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The End of the (Southern) Neighbourhood

Kristina Kausch

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On the occasion of the EuroMeSCo Annual Conference "Europe, the Mediterranean and the Arab Spring: Crisis as an Opportunity", held in Barcelona on 4th and 5th October 2012, distinguished analysts presented the results of their research on the new dynamics in the region following the Arab uprisings. Three major issues were explored: the internal dynamics of Arab countries and the role of civil society, the geostrategic consequences of the Arab Spring and the future of Euro-Mediterranean relations. This series of EuroMeSCo Papers brings together the revised research works presented during the EuroMeSCo Annual Conference.

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CONTENTS

The End of the (Southern) Neighbourhood

Kristina Kausch[1]

1. The author is Head of the Middle East Programme at FRIDE (kkausch@fride.org). She would like to thank Ghita Tadlaoui and Nada Chidiac for their valuable research assistance.

Europe in a Changing Environment

After decades of relative stagnation, the Mediterranean basin is in flux. A plethora of trends and developments in the Middle East and North Africa (MENA) has triggered or accelerated geopolitical shifts, which are likely to affect Europe's relations with the region in the years to come.[2] Regime change and the subsequent emergence of a fragile Arab democracy in the aftermath of the 2011 popular uprisings have brought Muslim Brotherhood-affiliated Sunni institutional Islamism to power. The conflict in Syria and its regional spillover effects are expected to weaken Iran to the benefit of other regional powers such as Saudi Arabia and the Gulf more broadly. Deepening Sunni-Shi'a sectarian divides at the international and local levels provide an arena and vehicle for the regional power struggle. New and old middle powers such as Turkey, Qatar and Egypt are claiming new terrain, and the involvement of non-Western players (Russia, China, South Korea, India, Brazil) is increasingly felt. Arab foreign and trade relations will gradually diversify towards enhanced intra-Arab, Arab-Asian and Arab-African relations. At the same time, changing global energy dependencies herald shifts in global powers' (US, China) political and security engagement in the MENA region. Changing engagement patterns are affecting abilities to face surging security challenges, such as the spread of arms and trans-national jihadist Islamism following the ouster of Gaddafi, and new collective security challenges in the Sahara-Sahel zone. On top of this, the region continues to struggle with the multiple effects of the financial and economic crisis, which has also reinforced European Union (EU) member states' aversion to political risk and strategic foreign policy planning.

All these trends and developments contribute to a dynamic Middle East that has little in common with the static stand-off of the past decades: the old post-colonial order in the Middle East is crumbling, giving birth to a multifaceted region which "has yet to crystallize into more definitive political constructions."[3] Partly because of these trends, Europe's already moderate relative influence in the region, albeit with great variation, can be expected to diminish further.

The EU and its member states have gone to great lengths to tailor an adequate "response" to the 2011 uprisings. Yet, having failed to view the uprisings as part of a larger power shift, so far EU policy has not incorporated the strategic foresight that will be needed to anchor Europe's position in future relations with the region. Similarly, reviewed EU policies do not offer insight on how to deal with countries that show little appetite for comprehensive institutional EU integration, which forms the backbone of EU policies in its neighbourhood. Brussels' policies towards the region are based on the implicit assumption that a continued dominant European position in relations with Southern Mediterranean partner countries can be taken for granted. This paper will aim to show that this view is mistaken.

2. On changes in the geopolitical environment see also J. Fischer, "The new Middle East's New Problems", Project Syndicate, 2nd December 2012, and "The Middle East after Assad", Project Syndicate, 25th July 2012, available at: http://www.project-syndicate.org/commentary/the-middle-east-after-assad.

3. S. Ben Ami, "Arab states of uncertainty", Project Syndicate, 4th January 2013.

Since its inception in 2004, some of the basic ideas and concepts underlying the European Neighbourhood Policy (ENP), including the fundamentally different political dynamics in the east and south, the feasibility of conditionality and its contradictions to the declared principle of "joint ownership", have been subject of great scrutiny.[4] Long-standing criticisms of the ENP's basic approach now gain new ground as gradual power shifts make the Mediterranean basin ever more diversified economically and politically. The feasibility of applying this – and indeed, any – single policy framework to all countries of the Mediterranean South alike, especially at a time marked by fragmentation and diversification on both shores, is increasingly doubtful. Is there today such a thing as a "neighbourhood" in the sense of a natural grouping of countries to which it makes sense to offer a common partnership framework? What factors condition the EU's negotiating position, and how is its leverage likely to develop in the near and mid-term future? Can the ENP's underlying conditionality rationale hold? In order to answer these questions, we will take a systematic look at a number of indicators to determine interdependencies across the Mediterranean and the potential for a common ENP-style approach. In doing so, this study will focus on North Africa (Egypt, Tunisia, Libya, Algeria and Morocco)[5] as the "core zone" of the ENP, in which the EU and its member states are traditionally considered to have the greatest influence and impact potential – as opposed to the Levant, where EU influence is low and geopolitical complexities have largely impeded an efficient development of ENP partnerships.

4. See for example N. Popescu and A. Wilson, "The Limits of Enlargement-lite: European and Russian Power in the Troubled Neighbourhood", European Council on Foreign Relations, June 2009; R. Youngs, "The end of democratic conditionality: good riddance?", FRIDE, September 2010.

5. The scope of this paper, as well as the level of detail aspired in examining the mentioned indicators, does not allow for an assessment of all Southern Mediterranean countries eligible to participate in the ENP, or of the entirety of ENP partner countries to the east and south.

Assessing “Leverage”

The feasibility and potential effectiveness of conditionality-based policies depend on the lead in negotiating power the EU-27 has on a given actor. This negotiating power is shaped by the attractiveness of the incentive (or damage potential of a sanction) and the likeliness of its implementation. Above all, however, it is based on a set of broader economic and political indicators that define the bilateral relationship between the partners in its entirety. Assessing a combination of quantitative and qualitative indicators that shape the economic and political relations between the parties, as well as the degree of receptivity a country shows towards the offers and demands under negotiation, can indicate tendencies of changing balances in "leverage" (understood here as an advantage in negotiating power in an asymmetrical bilateral relation).

Three sets of indicators will be assessed. Firstly, indicators for economic interdependencies that include trade relations, development assistance, foreign direct investment, remittances and tourism. Secondly, political interdependencies may be qualitatively examined via the general political alignment of governments, their crisis management and security alliances, and the role they play in their counterpart's energy security (acknowledging that many other factors, including the political influence of diasporas, historical links and networks also play an important role). Thirdly, a country's receptivity to conditionality-based reform agendas depends largely on the local elites' inclination to implement the agreed reforms, and on the incentives delivered to them.[6] Importantly, while figures from 2011 can provide an initial idea of the tendency of the impact of the "Arab Spring" on the EU's influence in the region, changes in European leverage must be understood as long-term developments influenced by the overarching shifts in the regional balance of power at large, rather than as a consequence of the 2011 uprisings alone.

Economic Dependency

Trade

Trade dependency is most immediately measured via the ratio between a country's total exports and its exports to the EU. The degree to which a country currently depends on the EU common market to sell its goods and services and its flexibility and options to switch to alternative export markets play an important role in determining the country's short- and mid-term trade dependence on the EU.[7] The overall export ratio between the EU and North Africa is overwhelmingly tilted towards the EU. While only 5.6 per cent of the EU's exports goes to Southern Mediterranean countries, over three quarters of MENA exports go to the EU.[8] Variation among countries is great, however, and the nature of the goods also plays a role, ranging from near fully-dependent low value-adding manufacturing economies (Morocco) to petro-state net exporters (Algeria and Libya). Moreover, over the past years, post-

6. Several of these indicators have been separately assessed in the ENP context previously, with varying scopes and rationales; see for example: S. Senücel, S. Güner, S. Faath and H. Mattes, "Factors and Perceptions Influencing the implementation of the European Neighbourhood Policy in Selected Southern Mediterranean Partner Countries", EuroMeSCo, 2006; A. Bendiek, "The ENP: visibility and perceptions in the partner countries", German Institute for Security Studies, January 2008; A. Dworkin and N. Witney, "A power Audit of EU-North Africa Relations", European Council on Foreign Relations, 2012.

7. See also A. Bendiek, op cit.

8. European Commission, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113421.pdf

revolutionary North African governments have forcefully pledged to reduce their dependency on the EU by seeking new export markets to the south and east, some of which start showing first results.

Exports to the EU accounted for 59 per cent of Morocco's total exports in 2010 (56 per cent in 2011), whereas the EU only sent about 1 per cent of its goods and services to Morocco. Among the EU27, Spain (19 per cent) and France (17 per cent) are by far the top export markets for Moroccan products, while India (6 per cent), the US (3.6 per cent) and Brazil (3.3 per cent) lag behind. While exchanges with other MENA countries account for only 4 per cent of Morocco's trade, at 14 per cent commercial relations with the BRICS are the fastest-growing. Morocco mainly exports agricultural products and textiles, which are not easily shifted to other markets. The country aims to conclude a fisheries agreement with the EU, and has intensified talks for the establishment of a Deep and Comprehensive Free Trade Area (DCFTA). In sum, Morocco is currently heavily dependent on the EU market, and is likely to remain so for some time.[9]

Tunisia is with three-quarters of its exports even more heavily dependent on the EU market. Conversely, Tunisian goods account for only 0.8 per cent of all imports into the EU. Tunisian exports in 2009 went mostly to France (29 per cent), Italy (19 per cent) and Germany (10 per cent). Like Morocco, Tunisia is in talks with the EU over a DCFTA. Non-European Tunisian export partners include Libya (7 per cent), the US, Algeria and Morocco (2 per cent each), Turkey, China, India and Bangladesh (1 per cent each). Manufactured products, including clothes, machinery and transport equipment, are Tunisia's most important export goods, making its export portfolio rather inflexible. Following the revolution, the coalition government led by Ennahda pledged to diversify Tunisia's trade ties to reduce relative dependency on specific foreign partners. The EU's share of Tunisia's total exports decreased from 78 per cent in early 2011 to 70 per cent in early 2012. For the time being, however, Tunisia is the Southern ENP country most dependent on EU trade, and is likely to remain so in the near future.[10]

Over 97 per cent of Algeria's exports are hydrocarbons. Of these, the EU receives 49 per cent (51 in 2011), while the Union only sells 1 per cent of its goods and services to Algiers. Algeria's most important client is the US (25 per cent), and within the EU, Italy (12 per cent), Spain (10 per cent), France (8 per cent) and the UK (7 per cent). Other important export partners are Canada (5 per cent), Turkey (5 per cent) and Brazil (4 per cent). While Algeria currently depends on EU markets to sell its energy, demand by alternative buyers is great, although the constraints related to transport infrastructure (pipelines) partially limit the flexibility of gas exports in particular. Due to the nature of its exports, short-term demand aside, Algeria can hardly be classified as lastingly dependent on the EU's export market.[11]

9. Data for 2010 unless otherwise indicated, European Commission, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113421.pdf; CIA World Factbook, http://www.indexmundi.com/morocco/exports_partners.html

10. Figures rounded. All figures for 2011 unless otherwise indicated, European Commission, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122002.pdf; CIA World Factbook, http://www.indexmundi.com/tunisia/exports_partners.html

11. Figures rounded. All figures for 2011 unless otherwise indicated, European Commission, http://trade.ec.europa.eu/doclib /docs/2006/september/tradoc_113343.pdf; Algerian Ministry of Commerce, http://www.mae.dz/pdf/economie/stat_com_exterieur2012.pdf

Libya's main industry is petroleum, providing for almost the entirety of the country's exports. Libyan energy exports to the EU have been volatile in the past years, influenced inter alia by the end of Libya's international isolation, diplomatic crises and the ouster of Gaddafi followed by violent conflict in 2011. EU energy imports from Libya grew by 29 per cent from 2007 to 2008, dropped sharply by 40 per cent in 2009 and again by 64 per cent in 2011. Between 2010 and 2011, the EU's share of Libya's exports dropped from 80 to 51 per cent. Other major clients include the US (20 per cent), Canada (6 per cent), Brazil (4 per cent), Turkey, India and China (3 per cent each). In spite of the importance of the European market for Libya, with global energy companies queuing at Tripoli's door, energy exports can potentially be channelled elsewhere. Hence, as in the case of Algeria, Libya's current dependency on EU markets need not necessarily last.[12]

Egypt's most important export goods are oil, textiles, chemicals and metal, around 30 per cent of which goes to the EU. Although the EU remains Egypt's most important market, compared to its neighbours Egypt's export relations are relatively diversified, distributed over a broader number of important partners. Egypt's exports to other MENA countries (including Saudi Arabia, Turkey, Lebanon, United Arab Emirates, Jordan, Sudan, Lebanon, Libya and Syria) are particularly strong, accounting for about 25 per cent of total exports in 2011. Other important partners are India (7 per cent), the US (5 per cent), South Africa (3 per cent) and China (3 per cent). Within the EU, Egypt's major export partners are Italy (9 per cent), Germany (6 per cent), Spain and France (5 per cent each). Egypt is currently the North African country least exporting to the EU in relative terms. The country's comparatively low dependence on Europe is further underlined by the fact that over 50 per cent of its exports to the EU are oil and related products.[13]

The above data shows that, while all North African countries export primarily to the EU's single market, only Morocco and Tunisia show an overwhelming and lasting export dependence. EU member states need Algeria and Libya's energy exports at least as much as vice versa, and Egypt's increasing expansion to other markets may further reduce the country's comparatively moderate reliance on the EU market. While this overall constellation has remained largely unchanged via the Arab Spring itself, the beginning of the implementation of post-revolutionary governments' pledges to diversify trade ties, including via an expansion towards Asian and other MENA markets, may well herald more meaningful shifts in trade shares over the coming years.

Development Assistance

Dependency on Official Development Assistance (ODA) from specific donors varies, mainly according to amounts and donor shares in national ODA volumes, and the share of ODA in the country's development or total state budget.

12. Figures rounded. All figures for 2011 unless otherwise indicated, European Commission, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113414.pdf

13. All figures rounded. Figures for 2011 unless otherwise indicated, European Commission, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113375.pdf; CIA World Factbook, http://www.indexmundi.com/egypt/exports_partners.html; Egyptian Ministry of Industry and Foreign Trade, http://www.tpegypt.gov.eg/Statistics/Egyptian_EU.pdf

Although Libya has received enhanced humanitarian assistance in the immediate aftermath of the 2011 war, the big picture continues to be that petro-states Libya and Algeria stand out as near fully independent from foreign financial aid (consequently receiving only negligible amounts). By contrast, revolution-ridden Egypt and Tunisia are in dire need of foreign cash, not only via ODA but also via loans from international financial institutions, over which some EU member states have significant influence.

North African states have relatively low levels of ODA dependency (defined here as the share of ODA of annual central government expenditure) compared to some of their Levant neighbours: Algeria (0.9 per cent), Morocco (3.6 per cent) and Tunisia (4.6 per cent) in 2010. Although no later data is available, it can be assumed that the coincidence of revolutions with the economic downturn has also increased ODA dependency, in particular in Egypt and Tunisia. While perhaps not a decisive factor, ODA and loans hold an important budget share in Tunisia, Morocco and Egypt.[14]

The relative weight (hence leverage potential) of specific donors depends on the composition of the national donor portfolio (see tables below). Beyond ODA, financial assistance especially from the Gulf states in North Africa has skyrocketed since the Arab Spring, with Saudi Arabia, the UAE, Kuwait and Qatar each pledging between US$ 3-10 billion in loans to North African transition countries. However, most of these still await disbursement.[15]

MOROCCO, top 10 gross ODA donors (in million €)

	2010		2011	
Donor	**Amount**	**Percentage**	**Amount**	**Percentage**
France	296	28%	390	34%
EU Institutions	194	17%	167	15%
Spain	130	12%	70	6%
Japan	120	11%	105	9%
AFESD	117	11%	164	14%
Germany	94	9%	86	7%
US	49	5%	83	7%
Kuwait	43	4%	41	4%
Belgium	18	2 %	19	2%
UAE	11	1%	18	2%
TOTAL	1072	100%	1143	100%
Total EU	732	68%	732	64%

2009-10 and 2010-2011 averages, respectively. Source: OECD-DAC,[16] authors' calculations. Figures rounded.

14. World Bank, World Development Indicators 2011, comparative view, available at: http://www.indexmundi.com/facts/indicators/DT.ODA.ODAT.XP.ZS/compare?country=tn#country=dz:eg:iq:jo:ly:ma:sy:tn
15. See A. Echagüe, "The role of external actors in Arab transitions", FRIDE, April 2012.
16. http://www.oecd.org/investment/aidstatistics/1882353.gif

In Morocco, France already provided over a quarter of total ODA before the uprisings, increasing the volume to one-third in 2011, making France's bilateral aid to Morocco more than twice that of Brussels' institutions. Allocations from the EC and Spain to Morocco were lower in 2011 compared to the previous year, as were those of several other EU member states. By contrast, the Arab Fund strongly increased its allocations to the country. Arab countries account for 20 per cent of Morocco's ODA. The US, which provides only comparatively minor aid amounts to Morocco, increased its allocations to the country in 2011 but they dropped again in 2012.[17] Due to France's big increase after the revolution, the main five European donors together were still able to slightly increase their dominant share of Morocco's ODA from 68 to 74 per cent. The numerically weak position of the EU institutions contrasts here with the clear dominance of France, which has been further strengthened by the Arab Spring.

ALGERIA, top 10 gross ODA donors (million €)

	2010		2011	
Donor	**Amount**	**Percentage**	**Amount**	**Percentage**
France	114	47%	109	50%
EU Institutions	51	21%	51	24%
Spain	29	12%	12	6%
Germany	11	4%	9	5%
Belgium	9	4%	8	4%
UAE	8	3%	5	3%
Japan	7	3%	6	3%
United States	6	2%	7	3%
GEF	6	2%	(not among top 10)	3%
Italy	3	1%	5	1%
TOTAL	244	100%	212	100%
Total EU	217	89%	194	89%

2009-10 and 2010-2011 averages, respectively. Source: OECD-DAC,[18] authors' calculations. Figures rounded.

In Algeria, France's aid dominance is even more overwhelming, providing half of the country's aid. The EU27 accounts for around 90 per cent of ODA. However, as indicated above, given Algeria's relative independence from ODA there is no substantial concomitant leverage potential. Also, unlike most other countries in the region Algeria's ODA situation has not significantly been altered by events in 2011, with only slight decreases in overall aid levels.

17. S. McInerney, "The Federal Budget and Appropriations for Fiscal Year 2013", Project on Middle East Democracy (POMED) / Heinrich Böll Stiftung, July 2012, p. 25.

18. http://www.oecd.org/investment/aidstatistics/44789815.gif

TUNISIA, top 10 gross ODA donors (in million €)

	2010		2011	
Donor	**Amount**	**Percentage**	**Amount**	**Percentage**
France	180	29%	229	34%
Spain	133	18%	97	14%
AFESD	95	15%	73	11%
Japan	77	12 %	87	12%
EU Institutions	77	12 %	105	16%
Germany	51	8%	48	7%
Italy	19	3%	17	3%
GEF	8	1%	(not under top 10)	n/a
Global Fund	4	1%	(not under top 10)	n/a
Kuwait	3	1%	6	1%
Switzerland	(not under top 10)	n/a	5	1%
UAE	(not under top 10)	n/a	5	1%
TOTAL	647	100%	672	100%
EU total	460	70%	496	74%

2009-10 and 2010-2011 averages, respectively. Source: OECD-DAC,[19] authors' calculations. Figures rounded.

In Tunisia, too, France is the dominant bilateral donor, increasing its share after the revolution from over a quarter of the country's gross ODA to one third. Spain is the second largest donor, with Brussels' institutions lagging far behind, providing barely a quarter of France and Spain's bilateral contributions together. As in Morocco, however, all top EU27 donors together make up for three-quarters of Tunisia's aid budget, followed far behind by Arab donors and Japan. Given Tunisia's aid dependency, which has increased after the revolution, these figures give EU donors and France in particular an important negotiating advantage.

LIBYA, top 10 gross ODA donors (in million €)

	2010		2011	
Donor	**Amount**	**Percentage**	**Amount**	**Percentage**
AFESD	12	36%	8	4%
France	8	24%	7	3%
US	5	13%	113	50%
Germany	3	9%	7	3%
UK	2	4%	7	3%
EU Institutions	2	4%	19	9%
UNHCR	1	2%	(not under top 10)	n/a
GEF	1	2%	(not under top 10)	n/a
Turkey	1	2%	21	9%
Italy	1	2%	(not under top 10)	n/a
UAE	(not under top 10)	n/a	22	10%
Australia	(not under top 10)	n/a	15	7%
Sweden	(not under top 10)	n/a	5	2%
TOTAL	36	98%	224	100%
Total EU	16	43%	45	20%

2009-10 and 2010-11 averages, respectively. Source: OECD-DAC,[20] author's calculations. Figures rounded.

19. http://www.oecd.org/investment/aidstatistics/1883155.gif

20. http://www.oecd.org/investment/aidstatistics/1901282.gif

Libya's aid portfolio has undergone the greatest changes following the 2011 revolution. Most notably, the US skyrocketed its aid budget from US$6 to 148 million, or 50 per cent of Libya's aid budget, thereby replacing France as the main bilateral donor (whose share sank from 24 to a mere 3 per cent due to the increase by other donors). The appearance of new important donors in 2011, such as Australia and the UAE (the latter providing more aid than the EU institutions) is also notable. No EU donor has an outstanding position, and the share of the EU27 sank after the revolution from 45 to only 20 per cent of Libya's ODA. This weak position has no major leverage implications, however, as Libya is largely independent from ODA. Moreover, three-quarters of the 2011 ODA was humanitarian aid (stabilisation measures during and after the 2011 civil war) which is by nature unconditional, failing to provide donors with direct leverage over the Libyan government.

EGYPT, top 10 gross ODA donors (in million €)

	2010		2011	
Donor	**Amount**	**Percentage**	**Amount**	**Percentage**
US	268	21%	163	18%
France	153	14%	150	17%
Germany	134	12%	141	15%
EU Institutions	131	12%	78	9%
AFESD	128	12%	107	12%
Japan	124	11%	108	12%
Kuwait	97	9%	113	13%
UAE	36	3%	16	2%
UK	21	2%	13	1%
OFID (OPEC)	18	2%	(not under top 10)	n/a
Italy	(not under top 10)	n/a	12	1%
TOTAL	1110	98%	901	100%
Total EU	439	40%	394	43%

2009-2010 and 2010-2011 averages, respectively. Source: OECD-DAC,[21] author's calculations. Figures rounded.

In the immediate aftermath of the 2011 revolution, most top donors (including the US and EU institutions) decreased their aid to Egypt. The US remains Egypt's main bilateral donor, with a stable 20 per cent share approximately. No single EU27 donor has an outstanding role, but the four main European donors, France, Germany, EU institutions and the UK, together provide, with 43 per cent, twice the US's amount (although ODA figures exclude US military aid which continues to cement US dominance over the Egyptian government). Arab donors' contribution is also significant, providing almost one-fourth of Egypt's ODA.

21. http://www.oecd.org/investment/aidstatistics/1880659.gif

Although in recent years ODA has come to account for only negligible shares of Egypt's central government expenditure, the precarious economic and social situation in the aftermath of the revolution has once again increased the government's dependency on aid and particularly loans as the country's currency reserves are on the verge of ending. Hence, while the leverage potential for donors of development aid alone is comparatively moderate, it is significant when paired with loan promises, including from international financial institutions such as the International Monetary Fund (IMF) and the World Bank.

In sum, seven main conclusions can be drawn with regard to the leverage value of EU development aid:

- The 2011 revolutions have shifted donor shares in the various countries to greatly varying degrees, thereby reinforcing differentiation.
- France's overwhelming dominance as an ODA donor in the region has further increased after 2011, except in Libya where it has been replaced by the US. France is thus the only European actor whose aid-related leverage has increased via the 2011 uprisings.
- As before the Arab Spring, in Libya and Algeria, aid increases or withdrawals will remain of little consequence, both due to the low significance of aid in these countries' budgets and the availability of alternative revenue sources. Morocco and Tunisia remain the only North African countries where development assistance potentially gives European donors – mostly France – meaningful leverage.
- Meaningful European leverage potential will continue to unfold only when the five main EU players (France, Spain, EU institutions, Germany and Italy) pull the same strings. In no country assessed here are EU institutions' aid allocations alone high enough to produce any game-changing political leverage. This contrasts sharply with the EU institutions' perception of development aid as the ENP's main leverage factor, and in particular with their continuous emphasis on aid money as a major indicator for their own policy performance in the context of the EU's response to the 2011 uprisings.
- The overall weight of ODA is overrated and must be combined with other development-related financial incentives such as debt cancellation, bilateral loans or EU member states' power to influence multilateral loan decisions, which together would bring solid leverage, in particular in countries where crisis-struck transition phase governments are in dire need of cash to fulfil their electoral pledges.

Foreign Direct Investment

As a leverage factor, foreign direct investment (FDI) is a two-sided sword. On the one hand, most North African economies, especially after the 2011 turmoil, urgently require new FDI to create jobs and inject new impulses into their strained economies (see table below). At the same time, foreign investors with great shares of FDI stock are vulnerable to domestic developments that may negatively affect the security of their investments.

Annual FDI net inflows (in million €)

	Morocco	Algeria	Libya	Tunisia	Egypt
2010	952	1789	1369	1024	4900
2011	1935	2088	154	332	- 370
Change	+103%	+17%	- 89%	- 68%	- 108%

Source: World Bank,[22] author's calculations. Figures rounded.

The development of FDI net inflows before and right after the uprisings show dramatic shifts, moving investments away from revolutionary Tunisia, Libya and Egypt towards comparatively stable Morocco and Algeria, and Sub-Saharan Africa. For Egypt, which has traditionally attracted the biggest investments in the region, the FDI balance even turned negative. This situation has greatly increased the vulnerability of the three revolutionary countries, in particular Egypt and Tunisia, whose internal stability in the fragile transition phase greatly depends on boosting their economies through FDI. Although a moderate rebound in FDI is expected to contribute to a gradual recovery of North African economies over the next couple of years,[23] social tensions, political uncertainties and the weakness of North African financial sectors, paired with Europe's economic plunge, are sustaining a "wait-and-see attitude of investors" that is likely to be felt on the regions' short-term growth outlook.[24]

22. http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD
23. http://arabiangazette.com/tunisia-fdi-2012-rise
24. IMF, "Tunisia Faces Economic, Social Challenges Amid Historic Transformation", 5th September 2012, available at: http://www.imf.org/external/pubs/ft/survey/so/2012/car090512a.htm

As the following table shows, European investors account for the lion's share of FDI towards the region:

Main origins of North African FDI net inflows, 2011 (percentages)

	Egypt	Morocco (2010)	Algeria	Tunisia
UK	50	3	n/a	15
France	3	49	7	15
Spain	n/a	17	17	1
Italy	3	n/a	n/a	19
Belgium	10	n/a	n/a	n/a
Sweden	n/a	n/a	n/a	6
Germany	3	n/a	n/a	2
Netherlands	2	n/a	n/a	n/a
UAE	5	6	n/a	5
Switzerland	2	3	n/a	n/a
Kuwait	n/a	n/a	23	n/a
Egypt	n/a	n/a	17	n/a
USA	22	n/a	13	4
Canada	n/a	n/a	n/a	12
Saudi Arabia	3	n/a	6	n/a
Qatar	2	n/a	n/a	4
China	n/a	n/a	4	n/a
Australia	n/a	n/a	n/a	2

Sources: Banesto;[25] ICEX.[26] Figures rounded. No recent data for Libya is available.

At the EU-Egypt Task Force meeting in November 2012, the Egyptian government made it clear that its top priority is not comprehensive economic integration but rather an FDI boost. The UK holds 73 per cent of Egypt's FDI stock. Turkish investment in Egypt is expected to reach US$ 1 billion in 2013.[27] EU member states together account for between two thirds and one hundred per cent of FDI stock in Egypt, Tunisia and Morocco. While international investment schemes in Algeria (and possibly Libya) are more varied, in order to diversify their economies, both countries need not only broad economic reforms but also FDI.

A number of conclusions can be drawn:

- Data from 2011 show no clear pattern regarding recent increases or decreases in FDI net inflows by region. However, recent political alliances with some of the Gulf states and Turkey in particular are likely to herald a stronger investment presence of these countries in the region.
- Tunisia and Egypt are in direst need of new investments, in theory implying yet underexploited European cooperation and leverage potential. However,

25. http://comercioexterior.banesto.es/es/elija-su-mercado-objetivo/perfiles-de-paises/marruecos/inversion-extranjera-directa; http://comercioexterior.banesto.es/es/elija-su-mercado-objetivo/perfiles-de-paises/argelia/inversion-extranjera-directa
26. http://www.oficinascomerciales.es/icex/cma/contentTypes/common/records/mostrarDocumento/?doc=4618305; http://www.oficinascomerciales.es/icex/cma/contentTypes/common/records/mostrarDocumento/?doc=4542442
27. http://www.oficinascomerciales.es/icex/cda/controller/pageOfecomes/0,5310,5280449_5282957_5284971_4660810_EG,00.html

governments' limited hand in directing private sector investment flows also reduces the potential for FDI dependency to be used as an immediate leverage factor.

- While single EU member states' dominant investment presence (in particular the UK's in Egypt and France's in Morocco) makes some North African countries potentially receptive to European demands, it is also likely to enhance the weight of vested interests in these EU countries' relations with their North African partners, to the detriment of values-based foreign policy goals.

Remittances

Remittances constitute an important source of income for many developing and middle-income countries. In North Africa, while having only minor importance for the Algerian and Libyan economies, remittances account for important shares of GDP in Morocco (7 per cent), Tunisia (5 per cent) and Egypt (5 per cent).[28] Of the total remittances reaching Morocco, Algeria and Tunisia, between 85 and 95 per cent originate from citizens working in the EU.[29] Most North African citizens work in France, Spain and Italy. With unemployment soaring across Southern Europe in the wake of the global financial crisis, however, the EU and Spain in particular are gradually ceasing to be seen as the "land of opportunity", with net North African immigrant population figures falling for the first time in decades.[30] Nothing presently indicates, however, that these figures will not rebound with EU economic recovery.

Remittances to North Africa (in US$ million)

	Morocco		Tunisia		Egypt		Algeria		Libya	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Inward remittance flow (m€)	4930	5435	1583	1500	9558	10910	1569	1491	12	n/a
% population abroad	9.3		6.3		4.7		3.4		1.7	
% of GDP	7.2		5.3		5.1		1.5		0	

Figures for 2010 unless otherwise indicated. Sources: World Bank;[31] remittancesgateway.org.[32] Figures rounded.

While not an immediate leverage factor in bilateral relations, remittances account for an important enough share in North African GDPs to provide the EU with a stable influence factor in the region. This not only applies to remittances as the economic aspect of diaspora influence, but also to the broader political impact of North African migrant residents in Europe on governments on both sides.

Tourism

Egypt, Morocco and Tunisia are highly dependent on tourism. Three quarters of the region's annual tourists originate from the EU. Tourism represents 11.3 per cent of

28. Egypt: http://www.remittancesgateway.org/index.php/country-information/africa/268-egypt; Morocco: http://www.remittancesgateway.org/index.php/country-information/africa/621-morocco; Tunisia: http://www.remittancesgateway.org/index.php/country-information/africa/266-tunisia
29. European Investment Bank–FEMIP, "Study on improving the efficiency of workers' remittances in Mediterranean countries", available at: http://www.eib.org/attachments/country/femip_workers_remittances_en.pdf
30. J. Thorne, "Spain loses title as Moroccans' land of opportunity", *Christian Science Monitor,* 22nd October 2012.
31. http://data.worldbank.org/data-catalog/migration-and-remittances
32. http://www.remittancesgateway.org/index.php/country-information

Egypt's GDP, provides 40 per cent of the country's non-commodity exports and 19.3 per cent of foreign currency revenues.[33] In Morocco, tourism accounts for 10 per cent of GDP; and in Tunisia, for 6.5 per cent of GDP, employing 11 per cent of the work force. In 2011, the Middle East (-8 per cent) and North Africa (-9) were the only regions globally to experience a decline in tourist arrivals, which hit particularly hard traditional tourist destinations such as Egypt and Tunisia.[34] Non-revolutionary Morocco, by contrast, benefitted from its neighbours' turmoil via increased arrivals in the same period.

Tourism arrivals, before and during/after revolutions
(percentage of change compared to the previous year)

	Egypt	Morocco	Tunisia
2010	+18	+11.5	+/- 0
2011	-32	+7.5	-31

Source: World Bank.[35]

Although 2012 has seen a moderate rebound of tourism, especially in Tunisia,[36] the geographical proximity of Europe to North Africa and EU citizens' purchasing power make a lasting dependency on European tourism to Egypt, Tunisia and Morocco likely. At the same time, however, relative dependency may decline in the future as the recent low has led North African tourism industries to reach out to a growing market of Eastern European and Middle Eastern visitors to mitigate declining tourism from the eurozone.[37]

Considering all the above economic indicators together, we may conclude that the heavy asymmetry in economic dependency of North African countries on the EU27 has not been meaningfully altered over the past few years. However, recently the diversification trend in the region due to regional and global economic developments has been reinforced, further increasing the considerable existing variations among countries through the combined effect in particular of the Arab Spring and the economic crisis. Political determination adds to economic indicators: while Libya and Algeria remain largely independent on the EU economically, new governments in Egypt and Tunisia are likely to push for diversification of economic partnerships and greater independence from Europe once their domestic socio-economic situation allows.

Political Dependency

The political dynamics of bilateral inter-governmental relationships are conditioned by a wide range of factors. Indicators assessed in the context of this study include the general political alignment, energy security, crisis management and security alliances.

33. Egypt State Information Service, http://www.sis.gov.eg/en/story.aspx?sid=1042
34. World Tourism Organization, UNWTO World Tourism Highlights 2012, available at: http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/docpdf/unwtohighlights12enlr_1.pdf
35. 2011 estimate, World Bank, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1322593305595/8287139-1339427993716/GEP12bMNA_RegionalAnnex.pdf
36. IMF, 5th September 2012, op. cit.; Reuters, http://www.reuters.com/article/2012/04/19/uk-morocco-tourism-idUSLNE83I00M20120419
37. http://www.reuters.com/article/2012/04/19/uk-morocco-tourism-idUSLNE83I00M20120419

Political Alignment

The trajectories of the five MENA countries regarding their partnerships and general political alignment with the EU vary greatly. Morocco stands out as the one country that has long made a clear strategic choice for Europe. It is the only Arab country ever to have applied for EU membership, the Southern neighbourhood partner with the greatest level of institutional integration with the EU and the one that has been keen on advancing economic and political integration between the two shores. Arguably, Morocco's clear political alignment with the EU is a function of the fact that, unlike most of its neighbours, it has neither substantial domestic resources nor comparable alternatives (assuming that the GCC's informal offer of membership, rejected by Morocco, cannot be interpreted as heralding any larger partnership offer). Thus, taking a strategic pro-EU course is the only sensible foreign policy choice.

Tunisia under Ben Ali was a keen economic partner, while political cooperation remained stalled. Post-revolutionary Tunisia significantly stepped up its level of cooperation with the EU in both political and economic terms, and Brussels has focused much attention and effort in promoting Tunisia as a poster child and "success story" for Arab democratisation. For the EU's Tunisian counterparts, intensive cooperation is likely to be rooted in more pragmatic motivations: beyond the symbolic importance as the cradle of the Arab Spring, the impact of regime change in enhancing the country's regional political profile has been limited. While perhaps slightly more reluctantly than Morocco's *Makhzen,* the Ennahda-led government in Tunis continues the country's alignment with the EU. In November 2012, an agreement was reached on a new ENP action plan towards a "Privileged Partnership" for Tunisia. According to the European Commission, relations with the Tunisian leadership since the revolution have been "intense", with the latter "keen to be seen as a close partner of the EU."[38]

On the other side of the spectrum, both Libya and Algeria have been reluctant to join the ENP. Libya is the only North African country that has no formal agreements with the EU and is not currently part of the ENP. Talks for a framework agreement, which had temporarily been suspended during the 2011 Libyan crisis, resumed after the end of the conflict. In spite of growing EU-Libyan ties and numerous shared interests, including fostering free trade between the two sides, there seems to be little rationale for Libya to commit to the kind of comprehensive, institutionalised relationship with the EU that the ENP aspires to. The ENP review during and after the 2011 uprisings has not substantially changed this outlook as it has failed to address the lack of incentives for countries like Libya to take upon themselves the burden of systematic EU integration.

Algeria had long rejected joining the ENP until recently, when the Arab Spring moved the Bouteflika regime towards a slightly more pro-European position. An ENP Action

38. http://europa.eu/rapid/press-release_MEMO-13-81_en.htm

Plan for Algeria is currently under negotiation. However, Algiers' sudden change of mind should be interpreted as the result of domestic and regional reform pressures in the context of the changed regional environment, rather than as a sudden boost of sympathy for the ENP or the EU as such. Revolutions have ousted three governments in the region, and the Bouteflika regime rightly feels under siege. This perception has been further exacerbated by the fact that the secular Algerian military now sees itself surrounded by Islamist governments in almost all of its immediate neighbouring countries, pushing Algiers to seek stronger political backing in the north. Moreover, both Algeria and Libya have hydrocarbon-dependent economies, in which employment and social justice will gradually have to replace state subsidies in order to keep social pressures at bay, but in order diversify their economies both countries need FDI and broad economic reforms.[39]

Egypt has a long history of firm political alignment with the US and, in spite of tensions over the country's conflictive transition process under the Muslim Brotherhood-led Islamist government, nothing indicates fundamental changes in Egypt's general alignment. The government's reliance on financial and political support from the United States and the Gulf is likely to remain the main pillar of its foreign policy. Following the revolution, Egypt's MB-led leadership is said to have entered a strategic partnership with Qatar, involving substantial financial aid, reportedly in exchange for a Qatari share in the contracts to expand the Suez Canal, and Egyptian support for Qatari candidacy to international posts, including Arab League leadership.[40] But even if Egypt's long-standing foreign policy alignment is flanked by the building of stronger ties with Turkey and Qatar, these are important US allies themselves, leaving Egypt's key role in the US-leaning axis intact.[41] Egypt's cooperation with the EU and its member states, largely rooted in tangible financial and economic interests, will continue, but still plays in a different league to the US.

In short, the panorama of differentiation, crystallised over the past decade, has been reinforced through the 2011 uprisings. While Morocco and Tunisia show a clear political alignment with the EU, Egypt's key international ally continues to be the US, with EU institutions and member states among the important second row allies. Libya and Algeria cooperate on specific dossiers but do not currently need to align themselves with anyone in a broader institutional sense, although in the case of Algeria this may change depending on domestic and regional pressures on the regime. While for Morocco and Tunisia ENP institutional integration constitutes a logical institutional follow-up to their strategic political alignment, for Libya, Algeria and Egypt, looser, more selective and interest-based partnership schemes are likely to prove more attractive than the comprehensive offers available under the ENP.

39. S. Dennison, op cit.
40. See E. Dacrema, "New emerging balances in the post-Arab spring: the Muslim Brotherhood and the Gulf monarchies", *ISPI Analysis* 155, January 2013.
41. See I. El Houdaiby, "From Prison to Palace: the Muslim Brotherhood's challenges and responses in post-revolutionary Egypt", FRIDE, February 2013.

Energy

EU dependency on imports is increasing for all fossil fuels. In 2011, the EU imported 84 per cent of its oil and 64 per cent of its gas needs, making the bloc the largest importer of these fuels globally. In spite of plans to increase the share of renewable energies, fossil fuels account for three quarters of the EU's total energy needs and will continue to account for the overwhelming majority of EU energy needs in the coming decades, even if the ambitious renewables objectives are achieved.[42]

EU27 energy dependency on oil and gas (percentage)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Crude and oil products	75.5	77.3	75.9	78.5	79.8	82.3	83.5	82.4	84.2	83.1	84.3
Natural gas	48.9	47.2	51.1	52.4	54.0	57.7	60.8	60.3	62.3	64.3	62.4

Source: Eurostat.[43]

Algeria and Libya, and to a lesser degree Egypt, are important oil and gas suppliers for Europe, while Morocco and Tunisia are important transit countries. EU member states import 14 per cent of their gas from Algeria, 3 per cent from Libya and 2 per cent from Egypt.[44] Just over 10 per cent of EU27 crude oil imports come from Libya.[45] These figures show that Libya and Algeria in particular are important but not indispensable partners to ensure EU energy security. This general view is, however, slightly relativised by the considerable variation among EU member states regarding their dependency on energy imports in general, and on the MENA in particular. In 2011, the EU's five largest energy consumers (and, incidentally, the largest aid donors and investors in North Africa) were Germany (depending on imports for 61 per cent of its energy needs), France (49 per cent), the United Kingdom (36 per cent), Italy (81 per cent) and Spain (76 per cent), together accounting for nearly two thirds of total EU27 energy consumption.[46] Italy, France and Spain are the most dependent on Southern Mediterranean energy. Algerian gas in particular accounts for 30 per cent of domestic demand in Italy, and 40 per cent in Spain.[47]

42. European Commission, Directorate-General for Energy: Market Observatory for Energy: Key Figures, June 2011, available at: http://ec.europa.eu/energy/observatory/countries/doc/key_figures.pdf; Eurostat, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/8-13022013-BP/EN/8-13022013-BP-EN.PDF
43. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:EU_Oil_and_Natural_Gas_Dependency_%28in_%25%29.png&filetimestamp=20120719132923
44. http://ec.europa.eu/energy/observatory/countries/doc/key_figures.pdf
45. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:EU_Oil_imports,_by_country_of_origin_%28in_%25%29.png&filetimestamp=20120719133014
46. Percentages rounded. Eurostat, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/8-13022013-BP/EN/8-13022013-BP-EN.PDF
47. F. Ghilès, "Algerian Gas Challenges after the Attack on In Amenas", CIDOB, March 2013.

North African hydrocarbon export destinations (percentage of total exports)

	Libya (2010)	Algeria (2010)	Egypt (2011)
Italy	27	17	22
France	16	6	n/a
Germany	10	1	n/a
Spain	10	10	3
Greece	5	n/a	n/a
UK	5	2	n/a
Netherlands	n/a	7	n/a
India	n/a	3	51
China	11	2	6
Malaysia	n/a	n/a	3
USA	3	23	n/a
Canada	n/a	5	n/a
Israel	n/a	n/a	4
Brazil	n/a	4	n/a
Turkey	n/a	6	n/a
Other	14	n/a	11

Source: US Energy Information Administration;[48] Observatory of Economic Complexity.[49] Figures rounded.

Energy dependency, however, is not one-sided: Algeria and Libya, whose economies depend entirely on hydrocarbon production, of course need EU markets in the short run, and also benefit from EU investments in this sector. Libya, which holds Africa's largest proven oil reserves, saw production come almost to a halt during the 2011 crisis, but quickly recovered to pre-war levels by mid-2012. This was partly due to the fast return of major Western companies including Total (France), ENI (Italy), Repsol (Spain), Wintershall (Germany) and Occidental (US), many of which are providing their own security on production sites, often located in remote desert areas, beyond the control of government security forces.[50]

As boosting economies such as China, Brazil and India increasingly look towards the Middle East to meet their growing domestic energy demands, the capacity of North African suppliers to shift to markets other than the EU will depend on shifting international demand as well as transport infrastructure. Gas in particular is still largely dependent on pipeline infrastructure. In 2010, 65 per cent of Algeria's natural gas was exported to the EU through the pipelines connecting Algeria with Italy and Spain, while 35 per cent was exported by tanker as Liquefied Natural Gas (LNG). While geographical proximity makes Europe a natural choice for Libyan and Egyptian oil, supply shifts are potentially more flexible. This can be observed in the case of Egypt, which in 2011 exported over half of its crude oil to India.

48. US Energy Information Administration, http://www.eia.gov/countries/cab.cfm?fips=LY; http://www.eia.gov/countries/cab.cfm?fips=EG; http://www.eia.gov/countries/cab.cfm?fips=AG

49. http://atlas.media.mit.edu/explore/tree_map/export/dza/show/all/2010

50. http://www.dailystar.com.lb/Business/Middle-East/2012/Oct-20/192086-oil-production-boosts-libya-economy-instability-hampers-reconstruction.ashx#axzz2LvGLrP4z

With the rise of shale gas exploitation, many analysts predict a gradual shift in the energy-supplier relationship of fossil fuels that is likely to move the advantage from supplier to customer and shift the geopolitics of energy potentially in the US and the EU's favour.[51] Similarly, the increasing LNG trade makes a loosening of traditional energy dependencies of customer from supplier likely. At the same time, growing global energy demand will increase prices and competition on the global market. These and other structural changes in the global energy markets will no doubt bring about substantial changes in the way energy security has been conditioning asymmetries in political relationships over the past decades. However, these changes will only happen gradually over time, and the scope of their impact remains uncertain. For example, experts differ regarding both the speed and the degree to which shale gas reserves can be exploited in practice, and hence over the potential game-changing impact this resource can have in international relations. In this sense, the impact of these new technologies in reducing European energy dependence on the Middle East and Russia may prove less than enthusiastically anticipated by some. In the meantime, while perhaps not amounting to "dependency" except in the case of Italy, Southern European EU member states' strong interest in Algerian and Libyan gas and oil remain.

Crisis management and Security Alliances

The existence of actual or potential security threats in the country's immediate neighbourhood is an important factor that influences EU leverage in terms of security.[52] Formal security alliances (such as membership in collective security pacts, participation in EU security operations, etc.) also play a role in positioning a country closer to or further from the EU.

The impact of the increasing regional security challenges on relations between the Northern and the Southern shores of the Mediterranean is mixed. A new dimension of collective security challenges that emerged over the past few years increasingly demand larger commitments and cooperation from partners on both sides of the Mediterranean and beyond. As a result, interdependencies are growing. On the one hand, EU member states require North African cooperation to safeguard their substantial economic and security interests in Northern and Sub-Saharan Africa. While there is little appetite in North African governments for direct foreign involvement in tackling internal security problems (such as tensions on the Sinai, jihadist threats like the Algerian hostage crisis, Western Sahara), they lack the capacity to tackle transnational security threats of this magnitude and must increasingly rely on Europeans (alongside West African multilateral efforts) as regional security providers.

51. See for example A. Riley, "The shale Revolutions' Shifting Geopolitics", *The New York Times,* 25th December 2012, http://www.nytimes.com/2012/12/26/opinion/global/the-shale-revolutions-shifting-geopolitics.html?_r=0

52. See also A. Bendiek, op cit.

The increasing insecurity in the Sahara-Sahel nexus over the past years has been a source of raising concern for all North African countries and the EU alike. European governments have been keen to secure effective collaboration from their North African partners in controlling borders, countering terrorism, trafficking and arms trade, and in responding to immediate security challenges. The recent escalation of the conflict in Mali has been of great concern for Algeria and Morocco which fear spillover. At the same time, the crisis in Mali inevitably put Europe's relations with Algeria in a new light, tilting the relationship to the latter's advantage. With its strong military capabilities and experience in counter-terrorism, Algeria has become an indispensable partner in the Mali crisis and the Sahel quagmire more broadly, and France and the UK have recently gone to great lengths to build stronger relations with Algiers. Known for owning one of the most powerful and efficient armies in the region, Algeria has been criticised by its European partners for deficits in its regional security management over the past year. France needs Algeria's help effectively to seal off borders to weaken the capacities and logistical options of Al-Qaeda in the Islamic Maghreb (AQIM) and its allies, which currently get life support by resource inflows via Algeria.[53]

In contrast, post-revolutionary Libya lacks a professional army and has not been able to secure borders efficiently. A flow of weapons and supplies from Libya since the fall of Gaddafi has strengthened the capacities of terrorist groups across the area, helping them to consolidate their trans-national hold on the Sahel, enabling the recent Algerian hostage crisis and the Islamist conquest of Mali, among others.[54] Tunisia, too, is quickly becoming a smuggling corridor for arms dealers operating between Libya and Mali, and Egypt's Sinai Peninsula provides a breeding ground for new jihadist fighters. International concerns over the increase of trans-border militancy in the region are further aggravated by the fragility of North African democratic transitions, which are feared to be subject to negative security spillovers from the south. [55]

While security cooperation on border control, migration and counter-terrorism has been a cornerstone of EU-North African relations for years, formal defence ties have been largely reduced to arms sales.[56] Systematic Euro-Mediterranean defence cooperation is largely limited to the 5+5 security forum, a semi-institutionalised military cooperation mechanism between five Northern and five Southern Mediterranean countries that has reportedly sprung to new life in the past two years and received a broader mandate to better meet new collective security challenges. In the absence of concerted EU action in security matters, France (and to a lesser degree, the UK) is gradually becoming, albeit reluctantly, a major security provider in the region. In less than two years, France has carried out three substantial security interventions (Libya and Ivory Coast in 2011, and

53. See A. Boukhars, "What's Next for Mali and Algeria?", Carnegie Endowment for International Peace, 23rd January 2013; S. Dennison, "The EU, Algeria and the Northern Mali Question", ECFR, December 2012.

54. R. Khalaf, "Old nightmare comes back to haunt Algeria", *Financial Times,* 17th January 2013.

55. A. Boukhars, op cit.

56. A. Dworkin and N. Witney, op. cit., p. 46.

now Mali). North African states share the EU's deep interest in Sahel security but are unable to provide or even substantially contribute to the needed operations. At the same time, they often indirectly hamper efforts through passivity, which may be rooted in competing interests, sovereignty considerations, or lack of capacities.

Long-standing EU and US criticisms and concerns in relations with their North African counterparts have taken on a new dimension with the massive security challenges flourishing in the Sahel following the Arab Spring and the outbreak of armed conflict in the region, all of which require a resolute regional solution. Even if they were prepared to do so, the EU and its member states would not be able to resolve the security challenges alone, but need Algerian and Libyan and to, a lesser degree, Moroccan, Tunisian and Egyptian cooperation to tackle these effectively.

In short, political dependency between the two shores is a highly complex mixed bag. Here, too, there is great variation between countries, depending among others on countries' geographical situation, natural resources, military capacities, internal security situation, and strategic political alignment. While the impact of the evolving regional security situation on the interdependence symmetry between the EU and Algeria and Libya in particular remains to be seen, it appears clear that both Morocco and Tunisia as political lightweights depend on EU political support, and that Egypt stands out as a case in which larger political interests will outweigh any economic considerations, thereby placing the country in a favourable negotiating position vis-à-vis the EU.

Receptivity to Reform

Aside from economic and political factors that condition the EU's negotiating power in the bilateral relationship, a country's receptivity to the ENP's normative goals and values and the political reforms that derive from them are also conditioned by the degree to which – beyond lip service – the ruling elite's interests converge with the EU's reform agenda; and of course the degree to which the incentives offered – and more importantly, delivered – are attractive enough to tip the balance in the EU's favour.

Reform Inclination

Ruling elites' reform inclination can be assessed through three indicators:[57]

- The extent to which the political and economic reforms within the ENP converge with the ruling elites' vested interests;
- The level of implementation of significant democratic reform measures in the last two years;

57. See also A. Bendiek, op. cit., p. 7.

- The level of domestic demand and pressure for democratic reform implementation.

Vested interests of the political elite that run counter to in-depth political and economic reforms are particularly strong in countries where old entrenched elites are still in place and calling the shots through patronage in business, security and politics. This is above all the case in non-revolutionary Algeria and Morocco, but also in Egypt where the revolution has fallen short of deconstructing military rule and deeply entrenched patronage networks.

Political reform implementation has been notable in revolutionary Tunisia and Libya, both of which attempted, if only partially and in different ways, a fresh start. By contrast, in Egypt, the victorious Muslim Brotherhood has been trying to seize its moment in power to re-draw the lines of the political order following its own preferences, instead of trying to build consensus and reconciliation among its deeply polarised society. Deep controversies over the implemented reforms and escalating social tensions and confrontation have ensued. Reform implementation in Morocco has been notable, although of a different nature: building on its long-standing strategy over the past decade, the Moroccan ruling elite has markedly accelerated the pace of reforms in the wake of the 2011 regional uprisings. However, the democratic merit and quality of these reforms are highly controversial as they continue to constitute not a broadly agreed societal consensus but comparatively superficial top-down reforms designed and steered from above. Algeria has remained the North African country least touched by the 2011 uprisings, and its level of meaningful reforms, in spite of increased lip service, has remained negligible.

Internal pressures to implement meaningful political and economic reform have greatly increased across the region, both in specific domestic contexts and as a result of the overall changed regional environment in the wake of the Arab Spring. Domestic pressures remain very high in Egypt, Tunisia and Libya: revolutionary societies have gained the respect of their ruling elites, and public accountability can be expected to play an important (if not necessarily decisive) role. By contrast, neither Algeria nor Morocco have shown similar levels of public mobilisation. In Algeria, this is commonly ascribed to society's fear of destabilisation stemming from the recent civil war experience, as well as to the strong grip of the Algerian military. In Morocco, the comparatively moderate level of public pressure, and in particular the lack of demands for regime change, is often ascribed to the relative popularity or legitimacy of the monarchy, and the implicitly resulting public choice for a non-revolutionary path to reform.

Hence, Tunisia's and Libya's ruling elites' reform inclination can be considered comparatively high, Egypt and Morocco's as ranging at a medium level, and Algeria's as low.

Incentives

In the wake of the 2011 uprising, the EU pledged to respond more thoroughly to some of the Southern partners' major, long-standing demands, the "three Ms": money, markets and mobility. Ironically, however, these incentives were rather hastily proclaimed by High Representative Catherine Ashton as the EU's main boost of incentives to support Southern neighbours in the wake of the Arab Spring, when responsibility to deliver these are lying with the member states, who were in practice not prepared to deliver such a level of commitment. Indeed, more money was released, but as shown above, even increased ENP funds are not competitive enough to have any significant impact on leverage. Member states have resisted any bolder commitments on mobility. In terms of markets, economic integration offers were not sufficiently tailored towards partners' individual preferences to induce the enthusiasm Europeans had expected. Moreover, the great stress on a more "partnership-based" approach remains empty as long as "mutual accountability" exists only on paper. Similarly, Europe's response has been largely driven by existing instruments, not necessarily by the most pressing developments and challenges on the ground.[58] Most importantly, however, the ENP review has failed to address the pertinent question of how to influence countries which are reluctant about (or uninterested in) comprehensive institutionalised relations with the EU.[59]

Mobility partnerships have in practice largely constituted a way for EU member states to have Southern partners commit to tangible agreements to reducing illegal immigration flows, inter alia by border control and readmission agreements. No comprehensive visa facilitation is likely to be granted. As a result of this asymmetrical offer, mobility partnerships are of limited interest for most North African countries and are only currently being negotiated with Morocco and Tunisia, while Egypt rejected outright even to start negotiations.

Similar reservations exist with regard to the benefits of enhancing market access via the free trade deals currently on offer. The EU's goal to establish a Euro-Mediterranean free trade area via a series of bilateral DCFTAs is of limited attractiveness for Southern countries that are struggling with huge economic and political challenges. Unlike Turkey when implementing the successful Customs Union with the EU, Arab partner states lack the incentive of accession to adopt the EU's full rulebook, and need to

58. P. Morillas and E. Soler, "The EU and the Arab Spring, One Year After: A View from the North", EuroMeSCo, 2012.
59. R. Balfour, "EU Conditionality after the Arab Spring", IEMED / EuroMeSCo, June 2012, p. 26.

deliver economic promises quickly if momentum for democratisation is to be maintained. While there is consensus between the two shores over the mutual benefits of enhanced economic cooperation, the EU's economic integration portfolio does not currently respond to what most Southern partners see as priorities.
Three main conclusions can be drawn regarding the role of incentives:

- ENP financial incentives are too small to tip the balance on any controversial policy dossier. Major non-financial incentives such as larger promises on markets and mobility are either not being delivered or not sufficiently tailored towards Southern priorities and capacities as to constitute a meaningful incentive. Hence, the Southern ENP currently lacks any powerful incentive attractive to all Southern partner countries alike.
- Brussels tends greatly to overrate the weight and significance of its financial contributions and, more generally, the capacity of money to bring about "deep" political reform. By contrast, the weight of strategic political consideration and national interests, both in the north and south, is heavily underestimated.
- Even more than before the 2011 uprisings, the ball lies in member states' courts. Not only do their financial incentives outstrip Brussels' offers manifold, they also hold the key to releasing the incentives most vigorously demanded by the partners. Member states need to decide whether they will equip EU institutions with the clout needed to make comprehensive institutional integration with the EU worth it for Southern partners. The alternative will be an ENP tortuously sinking into political insignificance, and a scattering of the EU-Mediterranean space into a highly fragmented playing field of bilateral relationships.

Satellites, Independents and Untouchables

Based on the scores from the various political, economic and security factors discussed above (as summarised in the overview table below) the five Southern ENP partner countries assessed here can be divided into three groups which – from a European perspective – we may tentatively denominate here “satellites”, “independents” and “untouchables”.

Indicators of relative European “leverage” over North African countries

INDICATOR	Morocco	Algeria	Libya	Tunisia	Egypt
Trade	Yes	No	No	Yes	Ambiguous
Development aid	Yes	No	No	Yes	Ambiguous
FDI	Yes	No	n/a	Yes	Yes
Remittances	Yes	No	No	Yes	No
Tourism	Yes	No	No	Yes	Yes
Political alignment with EU	Yes	No	No	Yes	No
Crisis management & security alliances	Yes	No	Yes	Yes	No
Strong domestic pressures	No	No	Yes	Yes	Yes
High elite reform inclination	Ambiguous	No	Yes	Yes	No
Incentive power	Yes	No	No	Yes	No
TOTAL	Yes	No	No	Yes	No

Yes No ······· Ambiguous

Type 1: The Satellites: Tunisia and Morocco

These countries have a high and lasting economic, political and security dependency on the EU and its member states. They depend on the EU market to sell their products and have no immediate substitutes. They have no access to meaningful natural resources and need European development assistance. Tunisia in particular depends on European money and political support to obtain loans, development assistance, investment and tourism to get back on its feet. Morocco has long chosen strategic political alignment with the EU and depends significantly on EU resources and on ties with France and Spain. Morocco also depends on EU support in its conflict with Algeria over the Western Sahara. For both Morocco and Tunisia, the ENP (complementary to their bilateral deals with specific member states) is the best comprehensive partnership offer they have. For both, the incentive package provided by the ENP, including the potential advantages of economic integration under the proposed free trade agreements, outweigh the disadvantages. Moreover, both countries (to varying degrees and rationales) show reasonable governmental support for democratic reforms and the alignment with Europe enjoys public support. For "satellite" states, the ENP – and the strategic choice of Europe as their primary partner – is worthwhile politically and economically, and is likely to remain so for the foreseeable future.

Being built on the cornerstone of incentives-based gradual convergence and integration, the ENP rationale can by definition only work with countries for which the benefits of the deal outweigh its disadvantages. In other words, the policy is shaped towards and can only efficiently work with type 1 countries.

Type 2: The Independents: Algeria and Libya

These two countries are characterised by abundant access to natural resources, which makes them largely self-sufficient economically and independent from EU aid and other financial incentives. Although both export a significant percentage of their products to the EU, they export mainly oil and gas, for which they would be able to find alternative markets. In political terms, both differ significantly regarding elite receptivity for democratic reforms, to which the Algerian government is highly hostile and the Libyan post-revolution elites receptive. Unlike Algeria, Libya now depends on external help to tackle its significant domestic security challenges, and to build state institutions from scratch. While both countries increasingly depend on external help to deal with regional security threats, their strategic significance as partners for the EU in tackling these collective challenges has increased as well. Despite significant differences in the political and security situation, for both countries the ENP has little to offer that would justify the burden, obligations and (in their view) patronising conditionality framework that comes with the deal.

Type 2 countries are economically and politically too independent from the EU to make a framework such as the ENP in its current design worthwhile. The ENP's main (albeit not fully exploited) clout is economic integration, which as an all-or-nothing package is unattractive to financially independent states. In fact, anything other than focusing on targeted, interest-based bilateral relations with some EU member states would contradict the incentive logic of states of this profile. Why subscribe to heavy bureaucratic commitments for a few dimes when your actual needs and priorities may as well be satisfied through bilateral ad hoc deals?

This might be different if the ENP package included more flexible economic cooperation schemes, or a more tangible security component. Constraints of national sovereignty notwithstanding, security cooperation could be an area of significant potential in relations with type 2 countries. However, this area is largely excluded from the ENP package as

EU member states are reluctant to commit more tangibly to a collective security scheme. Moreover, while more structured security cooperation is likely to be required, non-institutionalised frameworks such as the revived 5+5 might be more attractive to both Northern and Southern states.

Type 3: The Untouchables: Egypt

Type 3 countries are those whose heavy strategic relevance for overall Middle Eastern peace and security enables them to play with European preferences, with little consideration to what their dependencies in other areas of cooperation may be – a scheme that applies to the majority of states in the Levant, among which only Egypt is included in the present assessment. While Egypt draws tangible benefits from the partnership with the EU in many respects, it is neither economically nor politically dependent on the Union as the latter's regional political influence and financial incentives are negligible compared to those of Egypt's patron state, the US, financial assistance from the Gulf, and a broadening portfolio of partnership offers. Europe's heavy political reliance on Egypt as a regional ally and power broker in practice weighs heavier than offers from either Brussels or EU member states. While Egypt appreciates not only ENP commitments but general European support on various bilateral and multilateral fronts to get out of its current financial tight spot (including debt cancellations and political support to obtain loans), Cairo is rapidly diversifying its international ties, most notably with the Gulf countries and Turkey. This heralds a further reduction of EU influence in the coming decade. While Egypt requires significant security assistance to manage its relations with Israel (and increasingly also on the Sinai Peninsula), the EU is not an important provider of such assistance. Egypt's strategic significance for Middle Eastern peace and security will place it in a privileged negotiating position vis-à-vis Europe for years to come, which no aid, trade or mobility offers the EU is willing or able to provide will be able to alter.

The ENP logic based on a rational give and take of incentives is of extremely limited use when dealing with type 3 countries, given that mutual awareness of the overwhelming strategic significance of the partnership inhibits a healthy functioning of any conditionality-based dynamic. Towards Egypt, the ENP's "more for more" and "less for less" rationale is completely illusory both due to the limited attractiveness of incentives and the overwhelming negotiating power of the Egyptian government which, in view of the Morsi government's emerging regional clout, is only increasing. In consequence, with regard to "untouchable" Egypt, the ENP can aspire to be no more than a cooperation framework complementary to a set of bilateral partnerships that, one way or another will steer the direction of the partnership.

Implications for EU Policy

The above assessment has a number of implications for future EU policy.

1. The ENP's underlying assumption of relative EU hegemony in the neighbourhood as a precondition for conditionality-based policies is expiring. In 2004, the European Neighbourhood Policy was conceived on the fundamental assumption of a permanent asymmetry of leverage/influence in favour of the EU towards its immediate neighbours. The entire neighbourhood was conceived as a "circle of friends", or European satellites. In the Southern neighbourhood, this was never quite the case. Over the past decade, authoritarian rulers opted for EU alignment as a means of stabilisation and survival. Today, domestic accountability is a new feature in Arab politics, and while elites' receptivity for domestic political reform has radically increased in some countries, so have public awareness, empowerment and reform pressures across the region. Newly empowered citizens' receptivity for condition-based international cooperation has decreased, and fear of external interference in domestic political developments is widespread. Moreover, the EU's political and economic partnership offers face increasing competition from non-Western players. So while the prospects for systemic democratic reforms might have somewhat improved, the conditions for supporting such processes from the outside through the kind of integration- and conditionality-based cooperation policies offered by the ENP have worsened.

2. Fragmentation and diversification are replacing the notion of a Southern "neighbourhood". The increasingly complex regional geopolitical environment is leading to a political and economic diversification upon which to force the hat of "EU neighbourhood" as a common label of aspirants to strategic integration with the EU looks increasingly inappropriate. Most North African neighbours are no "satellite"-type partners (and those in the Levant even less), and the stumbling European capitals lack the means or will to do their bit to change that. The "EU's neighbourhood" – understood as a multi-country regional policy target with a sufficient degree of uniformity to apply a common policy framework – is fading.

3. In its current form, the ENP will de-construct itself by differentiation beyond recognition. The ENP's rationale is today only applicable to the small number of countries belonging to the "satellite" type. With the rest, EU aspirations under the ENP framework should be drastically scored down, and complemented by more flexible cooperation schemes that respond to partners' interests and priorities. Since the ENP's inception, the EU has struggled with how to implement differentiation while maintaining coherence under the ENP umbrella. Today, the countries of the Southern Neighbourhood have already drifted apart to such an extent that a future ENP would require a degree of differentiation beyond

recognition that would de facto equal an approach of tailor-made bilateral relationships (even if these remain formally bundled together under the name "ENP").

4. The EU overrates its role as an aid donor, and underexploits its potential role as a security provider. An underdeveloped area in which also type 2 and 3 countries take a great interest is regional security. By positioning itself – complementary to its current economic and normative role – as a regional security provider, the EU could fill a niche left increasingly void by the US and make itself an indispensable strategic partner for all North African countries. The rise of regional security challenges implies that both Northern and Southern partners might under certain conditions be more inclined to enter trans-Mediterranean security alliances. Such alliances, however, further undermine current Brussels-led policy frameworks and lead to further fragmentation of EU-MENA policies, as they would be likely to materialise outside rather than inside EU policy frameworks. EU member states are reluctant for the EU to become a major international security provider "because the European project was created in opposition to the idea of power" – and because they are unwilling or unable to provide the necessary resources. However, the transnational threats both Europe and North African partner countries face require a response that the UK and France cannot provide alone. Moreover, the international system is 'increasingly coalescing around national powers that consider military force to be an essential prerequisite of influence' – if EU influence in its extended neighbourhood is to be preserved, European soft and hard power must go hand in hand.[60]

5. Not heavy institutional integration, but more flexible, interest-based alliances are likely to constitute the backbone of future EU-Mediterranean relations. Algeria's lack of enthusiasm for the ENP scheme was always rooted in its lack of interest in institutionalising relations with the EU, rather than a consequence of the EU holding back any sort of incentives. The EU's approach of heavily institutionalised integration with its Southern neighbourhood is reaching its limits.[61] If transitions are to bear fruit, Arab governments need to deliver quick economic relief to their citizens, which EU schemes cannot provide. Starting from specific shared goals (not instruments and institutions), the EU should seek to develop a broader package of flexible schemes for economic integration, energy and security cooperation. Translating the increasing differentiation in the Mediterranean south into the EU's policy approach seems inevitable, and this must happen in a more radical, less "patched-up" way. Rather than fostering fragmentation, differentiation and flexible alliances could help create positive new dynamics in the short term, and develop new momentum for deeper multilateral EU-Mediterranean cooperation in the future.

60. Z. Laïdi, "France alone?", Project Syndicate, 16th January 2012.

61. See also K. Kausch, "Can the crisis unlock Euro-Mediterranean relations?", FRIDE Policy Brief, November 2012.

IEMed.

The European Institute of the Mediterranean (IEMed), founded in 1989, is a consortium comprising the Government of Catalonia, the Spanish Ministry of Foreign Affairs and Cooperation and Barcelona City Council. It incorporates civil society through its Board of Trustees and its Advisory Council formed by Mediterranean universities, companies, organisations and personalities of renowned prestige.

In accordance with the principles of the Euro-Mediterranean Partnership's Barcelona Process, and today with the objectives of the Union for the Mediterranean the aim of the IEMed is to foster actions and projects which contribute to mutual understanding, exchange and cooperation between the different Mediterranean countries, societies and cultures as well as to promote the progressive construction of a space of peace and stability, shared prosperity and dialogue between cultures and civilisations in the Mediterranean.

Adopting a clear role as a think tank specialised in Mediterranean relations based on a multidisciplinary and networking approach, the IEMed encourages analysis, understanding and cooperation through the organisation of seminars, research projects, debates, conferences and publications, in addition to a broad cultural programme.

EuroMeSCo

Comprising 93 institutes from 32 European and South Mediterranean countries, the EuroMeSCo (Euro-Mediterranean Study Commission) network was created in 1996 for the joint and coordinated strengthening of research and debate on politics and security in the Mediterranean. These were considered essential aspects for the achievement of the objectives of the Euro-Mediterranean Partnership.

EuroMeSCo aims to be a leading forum for the study of Euro-Mediterranean affairs, functioning as a source of analytical expertise. The objectives of the network are to become an instrument for its members to facilitate exchanges, joint initiatives and research activities; to consolidate its influence in policy-making and Euro-Mediterranean policies; and to disseminate the research activities of its institutes amongst specialists on Euro-Mediterranean relations, governments and international organisations.

The EuroMeSCo work plan includes a research programme with three publication lines (EuroMeSCo Papers, EuroMeSCo Briefs and EuroMeSCo Reports), as well as a series of seminars and workshops on the changing political dynamics of the Mediterranean region. It also includes the organisation of an annual conference and the development of web-based resources to disseminate the work of its institutes and stimulate debate on Euro-Mediterranean affairs.