

Dossier: Europe and the Mediterranean

Rethinking Europe's Comparative Advantage in the Mediterranean

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The notion that the EU is no longer the only game in town in its wider neighbourhood has become commonplace. Periodical debates about Europe's geopolitical competitiveness in its southern flank have largely circled around the questions about whether Europe can compete with Gulf money, Chinese investment, or Russian arms. What has not received sufficient attention, by contrast, is the question about what comparative advantage the EU has or may develop that those other players lack.

The debate about Europe's geopolitical competitiveness transcends technocratic questions on the effectiveness of aid conditionality. Instead, European competitiveness will need to be placed in a more holistic framework of international projection, assessed against the broader background of an international environment in transition. This environment is characterized by the empowerment of non-Western states, non-state actors, and individual citizens. It is also shaped by a wider competition in terms of power, money, commerce, diplomacy, and influence both between and within polities. The crisis of the international liberal order and the crisis of domestic liberal politics condition and nurture each other, forming a twin crisis of liberalism. As the global diplomatic marketplace transforms, the EU must adapt its products and marketing strategy.

In the Mediterranean, such adaptations have mostly focused on repackaging old approaches amidst doubts as to whether conditional foreign policy still

works in a region where partnership with the EU used to be the only offer. However, beyond current funding schemes and partnership frameworks, we need to zoom out and ask: what is the EU's appeal and comparative advantage in the emerging geopolitical dynamics shaping the Mediterranean, and how can it be translated into concrete cooperation offers?

Transformation, Not Decline

John Ikenberry has succinctly explained how the liberal international order, built and led by the United States and its allies since the end of World War II, is going through a phase in which the diversification of global power centres leads not to American decline, but to a dynamic process in which the catching up of some states leads to a shift in the global distribution of political and economic power. What is widely perceived as a threat to the liberal international order itself, Ikenberry sustained, is merely a demand for adaptation as "the world is not rejecting openness and markets; it is asking for a more expansive notion of stability and economic security."¹ In the face of the enormous success of the liberal international order in bringing about unprecedented levels of peace and prosperity, the challenges it faces today are consequences of this success as other states do not question the order in itself but demand a greater say in how this order is governed. More recently, it has become clear how the need to integrate rising powers and adapt ways of collective problem-solving pushes the traditional guardians of the liberal international order towards an agenda of renewal. Crucially, Ikenberry sustains: "The coming divide in world politics will not be between the Unit-

¹ IKENBERRY, G. John: "The Future of the Liberal World Order," *Foreign Affairs*, May/June 2011.

ed States (and the West) and the non-Western rising states. Rather, the struggle will be between those who want to renew and expand today's system of multilateral governance arrangements and those who want to move to a less cooperative order built on spheres of influence. These fault lines do not map onto geography, nor do they split the West and the non-West."²

For Europe and its role on the global stage – and by extension, its role in the Mediterranean –, this transformation of the international environment has several implications. Firstly, like the US, Europe is not in decline, but its global weight is relativized as it contrasts with an increasing array of emerging centres of power. Europe's basic strengths are still there, and still in demand, but need to be adapted to a more dynamic diplomatic marketplace.

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Secondly, the fact that the old guardians of the liberal international order can no longer dictate the rules means the beginning of a long, much more diverse and dynamic negotiating process over how global and regional rules of interaction will be designed. In Europe's east, Russia is the main challenger of a Western-minded status quo. In the Mediterranean, the challenge to the old status quo comes from a much wider array of governments, as well as from non-governmental forces, ranging from peaceful popular protest movements to violent spoilers – all of whom demand their say in shaping the rules of interaction. In this environment, for the EU to insist on rigid frameworks that were born out of past geopolitical realities, or to

² Ibid.

³ SONS, Sebastian and WIESE, Inken. *The Engagement of Arab Gulf States in Egypt and Tunisia Since 2011*, Deutsche Gesellschaft für Auswärtige Politik (DGAP), October 2015. <https://dgap.org/en/article/getFullPDF/27232>

replace them with new but equally rigid ones, would be unwise and inefficient. More likely, the regional expression of this larger shift will also slowly devise its new set of rules in a long and dynamic process of negotiation.

Thirdly, if the fault lines in the EU's neighbourhood are not merely between the EU and non-Western powers, but between reformers and status quo forces within societies, European foreign policy towards its neighbourhood will take place as much within Europe as it will abroad. The domestic dimension of Europe's foreign policy decisions, including interests, constraints and public diplomacy, will need to be routinely factored in when weighing up options in the Mediterranean.

Against this broader background, a look at past EU policy principles in the Mediterranean is needed to assess how they might be adapted.

Shifting Leverage, Shifting Mindsets

The debate over Europe's diminishing leverage in its southern vicinity has often been linked to the question about how politically feasible, and morally desirable, it is to tie aid and other leverage assets to domestic political and economic reforms. In this context, three main arguments have routinely been employed in favour of abandoning conditionality in European foreign policy: the loss of leverage in the face of new competition, the patronizing undertone that conditionality brings to a partnership, and the policy's poor success rates in bringing about systemic reforms.

Academic debates have produced a number of studies quantifying and measuring leverage. The sudden interest and role of the Gulf states in North Africa following the 2011 uprisings and its impact on Western leverage has received particular attention. A recent DGAP study details how EU aid, despite some nuance regarding Gulf disbursements, pales in comparison to GCC states' aid and investment in post-2011 Egypt and Tunisia. It also shows how Gulf aid is not only not coordinated with European donors but, as in the case of Egypt's return to military rule, often stands in direct opposition to the objectives of EU policy in the region.³

Beyond the competition argument, it has also been argued that aid conditionality, as the brainchild of past geopolitical realities, is no longer in line with the more balanced and careful modalities of interaction required in a multipolar world order. European aid conditionality was embedded in the historical parenthesis of two decades following the end of the Cold War, an era of Western dominance in which the EU was the junior partner. Punitive aid conditionality was largely out of fashion by the mid-2000s, and the impact of sanctions has been subject to fierce academic and policy debates. While positive conditionality found more lasting support, the impact potential of monetary incentives also lost much of its appeal with the 2011 Arab uprisings. Explicit conditionality was hence toned down in the 2013 ENP review, and largely abandoned in the 2016 EU Global Strategy. A consensus in the EU policy community today sustains that while conditionality can be an important tool to press for very specific outcomes (such as in the case of grave human rights violations), in many places the EU today does not have the leverage to press conditions, and even where it does, it is not necessarily desirable to maintain this style of institutionalized asymmetric cooperation.

Last but not least, the success rates of enticing political reform via conditionality have been pretty low. While it is rarely possible to establish a direct connection between aid levels and a specific reform measure, the impact of conditional aid (or lack thereof) is more visible over longer periods of time. Assessments of the EU's eastern enlargement – routinely hailed as the showcase of successful positive conditionality – “concluded that incentives played a secondary role and were linked mostly to second-phase governance reforms, not the big, overarching choices in favour of democracy.”⁴ In the southern Mediterranean, long before the Arab Spring gave the death knell to the EU's nominal transformative agenda, it had become clear that EU democratic conditionality had largely failed. Prior to the 2011 uprisings, civil society observers routinely criticized how Arab authoritarian governments were able to dupe donors by implementing only cosmetic reforms which failed to disperse effective power. Even before Gulf money flooded the Mediterranean, doubts ran high that the development aid provided by Euro-

pean governments provided sufficient incentive for entrenched elites to have anything other than a marginal impact on political reforms. Although with laudable intentions, EU policies had nowhere accompanied any significant democratic breakthrough. Instead they had implicitly sustained soft authoritarian rule by providing support to empty-shell democratization ultimately aimed at regime survival.

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An important lesson from a decade of the European Neighbourhood Policy (ENP), therefore, was precisely that quantum leaps in democratization cannot be bought, and where democracy and human rights are no political priority, no institutional bureaucratic mechanism will change that. No authoritarian regime in the Arab world has been reformed away by conditionality. Today, the only place where EU leverage might work is Tunisia, where there is a basic democratic acquis in place and the government has a real interest in bringing reforms forward. But in Tunisia, conditionality is mostly perceived as patronizing towards young democratic institutions that deserve respect not coercion.

Despite all reasonable doubts about institutionalized conditionality, however, it is also clear that any partnership aimed at legal and regulatory approximation can only be conditional on the necessary domestic reforms of the aspiring country. Countries cannot join the Common European Market if they have not adopted its rulework. Since the reforms in question are directly and logically linked to the incentive the partner country seeks to obtain, this kind of conditionality, far from being patronizing asym-

⁴ YOUNGS, Richard. “The End of Democratic Conditionality: Good Riddance?”, *FRIDE Working Paper*, September 2010.

metry, is a practical necessity, yet one with potentially game-changing domestic side effects. Nevertheless, the pertinent question for EU leverage today is much larger than conditionality: how can an holistic EU foreign policy leverage all of its assets in the relations it has with its partners in ways that best secure the whole range of its interests? Past approaches on aid conditionality presumed that aid would be made dependent on democratic performance, thus adopting a silo mentality with regard to democratic reform. But short-term policy challenges are so complex that it is not feasible to shape relations with third countries based on a single criterion or policy area. The challenge for policy makers hence is to devise a more holistic, widely-cast kind of leverage that spans all areas of external action. With this premise in mind, what are the main assets that build Europe's leverage?

Europe's Selling Points Abroad

In the face of the above arguments, it becomes clear that in a changing geopolitical environment in which cooperation cannot be taken for granted, it is time for the EU to think about other ways to remain attractive, and to use other tools to promote its interests in symmetrical and asymmetrical relationships alike. Other players do have both clear-cut selling points and an accompanying diplomacy campaign. China, for example, has a coherent geopolitical master plan. With its Belt and Road Initiative, it has drawn up a long-term plan for its own economic and political survival. It is attractive by inviting others to join it on the way up. What are the EU's selling points?

The often-invoked European brand value as the land of freedom and human rights may be weakened, yet still draws considerable admiration and yearning. For governments to cede to EU demands, however, something more tangible must be on offer.

By far Europe's biggest asset in relations with its southern neighbours is not development aid, but trade. It is, therefore, surprising that debates on EU conditionality have almost exclusively focused on aid allocations. The amounts that the EU and its

Member States dedicate to development cooperation with North Africa, however, are ridiculed by the potential impact integration into the EU's internal market could have on the economic and political development of these countries.

The EU is by far the most important trade partner for all southern neighbourhood countries, which send between 55 and 90 per cent of their total exports to the EU.⁵ At the same time, intra-regional trade in the southern Mediterranean is only a fraction (5.9% in exports, 5.1% in imports) of the countries' total trade, one of the lowest levels of regional economic integration in the world.⁶

All southern Mediterranean countries have a grossly unbalanced trade relationship with the EU, which only does between 0.6% (Tunisia) and 4% (Algeria) of its total trade with these countries. With the possible exception of hydrocarbon exporters Libya and Algeria, the EU does not need trade from the southern Mediterranean, while the economies of southern Mediterranean countries depend in large part on trade and investment with the EU-27. Whereas the strength of the world's biggest consumer market is the EU's greatest geopolitical asset, it is even more so for small developing economies in the immediate geographic proximity, which depend almost entirely on European trade and investment.

The EU's ongoing process of negotiating deep and comprehensive trade agreements (DCFTAs) with some of the countries in its southern neighbourhood plays precisely to the transformative potential of trade as the bloc's key asset. While DCFTAs began to be offered as of 2006 to its eastern neighbours, the offer was also extended to the South following the 2011 Arab uprisings. With the EU's proposal, which aims to gradually integrate initially Tunisia and Morocco into the EU's internal market on the basis of regulatory and legislative approximation, the adaptation of trade-relevant legislation would see Tunisian and Moroccan exporters automatically meeting EU standards and able to export to the EU market. EU legislation will moreover provide a blueprint for economic reforms that will help to generate a more stable and attractive investment climate. So, in addition to strengthening trade rela-

⁵ EU, *source*

⁶ EUROPEAN COMMISSION. "The Euro-Mediterranean Partnership," 2017 <http://ec.europa.eu/trade/policy/countries-and-regions/regions/euro-mediterranean-partnership/>

tions between the two shores, the DCFTA scheme will be instrumental in the modernization processes of North African economies.⁷

DCFTA negotiations with Tunisia are comparatively advanced and already provide some important preliminary lessons. Crucially, the EU offers progressive and asymmetrical liberalization, which will offer Tunisian companies immediate access to the EU market, while Tunisia will only need to open its market progressively. As attractive the carrot of access to the EU's internal market may be, DCFTA negotiations with Tunisia have been flanked by a highly critical public debate over the fear that the small country may be overrun by European companies and overwhelmed by the burden of EU laws and standards at a moment of political and economic fragility. The critical public opinion, while only partially based on facts, puts the Tunisian government in a difficult negotiating position as it will need to raise its demands and step up domestic public diplomacy in order to better communicate the risks and opportunities inherent to the DCFTA. In addition, as many of the fears are not entirely unfounded, the government needs to work hard, jointly with the EU, to ensure that appropriate capacity building and support is provided to Tunisian authorities and companies to cope with the burden.

But even the EU's greatest leverage asset – the internal market – is not always sufficient to incentivize reforms or secure a lasting alliance. The substantial legislative and administrative burden of the DCFTA offer has not been embraced everywhere with enthusiasm. For countries which can see a more autonomous and less cumbersome path of economic development as an alternative to economic integration with the EU, such as oil and gas producer Algeria, the incentive calculus of the DCFTA offer does not hold. An ambitious form of trade liberalization and economic integration such as the DCFTA is only feasible with smaller developing economies that do not have much to gain from setting their own standards and for whom the EU is the key trade partner, and who, therefore, have enough incentives to align with EU trade legislation, despite the considerable effort, burden and domestic resistance that such a comprehensive liberalization entails.⁸

In order to give southern neighbourhood countries access to the EU market, communication and public diplomacy to electorates on both shores of the Mediterranean must be stepped up considerably to make sure politicians have the necessary domestic backing to bring economic reforms underway.

Europe's Selling Points at Home

If the coming fault lines of the international order are running between reformers and status quo forces, not only between but also within polities, shifts in foreign policy are equally being negotiated at home. Therefore, a more balanced approach to Europe's immediate neighbours will not only require reviewing our selling points towards potential partners abroad, but also towards our own electorates. If domestic status quo powers are not to emerge as spoilers, a shift toward a more explicit focus on the needs and expectations of European electorates from international partnerships will be necessary.

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In the short term, European interest in the southern Mediterranean is focused on the containment of security spill over, in particular in terms of migration and militant extremism. This is fair as those challenges are real and correspond to demands from European publics. The 2011 Arab uprisings and their troubled aftermath have fundamentally changed the way European policy-makers and publics think about the Arab world. It taught Europe the lesson that democratic development in its immediate vicin-

⁷ VAN DER LOO, Guillaume and GHANMI, Elyes. "What kind of future for the EU-Tunisia DCFTA?", in: Emmanuel COHEN-HADRIA (ed.). *The EU-Tunisia Privileged Partnership: What Next?*, European Institute of the Mediterranean, April 2018.

⁸ Ibid.

ity is a matter of strategic European self-interest, perhaps even more than it is a normative goal. As foreign and domestic policy became indivisible, Arab democracy and development morphed from being someone else's problem to being Europe's, too. All of a sudden, stability in the southern Mediterranean became a decisive electoral factor in Europe. For the last decade now, policy-makers have been warned that a narrow focus on short-term, quick-security fixes will not solve but aggravate the security challenge coming from the South. Yet, breaking the vicious cycle of permanent crisis management in the current political environment will require a lot of political courage and leadership.

Beyond security, there is another dimension in which Europe has a more strategic interest in a real partnership with these countries. Undoubtedly, the prospect of democratic, stable and reliable regional partners as a potential asset and anchor for the EU in North Africa is of great strategic value. However it remains too theoretical and lofty a goal to muster the political courage and backing to lift EU-MENA relations to a new level. But as the EU is engaged in soul-searching on how to approach its periphery and on its role in the world more broadly, some of the closer southern Mediterranean partners could provide a convenient testing ground for decisive EU action in the neighbourhood. Tunisia seems like a particularly good place to start.

Tunisia: a Low-Hanging Fruit

Both Tunisia and Europe are undergoing a crossroads moment. Tunisia's slumping economy threatens to drag down the political transition, and in Europe, centrifugal forces within oblige the bloc to redefine what criteria should govern its relationship with close external partners. In this constellation, there is a window to forge a new model of how Europe's relations with neighbours of great political affinity could look like.

Tunisians seek different dimensions of closer alignment with the EU: ones that are both symbolic and practical. The first is about political symbolism and international branding. It also heralds the way in

which Tunisia sees itself developing, the kind of society it aspires to be, and whether its people see themselves more as part of the Arab world, the African continent, or the Mediterranean community of democracies. The practical alignment is about concrete elements of integration in the economic, political, social and cultural/people spheres: increased political and security cooperation, visa-free travel, more student exchange schemes, research cooperation, financial aid, technical cooperation, investment plans, youth employment projects, participation in EU agencies and programmes (defence, research, others), market access (be it via DCFTA or other free trade schemes), and so on. What could the overarching framework be for such arrangements?

For the EU, the democratic signalling-effect and the potential outlook of having a reliable democratic Arab partner to help broker regional deals alone will not release the political will in European capitals needed to commit to a grand, ambitious long-term vision with Tunisia beyond the margins of the neighbourhood framework. By contrast, one factor that could make a deeper alignment with Tunisia more attractive for the EU at this time of fundamental political soul-searching is Tunisia's potential as a testing ground for both a new kind of proactive-shaper of EU foreign policy, and a new formula for engaging close allies.

Tunisia is right not to want to be compared primarily to its authoritarian Arab neighbours. It is time for Europe to acknowledge Tunisia's special status beyond the Neighbourhood Policy. At the same time, the EU should seize the opportunity offered by the Tunisian demand for closer association to break new ground in the ways it engages with other democracies in its immediate vicinity.⁹

Conclusion

Despite everything, Europe still does have a lot of leverage in the southern Mediterranean. But it needs to project it in other ways. The EU cannot compete with others in terms of aid levels. But despite recent troubles, the EU remains a hugely successful politi-

⁹ See also CHERIF, Youssef and KAUSCH, Kristina. "Reluctant Pioneers: Towards a New Framework for EU-Tunisia Relations," in Emmanuel COHEN-HADRIA (ed) *The EU-Tunisia Privileged Partnership: What Next?*, European Institute of the Mediterranean, April 2018.

cal and economic project that our neighbours aspire to. It is no longer via aid conditionality but via a broader, holistic leveraging that the EU can play its substantial assets to its best advantage.

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Leveraging market access via trade integration and legislative approximation is a key element in this calculus. It is a model in prototype phase: if and how Tunisia's and Morocco's economies develop under a prospective DCFTA can leave an immense imprint on the whole region. Tying these countries politically and economically to the EU will likely strengthen their position in the region, too. From a regional geopolitical perspective, having a reliable, predictable partner that shares European values in the midst of the Arab world bears valuable potential. Morocco has already gone to great lengths to enhance its geopolitical profile over the past decade. While Tunisia is a geopolitical dwarf today, it is unlikely that it would remain so as a consolidated democracy. As a small country with no meaningful geopolitical assets of its own, a democratic, prosperous Tunisia is

likely to seek a higher diplomatic profile by means of a key comparative advantage: the only Arab country to enjoy the trust of Europe and the US at the eye level of a democratic peer.

The tricky bit are relations with those countries that do not depend on the EU, either economically or politically. To the South or the East, relations with authoritarian petro-states imply an entirely different political calculus. It has always been misguided to pretend that Algeria could be attracted by the same bait as Tunisia or Morocco. But as the age of fossil fuels reaches its peak and social contracts in petro-states erode, the Algerian and Libyan game may simply be a longer shot. Egypt and Jordan, while not petro states, are geopolitically important, and are therefore provided a range of economic and political choices from a wider array of heavyweight partners, including from the Gulf, Russia and the United States, than their smaller North African peers. With some of these countries, it is difficult to conceive how the EU could lock them into a broader partnership commitment. Yet, perhaps that is not even necessary.

Instead of lingering in reactivity, the EU should project itself as an active player in its periphery and not wait for the next crisis to act. By aspiring to tie not all but a few select key partners to Europe while this option is still on the table, Europe can invest in resilient anchors for a stable Mediterranean while at the same time laying the groundwork for a lasting influence in its southern neighbourhood.