

Rewinding the “Spiral” of Economic Insecurity in the Southern Mediterranean: What Role Can the European Union Play in the Post-War Scenario?

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Over the past few years, economic security in the Middle East and North Africa (MENA) has been challenged by a succession of crises and shocks. The Organization for Economic Co-operation and Development (OECD) defines economic security as the state's “ability to protect and sustain [the] economic stability and growth by strengthening [...] resilience against external and internal threats.”¹ In MENA, this ability has been shaped by a long series of unpredictable developments, from the outbreak of the Covid-19 pandemic to the Russian invasion of Ukraine, from Hamas' 7 October assault on Israel to conflicts in the wider region. Today, the region is confronted with the many uncertainties stemming from the war in Iran and in the Gulf. Even if an agreement on a framework to extend the ceasefire and reopen the Strait of Hormuz has been reached, the risks that the aftermaths of the war will turn into long-term scars to the region's economic security are immense.

The protraction of conflicts and the succession of geopolitical disruptions experienced by the region over the past years recalls the urgent need to reconceive what economic resilience should mean in the MENA region and how to build it. For the European Union (EU), the state of economic security in its Southern Neighbourhood is a strategic priority, for many political, social and economic reasons. The EU has recently presented its new “Pact for the Mediterranean”

and is now developing the first action plans to materialize its stated goals. Brussels has announced that it will allocate €42.5 billion to the MENA under the 2028-2034 financial framework. Even after the signing of the Islamabad Memorandum of Understanding, in the current uncertain and unpredictable context, it is not immediately possible to assess the intensity of the crisis unleashed by the Israel-US decision to attack Iran and how long it will take to get back to “normal,” and, most importantly, what “normal” will even mean. However, a lot of the future credibility of the EU in the Middle East and North Africa will be filtered by its capacity to contribute to restoring the economic security of regional countries and strengthening their resilience to shocks. Playing an increasingly significant role in supporting the energy transition, infrastructure redundancy, sustainable food systems and balanced trade partnerships could offer additional tools to actively contribute to rewinding the “spiral” of economic insecurity.

The MENA Region between Structural and Conjunctural Factors of Crisis

Economic security in the Mediterranean region will suffer the interplay of structural and conjunctural factors of crisis, the intertwining of chronic elements of fragility, unresolved macro-economic issues and a variety of international and regional crises whose consequences will deeply affect the prospect for development in the long term.

According to the latest “wave” of the Arab Barometer, economic anxiety dominates public opinion across

¹ Over the years, the breadth of economic security has progressively expanded, encompassing the capacity to safeguard key economic assets, protecting strategic industries and supply chains, maintaining critical infrastructure trade and investment flows, and ensuring access to essential resources such as energy, food and technology. OECD, *Economic Security in a Changing World, New Approaches to Economic Challenges*. Paris: OECD Publishing, 2025.

the MENA region, with the economic situation ranked as the most pressing challenge. Conjunctural issues mix with structural ones: inequalities (MENA stands as one of the most unequal regions of the world), elevated debt burdens in several economies and a youth unemployment rate that is almost double the global average (International Labour Organization). And still “there is a persistent divide between a small formal private sector and a large informal sector,”² a chronic and significant gender gap and the world’s highest rates of brain drain. Against this backdrop is the pervasive political, social and economic impacts of climate change, in a region that is warming at a rate 20% higher than the global average.

Over the past three years, economic impacts have added to the daily tragedy of lives lost or destroyed, displaced people and the slow agony of uninterrupted suffering. The additional threats represented by volatility in energy prices, inflationary pressures, trade disruption and food market uncertainty stemming from the unfolding regional wars now encounter the prospect of a structural weakening of the Gulf countries. The latter, which have been among the most resilient drivers of economic development in the whole region in recent years, will be engaged in a process of rethinking and recalibration of their security framework, defensive priorities and trajectory of economic development.

According to the World Bank, with the exclusion of Iran, overall growth in the region is expected to slow from 4% in 2025 to 1.8% for 2026. The nature and magnitude of the impacts vary considerably within the region, shaped primarily by the proximity to the conflict, exposure to disrupted economic channels and intensity of attacks on production and civilian infrastructure. Iran, Iraq, Lebanon and Gulf countries are the most affected. Neighbouring countries to the epicentre of the crisis will suffer the consequences of energy price spikes, disruptions to tourism flows and a decline in remittances from their own citizens working in the Gulf. The aftershocks of the war expand to North Africa, in particular through the ripple effects on energy and fertilizers.³ The fallout of this looming crisis is still unfolding, especially where it adds to

preexisting vulnerabilities and already strained socio-economic conditions. In Tunisia, hundreds of people gathered in the capital’s streets to protest against the worsening economic crisis. A 2024 World Bank report highlighted that without war, income per capita in conflict-affected countries in MENA could have been on average 45% higher, equivalent to 35 years’ worth of progress in the region.

Structural reforms are being presented as key to tackling the multiple shocks which have affected the region over the past few years, and as the only way to increase the resilience of the region’s economy. However, in many countries of the MENA, “reforms are announced, partially implemented and ultimately diluted or reversed,” while attempts to reform the social contract and state-society relations are hampered “not because societies reject change, but because reforms frequently impose costs without altering the distribution of power and opportunity.”⁴ Reforming with limited fiscal space and political instability is not immediate in times of war. In this context, reform efforts are distracted by increased military spending: excluding war-torn countries, defence budgets are rising all over the region. According to the Stockholm International Peace Research Institute (SIPRI), North Africa’s military expenditure totalled \$35 billion in 2025, 9.3% more than in 2024 and 67% more than in 2016; in Turkey, it increased by 7.2% from 2024 and by 94% compared to 2016. Between 2020 and 2024, Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE collectively accounted for around 20% of global arms imports and they are expected to further mount defence expenditures in the context of a complete reshuffle of their security environment.

The Impact of War on Gulf States Shakes the Economic Security of the Wider Region

Over the past decades, Gulf economies have emerged as key buffers against economic insecurity in the whole Middle East and North Africa. Their largesse is behind major investments across the region (from railways in Jordan to desalination in Morocco, just to

² GATTI, Roberta V.; ISLAM, Asif and TORRES, Jesica. “Shifting gears: how the private sector can be an engine of growth in MENA.” Economic Research Forum, 27 May 2025.

³ FAKIR, Intissar. “The Ripple Effects of the US-Israel War on Iran for North Africa.” Middle East Institute, 23 March 2026.

⁴ YEGANEHI, Kamran. “The political economy of stalled structural reforms in MENA.” Economic Research Forum, 17 February 2026

name a few among the most recent) and, in some cases, Gulf states have been the “lifeline” of countries on the brink of default. Now this buffer potential is at risk. On the domestic side, even if the impact of the war will probably be reabsorbed in the medium term, the conflict will take its toll in terms of economic attractiveness, reputational damage (with the “gilded mirage” of the Gulf as an “oasis of safety”⁵ in danger of fading), but also in terms of growth forecast. Gulf visions and diversification trajectories are under threat. According to the International Monetary Fund, for example, Qatar’s economy is forecast to shrink by 8.6% in 2026, due to the war’s impact on the country’s ability to produce and export gas. It could take years to return to pre-war energy output. In addition to this, the need to protect the domestic economy, or to invest in defence and infrastructure reconstruction risk leading to an overall reassessment of spending priorities of Gulf investors, with a review of or pause in investment commitments. In 2025, nearly half of all sovereign investments globally (around \$126 bn) came from the Gulf.⁶ By way of an example, for many years, Emirati funds have been behind the biggest foreign investments in Morocco, Egypt and Jordan. The war will probably affect the Gulf’s economic activism in the region, thus reducing a source of support for the most fragile economies across MENA, in a historic phase already characterized by the retrenchment of other global players from international development assistance.

The Energy Transition: An Even More Strategic Imperative

The war in Iran and the Gulf has resulted in the biggest energy crisis in decades. Many have underscored the importance of the green transition to help reinforce the resilience of MENA countries, especially oil-importing ones, as a way to limit the cost of higher energy imports and the impact of shortages due to the closure of a key energy artery such as the Strait of Hormuz. Reducing dependency on imported fossil fuels, accelerating the deployment of the energy transition, and investing in energy efficiency

should be an imperative, even for oil exporting countries, which could free up more oil and gas to export. However, the harsh reality is that although the MENA region could potentially become the world’s largest producer of renewable energy, it currently accounts for less than 1% of the world’s renewable capacity, it is one of the lowest recipients of climate finance, relies on oil and natural gas for its energy mix more than anywhere in the world and remains the area most in need of increased engagements to meet the Paris Agreement targets.⁷

Even if several MENA countries have asserted ambitious plans for renewable energy development, the results are mixed. In North Africa, only Morocco has developed a sound green transition ecosystem and achieved significant results. However, although 38.7% of its electricity capacity comes from renewable energy sources, coal remains the dominant source of the country’s electricity generation mix, according to the International Energy Agency (IEA); while Egypt is stuck between plans for greening its energy system, deteriorating infrastructure and increasing natural gas imports, Algeria and Tunisia have seen the deployment of renewables hampered for years by limited institutional capacity and a lack of supportive laws, and it is only recently that positive signs of engagement are slowly emerging. In the Levant, the wars unfolding in Gaza or southern Lebanon have hit renewable energy infrastructure, leading to additional setbacks to the pathways towards energy transition in those countries. The war on Iran and its consequences now threaten the investment commitments of Gulf actors, which were key to finance and build renewable energy infrastructure in the whole region (from Morocco to Egypt and most recently Syria). Additionally, it could also delay the development of transnational electricity grids and High Voltage Direct Current (HVDC) lines planned in the region, as is already happening with subsea cable projects, threatening the region’s ambition to emerge as a hub for AI, cloud computing and digital economy.

Against this backdrop, accelerating the deployment of the energy transition is the only solution to strengthen the resilience of energy systems in the MENA region in a way that is sustainable in the long term.

⁵ GHANEM, Dalia. “The End of the Gulf’s Gilded Age?” German Marshall Fund of the United States, 1 April 2026.

⁶ “How the Iran war put billions of Gulf-backed dealmaking in doubt.” *Financial Times*, 26 April 2026.

⁷ LIGA, Aldo. “Sharing Energy Transitions amid a Climate Crisis.” ISPI, 17 October 2025.

Experts point out that in the short term, the energy transition will face setbacks due to the need to respond to the initial shock of the energy crisis, but that, in the medium term, the war in Iran will probably represent a “booster” regarding the world’s shift to renewable energy. The war has shown, once again, that true energy security is unachievable if not coupled with significant efforts to support the development of green energy. What can the EU do to support countries in the Southern Neighbourhood in this process? The EU is still behind many green energy projects in the region, such as the construction of the Noor Ouarzazate Solar complex in Morocco or the project of an electricity interconnection between Italy and Tunisia (ELMED). The EU could extend the “Green Partnership” model agreed with Morocco to other countries and increase funding (through the Global Gateway strategy launched in 2021, for example) to promote a sustainable, fair and inclusive energy transition based on non-divisive technologies, local ownership and community engagement. One of the first actions of the Pact for the Mediterranean to be implemented will be the establishment of a “T-MED Investment Platform” to facilitate coordination and planning and support investment to build pipelines of renewable energy, grid and clean-tech projects.

Nearshoring, Sustainable Trade and Connectivity: The Unfulfilled Promise of a Mediterranean Economic Integration

The role the EU can play in the economic stabilization of countries of the Southern Neighbourhood cannot be separated by the reality that the 27 Member States bloc is the top trading partner of almost every country in the region, although its stake is declining where the commercial presence of emerging actors is on the rise. Interestingly, the relative dilution of EU trading power in the region is an economic imperative for regional countries, as diversifying partnerships is crucial to avoid being too exposed to a possible economic slowdown in Europe, as already

happened during the eurozone crisis. More than thirty years after the launch of the Barcelona Process (1995), the Mediterranean is still not the “area of shared prosperity” the document promised to establish. On the contrary, a free trade area does not exist, some countries in the region are asking for a revision or an amendment of the terms of the association agreements and the economic gap between the two shores has remained substantial, if not widened.⁸ In recent years, the need to reinforce industrial cooperation has been “coopted,” in particular after the outbreak of the Covid-19 pandemic, by the popularization of concepts like “nearshoring” or “friendshoring,” consisting in companies moving parts of their value chains from distant countries to nearby and potentially “friendly” ones, to increase the security of supply, de-risk and reduce economic and environmental costs for transport. Relevant examples are from the Maghreb (from the automotive and aeronautics sectors, for example), but also Turkey or Egypt (particularly regarding textiles). However, many obstacles and issues persist, such as conditions for private investment, norms and regulations, flaws in governance and visa rules. Furthermore, the question of environmental standards and the associated social costs remain major issues. For example, the definitive entry into operation of the EU Carbon Border Adjustment Mechanism is perceived as a source of concern in countries that still suffer the reality of power imbalances with their top trading partner and often see their priorities and interests subordinated to those of the EU.⁹ Another issue is the elusion of questions like labour rights and fair working conditions, which can have an impact in terms of perceived mistrust and inequality. An additional risk comes from the possibility that EU efforts to de-risk intersect and overlap with strategies from other countries to offshore industrial capacity and circumvent EU tariffs, as seems to be the case with Chinese investments in Morocco’s automotive sector.¹⁰ There are then questions related to the specificities of societies emerging from conflict. For instance, the reintegration of the Syrian economy represents an

⁸ CAPASSO, Salvatore and CANITANO, Giovanni (eds.). *Mediterranean Economies 2024. The New Agenda for the Mediterranean: Perspectives and Challenges*. Bologna: Il Mulino, 2025.

⁹ JALDI, Abdessalam Saad. “Les relations entre le Maroc et l’Union européenne à l’aune du Nouveau Pacte pour la Méditerranée: les jalons d’un partenariat euro-marocain renouvelé.” Policy Center for the New South, 23 October 2025.

¹⁰ FOSTER, Peter and BOUNDS, Andy. “EU frets as China builds an industrial base in Morocco.” *Financial Times*, 31 May 2026.

additional challenge: in the aftermath of Bashar al-Assad's ousting and the launch of the political transition, Syria has been making its way out of its economic isolation, autarky and extortion imposed by the former regime.¹¹ Throughout 2025, all economic sanctions on Syria have been lifted in order to support the rebuilding of the country's economy and enable its physical reconstruction. The EU could play a crucial role in this process, in particular "where the EU's comparative advantage lies," since reforms of public administration, legal frameworks, anti-corruption safeguards, local governance and technical standards are all prerequisites for economic security and stability.¹² The EU is also a crucial aid-provider to Lebanon, with Brussels allocating a financial assistance package worth €1 billion for 2024 to 2027, as well as other grants and support measures.

Finally, improving regional connectivity through new and sustainable infrastructure – although during these times of war, instability and uncertainty loom large over the prospect of its realization – is crucial to enhance the region's economic security. The main instrument at the EU's disposal is the Global Gateway strategy, launched with the aim of mobilizing infrastructure development investments of up to €300 billion in the years 2021-27. The goal was reached two years ahead of schedule. In the Middle East and North Africa, the Global Gateway is rolling out 23 flagship projects (from HVDC to railway upgrading and the Medusa submarine cable – a digital connection between Europe and North Africa). The strategy in itself does not capture the full extent of EU financial engagement in the region: through the Economic and Investment Plan (EIP) for the Southern Neighbourhood, backed by an EU financial package of up to €7 billion, more than €30 billion in public and private investments had been mobilized by September 2025. Diversifying trade routes will be an additional tool to reinforce economic security in the region. Following almost two years of blockade in the Red Sea, the war in Iran, with the closure of the Strait of Hormuz, has represented an additional warning of the need for in-

frastructure redundancy, as multiple routes can host trade flows when tensions flare around specific chokepoints or logistical hubs. Over the past years, the region has experienced several attempts at trade reconfiguration following geopolitical clashes or wars, such as land-bridge services between the Gulf and the north of the Red Sea or plans for new gas pipelines in the Arabian Sea or along the West African coasts. In this respect, the realization of the India-Middle East-Europe Corridor, even if not implemented on the original route and focusing on the real logistical value of the initiative rather than on its political or "emotional" one,¹³ would be highly relevant.¹⁴

A Fragile Food System Threatens MENA's Economic Security

The resilience of the food system is another fundamental dimension on the road to economic security in the MENA region. Today, food insecurity is driven by conflicts and climate change, by the related turmoil on global food markets on which regional countries are extremely dependent (particularly for cereals), as well as by structural factors like demographic growth and increasing consumption. The delayed introduction of innovation in agricultural practices or the procrastination of reforms in local food systems, in particular of food subsidies, which represent a major burden on countries' finances, are additional factors of concern. Food insecurity is not only tied to food inflation or potential shortages, but can also lead to long-term repercussions on the societies of the region: undernutrition and child and adult obesity, which are very much present in MENA countries, risk generating "irreversible intergenerational damages" and can "alter the destinies of the people of the region," to use the words of a 2023 World Bank report.

The current stress on food markets posed by the war in the Gulf represents an additional challenge to regional countries. Experts fear the impact of rising fertilizer prices.¹⁵ Indeed, Gulf countries are major pro-

¹¹ DADOUCH, Sarah. "Syria flooded with Pepsi and Pringles as rulers open economy." *Financial Times*, 13 January 2025.

¹² SIDLO, Katarzyna. "The rules of reconstruction: Why the EU-Syria reset must put institutions first." European Union Institute for Security Studies, 13 May 2026.

¹³ DAMELIO, Diego, "Imec, ecco perché la "Via del Cotone" rischia di rimanere un sogno nel cassetto." *ShipMag*, 23 May 2026.

¹⁴ FASULO, Filippo; MISSAGLIA, Nicola and TALBOT, Valeria (eds.). "IMEC: The Backbone of an Indo-Mediterranean Region. Italy and the Future of Transcontinental Connectivity." ISPI, 17 March 2026.

¹⁵ WIGGLESWORTH, Robin. "Inflation hits the stomach, again." *Financial Times*, 27 March 2026.

ducers of urea, ammonia, phosphates and sulphur, key components of fertilizers. Around 30% of global exports of fertilizers transit the Strait of Hormuz. Morocco is one of the most dependent countries on sulphur and ammonia originating from the Gulf, Jordan and Israel for sulphur and Turkey for urea.¹⁶ Even if the impact of the crisis in terms of food prices has been limited so far, some expect knock-on effects on crop yields toward the end of the year and early 2027. On this point, food insecurity in the region will probably be exacerbated by the current conflict. One of the most food insecure countries in the region is Egypt. Over the years, Cairo has been successful in attracting numerous deals with foreign partners to address this issue. EU and Gulf actors have played a major role. Just to mention the most recent examples, Brussels allocated €100 million in 2022, additional funds under the EU-Egypt Strategic and Comprehensive Partnership signed in April 2024 and €90 million in May 2025. The Islamic Trade Finance Corporation or the Abu Dhabi Exports Office (ADEX) have also committed significant funds to the country. Today, in the current context of crisis, with traditional Gulf partners weakened by the war and potentially less inclined to invest abroad, these efforts to support Egypt's food security risk being undermined, with consequences that are difficult to predict. Interestingly, none of the 21 Actions announced as part of the first batch of measures of the Pact for the Mediterranean concerns the issue of food insecurity or the quest for improved resilience of the food system in the Mediterranean.

Rewinding the “Spiral” of Economic Insecurity in the Middle East and North Africa Should Be a Political Priority for the EU

Over the past years, the EU approach to its Southern Neighbourhood has been characterized by the inability to find a common, decisive position on the many crises unfolding in the Middle East, a marginal role in negotiations and accusations of “double standards” when dealing with the war in Gaza. The protraction of the war in Ukraine, crisis in transatlantic relations, dis-

union and divisions among Member States, different national perceptions, but also the characteristics of the institutional mandate of the EU in terms of foreign policy implementation have progressively resulted in a dispersion of the political capital the EU had established in the region.

Excluding the recent confrontation in the Gulf, in the Southern Neighbourhood there are at least four major ongoing crises: the Western Sahara issue, the Libyan crisis, the Israel-Palestine conflict, and the conflict in Lebanon. In none of these crises, the EU has played a decisive political role in trying to facilitate a solution or pathways to de-escalation. Even the Pact for the Mediterranean devotes a very marginal role to political proactiveness, mediation efforts, conflict resolution and crisis management, as well as to the need to find credible, sustainable and long-term political settlements to the many crises which are unfolding in the region.

Nevertheless, if supporting the region's resilience is truly based on the principles of co-creation, co-ownership and joint responsibility, as outlined in the Pact, then “rewinding” the spiral of economic insecurity, reinforcing economic integration, playing a key role in post-war economic reconstruction and publicly committing to these objectives could have strong political relevance and, at least in part, compensate for the EU's residual role in regional politics over the past years.

In this context, the MENA region is entering a new phase of geopolitical reshuffling: new hegemonies, new rivalries and new balances, which are hard to define. The region will additionally suffer the impact of protracted wars and their related effects, the prolonged uncertainties in the Strait of Hormuz, with dozens of mines adrift or on the seabed, the weakening of traditional “economic buffers” such as the Gulf countries, the redefinition of the US' role, among unpredictability, ruthless transactionalism and cuts in foreign assistance.¹⁷ In this context, the EU should consider combating economic insecurity, supporting reforms, the energy transition, sustainable trade partnerships and economic integration as a political priority and a way to carve out a new role for itself and reassert its credibility after years of “bystanding.”

¹⁶ HANIEH, Adam. “The coming global food crisis.” *Financial Times*, 18 April 2026.

¹⁷ According to the OECD, official development assistance (ODA) by Development Assistance Committee (DAC) members and associates declined by 23.1% between 2024 and 2025. The United States alone drove three-quarters of the decline.