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The Arab Spring and the European Neighbourhood Policy:An Economic Outlook

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Tunisia, Egypt, Libya, and Syria are four Arabic countries that witnessed upheaval in 2011, leading to a change of regime in the first three countries mentioned. These countries also have in common that they are part of the EU European neighbourhood policy (ENP). An analysis of the interactions between the Arab Spring and the ENP can be very revealing. In this paper, we propose to concentrate on the economic perspective.

In the first part, entitled "Setting the Scene", we will present the economic evolution of the four countries as well as the framework of the EU policy towards them up until the beginning of the Arab Spring. In the second part, we will assess the consequences of the upheavals on the economy of the four countries. Thirdly, we will look at the question of whether the Arab Spring has induced recent changes in the ENP. In a final part, we will consider some future prospects and look at what has been the importance of the economic dimension of the ENP and whether the Arab Spring can reshape the ENP.

Setting the Scene

The following figures can help us characterize the national economies of the four countries just before the Arab Spring:[i]

Tunisia	Egypt
– Population: 10 million people – GDP per capita: 4,100 US$ GDP growth rate (average 2005-2010): 5.2% – Unemployment rate: 14% Unemployment rate (young): 32% – Exports to the EU (% of total exports): 79% Imports from the EU (% of total imports): 65%	– Population: 82 million people – GDP per capita: 2,600 US$ GDP growth rate (average 2005-2010): 5.9% – Unemployment rate: 9% Unemployment rate (young): 25% – Exports to the EU (% of total exports): 29% Imports from the EU (% of total imports): 23%

Libya	Syria
– Population: 6 million people – GDP per capita: 10,900 US$ GDP growth rate (average 2005-2010): 6% 2nd producer of crude oil in Africa (after Nigeria)	– Population: 22 million people – GDP per capita: 2,600 US$ GDP growth rate (average 2000-2007): 5.3% – Unemployment rate: 8% (20% according to independent estimates) Unemployment rate (young): 18% – Exports to the EU (% of total exports): 44% Imports from the EU (% of total imports): 25%

Egypt is by far the most populated country of the four. Regarding GDP per capita, Libya is a singularity with a much higher figure due to the fact that it is an important oil producer. Recent growth rates in the four countries were impressive compared to European standards. Unemployment rates were high, particularly for the young. Finally, the high degree of interpenetration of the Tunisian economy with the EU is clearly noticeable.

The four countries witnessed a certain degree of economic liberalisation in the 1990s and 2000s. Important amounts of foreign direct investment (FDI) entered them, thus stimulating growth. However, problems such as crony capitalism, heavy regulatory burden, massive subsidies, corruption, unequal distribution of the gains of growth, both socially and geographically, increase in the cost of living, deficient educational systems and massive unemployment, especially for the youth, were also mentioned. Tunisia and Egypt get an overall score of respectively 56(%) and 55(%) in the index of economic freedom established in 2009 by the Heritage Foundation. Syria and Libya have lower scores of respectively 47 and 39, the latter one closing the list of all MENA (Middle East and North Africa) countries. For the sake of comparison, the first MENA country is Bahrain with 72; Israel gets 69 and Turkey 60.[ii] Political and administrative institutions are also weak, with 80% of world countries better governed than Libya, 70% better than Egypt, and 50% better than Tunisia.[iii] Clearly, economic unhappiness has been a key cause of the uprisings.

The Euro-Mediterranean Partnership, called the Barcelona process, was launched by the EU in the mid-1990s. It ignited a process of dismantling of tariffs and quantitative restrictions on both sides of the Mediterranean. With the result that the objective to establish a large free trade area by 2010 could not be met. The ENP was established in 2004. The EU granted more than 10 billion euros to Southern Mediterranean countries between 1995 and 2010. Before the Arab Spring, the EU had thus established a relatively close relation with non-democratic countries in the name of good neighbourhood relations and common interests. In the words of *The Economist*: "For

years European officials negotiated action plans with countries and wrote reports bemoaning their lack of democracy, yet kept paying autocrats billions of euros."[iv]

Economic Consequences of the Upheavals

The upheavals in Tunisia, Egypt, Libya, and Syria have had strong economic consequences for these countries. Economies were slowly recovering from the international crisis when the Arab Spring occurred. The latter has had a negative economic effect in the short run, with growth rates cut, and FDI and tourism strongly hurt. 2011 and 2012 indeed look like zero-growth years in economic terms. Even if the situation is not alarming, it is at the very least uncertain and the mood is gloomy.

We must remember that a transition towards more political openness can have economic costs in the short term. In the longer run, with political stability and democracy, economic development should gain. The current economic downturn can be explained by instability, lack of security, strikes, poor state of the public administration, and the wait-and-see attitude of the former ruling economic elites. The difficulty for these countries is that margins for public deficits are very limited. Hence the continuation of the practice of subsidizing jobs and basic food has become hardly affordable. In addition to their direct costs, subsidies also have a distorting effect on the economy.

According to the IMF, the growth rate in Tunisia in 2011 was zero. The Tunisian government estimates that it was in reality -1.8% and that the riots may have cost 4% of GDP. The FDI has decreased by 30% and incomes from tourism have been cut by half. Prices are increasing and the unemployment rate has reached 19%.[v] Egypt has witnessed a growth rate of 1% in 2011. The FDI has been cut by two thirds and incomes from tourism have diminished by 30%. Unemployment now affects 15% of the active population. There have been severe capital outflows and a sharp decrease in foreign reserves. Food and fuel subsidies represent more than 10% of GDP. Public finances are in a poor state with a public deficit of 10% of GDP.[vi] Libya has seen a contraction of its economy after the civil war by more than 50%. Destructions due to the conflict amount to 15 billion US$ and there was hardly any more FDI at the end of the war.[vii] As for Syrian GDP, it decreased by 2% in 2011.[viii]

A New European Neighbourhood Policy?

Shortly after the surge of the Arab Spring, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy proposed a revamped ENP in their communiqués of March and May 2011.[ix] Even if the review process had been underway for one year, the revolutionary events had a direct influence on the remoulding of the policy. The communications entail the principle that more differentiation will be allowed in the relations with the different neighbouring

countries. The idea is to help countries that progress the most in terms of the establishment of democracy and the rule of law. The slogan of the new policy is "more for more, less for less" and its key items are money, market access, and mobility. This approach has been endorsed by the European Parliament and the European Council. *The Economist* justifies the new policy as follows: "Policies should be better tailored for each neighbour. Europe cannot change geography, so it will have to deal with all the countries on its rim, democratic or autocratic. But in its circle of neighbours, it must always demonstrate that its best friends are the democrats."[x]

Regarding money, short term increases in aid have been made possible following some budget reallocations. Thanks to new funds available, the amount allocated by the EU to the MENA region will increase by 25% in 2012-2013. New instruments such as the SPRING programme, aimed at promoting partnership, reform and inclusive growth, have been created. The European Investment Bank will be allowed to lend more to MENA countries and the European Bank for Reconstruction and Development will be allowed to take a role in these countries. For the years 2014-2020, the Commission and the High Representative propose to increase funds for the Southern dimension of the ENP by 40%, bringing them to a total amount of 18 billion euros. Despite the fact that some efforts have clearly been made by the EU and other countries and international organisations, all this seems to fall short of a true "Marshall Plan" that some have been calling for. Let us also not forget that financial prospects for the EU for the years 2014-2020 are very limited.

With market liberalisation, the idea is to continue progress towards free trade, by attacking non-tariff barriers and by extending liberalisation to agricultural goods as well as services. In this respect, European Commissioner Karel De Gucht recently declared: "it is true that trade is not going to make democracy work but you will never have democracy without economic development and economic development without trade is completely impossible."[xi] The EU has established the prospect of "deep and comprehensive free trade areas" with the most advanced countries. Tunisia and Egypt will be in the first wave of countries to benefit from this new framework. Libya is set to follow. But the dismantling of barriers in agriculture and in services could face strong opposition from within the EU. A long term prospect sometimes mentioned is that some MENA countries could join the European Economic Area (EEA) or its equivalent, which would mean joining the internal market of the Union. Even if economic theory generally considers this to be good on economic ground, the countries joining such a framework need to develop a strong administrative and regulatory institutional framework in order to be able to cope with the "acquis communautaire". The task would not be easy. A second problem, faced by EEA countries not belonging to the EU, is that they have to sacrifice sovereignty for the sake of belonging to the European internal market. Would this be acceptable politically for MENA countries, especially if they do not have the prospect of joining the EU one day?

The question of mobility is also a key but tricky issue. Students' mobility should be increased through the "Erasmus Mundus" programme and the first mobility agreement is set to be signed with Tunisia, allowing its citizens to get visas more easily. The population in Europe is aging and the need for young workers will get more and more acute. It is already the case in some economic sectors. The idea of the EU to make mobility easier is based on the premise that it would be beneficial to both the EU and the partner countries. But it is not an easily acceptable idea in political terms in Europe, where immigration from the South tends to frighten electorates.

The release of previously frozen assets means that Tunisia, Egypt, and Libya will be able to get back billions of euros misappropriated by their former rulers. In Syria, a tyrannical regime is still governing the country, the international community is split and prospects are uncertain. A foreign intervention seems very unlikely but a civil war could very well surge. Here, the EU policy represents a particular case with the development of an important regime of sanctions currently being expanded due to the fact that the country has made no progress. The EU sanctions have become increasingly tight and now also concern travel bans for dignitaries of the regime, asset freezes, an arms and oil embargo, suspension of cooperation programmes, as well as financial and commercial sanctions.

On balance, analysts tend to consider that the EU policy regarding its Southern neighbours, even if it goes in the right direction, is not bold enough to make a significant difference. There are fears that the monetary allocations will stay relatively limited and that the market liberalisation and mobility sides will face insuperable internal resistance. MedPro, a consortium of strategic studies institutes, considers for example that the EU answer to the Arab Spring is "shy, centred on the short term and lacking a coherent vision".[xii] The former Spanish foreign minister Miguel Angel Moratinos shares this point of view. For him, Europe's answer "comes late and is insufficient in political, economic and financial terms".[xiii]

The *European Foreign Policy Scorecard 2012* goes in the same direction: "Europe also failed to commit sufficient resources to make a difference. There is little doubt that the Arab awakening was a priority for European foreign policy in 2011. Europe used an array of instruments, including active diplomacy, special envoys, sanctions and military action. But its technocratic response fell dramatically short of the "Marshall Plan" for which some initially called. Instead, it mostly reshuffled the EU budget and offered loans by development banks. Member states made symbolic pledges at the Deauville G8 summit in May but failed to actually put much new money on the table.""[xiv]

It is also worth quoting Dr Daniel Möckli from the Center for Security Studies at the Swiss Federal Institute of Technology in Zurich, who said that "The Arab awakening has been a painful reminder of how marginal the EU's role in many neighbouring countries still is. The revolts and revolutions that have shaken the MENA region mark the

strategically most relevant development in Europe's neighbourhood since the demise of the Soviet Union. Yet, sanctions aside, these events have unfolded with the EU largely as a bystander. Forging an answer commensurate with the size of the challenge would have been a daunting task for the EU even at the best of times. Doing so at a time of its own weakness is simply beyond its reach. […] Moreover, even if the EU were in a position to give MENA countries what they wanted, the latter might still turn down European assistance if tied to too many conditions."[xv]

Future Prospects

We need to distinguish the short term from the medium and long term. In both instances, the EU can of course help, but it cannot be the driving force alone. Internal factors in MENA countries will always be the most important ones. The EU action will never be a "sufficient" condition. The key question is whether it may however be a "necessary" condition.

As said, the most important factors for the future of MENA countries are internal ones. The fundamental questions are: can political stability be recreated? In which terms will that stability be established, with regards to democracy, the rule of law and human rights? Will a process of economic and social reform be successfully conducted? Can growth become more inclusive and trim at last the unemployment of young people? Here the task is daunting. A new culture of the role of the state needs to be established and a level-playing field for the private economy is necessary. In Egypt for instance, agriculture is still conducted the way it was 100 years ago, but the population is growing fast. The need for reform is thus huge.[xvi]

The EU can have an influence in the short term by alleviating economic difficulties, thus helping stability and democracy. The UE programmes and tools can also exercise some degree of influence in the medium to longer term. Of course the EU cannot replace the MENA countries in allowing the essential factors for democracy and prosperity to flourish there. But it can help this process by going hand in hand with it. A greater opening of the EU in line with the new policy advocated by its institutions may however not be easy and may face strong economic and political opposition.

Future prospects could significantly vary from one MENA country to another. Tunisia probably offers the most favourable conditions for future success and seems to have become Europe's showcase. The situation is tenser in Egypt and it is even harder in Libya and in Syria. Changes will not just take years, but decades. The fact that Libya and Syria are important oil producing countries provides them with an income, but it may well be at the same time a curse that could jeopardise economic restructuring and progress.

The positive element about the EU approach is that it is wide in scope and combines several tools. Given the fact that the stakes are high for Europe, the EU should not

be insensitive to what happens in its neighbourhood. There would certainly still be time to launch a "Marshall Plan". But because of the crisis and of the harsh financial conditions of most EU countries, prospects for a generous help in favour of MENA countries look grim. As a matter of fact, the situation of MENA countries is probably more difficult than that of Central and Eastern European countries in the beginning of the 1990s. These countries had then to build a new economic system with the prospect of one day joining the EU. MENA countries already have capitalist systems, but the latter need to be strongly overhauled. The economic policy regime will have to be changed, but with an EU help package that will be far less ambitious and with no prospect of joining it one day.
The promotion of regional economic integration between the MENA countries would be a very positive policy to conduct. Currently, obstacles to trade are very high, meaning the loss of one to two points of growth per year, and can take the form of non-tariff barriers, red tape and poor infrastructure. Their consequence, however, is always the same and leads to market fragmentation. In this respect, the project to strengthen the Arab Maghreb Union gathering Algeria, Morocco, Mauritania, Tunisia, and Libya offers a particularly interesting prospect.

It is still very early to assess the importance of the economic dimension of the ENP. As we have tried to explain, there may well be a problem with the magnitude of the overall package rather than with its general design. The EU should not lose sight of the historic character of the recent events that have shaken the MENA countries and should do all within its power to ease the transition towards political pluralism and economic rejuvenation. In the long term, the "market" and "mobility" sides of its concept should easily supersede the "money" dimension.

To the question of whether the Arab Spring can reshape the ENP, the answer is that it has already done so from a conceptual point of view. However, difficulties lie in the end as much in the details of the implementation of a policy as in its broad concepts. Without a sense of urgency and a match between means and ends, risks are real that discussions and negotiations between the EU and its Southern partners may take a very long time and lead to insufficient results.

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[i] These figures have been compiled from the following sources: European Commission, **Pocketbook on Euro-Mediterranean Statistics**, Luxembourg, Publications Office of the European Union, 2010, 134 p. André Sapir and Georg Zachmann, "A European Mediterranean Economic Area to Kick-Start Economic Development", in: Sven Biscop, Rosa Balfour, Michael Emerson (eds.), **An Arab Springboard for EU Foreign Policy?** Gent, Academia Press, 2012, pp. 37-47. Ahmed Galal and Jean-Louis Reiffers (coord.), **Towards a New Med Region: Achieving Fundamental Transitions**, FEMISE Report on the Euro-Mediterranean Partnership 2011, October 2011, VI-224 p. Clement Moore Henry and Robert Springborg, **Globalization and the Politics of Development in the Middle East**, Cambridge, New York, Cambridge University Press, 2nd ed., 2010, p. 149. ***Le Temps***, Geneva, 20.02.2012, pp. 2+4, 21.02.2012, pp. 1-3, 22.02.2012, pp. 1-3. The International Institute for Strategic Studies (ed.), **The Military Balance 2012: The Annual Assessment of Global Military Capabilities and Defence Economics**, Abingdon, Routledge, 2012, 504 p.

[ii] C. M. Henry and R. Springborg, **Globalization and the Politics of Development in the Middle East**, *op. cit.*, p. 274.

[iii] A. Sapir and G. Zachmann, in: S. Biscop, R. Balfour, M. Emerson (eds.), **An Arab Springboard for EU Foreign Policy?** *op. cit.*, p. 40.

[iv] ***The Economist***, London, 09.04.2011, p. 34.

[v] A. Galal and J.-L. Reiffers (coord.), **Towards a New Med Region: Achieving Fundamental Transitions**, *op. cit.*, pp. 189-199. ***Le Temps***, Geneva, 26.09.2011, p. 24, 21.02.2012, pp. 1-2. ***The Economist***, London, 16.07.2011, p. 42, 04.02.2012, pp. 31-32. The International Institute for Strategic Studies (ed.), **The Military Balance 2012: The Annual Assessment of Global Military Capabilities and Defence Economics**, *op. cit.*, p. 351.

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[vii] ***Bulletin quotidien Europe*** *(Europe Daily Bulletin)*, Brussels, 13.01.2012, p. 13. ***Le Temps***, Geneva, 23.02.2012, p. 2. ***The Economist***, London, 04.02.2012, pp. 31-32.

[viii] The International Institute for Strategic Studies (ed.), **The Military Balance 2012: The Annual Assessment of Global Military Capabilities and Defence Economics**, *op. cit.*, p. 348.

[ix] **A Partnership for Democracy and Shared Prosperity with the Southern Mediterranean**, Joint Communication by the High Representative of the Union for Foreign Affairs and Security Policy and the European Commission, Brussels, 8th March 2011, COM(2011) 200, 17 p. **A New Response to a Changing Neighbourhood: A Review of European Neighbourhood Policy**, Joint Communication by the High Representative of the Union for Foreign Affairs and Security Policy and the European Commission, Brussels, 25th May 2011, COM(2011) 303, 21 p.

[x] ***The Economist***, London, 09.04.2011, p. 34.

[xi] ***Euronews***, "Are FTAs killing jobs?" 29.09.2011. Source: website of Euronews: http://www.euronews.com/2011/09/29/are-fta-s-killing-jobs (07.04.2012).

[xii] ***Bulletin quotidien Europe*** *(Europe Daily Bulletin)*, Brussels, 13.10.2011, p. 6.

[xiii] ***Bulletin quotidien Europe*** *(Europe Daily Bulletin)*, Brussels, 13.01.2012, p. 13.

[xiv] Justin Vaïsse and Hans Kundnani (eds.), **European Foreign Policy Scorecard 2012**, London, European Council on Foreign Relations, 2012, p. 96.

[xv] Daniel Möckli (ed.), **Strategic Trends 2012: Key Developments in Global Affairs**, Zurich, Center for Security Studies, ETH Zurich, 2012, pp. 50-51.

[xvi] ***Le Temps***, Geneva, 22.02.2012, pp. 1-2.