1998.[107]

In 2000 a significant reduction in foreign investment flows to Morocco was recorded, reaching a total amount of 447 million euros, with a decrease of 69.3%

[106] *Ibidem*, p.6
[107] *Ibidem*, p.9

over the previous year. In this same period, the Spanish investment followed the same downward trend and it declined in a more accentuated way, recording the amount of only 50.5 million euros.[108]

However, in 2001 with important operations in tourism, foreign investment flows recorded an important growth. Spanish investment grew to 84 million euros and Spain gained the third position among investors in Morocco.[109]

In 2003 the Spanish direct investments in Morocco reached the important amount of 1618 million euros, which is largely the result of the acquisition of 80% of the share capital in the public tobacco company (Régie des Tabacs) by the French-Spanish company Altadis, which put Spain in first place as investor country.

In 2004, with a notable lack of large operations, Spanish investments in Morocco stood at 42.6 million euros. Much of the Spanish investment in Morocco was destined to the field of electricity, gas and water, since the participation of the Spanish utility company Endesa in the construction and management of the first combined cycle power plant in Morocco largely explains the relevance of Spanish investment in the electricity sector.[110]

In 2005 the number of direct investments reached the total amount of 129 million euros, which is nearly triple compared to the previous year. In fact, the company Gamesa Eólica was awarded in a contest international to sign a contract with the National Electricity Office (ONE) of Morocco to build the wind farm in the West Coast Morocco of the country between Casablanca and Agadir, investing the amount of 63 million euros.[111]

In 2006 the flow of investment reached 646.63 million euros. Spanish direct investment toward Morocco grew substantially over the previous year. This significant increase in Spanish direct investment was largely due to the conclusion of the operation started in 2003, when the Franco-Spanish company Altadis started the acquisition the share capital in the public tobacco company (Régie des

[108] *Ibidem*, p.9
[109] *Ibidem*, p.9
[110] *Ibidem*, p.9
[111] *Ibidem*, p.9

Tabacs). In 2006 Altadis thus acquired the remaining 20% of the capital, for a total amount of 390million euros.[112]

In 2007, Spanish investments reached 546.4 million euros. Abener, which is a subsidiary of the industrial engineering and construction company of Abengoa, signed a contract with the Moroccan National Electricity Office for the construction of a thermo-solar power plant in Morocco, contributing with an investment of 469 million euros.[113]

Spanish investment decreased in 2008 to the halved amount of 234 million euros. During this year the supply and installation of 1,215 solar photovoltaic grid connections in the Errachidia and Benguerir areas (4 million euros) was awarded by the Spanish Isofoton.[114]

Moreover, according to data from the Moroccan Exchange Office, Spanish investment reached in 2009 (most recent data) the amount of 150.5 million euros. Thanks to Spanish investment, Morocco is now hosting the most powerful combined cycle solar plant in world. In fact, the Spanish company Abener, subsidiary of Abengoa, was awarded last year by the National Electricity Office of Morocco for the construction, operation and maintenance of this hybrid plant in the northern part of the country.[115]

Finally, in 2010 several new business projects were developed, including the one of the Spanish company Essentium, which has invested 151 million euros in a cement plant. Moreover, thanks to the adoption of the New Renewable Energy Act that regulates the Energy Strategy of Morocco, based on green energy, like the Moroccan Solar Plan, the sector has been partially liberalized and it has opened new possibilities in the field of renewable energy, which will be instrumental in increasing of Spanish investment in the sector in the coming years.[116]

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[112] *Ibidem*, p.9
[113] *Ibidem*, p.9
[114] *Ibidem*, p.9
[115] *Ibidem*, p.10
[116] *Ibidem*, p.10

4.4 Spanish investment in Morocco in relation to Spanish global investment

The role of Spain as a foreign investor began to be significant in the world since the integration of the country into the European Union in 1986. Although its currently volume is still lower than the one it would be expected for a country of the size and development of Spain, the 90s testified the progressive consolidation of the country, with a clearly rising trend from 1995.[117]

Firstly, Spanish investment is directed to the other EU countries, but, as the trend of internationalization of the Spanish economy is establishing, Spanish companies are timidly making their way in a small group of countries with emerging economies, including Morocco. During the 90s, the average of Spanish investment in Morocco reached for example the amount of 38.7 million euros over a total amount of 13,500 million euros, meaning that in this period, Spanish investment in Morocco represented about 0.2% on the Spanish investment in rest of the world. Anyway, it is interesting to notice that Spanish investment in Morocco rose from 0.2% of total investment (average of the 90s) to 0.35% (average 2000-2009), ranking the 25th position among Spanish investment host countries and representing the first destination in the Maghreb.[118]

Large part of Spanish investment is still directed towards historical destination, namely the old European and American countries, especially the United States and Great Britain. In fact, in 2009 there was a large concentration of investment in the first two host countries, U.S. and UK, which increased their relative weight accumulating 56.20% of total FDI. Following in order of importance, but far away from these two receptors, Brazil ranks third, followed by euros, Switzerland and Ireland.[119]

Thus, constancy in the investment effort is undoubtedly the most significant conclusion of the evolution in the relationship between Morocco and Spain, reflecting an important interest beyond situational opportunities.

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[117] *Ibidem*, p.14
[118] *Ibidem*, p.15
[119] *Ibidem*, p.16-17

CHAPTER 4

CURRENT MEDITERRANEAN OPPORTUNITIES: ATTRACTIVE NICHE MARKETS IN NEED OF INVESTMENT. THE TEXTILE INDUSTRY

1. A BRIEF OVERVIEW ON THE MOST ATTRACTIVE SECTORS

After having analyzed in the previous chapter the different types of factors that might prompt enterprises to relocate and invest in the Mediterranean countries, it will be possible in this chapter to understand in which production niches investment can be actually relevant and appropriate, in order to outline a sort of guide for those companies that wish to undertake relocation choices.

It has already been mentioned so far the importance achieved especially in the last decade by some growing sectors in the area. Thus, it is evident that although several opportunities have remained regrettably unfulfilled mainly because of the political instability characterizing the whole area, the region continues to offer different attractive chances for investors. Undoubtedly, it is possible to clearly identify the most important growing sectors in every country of the region, since such niches are permitting to build de facto a global positioning on a significant number of value chains, such as textiles, tourism, agri-business, ICTs, biotechnologies and other new growth sectors such as healthcare and logistics.

In spite of still being a competitive destination, the Mediterranean might not be intended to become the world factory, especially if compared to other areas of the globe, such as the Southeast Asia. Not by chance, the declining of birth rates, the advancement of education initiatives especially for illiterate people, and the increasing number of young graduates may suggest the movement of economic convergence towards which the two Mediterranean shores are

tending. Accordingly, providing activities with high added value might be a quite better alternative for the region, rather than insisting on reducing factor costs.[120]

Nevertheless, the fact remains that Med countries are still competitive, especially for Southern-European companies wishing to relocate productive activities nearby in order to take advantage of the benefits derived from relatively low labor costs, as indicated in the previous chapter, and save on transportation costs, or to redeploy activities with high energy needs or requiring a competitive and often specialized workforce. This is particularly the case of Algeria or Syria, which are able to attract numerous highly energy-intensive metallurgical and chemical industries thanks to their own production of hydrocarbons. At the same time, mining activities are increasing progressively in Jordan, Israel or the Palestinian territories, while chemistry sector is rapidly growing in countries with local raw materials, such as Jordan and Morocco.[121]

Due to a quite constant uniformity of the area, Med countries have sometimes some difficulty to differentiate from each other because of equivalent comparative advantages and comparable market sizes. However, it is almost sure that some value chains are anchoring in the whole Mediterranean area, allowing to the region to assume a relevant and apparent positioning relatively to other regions of the world thanks to a certain number of appealing sectors. Anyway, it is certain that the priority assigned to each leading sector logically stems from the identity and the location of each Mediterranean country, ranging from agri-business and textiles, to ICTs, tourism and logistics as already mentioned.

The Invest in Med program has contributed since its initiation in 2008 to shape a new MED economic landscape, thanks to a three-year plan aimed at reinforcing the number and quality of investment projects destined for the MED countries, encouraging Euro-Mediterranean trade flows and inciting a

[120] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean*, Study N.7, January 2010, ANIMA Investment Network, p. 14-15
[121] *Ibidem*, p. 15

sustainable economic development in the region. Since its launch, Invest in Med, in consultation with the private sector and some public actors, has identified a number of niches and subsectors, whose development was considered to be a priority for the whole region. Through its biannual calls for initiatives, the program finance actions supporting these growing niches, opting for reducing the target of economic subsectors as time passed, from 15 sectors selected at the initiation conference to 7 which have been listed as priority ones in 2009.[122]

But, why a strategy based on the importance of sectors and niche markets was needed? Firstly, it might be assumed that the plan aimed at supporting the emergence of niche markets or industrial sectors supposed to have a good potential attractiveness for the whole MED region. In addition, the strategy was designed to encourage economic operators and investors to suggest and submit new interesting initiatives by using their strengths together to develop new useful and important subsectors. Moreover, this strategy has been thought to bolster industrial ties and synergies between the two opposite shores of the Mediterranean, investing on the increase of sustainable partnerships between Northern and Southern companies.

This strategy has been developed detecting a significant request expressed by different economic operators who acted in the area. In fact, thanks to a number of telephone interviews and electronic questionnaires which have been proposed to several foreign investors established in the Southern-Mediterranean countries for at least 3 years, the ANIMA Network has tried to identify the most impressive lacks existing in the local value chains, especially analyzing those activities that did not manage to develop in spite of their increasing indispensability to domestic operators, namely sub-contractors and suppliers.[123]

Thus, after using e-mail questionnaires, as well as personal and telephone surveys, the elements collected by players actually operating on the ground have

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[122] HENRY, P., DE SAINT-LAURENT, B., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, December 2009, ANIMA Investment Network, p.2

[123] *Ibidem*, p. 3

finally been complemented with a number of different statistical data provided by the Mediterranean economic intelligence unit of the ANIMA Network, in order to be better analyzed. Certainly, what had emerged so far has also to be validated from a micro-economic perspective, since several pioneers in the region had to have already invested in each niche market, whether local and foreign, so that the latter could be actually considered as a priority for the region. Finally, in order to attract new Euro-Mediterranean investors and players, a last selection criterion has been introduced, imposing to consider the location of the production means required so to select priority niches. According to this final principle, only niches supposed to be favorable to local production of goods and services were selected, both for the local production intended to be exported thanks to MED competitive advantages, and for the local production intended for local and domestic markets.[124]

What is more, the performed analysis permitted not only to define the most important niches, but also to illustrate the current interest for European investors, as well as for Southern entrepreneurs, who managed to position themselves in these badly serviced markets with immediate and positive effects.

Nevertheless, this strategic plan cannot be considered a totally exhaustive research, since it would need to be further developed. Certainly, what has emerged so far, as it will be explained at short, can be considered as the first stroke of a much larger new economic landscape of the Mediterranean. What is sure is that the selected niches are increasingly providing added value to some sectors which are currently suffering from a ferocious and growing international competition, such as textiles production, tourist diversification, or agribusiness transformation, offering new opportunities to the whole area by mixing traditional subsectors and new activities. At the same time, the most attractive niches are also developing entirely new activities thanks to the improvement of new technologies and the opportunities offered by a completely globalized

[124] *Ibidem*, p. 3

world, such as 3-D and digital graphics services, web development, or health and sustainable tourism. Moreover, besides the rapid urban growth characterizing most of the Mediterranean countries, the early stages of a growing Southern-Mediterranean industrialization is also creating new chances in terms of green markets, since many initiatives and projects in niche markets as environmental studies, energy efficiency, social housing regeneration, wind turbines, or waste management are progressively taking off in the whole area.[125]

Thus, the following sections are totally aimed at defining and describing the most attractive niche markets in the area, consequently considering their needs of investment and enabling to understand which are the most influential sectors and subsectors supposed to have a great potential power for the economic landscape and growing of the whole region.

2. SPECIFIC SECTORS OFFERING PROMISING OPPORTUNITIES

2.1 Mediterranean agribusiness sector conquering the world markets

Firstly, the Southern shore of the Mediterranean has relevant strengths to emphasize its positioning in the **agribusiness sector**, leaning for instance on the excellent culinary reputation of countries such as Lebanon, Morocco and Syria, where Spain, Greece and especially Italy could play a central role in this sense not as competitors, but rather as partners. First of all, it is important to recall that several important agro-producers belong to this region, as Egypt, ranking the 8th world position in terms of fruit and vegetable production, Morocco, where this sector permits to 60% of the population to make a living, and Syria, where 25% of GDP is represented by the agriculture sector. Moreover, added value in numerous countries of the region, especially in Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia, is increasingly growing as processing industries,

[125] *Ibidem* p. 3

especially for freezing and drying operations, and packaging companies for export development are rapidly developing in these countries. Furthermore, other countries are at the forefront not only in the fields of processing, but also in cultivation and irrigation technology, while land rental is beginning to enlarge for several international operators at the same time.[126]

Certainly, following the organic trend, the growing importance that plant extraction – perfumes and fragrances, essential oils, flavoring and coloring – is achieving in these countries cannot be ignored. For instance, aromatic and medicinal plants are progressively discovering growing outlets in the pharmaceutical sectors and fast moving consumer goods industries, such as house care, or perfumes and cosmetics. Accordingly, being the sector trendier than ever, it might have a strong export potential, as Europe, together with the USA, represented in 2006 96% of the total amount (27.8 billion dollars) invoiced in global organic products markets.[127]

Nevertheless, it cannot be denied that Med production of aromatic and medicinal plants still remains quite traditional and limited to local markets. Thus, a qualitative revolution is certainly needed to permit local and domestic industries to access foreign markets. Undoubtedly, being the traditional aromatic plants provider for European countries, as in the case of Moroccan and Tunisian thyme and rosemary for instance, the Med region offers a significant pool of resources continuously waiting for a better development, where integration to European bio-cosmetics and agribusiness clusters represents the key for its new valorization. Not by chance, a clear example of this integration is given by the European organic cosmetics leader *Weleda*, which sources for instance chamomile from Egypt and rose and pomegranate from Turkey.

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[126] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* p. 14-15, Study N.7, January 2010, ANIMA Investment Network

[127] JOANNY, A., HENRY, P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, August 2009, ANIMA Investment Network, p.4

The Med region should be selected for several different reasons to develop agribusiness and relocate production, as it guarantees an environment with a great biodiversity with huge agricultural areas virtually chemicals-free, combined with rich food and cosmetics traditions. In fact, besides geographical proximity with Europe and low production costs, the region offers a great pool of well-known or promising vegetal species both to be used simply raw, or further processed to be transformed into industrial inputs for pharmacy, perfumes and cosmetics. What is more, the whole region is progressively ensuring more satisfying qualitative and quantitative export requirements, by structuring Med supply chains in order to better enter the global aromatic and medicinal plants market with fast moving standards, as traceability, tests and analysis. In this respect, Morocco is developing for example an "Aromatic Codex" which aims at registering and classifying according to national and international standards all aromatic plants existing in the territory, together with their extracts and uses, so as to encourage local and domestic businesses to integrate with international supply chains.[128]

Certainly, this sector might represent a quite important challenge for the Med region, but it cannot be denied that some results have been achieved so far, since some pioneer stories have ended up being rather successful and recognized, as in the case of *Naturex*, whereby Mediterranean aromatics has started to conquer the world. Established in Southern France (Avignon) in 1992, this company is a specialist in natural extracts, manufacturing vegetal ingredients for food, nutrition, health and personal care industries. Particularly, it provides from the pomegranate tree natural antioxidant compounds which are supposed to be beneficial for human cells and also antioxidant additives from rosemary extracts destined for agribusiness. Having experienced an early international expansion, relocating its plants in Spain, Italy, Mexico, California, India, etc., the group established also in Morocco, where its subsidiary has recently become a

[128] *Ibidem*, p.4

must for numerous international buyers for the agribusiness and also pharmaceutical industries, especially in the natural dietary supplements. Not surprisingly, production capacities in the Moroccan subsidiary have almost doubled between 1999 and 2006. Thus, the increased number of sales due to controlled production costs, but also to top quality products, namely Mediterranean plants and herbs such as rosemary, thyme or almonds seeds for cosmetics, justified heavier investments in human resources, innovation and fixed capital. Moreover, since 2007 the French parent company has invested in new production capacities in its subsidiary located in Nouaceur, in the Greater Casablanca region, permitting the factory to dedicate to hydro-distillation practices and solvent extraction, and to rapidly grow. Consequently, in the same year the group increased its share in the capital of its Moroccan subsidiary up to 96.35%, through the acquisition of the investment funds shares of the French development agency *Proparco*, reducing however Moroccan influence. So, *Naturex* S.A. represents a quite good example of Med integration with Southern-European enterprises. In fact, the group has recently become the world leader in providing specialty natural ingredients, achieving an annual turnover of 185 million euros, as soon as the merger with the Spanish *Natraceutical Group* [129] was completed.

[129] Natraceutical Group is a Spanish MNC at the forefront of biotechnologies applied to health, cosmetics and nutrition. In 2009 the group integrated its Ingredients Division into the French Naturex, thus creating the leading independent company of specialty ingredients in the world. After this merge, Natraceutical became the main shareholder in the French company, which today owns a worldwide sales network and several production facilities and plant not only in France, but also in Spain, Italy, USA, the United Kingdom, Switzerland, and last but not least, Morocco, as already explained. (http://www.natraceuticalgroup.com/)

2.2 How can Med countries be at the heart of the biotechnological revolution?

Undoubtedly, after having analyzed the agribusiness, it might be assumed that a quite connected sector is the one represented by **biotechnologies**, according to which targeted business may be R&D centers for biochemistry and genetic engineering, pharmaceutical laboratories, toll manufacturing of medicines, or again agribusiness and cosmetology.

It is now certain that biotechnology lies at the heart of the next industrial revolution, as various techniques using living organisms, such as micro-organisms, or animal and vegetal cells, to produce goods and services are to be found in a wide range of industrial applications.

As far as the current Med positioning is concerned, it might be stated that a wide number of requirements for human health industry as well as agriculture are needed. This implies that to date the innovation potential of the region is quite low, although it is partly compensated by the production of generics and the integration of the Med pharmaceutical industry into broader value chains, responding to the North-South complementarity in clinical trials, quality control analysis and partnerships between R&D centers.[130]

Moreover, the involvement of the diasporas might also be considered as crucial in this regard, as according to the Algerian Ministry for Higher Education and Scientific Research for example about 20,000 Algerian expatriates specializing in biotechnologies are resident abroad, while local competence remain open to foreign partnerships, especially for reasons of cost.[131]

At the same time, it cannot be denied that for other aspects Med countries could stand at the cutting edge of innovation. For example, Tunisia is particularly advanced in R&D into the molecular genetics of plants and bio-pesticides, having been precursor in the Maghreb since 1983 with its Centre of Biotechnologies at

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[130] ABDELKRIM, S., HENRY, P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, September 2009, ANIMA Investment Network, p. 8
[131] Data available on-line on the Ministry website (http://www.mesrs.dz/indexf.php)

Sfax. What is more, a new biotechnological cluster located near Tunis is operating around medical research with the collaboration of the two local universities of Tunis, El Manar and La Manouba. Also, in this regard an undisputed role is played by Israel, which has become the regional leader in medical biotechnologies. In fact, according to the Israeli Ministry of Foreign Affairs, the country has managed to boast the presence of 160 biotechnology enterprises, which currently employ around 4.000 people, being endowed with unique knowhow in the whole area and having developed a high-performance industry, essentially export-oriented. Undoubtedly, it is interesting to notice that the "Made in Israel" knowhow is progressively attracting foreign players and operators, coming not only from America, but increasingly from European countries, which seek to share their research efforts.[132]

For instance, a pioneer experience is represented by the Israeli company *BioNegev*, a cluster specialized in regenerative medicine, bio-materials and nanotechnologies, which has recently signed a first cooperation agreement on medical biotechnologies with the French technological park Sofia Antipolis, while a second agreement has been negotiated with Alsace BioValley and other arrangements for joint ventures in France are at the study stage in order to be at short developed.

In this sense, an investment fund of approximately one billion Israeli shekels, enriched with 250 million shekels coming from the Government, has been recently created in order to support Israeli innovation find industrial outlets. Accordingly, the Swiss laboratory *F. Hoffmann-La Roche* for example joined in this direction with the Israeli risk capital company *Pontifax* in 2009 so as to encourage domestic start-ups to develop biotechnological products likely to be incorporated into the portfolio of the pharmaceutical giant.

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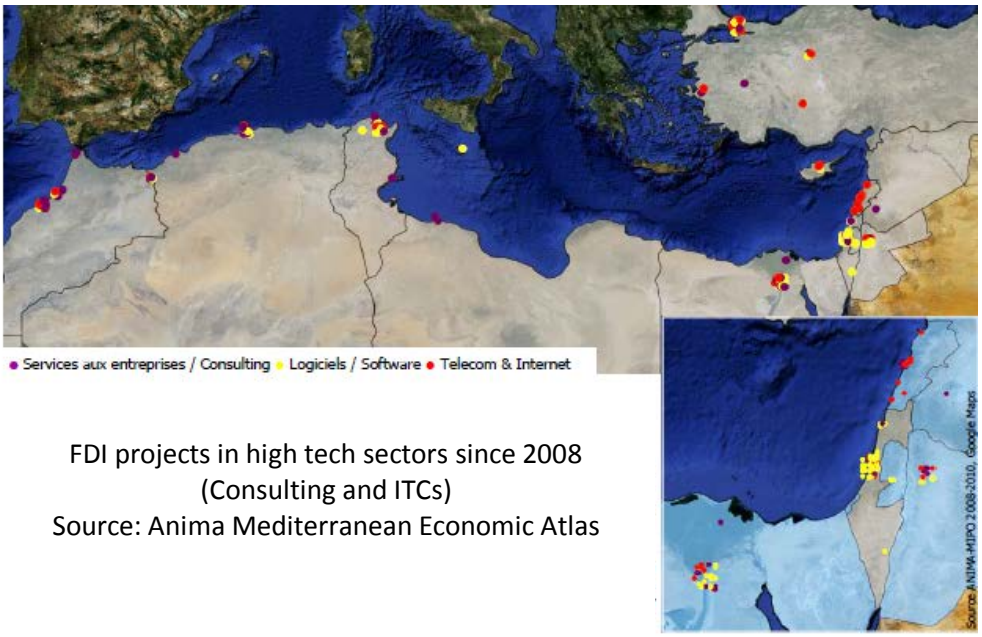
[132] ABDELKRIM, S., HENRY, P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, September 2009, ANIMA Investment Network, p. 8

However, Israel is not the only Med country embracing biotechnologies. In fact, also Morocco seems to be quite innovative and active in the sector. For instance, the Moroccan biotechnology enterprise *Protenia* founded in 2005 by two Moroccan R&D engineers installed in France is dedicated both to the medical and industrial world, matching both the engineering and the production of therapeutic recombinant proteins for research. Despite employing only ten or so people, the company, located in the technological park of Al-Akhawayn University at Ifrane, manages to export its products to European countries and envisages opening to the USA markets, representing a model in the whole country for the sector and not only. In fact, thanks to its work collaboration with the French CNRS, Inserm and Inra, the German Cancer Research Centre, and the American National Institutes of Health, the company has been able to build a stable technological partnership on the biotechnologies segment between North and South.[133]



FDI projects in high tech sectors since 2008
(Consulting and ITCs)
Source: Anima Mediterranean Economic Atlas

[133] *Ibidem*, p. 9

2.3 Made in Med ICTs: dynamism and opportunities

Another special mention is needed in terms of positioning of the Information and Telecommunication Technologies (**ICTs**). In fact, Med countries represent significant markets for the upgrading of companies, especially local SMEs, in all fields of ICT, from Web applications to ERP (Enterprise Resource Planning) and telephony. Generally, both local and foreign players are particularly interested in these markets, which are also supported by Government incentive policies. Thus, the ICT sector is progressively and rapidly growing in Med countries, since they have already demonstrated to be able to skip steps. For instance, the recent flood of mobile phones has overtaken the setting of landline ones, forcing the whole region to experience a technological leap over the wireless internet and to consequently increase the need of engineers and innovative start-ups from East to West. This situation has contributed then to the emergence of pioneer markets, as well as to the establishment of a technological know-how system tailored to the economic realities of each Med country. In addition, thanks to the expertise strengthened in relationship with foreign customers, the professionalization achieved in the main ports and the opening of airspace, the Southern shore of the basin has progressively transformed into a possible rear base for European e-commerce operators, especially since Governments have been boosting new incentive policies for e-commerce.[134]

In this context, it can be interesting to underline the progressive establishment of two subsectors, that are the 3D modeling and animation and the offshore web development.

Regarding 3D modeling and animation, it is necessary to consider that the rapid progress of the digital economy has caused a deep shaking of a number of publishing and design businesses, from the advertising world to that of industrial

[134] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 16

innovation, as 3D has been progressively generalized in different fields, from cinema and video games, to modeling and prototyping. In this respect, potential markets should be open to different professionals, from architects, town planners and real estate promoters, to engineers and CAD or advertising and multimedia experts.

Although 3D remains marginal in the whole region, the current Med positioning shows a great dynamism in the computing services sector, providing a general environment of rapid development of new hubs, instructed of simple standard tasks, which are mainly turned towards exporting, almost without domestic productive interaction. In addition, one of the main obstacles undermining the region is the lack of business parks and targeted vocational training, while quality of ITC infrastructure is sometimes rather variable. Finally, the insufficient presence of clusters, except for Israel, represents a considerable weakness for Med attractiveness for complex virtual prototyping activities.

Nevertheless, some significant pioneer experiences can be found in the whole Maghreb, from Tunisia to Morocco.

For instance, it might be interesting to consider the *Ubisoft Entertainment* experience, which has been dedicated to the creation of totally “Made in Med” video games. At the end of the 1990s, the French editor decided in fact to relocate one of its 22 production studios in Morocco, launching in 2007 also a recruitment program for 150 new collaborators, with the support of the Moroccan authorities and the pool provided by the same *Ubisoft* campus on site.

Another interesting example is represented by the French *ESI Group*, an editor of virtual test packages, supposed to be one of the main world players in the digital simulation and industrial manufacturing of prototypes. In 2009, the company installed part of its plants in Tunisia, where a young team of specialized engineers from the best Tunisian institutions collaborated with the group, supported by French experts and partnered by the Tunisian company *Acoustica*. Thus, the aim of the partnership was not only to sustain the recruitment of local experienced engineers, exploiting their market knowledge and expertise, but

also to locate directly in a Mediterranean country so as to supply top services at very competitive prices.[135]

As far as the second subsector is concerned, it might be stated that today the market for development of web applications and for the creation of web sites has become indispensable, from simple personal pages to complex commercial sites, exploding in the North and following the trend in the South accordingly to penetration and infrastructure progress.

Being endowed with a great dynamism in the IT services sector, Med countries could achieve a strategic importance in the field. In fact, as they represent the perfect partners for the development of hubs taking in charge simple and standard tasks, they could be more and more involved in the maintenance of web sites and applications, since 90% of all internet sites globally suffer from a lack of upkeep, once on line.

Moreover, although local market are still quite limited, some other new activities may represent possible potential markets, aiming at personalizing standardized low cost websites for SMEs or private individuals, at developing sub-contracting for more complex web apps, or at maintaining existing domestic and foreign websites. Thus, the customization of standard packages seems to be one of the most locally promising sectors. In fact, numerous web design agencies have to face the competition of aggressive low cost web designers and standard packages, which do not always include personalization services. In addition, the growing spread of free tools and open source software has started to take off for simple projects and among inspired users, increasingly replacing professionals. Consequently, this particular trend might be a positive factor for Med countries, since the demand of customization of these standardized suggestions should generate an offer of services affordable only in low cost countries.

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[135] HENRY,P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, 2009, ANIMA Investment Network, p. 26-27

In this respect, as the Mediterranean represents a booming offer nearby European countries, Med governments have recently decided to invest massively in the ICT sector, supporting the creation of science parks and training centers, taking advantage of fiscal benefits and other incentives. This environment has contributed to the birth of numerous talents, since all Med countries have technically capable web agencies, even in countries still hardly visible.

A pioneer example is provided by the French web agency *EbizProduction*, which integrated into its business the Mediterranean dimension as a production and market base since its establishment. Set up in Marseille in 1998, the company has always used the web to prepare its expansion into Lebanon and recruit locally its collaborators. For instance, 9 employees out of the 11 employed in the company in 2004 were working in the web production studio located in the Beirut science park, carrying out 70% of the total production. Today the company has clients in most Mediterranean countries, which are served by commercial teams based in Marseille and Beirut, and by a complementary network of partners settled in France, Jordan, Lebanon and Tunisia.[136]

2.4 Med current positioning in infrastructure and logistics

With regard to other sectors, as far as **infrastructure and logistics** is concerned, Mediterranean countries have been committed for several years in the implementation of infrastructure investment policies aimed at facilitating their economic growth and development. A continuous upgrading of the infrastructure has then permitted to develop more complex transport networks improving consequently logistics, to invest in the improvement of ports, to create business and technological parks, to develop telecommunications, etc.

[136] HENRY, P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, September 2009, ANIMA Investment Network, p. 30-31

Accordingly, this type of investment programmes, often carried by the Governments, have also represented a concrete opportunity for concession or privatization, then introducing some major regional and international operators to local markets, with varying degrees of success. It can be assumed that this upgrading process is still ongoing, since in telecommunications for example nearly 30 billion Euros have been recently invested, permitting the grant of several licenses between 2002 and 2009. However, a qualitative leap needs to be done in retail or in some logistics aspects, as it would be more worth for European investors to enter markets where domestic demand continues to grow even in a period of global recession and domestic transport infrastructure has well progressed.

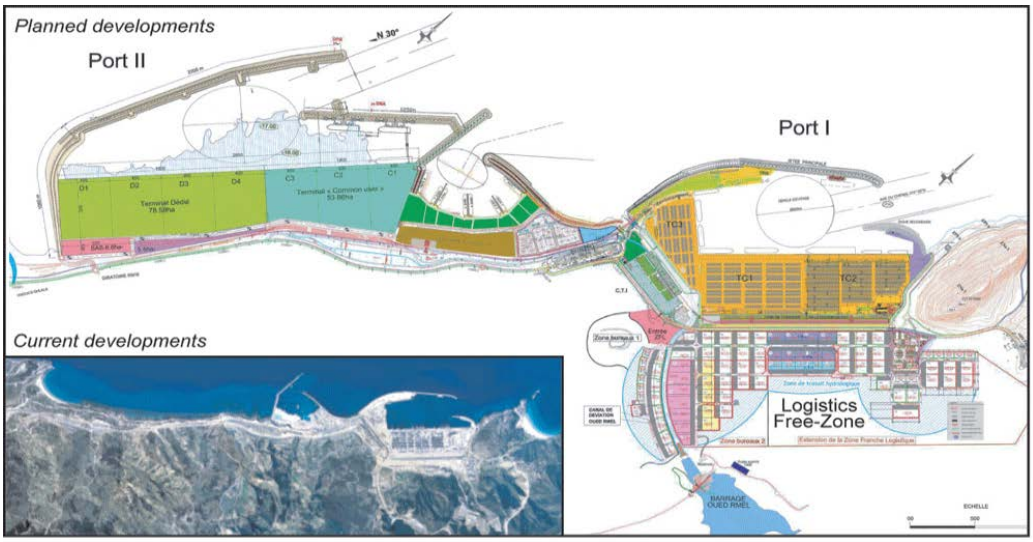
Anyway, Med countries are supposed to soon become the logistics hub connecting Europe, Africa and Asia, since the rim seems to be potentially essential in the supply chain of companies targeting the Euro-African and Middle East plate because of several factors characterizing the area. Firstly, the presence of raw materials, particularly minerals and hydrocarbons besides agricultural and fishing products, seems to be crucial for Med countries. But, most significantly, the region has a substantial number of ports which have already been equipped to receive the largest shippers and welcome latest generation container vessels, from Port Said in Egypt to Tangiers in Morocco, La Valletta in Malta, and futures Enfidha in Tunisia and Cap Djinet in Algeria, with industrial zones adapted to processing industries nearby. Not by chance, the transit of 30% of the world container traffic is in fact being experienced in the Mediterranean, between the Egyptian Port Said and Gibraltar in Southern Spain. Moreover, it is important to recall that domestic markets of the Southern countries are facing a demand which is still growing, unlike the Northern rim. [137]

[137] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean,* Study N.7, January 2010, ANIMA Investment Network, p. 16

In this regard, particular importance seems to have achieved the port of Tangier in Morocco, which is about to become one of the most dynamic ports in the Euro-Mediterranean region. Nevertheless, its extraordinary locational qualities as international crossroads between maritime shipping routes have to face a particular context of exasperated rivalries among Mediterranean shipping hubs, namely Algeciras and Valencia in Spain, or Cagliari, Gioia Tauro, and Taranto in Italy. Locally and regionally, its growing importance has been made possible through the physical separation between the port city of Tangier and the new multifunctional site of Tangier Med, situated 30 km eastwards.

Tangier Med is a strategic sea port whose construction started in 2004 and which has been concretely working since July 2007. Located 30 km eastwards of Tangier city, it is also situated nearby the Spanish enclave of Ceuta. What may be interesting to notice in this context is that one of the goals of the project has been to strengthen the regional economy, allowing at the same time to counter illegal trade activities, since the zone had represented so far an important positioning as "gateway to Europe".[138] Moreover, the articulation between local and global economies has also permitted to foster economic development and job creation relieving the region, and especially young people, from misery and drug traffic.

[138] PLANEL, S., *Transformations de l'Etat et politiques territoriales dans le Maroc contemporain*, 2009 in : BOUQUET, C. (Ed.), *L'Etat en Afrique, Espace Politique,* n°7



Overview of Tangier Med project use
Source: own adaption from Port Authority

Being able to welcome latest generation container vessels, the port is composed by two terminals as can be noticed from the previous figure. "Between the two terminals of Tangier I and Tangier II is also located the passenger port"[139], which started its operations in July 2010, connecting firstly Algeciras, and permitting then to reach by ferry other destinations, such as Barcelona and Genoa. Generally speaking, the location of the port has allowed reducing the crossing to and from Algeciras to one hour only, while the ships should be able to complete five rotations a day instead of only three when connecting Tangier city.

Thanks to the concessions of different global shipping lines, traffic has grown steadily since 2010, confirming that as early as its conception, the project has been considered not only as new port infrastructure. On the contrary, it has been thought as an integrated project which should have gone beyond the sole cargo handling and hub functions. In addition, the port project has been able to create about 20,000 new jobs for the port itself and the 100,000 in the free-trade zones

[139] DUCRET, C., ZOHRA MOHAMED-CHÉRIF, F., CHERFAOUI, N., *Maghreb port cities in transition: the case of Tangier,* 2010, Portusplus, p. 7

in the region, counting also on the attractiveness of the port complex towards international MNCs for low cost workforce and shorter transit time advantages. Moreover, the new complex has been linked to the rest of the country through the implementation of new means of communications networks, including new infrastructure as highways, expressways and a new railway line. Such a development should imply that the port of Casablanca might not be anymore the national principal port for the country, since Tangier Med has marked a change in the coastal restructuring of Morocco. Anyway, contrary to such expectations, the most likely scenario can confirm the increasing role of Tangier Med as domestic hub for other Moroccan ports, since its natural hinterland continue to be local in scope, especially in the case of traffics with Europe. Thus, there is not excessive competition between the two ports, since Casablanca still remains the main load national center, concentrating about 80% of container traffic, while Tangier has become a distribution center, shipping containers from Casablanca among others.[140]

What is more, as far as logistics and transports is concerned, it is interesting to mention some new targeted business in the region, that is to say express parcels, hybrid mail, and official digital franking and certificates.

In fact, since the digital society and economy is increasingly challenging the sector, imposing the establishment of an e-government, besides e-commerce and electronic communications, postal and express parcel service providers are obliged to continuously innovate. For example, electronic telegrams and certified e-mails, secure document e-management and official digital certification, on-line direct marketing through non-addressed and bulk mailings, real time and online monitoring of parcel shipping, are just some of the new products at issue, often with high added-value, which aim at chasing more and more productivity and at

[140] *Ibidem*, p.8 -11

saving time, always providing some sector pioneers with enviable operating margins, such as La Poste Française or Poste Italiane.[141]

Furthermore, other significant obstacles and weaknesses are particularly experienced in customs issues and in the partitioning of markets, while the overly progressive e-commerce development makes digital coverage too sporadic in spite of its progressing rhythms of growth at a fast pace. Finally, some bottlenecks in several crucial infrastructure, especially in ports, are an impediment to development, although being about to be solved through massive ongoing investment projects, while also weaknesses in South-South transport infrastructures are supposed to be overtaken in the short term thanks to large TGV and Trans-Maghreb motorway projects.

In spite of this, even though ICT networks are still vulnerable as already mentioned, it cannot be denied that the current Med positioning offers a quite positive logistics landscape, with highly competitive national postal services and light logistics market, with important global integrators, regional challengers and also small local road hauliers.

Moreover, a great potential for parcel mailing, being today a badly-covered market, can be exploited in the whole region, as Med population and enterprises are highly concentrated along the coast, hence facilitating services. Anyway, as already mentioned, service quality needs to make some progress. In fact, if in Morocco and Syria the national postal services have some trouble in servicing the whole of their territories, the Lebanese and Jordan Post are not able to deliver mail to the general public, which is obliged to collect mails directly from the post offices. This is why numerous public operators are seeking partners to develop new activities, while foreign players are jumping on the bandwagon because MED postal services are on average relatively profitable. Not surprisingly, the international transit of parcels is in fact almost monopolized by

[141] JOANNY, A., HENRY, P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, September 2009, ANIMA Investment Network, p. 6

global integrators, such as UPS, TNT Express, DHL and FedEx, while their regional counterparts, namely the Lebanese MidEx and the Jordanian Aramex, are progressively achieving a leading role in the region.[142]

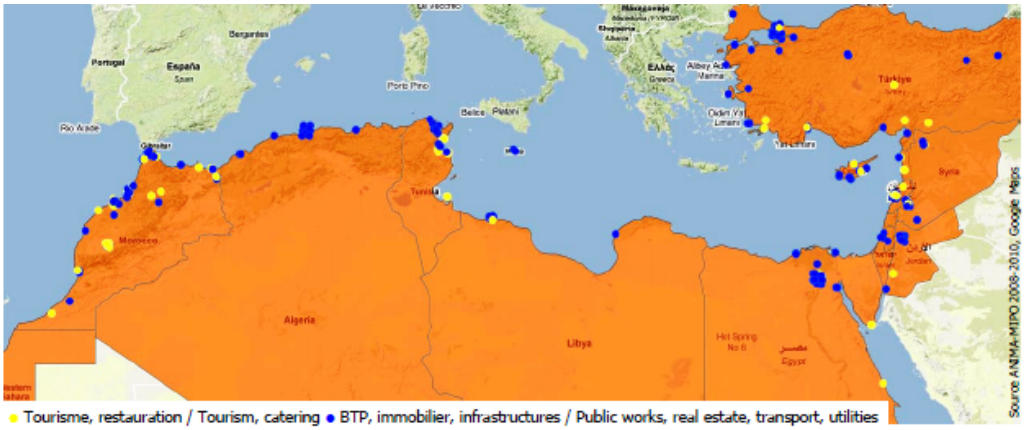
Nevertheless, in order to overtake some obstacles to the successful development model used by some integrators, as in the case of TNT Express, which suffers from a lack of integration into MED markets and an unsuitable regulatory context, Euro-med postal services are preparing their integration in the area. Accordingly, supported by the Invest in Med program, the Euro-med national postal service is actively working to allow the integration of all the aspects of their activities, from the establishment of common training centers for the personnel to the offer of financial and mailing services directed to the diasporas.[143]

2.5 Travelling around Med countries: a potential market to be implemented

Moreover, after having analyzed logistics and infrastructure, another fundamental sector to be considered is the touristic one. Med countries need in fact to direct themselves towards a specialized **tourism** offer, serving a new model of economic development. Certainly, the Mediterranean is one of the top tourism destinations in the world. Since today the touristic industry moves towards a greater specialization of the products offered to travelers worldwide, Med countries have started to accompany this movement by greatly diversifying their offer: diving and nature in Egypt, business tourism in Jordan, golf in Morocco and medical tourism in Tunisia are just some example, all relying on more skilled staff. Anyway, the seaside tourism and the heritage or religious tourism are still attracting the greatest amount of tourists to the region. Not surprisingly, large paradisiac resorts have progressively emerged all around the

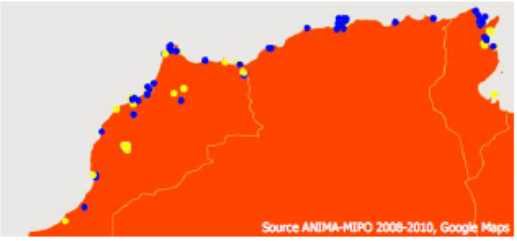
[142] *Ibidem*, p.7
[143] *Ibidem*, p.7

Mediterranean coast, posing at the same time the issue of environmental compliance of these projects, which are not always commercial successes either, and permitting to develop a new touristic offer, the eco-tourism. Moreover, domestic tourism can be considered a new source of opportunities, allowing the hinterland development and representing an important issue for Med countries.[144]



FDI in Tourism, Public works and Real estate since 2008

Source: Source: Anima Mediterranean Economic Atlas



Thus, according to the different type of tourism that have recently developed in the area, from domestic to movie-induced and medical tourism, eco-tourism seems to be the most innovative and potential channel towards which the eco-responsible Western clientele can be directed, involving not only sport, rural and cultural eco-travelers but also different interested players, as eco-travel agencies, eco-guides, eco-lodges, and training, consulting or engineering actors.

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[144] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean*, Study N.7, January 2010, ANIMA Investment Network, p. 17-18

As far as the current Med positioning is concerned, it might be stated that the great expansion of seaside tourism, cruises and cultural tours all around the region, from Istanbul and Jerusalem to the pyramids and the souks of Marrakech, contributed to convert tourism into a vital source of employment and above all hard currencies. Nevertheless, all the rivalries and ambitions long declared by numerous competing Mediterranean destinations, eager to attract most of mass summer tourism and to enjoy a never-ending growth, have started to threaten these same markets, which are increasingly risking to be saturated with impersonal low cost products, ruining the natural assets of the region.[145]

Thus, the solution to the touristic demolition consists in trying to diversify into new niches and segments the whole sector, permitting as a consequence a better redistribution of the added-value and imposing a new tourism development model, more integrated into the natural, social and economic local environment.

Certainly, in order to achieve this object many obstacles need to be overtaken, since a strong lack of awareness of governments and a lack of national tourism strategies generally characterize all Med countries. Moreover, the region is not provided with certain specific capabilities of local communities, from eco-certifications and local eco-guides to financing solutions for rural micro-projects.

Thus, having potential strong local benefits, this niche market represents a challenge for the region, since it should be more appropriate to include ecotourism in national tourism strategies, instead of considering it as an appendix of environmental policies. This is why, it could be considered in some cases even an inopportune challenge, since it aims at preserving natural and cultural heritages, rather than inverting them into profitable accommodations for mass tourism. Anyway, although natural protected zones and reserves are

[145] JOANNY, A., HENRY, P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, 2009, ANIMA Investment Network, p.32

multiplying throughout the region, they are constantly threatened of being sacrificed for economic development. In fact, numerous projects are self-proclaimed as sustainable, such as the extremely expensive program presented by *Preatoni* in the North-Western part of Tunisia, which is a protected zone belonging to the WWF list of the most remarkable natural Med sites.[146]

In spite of negative speculations in the sector, some positive activities can be however recognized. The *Fayoum Ecotourism project* in Egypt can be considered for example as a pioneer example of positive ecotourism investment. This area, located 90 km southwest of Cairo, became famous to tourists only when a geological study identified the great potential of this depression for the development of eco-tourism projects around its unique formations in 2000.

In the same way, the Moroccan initiatives for Responsible Tourism distinguish every year important exemplary projects, since the country enjoys today probably the most visible and wide offer for eco-tourism products in the Med region. In fact, the French website *Voyagespourlaplanete.com*, an on-line travel guide centered on ecotourism, has listed for example 10 packages for Morocco, but only one for Egypt and Tunisia. [147]

Certainly, besides the sectors that have been deeply described so far, there are other categories, such as services to businesses or urbanism and environment, that should be further detailed. Anyway, being the list quite long and extensive, it would not be possible to pause on each sector. Thus, it will be just possible to offer a brief overview on the categories in need of investment, in order to provide an idea of which might be the most interesting and promising sectors. Briefly, these range from facility and fleet management, vocational training and services of catering and laundry to environmental studies and renewable energy, energy efficiency, wind power, special waste, public lightening and social housing.

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[146] *Ibidem*, p.32
[147] *Ibidem*, p.33

3. THE ROLE OF TEXTILE INDUSTRY: MED COUNTRIES DRESSING THE EUROPEAN WORLD

But, what may be particularly interesting for this study context is the new Med positioning in **textiles**, particularly in fast fashion and special organic textiles**.** In fact, six countries out of the nine belonging to the Med agreements are positioned in this traditional sector for the region. Accordingly, with the exception of local crafts, the region has positioned instead on tints and coloring, spinning activities and assemblies of ready-made garments for export. Not surprisingly, all major brands specialized in fast fashion and short series, from the Spanish *Zara* and *Mango* to the Italian *Benetton*, have located their production facilities in the South basin of the Mediterranean, while their design activities generally remain in the North. Nevertheless, some Southern brands, particularly Moroccan jeans, have recently managed to penetrate other markets, Turkey in particular, which, in spite of belonging to the Southern rim, is considered to be much closer for some aspects to the Northern basin rather than to the Southern.

In this respect, two areas seem to be promising for the development of the textile sector in the years to come.[148]

Firstly, the medium product range for short series of the current fast fashion[149] is the main potential market on which it would be necessary to focus. In fact, the short distance between Southern Mediterranean countries and the European continent, especially considering countries as Spain or Italy, allows restocking in record time which Asian competitors cannot beat, in spite of their lower product prices. Thus, it might be stated that the textile and garment industry plays an essential role within the Mediterranean economic fabric. In fact, European relocation strategies started during the 80s, when some pioneer

[148] NOUTARY, E., LEPUJADE, J., *Mediterranean investment map: sector guidebook of public policies for investments in the Mediterranean*, Study N.7, January 2010, ANIMA Investment Network, p. 17

[149] Fast fashion responds to the concept of short on-going clothing collections requiring a rapid response in manufacturing models.

companies began to implement their subsidiaries in the Maghreb area, ensuring during years the stability of a complementary relationship between European weavers and Southern-Mediterranean manufacturers. Nevertheless, the growing competition of Indian and Chinese textiles and garments just as the dismantling of the Multifibre Agreement has progressively disrupted this key sector for local economies since 2000. In fact, this new landscape has greatly challenged the traditional positioning of Med countries, bringing about important changes in buyers supplying strategies, as clients began to prefer areas in which the whole value chain was directly available, thus including both raw material and clothing manufacturing. Consequently, it cannot be denied that the last decade has therefore been crucial for the Mediterranean textile industry, since it had to renovate itself in order to afford the management of the on-going changes: transition from sub-contracting to co-contracting, specialization of the production (Egyptian household linen, Moroccan hosiery and knitting, Tunisian denim, and Syrian T-shirts), updating and strengthening, etc. In addition, as it has already been mentioned, the emergence and consolidation of fast fashion has been beneficial for the whole region, since their special location enabling them to supply European buyers within one week. Not surprisingly, numerous European fast-fashion brands opted therefore for choosing more and more factories located in the Sothern basin to carry forward their production: *Benetton*, *Mango* and *Zara* (Inditex Group) have all decided for instance to implement a wide part of their production in Morocco since the last decade.[150]

Secondly, technical textile directed to new developing sectors in the region deserve a special mention. In fact, as supplier of other growing sectors, namely health, logistics, construction and agrifood, as previously detail, this sector also offers important opportunities: gauzes for pharmacy and pharmaceutical textiles, textile packaging for logistics, protective canvas, tarpaulin, etc. are just some examples of the new promising activities. Certainly, it can be stated that

[150] http://www.animaweb.org/en/opportunites_textile_en.php

technical textiles are entering all segments of the clothing industry and the personal protection market. Thus, the daily life is living a reasonable revolution thanks to the continuous invention of new synthetic fibers with different characteristics, from anti-UV, anti-bacterial and anti-stain to heat and flame-resistant. So, technical textiles are used to provide better personal care and protection, fostering the daily comfort, but also improving working and sporting performances. Not surprisingly, the consumption of technical textiles has significantly increased in recent years, rising from 65 billion euros in 1995 to approximately 100 billion euros in 2010.[151]

According to the current Med positioning, being this market in full growth worldwide, it may be assumed that little innovation and production capacities in this new type of fabrics are emerging, although it is obviously needed a certain know-how of technical textiles together with a propitious environment for their production. Thus, since the Mediterranean region can already rely on well-established supply and distribution circuits, it can be deduced that its great capacity available for the clothing industry will be also shift to the technical textile industry. For example, this business model has been adopted by the Israeli company *Tefron*, which manufactures technical fabrics and seamless clothing for lingerie and sport, supplying some famous brands as Calvin Klein, Nike, Reebok and Victoria's Secret. Furthermore, the group has recently launched an innovative sewing thread which contains an anti-bacterial agent able to combat odors. The company has located its plants not only in Israel, but it has decided to relocate its production also in Egypt and Jordan, just as in Asia and the United States. This example is therefore quite interesting, since it provides a South-South relocation model rather than the usual North-South pattern. Furthermore, in 2006, the company also created a joint venture with a Turkish sock producer,

[151] The majority of information used for the technical textile section has been obtained from the Pre-study paper *Technical textile in the Mediterranean* by EBN and from JOANNY, A., HENRY, P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, 2009, ANIMA Investment Network, p.20-25

as the country represents, according to their perspective, the privileged positioning between Europe and Asia, owning at the same time all the advantages of a reduction in transport costs and a greater accessibility to markets.

Anyway, technology transfers in the Southern Mediterranean countries through production relocation seems to be still risky in this niche industry, as it is one of the few markets that are significantly growing in the European textile industry. Global demand for technical textile is thus strongly increasing, determining the rise of the market not only form a global perspective, but consequently also from a regional one. Med demand is therefore required to adequate to this global tendency because of the progressive introduction of agricultural or construction techniques based on textiles. Moreover, industrial textiles may represent for Med economies a different alternative to ready-made clothing addiction, with important effects for the whole region. In fact, technical textile industry may help Med countries to reduce their regional dependency on European clients and to contain the ferocious world competition on ready-made garment production existing between emerging economies, thanks to a greater diversification of their textile outlets. In addition, once local markets are consolidated, this industry would bring more added-value, approaching also buyers to producers.

In the technical textile industry, a significant example is provided by Spanish group *Antolin*, which established a technical textile plant for the European automotive industry in Morocco. Opened in 2005, the factory settled in Tangiers Free Zones to manufacture car seat covers and door trims, representing an investment worth about 4,5 million euros and providing a hundred jobs.[152]

[152] JOANNY, A., HENRY, P., *Med opportunities: 25 niches markets being developed today in the Mediterranean*, 2009, ANIMA Investment Network, p.23

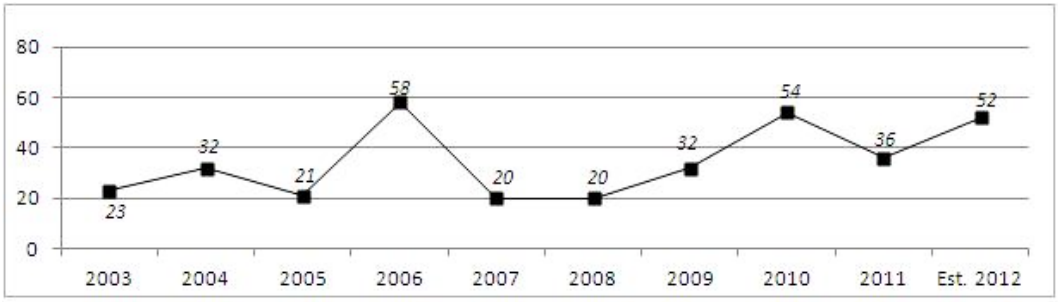
At the same time, the Portugal company *Sunviauto* invested also in Tangiers 3,6 million euros for another seat covers plant, whose production is directed not only to Portugal, but also to other European markets.[153]

Moreover, other market niches expanding in Europe and the United States, such as organic and industrial textile, are also still untapped. In fact, as cosmetics and food, also textiles have not managed to escape the organic orientation, which often goes hand in hand with fair trade in the perspective of consumers. What is interesting to notice is certainly the current positioning of Med countries, as in global production of organic fibers Syria and Turkey have recently awarded the 2nd and 3rd place among the world organic producers, while Egypt has ranked 9th. Moreover, since the liberalization of European imports of textiles have led to the loss of market share, the shift of part of the Med production from common textiles to organic ones, notably in weaving and custom work, can partially compensate this imbalance.

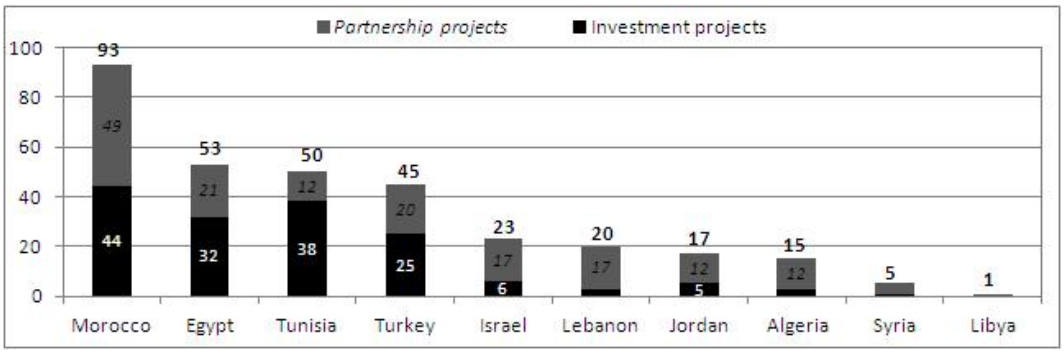
Thus, Mediterranean countries have a potentially enormous market, since the general brands, including fast fashion and sport clothing producers, but also retail traders, could convert to organic textile production, improving the whole industry fabric. In fact, organic textiles and garments are often placed on a high range segment because of their social and environmental sustainability, which can create large margins of growth, provided the value chain remains well controlled under Med design and brand in cultivation, manufacturing and personalization of fabrics. Finally, the presence of rapid production-distribution circuits between Europe and the Southern rim for the fast fashion trade better fits the organic imperative based on the “local” concept. In fact, the neighboring positioning of Med countries is preferred in this respect to such imports coming from a distance, particularly from Asian competitors, even if they may be *ethically* produced goods.

[153] *Ibidem*, p.23

Undoubtedly, this depth study demonstrates that a wide range of profiles and investment opportunities are offered in the Mediterranean textile and garment industry. In fact, Med countries manage to attract different types of partnership projects, from stores and franchises to distribution agreements, just as more substantial investments in the setting-up of factories and in the shareholding activities or in the expansion of plants. Notably, the majority of these projects and investments originate from European countries (70%), while 12% come from the U.S. and 9% from Turkey.[154]



Evolution of FDI and partnership announcements in textile, garment and luxury industry in Med countries 2003-2012
Source: ANIMA-MIPO



Number of partnership and investment projects in textile, garment and luxury industry by Med country (accumulated from 2003 to 2012)
Source: ANIMA-MIPO

[154] http://www.animaweb.org/en/opportunites_textile_en.php

Not by chance, Turkey is supposed to be the 2nd largest exporter in Europe and at the same time the main investor within the Med region. In fact, Turkey has been able in the last decade to easily cope with Asian competition, thanks to its strong integrated garment industry, which has succeeded in exporting its own brands to many European countries, other Med partners and Eastern Europe, but also thanks to its positioning among the top 10 cotton producers in the world, alongside with Egypt and Syria. Moreover, it also conducts great investment projects in other Mediterranean countries, notably in Egypt where some of the most important and renowned Turkish textile companies – Fashion Point, Hiltek, Metemteks and Taha, for instance – have already established their own factories and plants.

As far as other Med countries is concerned, it can be assumed that the top industrial employer is represented by textile both in Morocco and Tunisia, which, attracting the majority of FDI projects exactly in this sector together with Egypt, tend to center on fast-fashion manufacturing models. In this way, both countries are more subjected to foreign decision-makers, since their textile industry offers many attractive perspectives for development, particularly in terms of exporting facilities to European countries and the United States. Moreover, what may be interesting to notice is that they are progressively implementing their upgrading strategies, concentrating on co-contracting and manufacturing of finished goods, but also on perfecting of technical performance and lowering of production and logistical costs.

Furthermore, with respect to Egypt, it may be stated that it is the only country which provides integrated activities in the Mashreq area. Anyway, in spite of having a great potential in the sector and producing 35% of the worldwide cotton production, the needs of its dynamic garment industry (90% private) are somehow facing some difficulties, as the weaving and spinning industries are government owned. Nevertheless, new sceneries for Egyptian enterprises have been recently opened thanks to the Qualifying Industrial Zones Agreement, which aims at offering them a preferential access to USA markets.

Not by chance, Egypt is so planning to facilitate the promotion of an even more vertical integrated industry, by taking advantage of the quality of its cotton available at relatively low prices, promoting local design and creating then new garment brands to be exported.[155]

Thus, if in Egypt the current situation is potentially offering new opportunities, many chances remain still untapped in Jordan, Syria and Palestine. For example, Jordanian textile export development may be advantaged by its strategic geographic location as well as several trade agreements which have already been signed. Although providing the Gulf region in tapestry, its textile and garment industry remain faithful to the USA, which are its main client. In this respect, the greatest factor of success for the country has been so far its availability of skilled and low cost workforce, since Jordanian wages are paid for example less than 50% of the ones earned in the same sector in the Gulf region.

Having important resources in cotton, silk and wool, Syrian tradition in the textile industry has a long and significant history. This is why its population has developed extraordinary skills in the sector, especially in the production of hand-made elements. In addition, the inclusion of Syria to the Greater Arab Free Trade Area in 2005 combined with other arrangements signed with the European Union has enabled the country to implement numerous new markets opportunities. Accordingly, there has been a significant growth in demand for Syrian lingerie, for instance, coming from Arab countries such as Kuwait, the United Arab Emirates and Saudi Arabia. Thanks to their markets, textiles and garments have in fact achieved the top positioning among the country exported products.

Palestinian textile and garment sector contributes instead by approximately 15% of the total industrial production of the country. Mainly based on SMEs, the sector reaches 70% of its sales on the national market, while 15% of the products are exported to Israel and the remaining to other countries. It is interesting to

[155] *Ibidem*

note that Israel is able to sell back a large amount of the imported goods to the USA and to European countries under its Israeli labels. In fact, Israel has gained during the last decades a stable reputation in innovative and design textile, exploiting this image to sell also other products made in neighboring countries.

Finally, the primacy of the regional fashion capital belongs to Lebanon, which is definitely the perfect location for luxury brands. In fact, more than 70% of the related FDI projects have been registered since 2003 in the luxury niche, involving companies as Burberry, Gucci, Hermès and LVMH (*Louis Vuitton Moët Hennessy* Group). Certainly, this positioning has also been reinforced thanks to the renown of some Lebanese top international designers, namely Elie Saab and Rabih Kayrouz for instance.[156]

Thus, due to the evident potential and opportunities for Euro-Mediterranean textile, garment and clothing sector, both rims have tried to create a collaboration scenario that has been implemented especially during the last decade. As it has already been detailed, in fact the centrality of the sector for both rims of the Mediterranean is now well-founded.

On the one hand, according to Euratex[157], the textile and clothing industry had achieved for instance in 2010 a turnover of more than 172 billion euros in the European countries, with an amount of exports outside the bloc which counted more than 34 billion euros. Almost 1.9 million people are employed in about 150,000 companies throughout the European territory.

On the other, as already mentioned, the importance of textiles and garments industry for Sothern Mediterranean partners is even more evident, since textiles are the largest exported product in Jordan, Morocco and Tunisia, while it is second after oil products in Egypt and Syria. In addition, in many countries,

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[156] *Ibidem*

[157] Euratex, the European Apparel & Textiles Confederation, is a non-profit trade organization, which has always dedicated to the promotion of the textile and apparel industry within European countries. (http://www.euratex.org/)

namely Morocco, Tunisia, Egypt, Syria, Jordan and Turkey, the textile and clothing sector provides between 30 and 50 percent of all their industrial jobs.[158]

Thus, the Euro-Mediterranean dialogue on the textile industry has revealed a notable topic to be considered in this section. Launched in response to a suggestion by the 5th Euro-Med Ministerial Conference on Industry held in Caserta in October 2004, the starting meeting of the dialogue took place in Brussels two months later. The essential aim of the dialogue was to gather the administrations of both European members and Mediterranean partners, so as to take stock of the recent progresses in the sector and to discuss possible future actions. Accordingly, a report on the progress gained and on numerous projects proposed for its implementation was prepared in 2006 by the working groups of the Dialogue. In September 2006, the report was then presented at Euro-Med Ministerial Conference held in Rhodes to the Ministers, who recognized the achievements and expressed their support for further efforts.

Moreover, besides these institutional arrangements, good practice of Mediterranean cooperation in the textile and clothing industry has continued to be developed, as demonstrated by the recent conference held in Milan in 2012. In fact, in March 2012 stakeholders both from European countries and Med partners met in Milan to discuss some new ways that the neighbors countries can adopt for a better and closer cooperation in order to help textile businesses to become more competitive.

Therefore, the headquarters of the Milan Chamber of Commerce accommodated about 75 participants from the interested countries for an annual conference aimed at increasing cooperation by exchanging best practice examples and different information among the stakeholders of the industry. Great expectations awaited this conference, called 'Challenges and Opportunities for the Textiles and Clothing Sector in the Euro-Mediterranean Region'[159], since

[158] http://ec.europa.eu/enterprise/magazine/articles/industrial-policy/article_11031_en.htm
[159] http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=5701

the textile industry seems to be one of the few glimmers of light in a continent which has been heavily hit by the financial crisis, especially as far as Southern European countries is concerned. Thus, the meeting was attended by corporations and enterprises, trade associations, university delegates, public agencies and national ministries, just as European organizations including the European Bank for Reconstruction and Development.

Certainly, it cannot be denied that some advantages derived from the Euro-Mediterranean partnership in terms of textile and clothing industry have been recently acknowledged by Southern partners, as the sector has predominated trade flows from Mediterranean countries to European ones for the past two decades, accounting for 50 percent of exports of manufactured goods. Nevertheless, also European companies have been able to benefit from the textile and clothing value chain, especially regarding France, Germany, Belgium and Spain which are the main purchasing countries. In fact, being geography a positive factor for European businesses, as it has already been pointed, Mediterranean businesses can process European orders more quickly than their Asian competitors. Furthermore, it is strongly believed that the improvement of economic conditions in the Southern rim can facilitate the emergence and consolidation of democracy in those countries, notably from a European perspective.

What is more, this conference has been particularly interesting because it has broached some challenges for small and medium-sized enterprises. In fact, in spite of the evident benefits derived from the Euro-Mediterranean collaboration, it is clear that numerous challenges have remained, especially for SMEs located on both sides of the Mediterranean which have to compete with Asian producers. Moreover, besides this challenge, the industry needs also to meet the exacting changes demanded by trends, which ask companies to be more innovative or to adapt with more versatility to the modifications of global consumer demand. To this end, professional and entrepreneurial skills seem to

have a key role, so as to reach a fully integrated market able to create a win-win situation for both rims of the Mediterranean through a true co-development.

In this respect, several conference participants called for a more common approach, including Waleed El Nozahy, the Executive President of the Agadir Agreement[160] Technical Unit, who believes that many business owners belonging to the four member states of the agreement have not developed the right mindset for cooperation yet. This is why one of his biggest challenges consists in helping SMEs conceive cooperation as a true helpful measure able to prevent and avoid Asian competition. But, according to his perspective, also a more significant involvement by European countries is needed by the Agadir countries in order to stimulate the cooperation process, since intra-regional collaboration is no longer enough. Thus, the Mediterranean countries should be a cohesive area of production, in which both rims help reciprocally, so to permit all countries to benefit from this partnership through open doors and dialogue, by reviewing together initiatives to see if they have led to job creation and increased turnovers.

In addition, many other important topics have been introduced during the two days of sessions held in Milan on March 12 and 13, 2012.

Firstly, one of the main issues focused on how to fund development in the textile industry. Certainly, the European Bank for Reconstruction and Development has been working towards this aim since the last decade, supporting projects often considered too hazardous for commercial banks to

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[160] The Agadir Agreement for the Establishment of a Free Trade Zone between the Arabic Mediterranean Nations was signed in Morocco in 2004. It aims at boosting economic development and regional integration, fostering foreign investments and trade exchange. In fact, its main objective is the creation of a free trade area between Egypt, Jordan, Morocco, and Tunisia and it has been considered as a possible first step towards the establishment of the Euro-Mediterranean free trade area as expected in the Barcelona Process. For example, some of its main provisions include in fact the free circulation of goods within the Euro-Med area, and the full exemption from custom fees, charges and other taxes on industrial goods. (Cf. Chapter 2)

take on. As a result, almost every SME which has decided to use the funds of the bank has increased not only its turnover, but also its productivity and employment.

Secondly, numerous other opportunities have been highlighted during the conference, supporting cooperation in research and innovation, but also in skills development. Thus, the main aim would be the creation of a sort of network linking textile partners located throughout the whole region.

In this regard, one of the networks presented at the conference held in Milan, for instance, was the Enterprise Europe Network, represented by the Turkish chair of the Textile & Fashion Sector Group, Serdal Temel. Financed by the European Commission, the network has today achieved the settlement of 600 branches, which aim at facilitating the arrangement of industry actors in almost 50 countries. For example, in 2011 the Network partner in Izmir, Turkey, supported the establishment of 31 partnerships between Turkish and European enterprises, for the total amount of 7.2 million euros, whose 10% has been achieved in the textile industry.

But there is more. In fact, other projects have successfully approached the two rims of the Mediterranean, permitting for example the creation of the EU-MED Gateway. The latter is a platform aimed at facilitating the establishment of strategic partnerships for textile and clothing companies. As a matter of fact, it permits them to be able to get access to contacts and information on testing standards, technical and industrial textiles, intellectual property rights issues and many other topics, simply by registering for free. Moreover, as suggested by Anilkumar Dave, the Head of the Innovation and Technology Transfer Unit of Treviso Tecnologia[161], by using Web 2.0 features the platform is now looking to move forward in order to further encourage cross-border links.

[161] Treviso Technologia is a non-profit subject which provides innovative high-added-value services to markets together with the development of projects funded at local, national and European level that enable high autonomy. With a special interest for innovations, it was created under of the Chamber of Commerce of Treviso in 1989 to promote the growth and development of a system able to support innovation through

Finally, TexTechMed, which has also been presented at the last Milan conference, successfully concluded last year a one-year project which focused on cooperation between actors involved in the production of technical textiles (high-added-value textiles used for protective wear, aeronautics or automotive industry, as previously detailed), receiving deservedly a fund for a new two-year training project. Having its founding members located in Belgium, France, Morocco and Tunisia, the TexTechMed consortium is then aimed at enlarging the technical textile industry in the Mediterranean countries through training and networking. In fact, launched in the framework of the Invest in Med program, it aims at developing an integrated Euro-med technical textile cluster, merging European demand with Med offer and representing a significant example of innovation and development in the region.

Thus, this chapter has tried to demonstrate that textiles and clothing production has a long tradition in the Med region. Since the mid-80s, the trade between the European Union and Mediterranean countries has been dominated in fact by textile products and garments. What is more, it can be assumed that the manufacture and the export of textiles and clothes represent not only an incentive to economic development, but also a potential element of political stability in the Southern countries. Certainly, geographical and cultural proximity to the European markets together with the low labor cost are supposed to be the principal assets of the Med region. Indeed, Med economies are capable of fulfilling European orders within one week, being much faster than their Asian competitors. The capacity to respond is therefore crucial in a sector where the rapidity in responding to European demand has become vital to meet retailers strategies towards consumers, as it will be further explained in the following chapter, through the definition of the Zara case study.

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the development of factors such as: the quality of work, the improvement of management skills, the diffusion of ICT and the intellectual property rights as the currency of the new millennium..

CHAPTER 5

FROM ZERO TO *ZARA*: FAST FASHION IN THE MEDITERRANEAN

The previous chapter has tried to demonstrate the long tradition belonging to the Med region in textiles and clothing production. As it has been detailed so far, trade flows between European countries and Mediterranean partners have been dominated in fact by textile products and garments since the mid-eighties. Certainly, the geographical and cultural proximity to the European markets together with the low labor costs are considered the principal assets for the Med region, having progressively permitted the establishment of this special affinity. In this respect, Med economies have demonstrated to be capable of fulfilling European orders within 10 days, being much faster than their Asian competitors. Their ability to respond has demonstrated therefore to be crucial in a sector where the rapidity in responding to European demand has become vital to meet retailers' strategies towards consumers.

Accordingly, being six countries out of the nine belonging to the Med agreements positioned in the textile sector, the region has positioned instead on tints and coloring, spinning activities and assemblies of ready-made garments for export, with the exception of local crafts. Not surprisingly, all major brands specialized in fast fashion and short series, from the Spanish *Zara* and *Mango* to the Italian *Benetton*, have located their production facilities in the South basin of the Mediterranean, while their design activities have generally remained in the North. This is why, after having analyzed so far the importance of the textile sector in the Mediterranean countries, this last chapter will be entirely dedicated to the Spanish giant *Inditex S.A.* (Industrias de Diseño Textil, Sociedad Anónima), owner of the probably most renowned brand *Zara,* which has proven to be a model worthy of study in the fast fashion field over the past twenty years, by approaching to the market with a medium product range for short series.

1. *ZARA*: HOW DID IT MANAGE TO BECOME A FASHION GIANT?

1.1 A brief overview on *Zara* environment: the Galician textile industry

If in the Eighties some pioneer European companies have attempted to relocate part of their production in Asian territories to take advantage of the lower costs of labor and production processes, in these same years, the Spanish giant *Zara* decided instead to remain firmly rooted in the local territory, taking advantage of the local skills and potentialities in order to grow. This trend may seem contradictory to what has been so far the core of this study. However, it will permit to understand why the Spanish company has decided to relocate its production only at a later time, thus exploiting the potential of neighboring countries, such as Portugal and Morocco, as well confining part of its production even in distant Asian territories.

In order to understand the mechanisms that led the company to assume such global dimensions, it will be necessary therefore to trace a brief history of what has been the past of the company, also reflecting on the local environment in which it was born.

In Galicia, the Spanish region in which the head office of *Zara* is located, innovative territories are associated with patterns of production decentralization, which are accompanied by processes of local development, supported by entrepreneurial businesses emerging from the surrounding environment. The textile and clothing industry represents some of these territories, having experienced remarkable expansion in recent decades.

Nowadays, textile industry in Galicia refers to a number of companies that have achieved some popularity in the world of "fashion". These are complemented by the presence of a large number of unsigned workshops and cooperatives, helping them to complete the production process and differentiating from them not only because of their size, but also their business

strategy, as companies produce and sell under their own brand much of their production, while workshops develop outsourced tasks.

Traditionally this sector has been very important in Europe. However, it should be noted that all European countries have been suffering the effects of strong competition since the early 1990s, especially the one of the so-called emerging countries, implying significant job instability, especially for small subcontracted companies. The result is that since the early 1990s Europe witnessed a gradual decline in businesses and jobs.

However, the number of companies involved in textiles in Spain is very high, which means that behind the industry several small and medium enterprises still exist. This gives great flexibility of action in the sector, which is adapting continuously to the rapid changes in demand dictated by the fashion phenomenon, adjusting perfectly to the production decentralization to different locations.

Referring to the textile and clothing means to refer to a number of processes which are very different from each other, but closely interrelated, which aim at producing a range of different products directed toward people, home, or industrial uses. The result implies a range of internally varied activity that includes the spinning and weaving of fabrics, but also the clothing and knitwear production, which can be located in different areas, also within the same country. According to the employment in all the sub-sectors, it might be stated that a specialization in these activities can be noticed in different Spanish communities, from Catalonia and Valencia, to Castile-La Mancha and Galicia.

Galicia, a community without a strong tradition in the textile and clothing industry, has started to emerge in the sector thanks to the use of one of the most needed resources in the textile sector in the mid-eighties, namely the presence of a plenty female labor, concentrated especially in rural areas. This item has been strongly considered by many companies, who have adapted to the new restructuring of the productive activity by decentralizing their more expensive activities to rural areas, through the subcontracting of some tasks.

It is at this point that a number of companies began to acquire greater technological development and organization, and that Galicia starts to be connected to the slogan of *Galician fashion*, as a symbol of recognition of the prestige of its productions. The result of this process was reflected in the consolidation of an industry of great significance, mainly thanks to the presence of a number of companies that started to assume the brand image, but also thanks to the existence of an entire garment basic industry, whose activities were outsourced by companies with more important brands who concentrated a large number of activities through small workshops and cooperatives. Therefore, the Galician textile sector has converted today one of the most important economic sectors in the region. Led by the Inditex group, a decentralized and highly dynamic production system has progressively consolidated. While during the 90s Spain was losing over 100,000 jobs, over 11,000 new jobs were created in Galicia.

The Inditex group, which began expanding its sales outside the region through Barcelona, started to achieve its results thanks to the more than 700 companies based in Galicia, which accounted for more than 30,000 jobs, mostly female workers. Anyway, these companies did not all have the same characteristics. Some were trading companies, namely 36%. Others instead have always been working through cooperatives and workshops, which accounted for 64% of establishments. Certainly, they represent the key for the development of trading companies, which are then responsible for the expansion of the sector. Moreover, this network is based on different sizes of establishments, as, although there are companies with more than 100 employees, almost 90% of them do not exceed the 25, with the overall average of 16 workers per firm. Thus, it may be stated that small businesses represent the functioning of major business groups, such as Inditex.[162]

[162] INDITEX Annual Report, 2011, available at: http://www.inditex.com/en/shareholders_and_investors/investor_relations/annual_reports

Finally, it is necessary to mention the importance of the territorial distribution. This aspect refers precisely to the more typical process leading the Galician textile, which is the territorial and local development of small inland cities in Galicia. In this region, companies are not concentrated in one area, but they are spread throughout the territory, connecting urban structures to rural areas. Large cities (A Coruña, Ferrol, Vigo, Santiago and Ourense) usually attract the entire process of marketing and distribution sector, while in the majority of suburban municipalities the location of textile companies is linked to the lack of affordable land in central cities, so that many companies have located in nearby areas, as in the case of Arteixo for Inditex, where a female workforce was available to work for the most expensive factory activity. Thus the presence of small workshops and cooperatives is very common in many rural areas in Galicia, which of are used by trading companies, both to raise their productive fabric through outsourcing, as in the case of Inditex, and to solve their problems of lack of production capacity in the periods of higher demand, as in the case of prestigious firms.

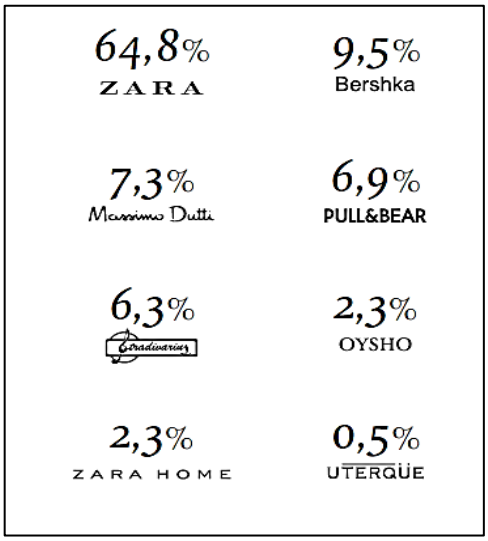
In any case, this system has developed a network of relationships characterizing one of the most important social and economic events in Galicia during the last. Undoubtedly, the most significant case is represented by the entrepreneurial conglomerate Inditex, arisen from the expansion of the *Zara* phenomenon.

It is certain that the Inditex group appears in a prominent place among the other companies belonging to the Galician garment industry, having become one of the most important companies in the global arena, with an international presence in over 82 countries with 5.887 stores and a total turnover of 13.793 million euros in 2011, representing then an industry benchmark.[163] The outsourcing of part of its production process to small workshops and cooperatives employing mostly female workforce, in order to lower business costs, is may be the key of its undisputed success.

[163] *Ibidem*, p.281

Moreover, it should be noticed that at a later time, given the potential of the company and the increasing competitiveness, the transfer of this model to the surrounding countries, namely Portugal, Morocco and Turkey, where labor costs are still lower, could not miss , representing an additional functional strategy for the company.

According to the internal policies of the group, the investment in advertising is very low, only reduced to a billboard during the sales season or in occasion of the opening of a new store. For Inditex, the windows of their stores and their location in the main shopping streets are the best way to open markets. Moreover, the whole group relies on its best known commercial format, *Zara*, which represents the 64,5%[164] of the whole turnover of the company, to launch others. Inditex has thus eight commercial formats, Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and the new Uterqüe, each aimed at a different target audience, allowing the company to cover much of the market demand. Certainly, its flagship is Zara, which includes Lefties and Kiddy's Class.



Sales contribution for each commercial format
Source: Inditex Annual Report 2011

[164] *Ibidem*, p.25

When planning the openings of new stores, the assumptions underlying Inditex projects are related to the business environment of the supposed country, so that patterns affecting the investment may be catalogued as follows:

- Geographical proximity of the destination country;
- Cultural differences between the destination/origin country;
- Law and incentives of the destination country (cf. Chapter 3);
- Market size and growth prospects.

1.2 *Zara* establishment and expansion

The activity of this significant example of business growth begins with the opening in 1975 of the first *Zara* store in La Coruña. Since then a giant corporation has consolidated internationally through its stores chain in just over 25 years.

The basics of this dynamic management lie in the ability of its maximum leader and owner, Amancio Ortega Gaona. The founder and principal shareholder of Inditex[165] remained the chairman until early 2002[166], when it was still possible to see him going to work every day and having his lunch in the company canteen with employees. Moreover, Ortega led a very secluded life, although it was known that he was born in 1936, his father was a railway man and his mother a housewife, and that he started working at 13 years of age as a messenger boy for a manufacturer of shirts in La Coruña. Growing in this

[165] http://www.inditex.com/en/who_we_are/board_members

[166] Since 2002, the chairman and CEO of the company is Pablo Isla Álvarez de Tejera, while the deputy chairman is José Arnau Sierra. On the other hand, Mr. Ortega has become an ordinary member since then. Notably, before entering into Inditex, Pablo Isla was Chairman of the Altadis Group (cf. Chapter 3), which is today the largest producer of mass-market and premium cigarettes, tobacco and cigars in the world. It is interesting to notice that this company has permitted Spain to become one of the greatest investor in Morocco between 2003 and 2006, before being completely acquired in 2008 by the British Imperial Tobacco and being delisted from the Bolsa de Madrid.

company, he started realizing that clothes costs were added unnecessarily in the way between manufacturers and retailers. In 1963, he founded the Apparel Goa company (reversed acronym of his initials) which was specialized in the production of coats and bathrobes. Finally, his search was more and more based on the improvement of the manufacturing-retail interface, leading him to integrate all stages of the vertical chain, from manufacturing to retail, so as to control them. Thus, the first *Zara* store opened in 1975 in La Coruña, in Calle Juan Flórez, the best shopping street in the city. Since its beginning, *Zara* was positioned according to its customers as a shop which sold "medium-quality fashion clothing at affordable prices". In the late seventies, there were half a dozen *Zara* stores in the Galician cities.

According to the majority of Spanish economists, the growth of the company has depended on the initial strategy of this particular entrepreneur: marketing low-cost products imitating the latest trends in terms of fashion, and completing vertically the entire production process from design to retail, while reducing production costs by outsourcing to local modest cooperatives and workshops those stages of intensive labor, which were therefore less profitable for the parent company.

Certainly, its expansion, especially in its initial stages, should be contextualized in the sociocultural environment from which it arose. La Coruña has always been a reference city to large rural areas of high population density nearby. Anyway, the non-agricultural job offers were practically non-existent, creating a huge pool of unemployed female workforce, or at least underemployed in agriculture and domestic work, eager to earn a salary, albeit reduced, in order to supplement family income or achieve a certain financial independence in the closest environment.

Amancio Ortega realized this situation and understood that trying to integrate this female group within an industrial production process, without moving at first from its places of origin, can bring direct benefits to those

organizations able to create production systems supported by a local relocation of the most intensive labor phases. Thus, the integration of rural female labor has been achieved thanks to the implementation of a system of local cooperatives and workshops already existing in the region, which started to depend on production orders from *Zara*.

Certainly, the importance of cooperatives revealed to be crucial in the early 1980s, since there was not the possibility to relocate production in other areas yet. In fact, Eastern Europe was still closed by the Iron Curtain, while Spain had not yet entered the EU, determining more difficult contacts with Portugal. At the same time, distribution systems had not the current levels of efficiency, while the Multi Fibre Arrangement, signed in 1974, prevented the possibility to relocate both in the Maghreb and in Turkey for example.

On the other hand, an increased demand was challenging the markets. Thus, the network existing among cooperatives and workshops could guarantee a low cost production with low investment, in a period of great market expansion, derived from an increase in income, stimulating the competitiveness of the *Zara* products. Therefore, while in the 1990s the role of cooperatives and workshops was reduced by the growing competition from other production areas, it cannot be denied that their role was crucial in the initial rise of the activity.

Moreover, in the 1990s the expansion of Inditex increased significantly thanks to the acquisition of new brands and commercial formats, aimed at diversifying the offer and directing the production towards different market niches. What is more, the company also increased the quality of products, together with the final sale prices, while it also began to relocate the most banal phases of the production process in other countries, such as Portugal or, in recent years, the North African countries, Eastern Europe and Southeast Asia, in order to reduce costs. In the same period, the company also consolidated its comprehensive system of production-distribution-marketing, which has always been characterized by the speed with which the group can respond to changing

trends in demand and supply the network points distributed worldwide, with an almost futuristic distribution logistics.

Undoubtedly, the great innovation of the Inditex group has settled firstly in the ability to manage a "just in time" production system within a local rural area. Secondly, the innovative commercial strategy aimed at offering a relatively cheap product integrating the most cutting-edge concepts related to fashion and design has enabled the company to become one of the most attractive trends to the potential audience.

Thus, this system has generated a production model in which the accumulation of knowledge together with the “copy” effect has served as a trigger for the promotion of new production units, through strategies and sector dynamics depending on the nature of the business leaders.

Thus, according to the information provided via survey or interview by the staff working in the administrative offices in Madrid, two conclusions might be drawn. Firstly, Zara employees are aware that the executives found their work on a great desire to excel and on a strong interest in improving the competitiveness of the company, as a strong bond between them, the founder and the company itself still exist. Secondly, the company is based on the perception that a better quality of the garment implies a progressive increase of the final price of the product and, therefore, increased economic returns for the whole enterprise. Finally, the production orientation towards market segments with a certain quality requirement, together with the reduced production costs, means that the company has presented a dynamic and spectacular growth since its outset.

Thus, the evolution of its industrial dynamics is associated with these stances, which has been based then on both local and external production relocation processes in recent decades. Certainly, the corporate structure of its suppliers is not always homogeneous, since mid-size and more modest companies alternate with enterprises with higher levels of turnover, which usually achieve several million euros.

1.3 *Zara* business system

At present, the first step in the creation of a garment is based on the computer design. Over the design model, a prototype craft is created through the collaboration between the designer and the seamstress, which is tested then on a dummy. If the pattern passes the test, it is extended to different sizes. Since then, the manufacturing process starts. *Zara* designers create approximately 18,000 references every year, but only between 30% and 40% finally come to the store. The company has a team of 300 designers, working in Arteixo (La Coruña), who continue to track the preferences of customers by, among other things, direct daily talks with store managers.

Basing on information about potential sales, the designers send repeatedly new design patterns to internal or external providers belonging to different clusters. The production is carried out in small batches, ruled by a consumer information system based on detailed statistical analysis on the product life cycle, while both internal and external production flow to different distribution centers at a later time.

The final products are shipped directly from the distribution centers to the most attractive and well-placed stores twice weekly, allowing to eliminate the need of large warehouses and maintain stocktaking at a low level. Accordingly, *Zara* is able to create thanks to this system a design pattern and to have finished goods in stores within four or five weeks in the case of all-new patterns, and in two weeks when existing products are just modified or reinstated. By contrast, in the traditional supply model the production cycles could take up to six months for the design and up to three months for the manufacturing.

The short cycle has managed to reduce the capital intensity and facilitated the continuous manufacture of new goods, even during biannual sales, allowing *Zara* to commit Zara the bulk of its product line for a season much later than its key competitors. The resulting flexibility has enabled the company to follow the fashion trends when the season has already started, instead of betting on them

before its beginning. The constant innovation of products intends so to replace the advertising costs and reduce the amount of commodity that should be sold at discounted prices, yielding relatively high and stable margins.

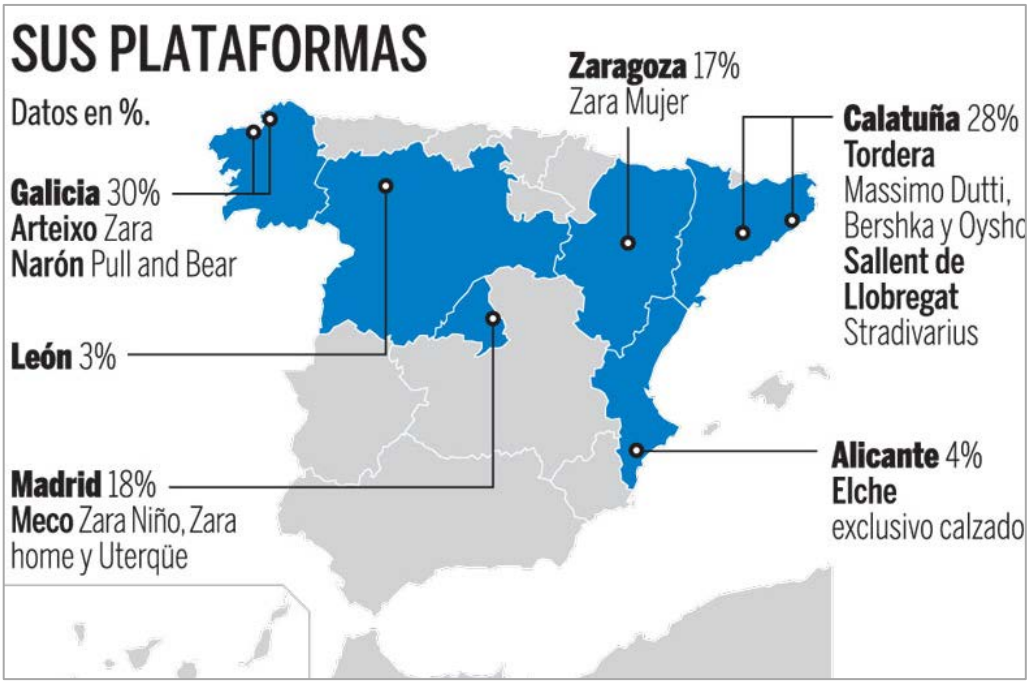
Thanks to the last logistics stage, Inditex may have its products on sale anywhere in the world within 48 hours. For example, one of the *Zara* logistics platforms lies in Arteixo, basing on an area of 500,000 square meters.[167] Like all Inditex formats, *Zara* has long had its own centralized distribution system, which consisted on the only facilities in Arteixo. All goods coming from its suppliers, both internal and external, had to pass through this distribution center, which operated on a double shift basis. The movement of goods within the distribution center was automated. In fact, when orders were sent from stores computers (twice a week during regular periods, and three times a week during the sales season), they were checked in the distribution center and only if a certain item was scarce, allocation decisions were made on the basis of historical sales levels and other considerations.

Once the ordered was accepted, shipments were made twice a week to each store through external delivery services; twice a week they were made towards a part of the store network, while on two other different days, towards the remaining part. Approximately 75% of goods from *Zara*, according to their weight, were sent by road, through an external delivery service working primarily with the company, to stores in Spain, Portugal, France, Belgium, the UK and some regions of Germany . The remaining 25% was sent mainly by air, with KLM and DHL, from the Santiago de Compostela and Porto (Portugal) airports. Products used to arrive within 24-36 hours to the stores located in Europe, and 24-48 hours to extra-European stores.

In spite of the excellent functioning of the center, the potential for the business growth led the company to adopt a second and a third distribution center, located in Zaragoza and Meco (Madrid), whose building began in the summer of 2003. Currently, in Galicia, is performed 50% of the distribution of

[167] http://zaralogistica.wordpress.com/tag/cadena-de-suministros-inditex/

female and male *Zara* collections, serving the Spanish peninsula, USA and the Middle East. The rest of the planet is served from Zaragoza and Meco, focusing on the distribution of *Zara home* collections .



Inditex platforms in Spain and related distribution rates for each commercial format

2. *ZARA*: MADE IN MED

2.1 An economic overview on the Mediterranean relocation choice

Thus, it has mainly been referred so far to the internal location choices of the company, which led to its anchorage to the surrounding area, entrusting the production to local suppliers. So, how is it possible to explain the phenomenon of relocation that prompted the company to move part of its production to countries such as Morocco, rather than Portugal or Turkey? And to what extent is it possible to explain the relocation in faraway Asia?

In this regard, it is certainly worth remembering that if in the 80s companies are still rather anchored local production, during the 90s, the extension of tools for restructuring the value chain facilitated the internationalization of operations in search of lower production costs. Finally, the spread of applications supported on the Web further intensified the formation of large networks of suppliers and distributors who achieved real-time coordination and global cooperation.

Given this parenthesis, it is then possible to observe how in Figure 2, representing a "low cost" global supply chain, the response time is greater than the one implied in a regional supply chain (Figure 1). However, the possibility of splitting the value chain and outsourcing certain production stages, or rather the whole productive phases, is the result of a competitive pressure on costs stemming from the globalization process and the new opportunities opened by the improvement of technology.[168]

Then, the aim of *Zara*, as far as its relocation choices is concerned, has been to combine and balance the need to reduce production costs with the need to contain the costs of coordination derived from the increasing demand for flexibility, arising from the requirements of increasingly demanding customers in terms of customization and response times. Thus, the solution provided by

[168] MÁRTINEZ-SERNA, A., SARTAL, A., VÁZQUEZ, X.H., *Post-war dry cleaning and organizational innovation at Inditex: a contractual perspective of lean supply chain management,* 2012, Universia Business Review, Vigo University, p.38-39

Inditex aimed at balancing costs for manufacturing and coordination, through an organizational innovation resulting from the reconfiguration of an apparently obsolete old idea.

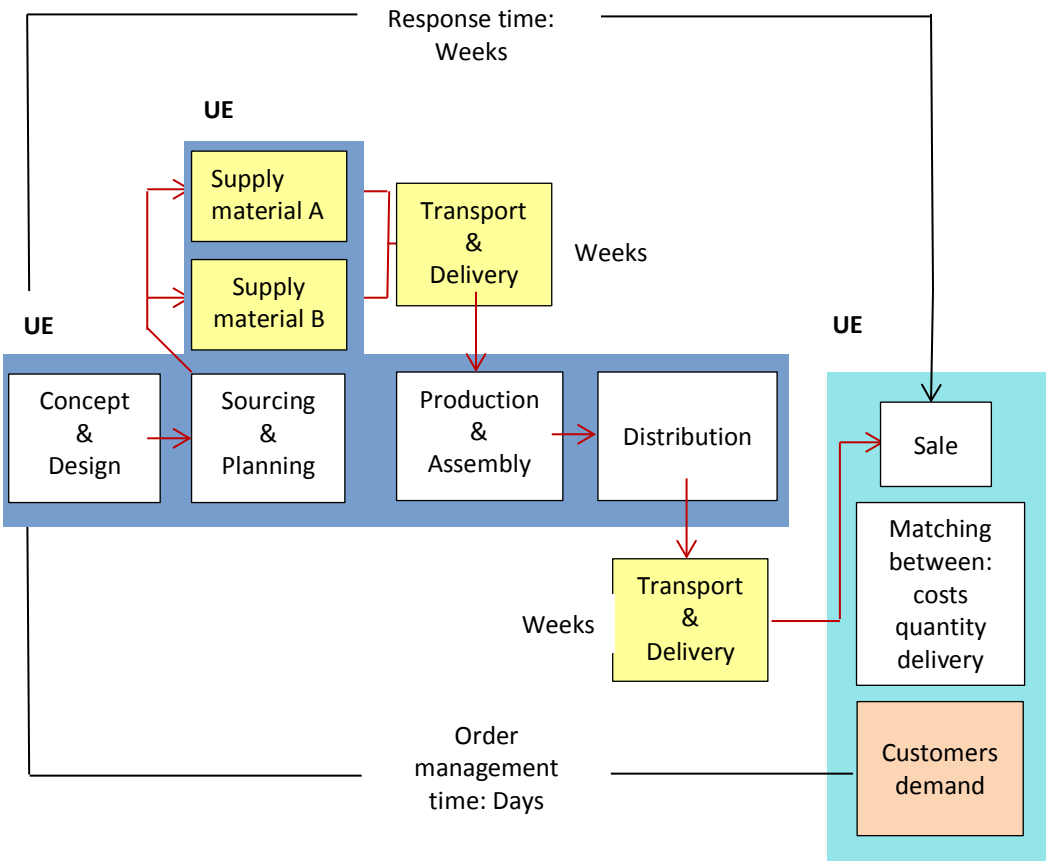


Figure 1: Regional supply chain,Own elaboration from Vigo University studY

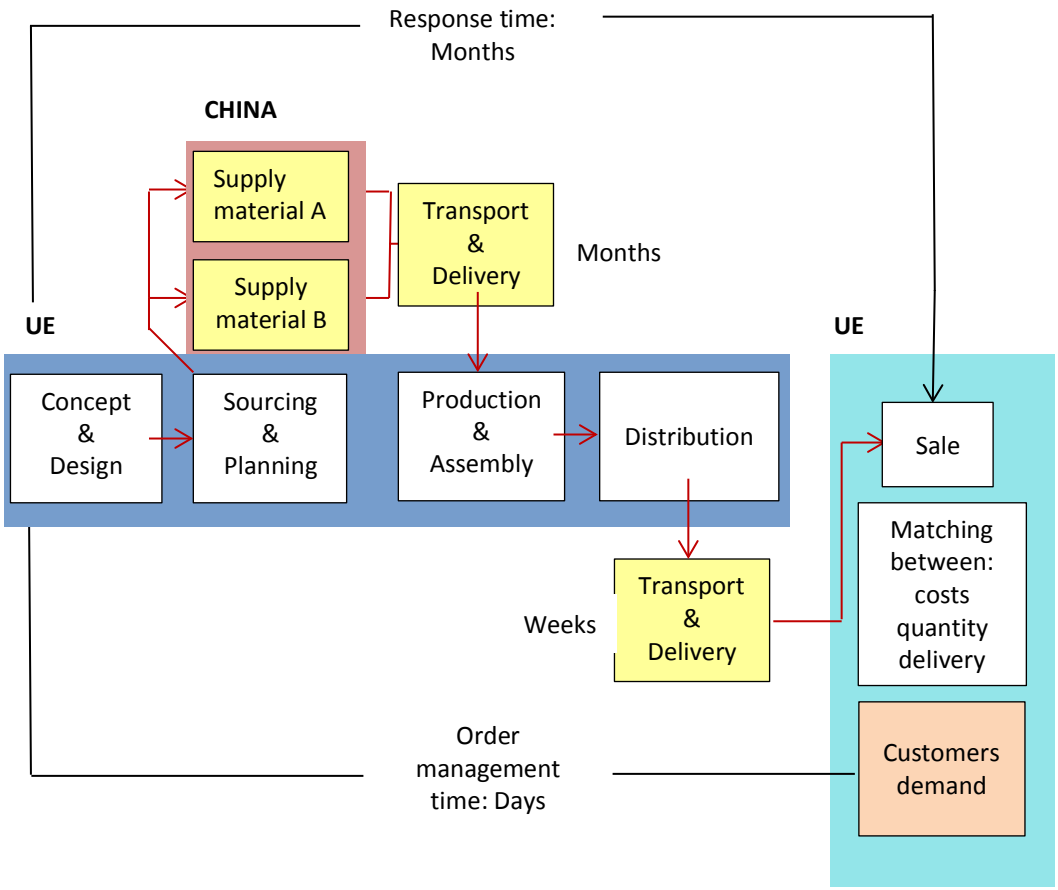


Figure 2: "Low cost" global supply chain, Own elaboration from Vigo University study

Generally speaking, production costs are reduced when specialization increase due to economies of scale and knowledge transfer effects. This is the main cause that justifies the spread of relocation processes since the Eighties. Now, it can note be denied that, along with the development of relocation and reduction of production costs, coordination costs have increased: first, because of the technical difficulties inherent in the cooperation network in real time, and second, because companies often have their own objectives which may be promptly inconsistent or partially incoherent. Thus, in technologically dynamic environments or where customer requirements change frequently and without possibility of anticipation in terms of new specifications, terms, amounts, etc.

coordination costs earn even much more importance in the definition of the value chain and at the location of activities.[169]

Which are then the most important sources of coordination costs? Perhaps, the problem of coordination can vary according to different issues, such as the demand forecasts, the lead time, the batch ordering, the fluctuations in prices and the promotions, or the shortage gaming to changing expectations, such as the fear of a breakdown of stocks.

Anyway, everyone is at the origin of the excess of inventory and the inefficient utilization of installed capacity, increasing operating costs and generating chain dysfunctions between products demand and supply, which ultimately undermine the level of customer service.

Most of the solutions thought to solve such problems lead inevitably to coordination costs, which try to answer the need for organization consisting in the definition of the conditions (quantity, quality, time, place, etc.) according which are demanded and offered various products, components and raw materials along the supply chain.[170] This information will allow the company to adjust its own internal and external logistics, maximizing efficiency by adjusting its supplies and reallocating resources, using different methodologies of production planning or various forecasting models.

Although the cure of some of the causes may stimulate the intensification of some other sources of problems, all these approaches enable the company to forecast and quantify risk, reacting through a reorganization of its flows. The solution to the problem depends therefore on a previous exercise, namely the attempt to overcome the exclusive concern for the simple minimization of production costs, using the stimulus of a global business vision that transcends departmental objectives, focusing on the possible tradeoffs between specialization and flexibility.

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[169] *Ibidem*, p.40
[170] *Ibidem*, p.42

Thus, this general parenthesis has been detailed in order to better explain a more concrete example, namely the business experience of the Inditex group, so as to illustrate how its problems, generated by shifting coordination operations abroad are solved, and how its possible consequences in terms of cost reduction, lead time and innovation capacity are drawn.

Thus, in order to achieve this aim, a study by the Vigo University has been used. Based on two semi-structured interviews with purchasing and laundry staff in the company plants in La Coruña, the study has been suggested by the administrative staff working in Madrid offices, although its authors has been required an implied agreement of confidentiality on specific numbers and details since its beginning. Following this approach, it should be useful to start remembering that, in contrast to other competitors and to the *contract manufacturing* trend used in other sectors, as it has already been suggested, Inditex has internalized many of the added-value processes involved in the manufacturing of its clothes. Certainly, this business model has involved significant coordinating difficulties in the departments of design, production and distribution, especially considering that the group brands does not produce fashion seasonally, as many competitors, but stocks its stores with new models continuously.[171]

[171] Ibidem, p.43-44

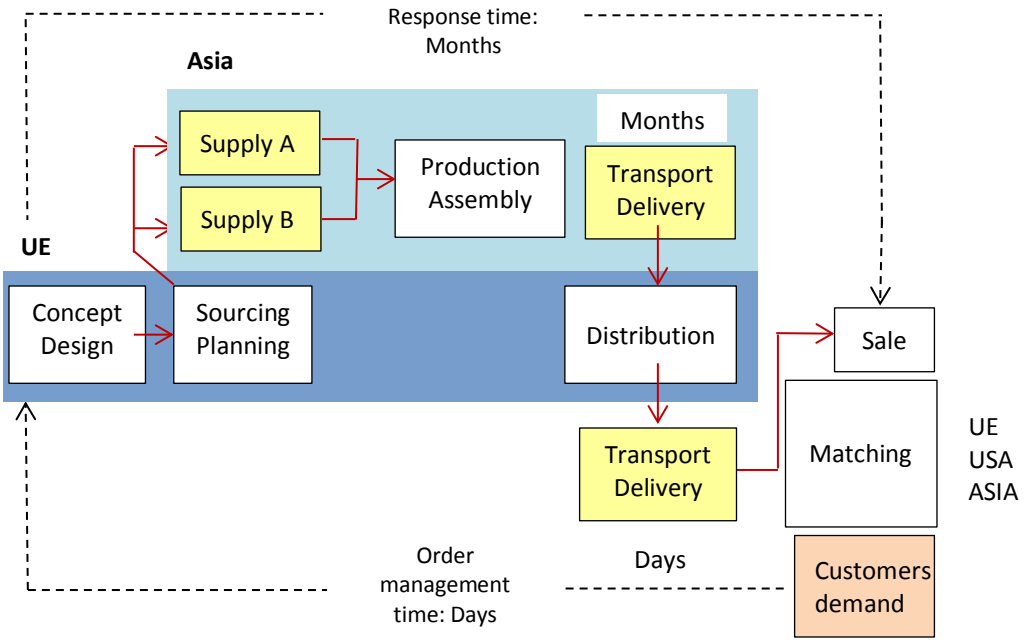

Figure3: Inditex challenge in the Asian outsourcing: reducing response times

Thus, Inditex could be perceived at first as a vertical company in which production and distribution have been joined with the industry, providing since the outset a rapid response to changing market preferences. In fact, as it has already been mentioned, in the early Eighties, the company core had already internalized perfectly a culture based on the Just in Time philosophy, through a unique vertical integration of the design, production and distribution processes. So, in the late Eighties, with the company expanding in France, Portugal and the U.S., strong bottlenecks occurred in the supply chain of the company, which could only be resolved by incorporating robots and making more flexible various phases of production. This is why, later, in 1991, the group incorporated the manufacturing principles of the Toyota Production System – today included within the so-called "Lean Manufacturing" – to promote job rotation, multi-functionality, coordination, creativity, team spirit, continuous learning, and other principles based on the coordination of time, space, machinery and workers. In

this years, the turnover of the group rose from 462 million euros in 1990 to 793 in just two years.[172]

Therefore, having its market fully internationalized in Europe and in the U.S., and beginning its expansion in Asia, one of the most important problems that Inditex had to face consisted in the development and improvement of its distribution center, especially having been included into the catalog of the biggest fashion brands thanks to its new concept based on the development of customized products. Thus, Inditex had to cope with a major challenge: being able to develop a broader catalog responding to consumer desires at any time. So, as to solve the gap caused by the rapid changes in fashion and the limited responsiveness of the industrial infrastructure, the group decided to take inspiration from post-war Spanish dry cleanings popular during the Forties.

The color black, usually associated with mourning, was predominant among the Spanish garments of the Forties and Fifties. The scarcity and the high costs of domestic production in an autarky context made difficult the access to new clothes. Therefore, those who could not afford new clothes used to tint their old clothes, obtaining a "new product" in a very short period of time and at a low cost.

Inditex saw this home anecdote as an important lesson: the company should stop thinking that is the last that is produced is new, in order to assume that what is really new is what adapts quickly to customer demands. Thus, the group designed a production system of customized commodity, differentiating two separate times in two separate sub-processes: the basic product manufacturing and the customized product development, which could be carried out in parallel through the coordinated efforts of autonomous teams (Figures 4.a and 4.b).

[172] *Ibidem*, p.45

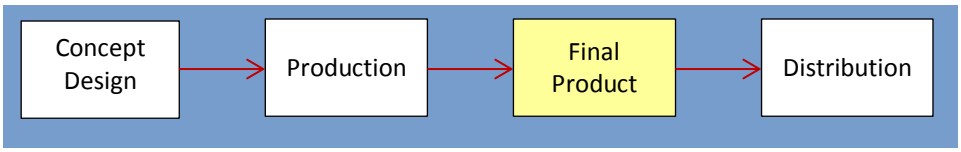

Figure 4.a: Conventional supply chain

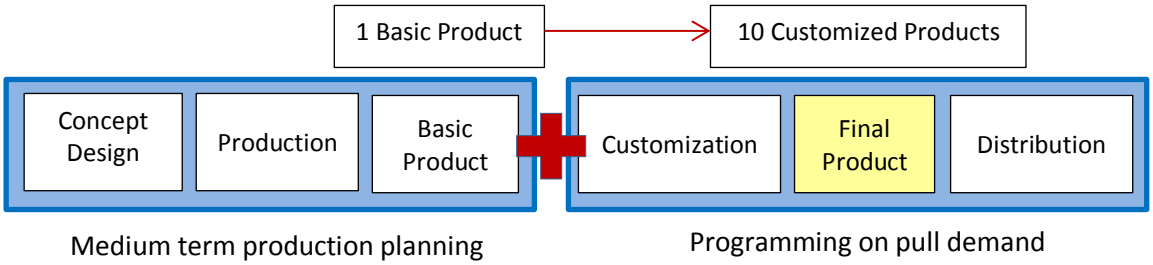

Figure 4.b: Inditex supply chain

These new practices could be described more specifically as follows:

- 1st Stage: Basic Product Manufacturing

  This is the process in which a basic product is made, always responding to the same type and pattern, leveraging economies of scale and reducing waiting times. This strategy pursues shorten times and deadlines. Even before receiving consumers' information, the basic product can be manufactured, since the company will later customize it depending on current market trends. The basic product does not need to be manufactured by the company itself, since it has no commercial value. By contrast, its production can be optimized by entrusting to low-cost suppliers its production in large volumes. These suppliers can be represented by Asian countries although a good part of basic products, however, is produced in countries still

closer, such as Morocco or Turkey, where the higher production costs compared to the ones of Asian competitors are offset by the reduced transport costs and the possibility of a faster delivery time.

- 2nd Stage: Product Customization Development

This case represents instead the design process of product customization, starting from the basic product being manufactured on the spot. Different aesthetic modifications are planned thus on the basic product (ink, patches, washes, laser application, buttons and zippers incorporating, etc.). Certainly, they are realized part in Spain and Portugal, but they can also be worked in Morocco, where the production has a lower cost than the local Spanish production, the skills of the workforce are most successful compared to Asian labor, the proximity with distribution centers in Spain can be exploited. With this new supply chain organization, response times to market are significantly reduced and the stores can be provisioned more rapidly with products fully adapted to current trends. Moreover, this strategy gives the production chain a greater flexibility, having more available time and a certain remaining amount of semi-processed product. The importance of this new supply chain is not deep-rooted only in the paradigm shift as far as the value chain of brands like Zara is concerned, but in the fact that Inditex managed to reverse a situation which seemed impossible not so long ago. In fact, it passed from a supply chain with a monthly responsiveness (conventional supply chain) to one in which the company was able to respond to market demands in few days.Thus, countries as Morocco seem to be the perfect choice for a giant like Inditex, as low production costs are fully matched with short supply times.

Therefore, Inditex has benefited from lower production costs for the production of basic products, but also has managed to reduce coordination costs connected to a greater need of product customization and to reduce the lead time. In particular, the group has been able to improve key aspects in its processes:

1. **Design:** Today Inditex design has greater influence on the consumer being the first to feature new trends. In turn, this relationship with the consumer even allows exercising some influence on industry standards.
2. **Control:** The capacity of real-time monitoring has been enhanced within the entire supply chain through a computerized system for real-time tracking.
3. **Production:** it has been expanded the catalog (from each basic product, about 15 customized products are obtained) without causing tension in the production chain, being able to reduce the stock of identical products (highly valued aspect in the fashion industry) and increasing economies of scale by using a series of basic products and accessories.
4. **Financing:** the liquidity and the firm charges have been reduced since the company charges the product with more advance being the deadlines shortened, thus improving its ability to make new investments and reducing the cost of financing.
5. **Marketing:** Inditex has further positioned as the forefront in the textile sector, being the one and only company who has built an important part of the integrated sections of the value chain. In contrast to what is suggested by the conventional discipline on corporation strategy, this integrated approach has led to the improvement of the economies of scale, reducing costs and responding more quickly to new fashion patterns.

The decisions related to the optimal level of outsourcing in the supply chain have emerged being primarily connected to the need of manufacturing at low developing countries costs, which are not necessarily the ones provided by Asian countries, but also the ones offered by much closer countries, such as Morocco and Turkey. However, recent developments in the market, dictated by frequently changing preferences and increasing demands of customization, have revealed the fragility of those companies whose outsourcing has not considered the coordination costs needed to regulate external suppliers, especially the ones settled in very remote locations.

Therefore, the supply chain should be considered from a global and systemic perspective, rethinking the main core business activities, namely here the ones located in Spain. Thus, it should be necessary to overtake the exclusive concern for the simple minimization of production costs, focusing on the possible tradeoffs, existing between specialization and flexibility. These tradeoffs should have to evaluate the advantages obtained by exploiting developing countries costs, preferably if nearby the company core, but also the costs associated with the coordination of various businesses working in real-time networks, both because there may be the need to solve techniques issues for quantitative and qualitative supply and demand balance, and because there can be unexpected events, deriving from possible competing interests of different businesses in a supply chain.

Therefore, countries like Morocco would represent the right compromise, since the adopted strategy has allowed Inditex to benefit from lower production costs, while reducing the lead time and coordination costs inherent in product customization.

Thus, to summarize, the manufacture of a basic product, always with the same characteristics, allows leveraging significant economies of scale and reducing the lead time. In parallel, the second stage of "personalization" considerably shortens response times and permits a greater innovation capacity in the company at a lower cost.

2.2 Inditex clusters: the Mediterranean Maquiladoras

For this reason, Inditex has developed the management of its production line from a cluster-based structure since 2006. Undoubtedly, it can be stated that this choice was due to the dismantling of the Multi Fibre Agreement. [173] According to the 2011 Inditex annual report, these clusters are supposed to working groups composed of suppliers, manufacturers, trade unions, business associations and international buyers, located in specific areas.

Inditex has selected its suppliers worldwide, having developed a large chain supply with a presence in over 40 countries. Certainly, an important part of them has been developed in areas of proximity to the headquarters of each one of its chains (where design and logistics teams are located) enabling a rapid and flexible response to market changes.

As Inditex production needs increase year by year, a strategic priority therefore within the Group is the necessity of ensuring the sustainability of its supply chain production, both through the "Code of Conduct for External Textile Manufacturers and Workshops", entered in force 2001, and the highest quality, health and production safety standards.[174]

Certainly, Inditex ensures for its part its commitment with the Code for every external supplier, having also at its disposal the Corporate Social Responsibility Department (CSR), which coordinates these tasks. Inditex has local CSR teams, also supported by external groups, located in India, Bangladesh,

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[173] The Multi Fibre Arrangement, expired on 1 January 2005, has governed the world trade in textiles and garments since 1974, imposing quotas on the amount developing countries could export to developed countries. Introduced in 1974, it was a short-term measure intended to allow developed countries to adjust their imports from the developing world, since they were naturally advantaged in textile and clothing production because of their intensive labor presence and their low labor costs. According to the World Bank and the International Monetary Fund studies, the system has cost very much to the developing world, which lost large amounts of exports. However, the Arrangement has not been negative for all developing countries.

[174] INDITEX Annual Report, p.55

Turkey, China, Morocco, Brazil, Portugal and Spain, working with the aim of offering and guaranteeing to customers that Inditex products have been produced with the utmost respect to fundamental labor standards and to the stricter requirements that are progressively incorporated into its normative.

Thus, their aim is to monitor and ensure the compliance with the labor conditions of workers in factories and with environmental matters. Aware that the compliance of labor and environmental issues is a matter which requires a continuous improvement in the textile industry, Inditex has the support of its key interest groups, among which there are mainly trade unions, NGOs, business associations, governments and members of the civil society engaged in dialogue platforms, clusters, Social Council and other tools that Inditex has developed to ensure their active participation in these activities.

Moreover, Inditex participation in 2011 to the *United Nations Global Compact Supply Chain Sustainability Advisory Group*, with the aim of sharing with companies from different sectors the best practices in the sustainable management of production lines, has enabled the Group to progress, sharing and applying sustainability best practices concerning suppliers worldwide.[175]

However, all that glitters is not always gold. In fact, according to some NGOs working in the field, acquiring an item of the clothing brands of the Inditex group which has been made in Morocco is endorsing a production system in which workers accumulate up to 65 hours a week behind a machine to earn a monthly salary of 178 euros.

The situation has been attested through the research study 'Spanish fashion in Tangier: work and survival of the garment workers'[176], prepared for the Clean Clothes Campaign of the Spanish Setem and the Galician Setem Amarante NGOs, which have analyzed the unstable conditions of life and work suffered from women workers in textile workshops in the city of Tangier. Inditex is not the only beneficiary of this situation, as most of major fashion Spanish companies have

[175] *Ibidem*, p.56-57

[176] SALES I CAMPOS, A., PIÑEÍRO ORGE, E., *La moda española en Tánger: trabajo y supervivencia de las obreras de la confección*, SETEM, CLEAN CLOTHES CAMPAIGN, 2012

their own factories or suppliers settled in Morocco. Not surprisingly, Spain is the largest customer of Moroccan clothing exports since 2006. With respect to Inditex, in 2007, 10% of its clothing brands products were made in Morocco.[177]

The abovementioned Inditex Code of Conduct, which sets out the minimum labor standards to be respected by all supplier factories, states that the maximum hours that workers can do throughout its supply chain are 48, with the possibility of sporadic hours of overtime, up to 12 hours.[178] However, the study, based on 118 surveys of the workers of the Moroccan association Attawassol, reveals that those realized to Inditex workers reflect that the group has sometimes violated the Code. In fact, in some cases the normal working day of 68% of the interviewed workers is between 45 and 54 hours, and 30% workers declared working more than the 55 hours per week which should be the regular basis. Thus, in this regard, the study reports that the reality seems to conflict with the text of the company Code.[179]

Moreover, the inquiry reveals that, in terms of wages, the Inditex Code of Conduct requires its suppliers to pay the minimum wage of the country. In addition, the international framework agreement that Inditex have signed with the main important sector trade union federation, the International Textile Garment and Leather Worker's Federation (ITGLWF) reflects the commitment to pay a salary that will cover the basic needs of working people and their families and other "reasonable" needs. However, 75% of the surveyed workers in the Galician company providers receive a compliance level which is "higher than the one provided by the companies that are not in the Inditex supply chain, although people sewing for the group are as precarious as the workers operating for other

[177] *Ibidem*, p.12
[178] INDITEX Annual Report, p.58-60
[179] SALES I CAMPOS, A., PIÑEÍRO ORGE, E., *La moda española en Tánger: trabajo y supervivencia de las obreras de la confección*, SETEM, CLEAN CLOTHES CAMPAIGN, 2012, p.22

employers. In addition, 40% of interviewed workers say they cannot meet their needs and those of their families or they do it with many difficulties.[180]

Finally, the research report reveals that the harsh conditions of the Moroccan garment workers, besides excessive working hours and low wages, imply sometimes verbal and physical abuse, arbitrary hiring and firing, disproportionate disciplinary measures and obstacles to trade union action.[181]

Thus, what clearly emerges from this study is that these large companies have in their hands the ability both to generate situations of labor exploitation, as to avoid them, through a more rigid adoption of codes of conduct and mandatory audits in workshops that many of them have assumed.

To conclude, it should be remembered that this study has been economically supported by the Spanish Agency for International Cooperation for Development (AECID – Agencia Española de Cooperación Internacional para el Desarrollo) under the direction of the Ministry of Foreign Affairs and Cooperation, although the contents of the document are the sole responsibility of SETEM and they do not reflect in any case the views of AECID.

Tangier woman working for Inditex

[180] *Ibidem*, p.46
[181] *Ibidem*, p.24

As far as Inditex clusters is concerned, it is possible to recognize 8 agglomerations of providers worldwide, namely India, Morocco, Turkey, Bangladesh, China, Brazil, Portugal and Spain of course.

Nowadays, the company counts a total amount of 104 suppliers in Morocco, which have to be added to 158 external workshops. Accordingly, manufacturers and external workshops producing for Inditex in Morocco have 48,088 workers. It is interesting to notice that compared to the previous year the number of workers has significantly increase, passing from 41,742 to 48,088 employees.

As far as other clusters is concerned, in India, the Galician company has 114 suppliers and 174 external workshops, with a total workforce of 51,602 people, while in Portugal, the company production bases on 147 suppliers, 291 workshops and 15,678 employees. Moreover, among Inditex clusters Turkey and Bangladesh are included. In the Turkish market, the company has 129 suppliers and 251 workshops, totaling 48,130 workers, while in Bangladesh providers are 84 suppliers and 150 external workshops. Bangladesh is the cluster with the most numerous highest number of workers: 223,540 employees. In addition, the group has established since last year a Brazilian cluster, which includes 69 suppliers and 232 external workshops, employing 10,975 workers.
Certainly, the world's largest corporation continues to find in Asia a good setting for production. Inditex for instance has 248 suppliers and 761 external manufacturing plants, employing 166,118 people. [182]

Therefore, Inditex can be perfectly considered an internationalized MNC, both from market and the production perspective, relocating even within the MENA region. However, with regard to the production it is not possible has to determine to what extent the company operates concretely through FDI and to what extent through external manufacturers. In fact, although the specific figures of suppliers and contract manufacturers are indicated in each Annual Report, since the company is based on clusters located in different areas of the

[182] Data on clusters from: INDITEX Annual Report, 2011, p.278

globe, it is not possible to determine which is the degree of *lasting interest* on them, that is to say the existence of a long-term relationship between the investor and the company, as well as a significant degree of influence on the management and the definition of business strategies. Accordingly, it is not possible to define the amount of Inditex FDI in the Mediterranean region.

However, according to data from fDI Markets, an online database which aims at tracking transnational greenfield investment in all sectors and countries worldwide, providing a real-time monitoring of investment projects and job creation, the Spanish group invested in 87 new projects in 2011, being the company that invested most of any other one in 2011. Not surprisingly, according to this monitoring, Inditex has been the most productive FDI investor in 2011, since it managed to position before the US banking corporation JPMorgan Chase & Co, with 82 realized projects, and the US corporation General Electric, which recorded instead 75 projects. Previously, Inditex has been able to position among the top three world investors also in 2010, finishing in the second place. However, Inditex implemented in 2011 the largest number of new businesses in Poland with 18 projects, followed by the 15 Romanian projects and the 8 ones recorded in Morocco. It is interesting to notice that the average value of each project was estimated to achieve above 5 million dollars. But, its most significant project in terms of capital expenditure has been carried out in New York, where the company invested 324 million dollars in a new *Zara* store.[183]

In terms of job creation, Inditex managed to create 10,094 new employments worldwide, although the primacy belongs to Toyota Motor Corporation, being the top FDI investor with 21,958 new jobs. The automotive giant has been followed by Volkswagen, Honda and General Motors in terms of job creation.[184]

[183] http://www.fdiintelligence.com/News/Inditex-top-company-for-FDI-projects-in-2011
[184] *Ibidem*

2.3 The Mediterranean business strategy

Accordingly to what has emerged so far, it may be stated that the short distance between Southern Mediterranean countries and the European continent has allowed restocking in record time which Asian competitors cannot beat, in spite of their lower product prices. Nevertheless, the growing competition of Indian and Chinese textiles and garments just as the dismantling of the Multi Fibre Agreement has progressively disrupted the key sector for local economies since the beginning of the new millennium. In fact, the new landscape has greatly challenged the positioning of Med countries, bringing about important changes in buyers supplying strategies, as clients began to prefer areas in which the whole value chain was directly available, thus including both cheaper raw material and clothing manufacturing. Consequently, it cannot be denied that the last decade has therefore been crucial for the Mediterranean textile industry, since it had to renovate itself in order to afford the management of the on-going changes: transition from sub-contracting to co-contracting, specialization of the production (Egyptian household linen, Moroccan hosiery and knitting, Tunisian denim, and Syrian T-shirts), updating and strengthening.

Anyway, although the North African countries are not intended to become the world factory, as already detailed in the previous chapter, they continue to currently provide a strong bid in order to compete with Asian countries, being an attractive location for companies looking to relocate nearby their activities to lower costs areas. Proximity has become in fact very affordable, since labor costs in China are increasing, as well as transport. Even though transport and logistics in the Maghreb region should be further developed, in order not to curtail competitiveness, it takes in fact under three days to transport products from the Maghreb countries to European destinations, while it can take one month to ship goods from China by sea.

This is why more and more enterprises are relocating parts of their production to the Maghreb countries so as to be more responsive to the needs

of European customers. Certainly, the Spanish fashion chain is not the one and only case among textile companies which have decided to relocate in these countries. For example, the Swedish *Hennes & Mauritz* (*H&M*) have also decided to establish its manufacturing in Morocco.

As Amancio Ortega, the founder of Inditex, loves to remember:

> "Flogging fashion is like selling fish. Fresh fish, like a freshly cut jacket in the latest color, sells quickly and at a high price. Yesterday's catch must be discounted and may not sell at all." [185]

Based on rapidity, the Inditex model goes like this. While many fashion companies have their garments made in China, the Spanish group by contrast has always sourced the majority of its clothes from Spain and Portugal, while more recently it has relocated part of its production in Morocco. Certainly, as already mentioned, producing in China, although manufacturing and transport prices are increasing, is cheaper, but managing a global supply chain is a hard task. In fact, by the time a ship carrying clothes has sailed halfway around the world, fashionable hemlines may have completely changed and then its cargo may not be popular any longer.

Certainly, producing nearby the core centers costs more, but it allows the company to react more quickly to new trends, since the supply chain is shorter. Thus Zara can afford to wait, to see what customers are actually intended to buy and then to produce it, rather than betting on the most fashionable tomorrow outfit. So, while many companies remain hindered by unwanted stock, Zara can sell at full prices during most of the year what customers want.

This is why, the group is studying the possibility of progressively return to its origins, or at least in part. In fact, the company is planning to transfer part of its Asian production to Spain and Morocco. The objective is to increase the rate of

[185] The words of Amancio Ortega are reported in the print edition of the article "*Inditex, Fashion forward. Zara, Spain's most successful brand, is trying to go global*" (March 2012). The online version is available at: http://www.economist.com/node/21551063

proximity and reduce even more distribution costs, since they are burdening on the textile group, according to different industry sources.

Since the company believes that it is no longer profitable to produce in Asia, mainly in China, Inditex has decided to increase the rate of suppliers located close to the stores, as this prerogative has always been one of the key business of the Galician textile group. Today, in fact over half of its production is performed through proximity providers.

This implies that the territory continues to have a great importance in business strategies. Spain and Morocco have become two key countries for the company, to such an extent that the North African country is one of the main clusters of the company. In 2011, it counts in fact a total of 262 companies working for Inditex, compared to the 256 of the previous.

As far as Spain is concerned, textile trade union sources indicate that since the company has begun to relocate its production in 2006, garment workshops are increasingly closing, also because they have been soon imposed to produce for lower prices. However, the theory of the proximity benefits is something that has not gone unnoticed in many Galician municipalities that were strongly touched by offshoring production. For example, in the municipality of Ordes (La Coruña), the local PSOE (Socialist Spanish Party) has invited the Galician Parliament to take up an initiative which aimed at creating a cooperative network of sewing workshops, in order to exploit savings generated to large companies manufacturing again in a local environment.

At this time, given the enormous difficulties of the work situation in Spain, people just want to work and differences with Asia are not as huge as in the recent past. It is not possible to know exactly what will happen to the production, but certainly if Inditex decided to start to produce again in the Spanish market, it would be a positive incentive towards the Spanish economy.

Meanwhile, in Asia, Inditex has recently been attacked by several Chinese NGOs, which accused that several manufacturers, including several providers of the Galician group, have failed to comply with environmental regulations. The

problems in the Asian giant have been continuous. Moreover, if this obstacle is coupled with the fall of Indian suppliers, it appears clearly that the group is planning to improve the quality of its suppliers.

On the other hand, regarding Morocco again, the Spanish group has launched in 2009 an ambitious project in order to increase its production capacity in the country, from 60 to 100 million pieces in the medium term, as stated in a note from the Spanish Institute of Foreign Trade (ICEX- Instituto de Comercio Exterior). This plan has represented a challenge not only in terms of marketing and production, but also in terms of logistics, developed by the Iberian group with the support of its traditional logistics ally, *San José López* (SJL).[186]

From the production perspective, the company has aimed at taking advantage from Moroccan quality and speed reference. It should be noticed that much of this additional capacity has been developed by the region of Tangier, supposed to be a real hub for Inditex in Morocco. In fact, it is just in Tangier, thanks also to the Tangier Med platform, where it has moved its headquarters.

From there, the company is able to provide technical monitoring functions, but also social controls from the textile factories that produce the products of its flagship brand Zara. The Spanish group provides two types of orders to Moroccan companies: the classical subcontracting orders and orders for finished products, especially jeans articles on Casablanca. On the other hand, it manufactures in Tangier a little more than half of its Moroccan production. Approximately one hundred, namely more than one company out of two of the total of companies that make up the region in the textile and clothing, work for the Spanish group, generating between 60 and 70% of their turnover with the Spanish company. About 30,000 people are employed by Inditex in the area of Tangier, representing 50% of the total employees of the factories in the area. Mainly, they make female clothing, while ready-to-wear garments for men is indeed made in other cities, including Casablanca.

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http://www.icex.es/icex/cda/controller/pageICEX/0,6558,5518394_5596418_6366453_4490478_192_-1_p5712609,00.html

Certainly, the choice of Morocco is not fortuitous, being the second production platform for Inditex only behind China. In fact, the company relies on the proximity of the Maghreb country to Europe to supply its logistics chain which supplies its stores in turn. So, with more than 100 million items ordered to the Moroccan industry in 2011, the Spanish group has clearly positioned as the first payer industry for Moroccan garments. According to an estimate of textile industry professionals, the average price of each piece is between 3.5 and 4 euros, giving a total volume of orders over 350 million euros, or about 4 billion Moroccan dirhams.

Thus, the presence of Inditex in Morocco dates back 2006, but especially since 2009 the group has decided to strengthen its presence. Since the end of 2009, the Spanish business executives have conducted several rounds of tough negotiations and contacts, including the Ministry of Commerce and Industry to obtain the support for their Moroccan strategy. These contacts have allowed the company to negotiate with the Moroccan customs a privileged transit corridor to the port of Tangier Med to gain competitiveness in logistics. In particular, the abovementioned project has always specified that to be implemented the duration of the transportation should have not exceeded 24 hours, including both road and maritime transit.

On the supply market, Inditex, however, faces competition in the country from its main important rivals, also coming from Spain, including *Mango* and Indyco, a subsidiary of *El Corte Inglés*, which has opened an office in Tangier in March 2011. Nevertheless, the competition has not been to offend local providers who have seen increase by contrary the potential sales.

However, the enthusiasm that had preceded and accompanied the first steps of Inditex relocation in Morocco between 2006 and 2009 began to partly fade give way to raw frustrations just because of the growing competition. After negotiating with Amith (Association Marocaine des Industries du Textile et de l'Habillement) an agreement on its general policy in Morocco, Inditex regularly returns to prompt its subcontractors to push prices down. Anyway, some

clothing manufacturers are beginning to complain about the trading systematic strategy which imposes to decline the prices of garments delivered by Moroccan factories, thus thinking to use their machines for other textile products such as linen. Anyway, for other producers this type of incessant negotiations is part of the trading game. Finally, still other manufactures are satisfied just with working with proximity outsourcers depending on other providers in the same geographical area.

At the international level, but first in the Chinese and Mexican markets, Inditex brands had to face since the beginning of the year 2011 the competition of the Compidunt group, under its brand *Shana*, a former supplier of the Galician group. Thus, in order to cope with this growing competitor, accompanied by a slight hemorrhage of its executives, Inditex launched in March 2011 a retention and motivation program for its key personnel, which should also help stop the slight decline in sales of 1.6% on the Spanish market since the beginning of 2011, after a previous decrease in sales of 0.6% registered in 2010.[187]

[187] http://www.lavieeco.com/news/economie/inditex-100-millions-de-pieces-fabriquees-au-maroc-en-2010-19245.html

CONCLUSIONS

In times of economic and financial crisis, is it possible to consider the Mediterranean area as the new frontier for a global renaissance? This is how this study had started, posing the basis for a significant challenge which has been faced throughout these chapters.

In the light of the proposed insights, what emerged is that the Mediterranean can be progressively converted into an important pool of opportunities on all fronts, namely both for small and medium European businesses, as well as for large transnational corporations, all facilitated, if not encouraged, by the institutional progress that has been achieved in terms of economic cooperation in the wake of the Euro-Med Partnership.

On the one hand, in fact, it has been considered the importance of an institutional and legislative framework that has been implemented since the Barcelona Conference in 1995, providing besides cultural and political objectives sustainable economic development in the Mediterranean region, with the aim of establishing a free trade area in the medium term, so as bringing benefits to both sides. On the other, the eye has remained constant on internationalization processes and relocation advantages, related consequently to the new International Division of Labor derived precisely from the globalization phenomenon. In this context, it has been necessary then to analyze the specific role of MNCs, which have seized in an innovative manner the opportunities resulting from globalization in order to establish themselves worldwide, employing different delocalization processes.

Thus, how has it been possible to conciliate these two partially different study fields? Certainly, what has allowed to develop this thesis has been their shared common ground, as relocation processes in the Mediterranean area would not have been possible without the definition of an institutional

framework ensuring a more stable environment and providing a greater cooperation between the two rims.

In fact, although the global economy is by no means as highly integrated as the most robust national economy, the trend has revealed an intensified integration within and across regions. Thus, it is precisely the Mediterranean regional dimension, fostered by institutional agreements, one of the horizons in which Southern European companies have decided to relocate their production, so as to improve not only their profits, but also to improve local workforce skills, creating new jobs and transmitting know-how for a joined growth. So, a glimmer of greater cooperation and complementary growth is still perceptible, or at least desirable, through a careful attention towards the analysis of scenarios and understanding of an area in which the "doing business" is still synonymous with the "doing politics". This is why, the political support coming from European institutions has been and is still necessary to implement business.

Thus, at the light of these considerations, it has been possible to affirm that the Mediterranean area is potentially quite well equipped with most of the expectations provided by relocation theories, that are financial attractiveness, people skills availability and business environment, which are supposed to be the most important aspects when delocalizing in a foreign country.

Certainly, it cannot be denied that the current economic and financial crisis has contributed to slow European enthusiasm to invest in the area, leading to a negative lowering in recent years. Nevertheless, this is an area that continues to be relevant in terms of trade relations and direct investment. With a potential of almost 500 million consumers by 2015[188], the Euro-Mediterranean market is in fact a real considerable possibility for Europe to withstand the increasing competition coming from other large emerging markets, as particularly China and India. Moreover, while relocation to other attractive countries belonging to Eastern Europe, as Bulgaria or Romania, is tightly connected to European economies, being these countries now orbiting completely around the EU,

[188] World Bank data from Confcommercio at http://www.confcommercio.it/home/rapporto-Euro-Med.pdf

relocation and trade opportunities in the Mediterranean are not so directly dependent on the European economy, maintaining a greater autonomy.

Accordingly, it cannot be ignored that the development potential of Southern countries is enormous, as long as they proceed quickly towards a more real integration with the European markets – obviously without the need of being fully incorporated in the European Union – and a progressive modernization of local economies. In this regard, significant progress has certainly been made towards the attempt of creating a Euro-Mediterranean Free Trade Area. In fact, although to date this objective has not yet been completed in terms of both scope and geographical coverage, it should permit to achieve substantial progress in terms of trade flows.

Nevertheless, what is certain is that Euro-Mediterranean trade relations are nowadays healthy and growing, since trade growth in the area has been progressively strengthened by the Euro-Mediterranean partnership. To date, the amount of trade relations is already significant, having recorded in 2011 about 290 billion euros in the EU total trade with the Southern Mediterranean countries (approximately 8.5% of total EU external trade)[189]. Thus, the European Union has positioned as the first trade partner for Southern Mediterranean countries, representing its largest market for exports and its first source of imports. Certainly, although EU-Med trade registered a significant contraction in account of the impact of the global crisis (-20% compared to 2008[190]), it has been interesting to note that since the mid-1990s EU exports to the Med countries have increased at an annual average of 8 percent, marking a rise in export value of about 250 percent between 1995 and 2011. In this sense, Turkey, Morocco, Jordan and Algeria have recorded the largest average annual growth rates, although the West Bank and the Gaza Strip have reached the peak from a low level. On the other hand, from the Med perspective, EU imports from the Mediterranean have grown with an annual average rise of more than 10 percent

[189] http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/euromed
[190] http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146863.pdf

since 1999. Thus, the EU receives an amount of Med exports that has thus doubled over ten years, with imports increasing particularly from Turkey, Algeria and Morocco. Certainly, Med exports are dominated by fuels, followed by textiles and clothing, and machinery and transport equipment.

Thus, these assumptions have permitted to trace a brief overview on trade relations between the two sides of the basin. However, it has also been inevitable to remember the role of useful facilities which concretely belong to the Euro-Mediterranean area, allowing enterprises to rely on new markets and strengthen FDI flows in the region in order to compete with the growing interest for the partner countries coming from different areas of the globe.

Not surprisingly, given the potential of the area, the European Commission has been working to implement even more the links existing between the two rims, having provided different tools belonging to the ANIMA Investment Network project to foster economic cooperation. Thus, they have been intended to promote Mediterranean territories, supporting a new sectorial and industrial environment, encouraging partnership and exchange of good practices among enterprises of both rims, facilitating networking and access to local markets. Certainly, their results seem to be very positive to date, since, according to the Invest in Med platform, more than 500 finance professionals, 1,200 economic development actors, and 5,000 SMEs have been involved in the program, while the Mediterranean Investment Project Observatory (MIPO) has detected approximately 5,000 FDI flows and nearly 1,500 partnership projects among joint ventures, franchises, technological cooperation, commercial representative offices and stores since 2003. [191]

Undoubtedly, these shared instruments have demonstrated to be extremely important, since they have allowed mobilizing economic initiatives centered on Mediterranean promising niches. In fact, they have increasingly supported European entrepreneurs in their relocation choices, establishing which methods

[191] ANIMA Invest Network, *Together for a competitive Mediterranean,* Presentation note 2011 (http://www.animaweb.org/uploads/File/Ain_note%20Presentation%20EN_16-06-11.pdf)

and strategies are the most suitable for each of their purposes. Not by chance, these projects have permitted to strengthen not only the promotion of a more entrepreneurial local culture so to put into practice the Barcelona process aims, but they have implemented particularly the faith of European entrepreneurs in the Mediterranean partners, so to promote SMEs and also TNCs establishment in North Africa and Middle East. Certainly, it has emerged that this is one of the widest priority for EU policies, since the Mediterranean challenge is vital for Europe itself, also considering the increasing Chinese competition in the area.

Thus, a great opportunity that the EU cannot afford to lose, being the Mediterranean one of the most potential consuming area in the developing world. Foreign enterprises have identified this opportunity and the region has recently faced unprecedented investments, as the FDI inward flow increased even six times between 2000 and 2006. The Mediterranean area has started in fact to be strongly attractive in last decades, having opened countless economic and trade opportunities, especially for Southern European countries, which could play a determining role of hinge due to their geographical location. Nevertheless, so as it has happened all over the world, the European debt crisis together with the political transitions which have recently overwhelmed several MED countries have resulted in a decrease in announcements of FDI and partnership projects in the southern shore. The fall in the number of announced projects in 2011 has substantially characterized all Arab countries. Thus, in 2011 the number of FDI announcements decreased in Tunisia and in Egypt, while the sharpest drops were registered in Libya and Syria and, similarly, Jordan and Lebanon lost half of their investment announcements. However, Algeria and Morocco revealed to be two singular exceptions within the area, as the 2011 FDI situation proved to be similar to that of 2010, while Turkey and Israel proved to be the first FDI recipients in 2011 in the whole MED region.

Certainly, what has clearly emerged is that the overall dynamic of investment in the region obviously depends not only on the global economic conditions, but also on the political situation and the legislative framework characterizing each

country. Anyway it is interesting to notice that 2011 World Bank forecasts indicated that FDI flows towards MED countries, in spite of their decrease in 2012, will probably start to recover in 2013. What is more, the investigation has also supposed that in the medium and long term the region nevertheless remains attractive thanks to several economic and demographic factors.

Anyway, it has also emerged that it is not simple to consider the area as a unique block, since its complexity does not permit to evaluate its potentiality as if it were a single state. However, generally speaking, it might be stated that the role of investment frameworks and policies, determined by FDI regulatory mechanisms and laws adopted for each country, has revealed to be crucial for every country belonging to the region.

In fact, except for Algerian policy, which has proved to have in the past the most ambivalent position in terms of FDI, the whole region has increasingly opened to foreign investors, providing very attractive FDI regulatory systems. Mediterranean authorities in fact strongly believe that it is necessary to position foreign investment at the heart of their development strategy, to finance infrastructure development, to enhance their industrial and technological capabilities, so as to earn then foreign exchange, and to boost their international trade flows. Generally, foreign investors are thus entitled to receive certain benefits in the whole area, being encouraged by a protective and incentive regulatory framework, often under the non-discrimination principle, which varies from one country to another. A wide range of incentives and guarantees aimed thus at favoring foreign investment enterprises and at permitting foreign investors to enjoy significant tax cuts, especially in the determined free zones.

However, despite being an extremely attractive zone, several critical issues have been sometimes identified all over the area. Complex tax system, excessive bureaucracy, lack of protection of intellectual property rights, slow and inefficient judicial system, widespread shadow economy seem to be the most common obstacles that cannot be neutral for foreign investors. Nevertheless, the area is working to offer more and more further incentives in order to encourage

FDI and foreign investors. Particularly, some appealing factors may be found in the progressive simplification of customs procedures, the profitable taxation regime, the labor market and the low-cost workforce, and most importantly the improvement of the business environment in integrated industrial zones.

Thus, the past uncertainty due to domestic instability seems to have been partially overcome. Certainly, this factor has never affected the consolidated presence of large companies operating in the hydrocarbons and electricity sectors, or in the public works and civil engineering. On the contrary, this problem was experienced by smaller newcomers, which are anyway proving to be more interested in an area which had intimidated until recently.

Moreover, at the lights of these insights, it has been possible to define also in which niches and sectors investment can be actually relevant and appropriate, in order to outline a sort of guide for those companies that wish to undertake relocation choices. But, what has actually emerged in this regard?

The remarks presented so far on the issue have clearly illustrated the challenges facing the region. In fact, on the one hand, it can be assumed that the Mediterranean countries remain a low-cost production destination, compared to many European countries, and as such they attract a significant number of industrial activities largely needing human or energy resources. Thus, the area is still competitive, especially for Southern-European companies wishing to relocate productive activities nearby in order to take advantage of the benefits derived from relatively low labor costs and to save on transportation costs and times, as in the case of Zara, or to redeploy activities with high energy needs or requiring a competitive and often specialized workforce. This is particularly the case of Algeria or Syria, which are able to attract numerous highly energy-intensive metallurgical and chemical industries thanks to their own production of hydrocarbons. At the same time, mining activities are increasing progressively in Jordan, Israel or the Palestinian territories, while chemistry sector is rapidly growing in countries with local raw materials, such as Jordan and Morocco.

However, in spite of being a competitive destination, the Mediterranean might not be intended to become the world factory, especially if compared to other areas of the globe, such as the Southeast Asia. Not by chance, the declining of birth rates, the advancement of education initiatives especially for illiterate people, and the increasing number of young graduates may suggest the movement of economic convergence towards which the two Mediterranean shores are tending. Accordingly, providing activities with high added value might be a quite better alternative for the region, rather than insisting on reducing factor costs

In this regard, it is almost sure that some value chains are anchoring in the whole Mediterranean area, allowing the region to assume a relevant and apparent positioning relatively to other regions of the world thanks to a certain number of appealing sectors. Thus, some growing sectors have permitted to build de facto a global positioning on a significant number of value chains, such as textiles, tourism, agri-business, ICTs, and other new growth sectors such as healthcare and logistics. Anyway, it is certain that the priority assigned to each leading sector logically stems from the identity and the location of each country.

Accordingly, it is evident that the region continues to offer different interesting opportunities and to appear as a quite attractive zone, although many chances still remain regrettably untapped. Certainly, the consideration of the textile sector has permitted to understand that there are many possibilities to be seized in the area just in this sector. Zara for example has been able to seize some of them by renewing its supply chain and planning to transfer part of its Asian production to Morocco, which is one of its main clusters, in order to increase then the rate of proximity and reduce distribution costs.

Proximity has become in fact very affordable, since labor costs in China are increasing, as well as transport. Producing nearby the core centers costs more, but it has allowed the company to react more quickly to new trends, since the supply chain is shorter. In this respect, Med economies have demonstrated to be capable of fulfilling European orders within 10 days, being much faster than their

Asian competitors. Therefore, their ability to respond quickly has demonstrated to be crucial in the textile sector, where the rapidity in responding to European demand has become vital to meet retailers' strategies towards consumers.

Thus Zara has found in Morocco the perfect location for its business strategy. Anyway, without the institutional support provided by the Euro-Med Partnership framework, its settlement in the area would have been more difficult, as its relocation processes in the Mediterranean area would not have been possible without the definition of a more attractive environment ensuring a more stable political and economic background and providing a greater cooperation between the two rims.

Accordingly, it can be stated that some encouraging signs seem to come from these countries, although they are quite different realities, where liberalization and reforms alternate with illiberal and often authoritarian turnings. In fact, in spite of the existence of several opportunities in different sectors, the political instability of the area seems to be one of the main obstacles to relocation. Thus, only in the next few years it may be possible to see the fruits of the operations underway, which are still hampered in part by internal reactionary forces, rather strongly entrenched and hostile to Western economic penetration. Moreover, it would be illusory to underestimate the existence of differences that are still opposing to foreign business activities in the area. Differences that emerge primarily in negotiating and commercial contexts, where language barriers and social misunderstandings arise mostly, often derived from historical ignorance of those who go to these areas to do business.

Starting from here, then, from the Mediterranean countries, should be possible. Starting from those countries that might represent a possible hidden solution – but not too much – in a period of economic world weakness.

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