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THE GLOBAL GATEWAY IN THE SOUTHERN NEIGHBOURHOOD: THE DILEMMA OF INVESTING IN AUTHORITARIAN MENA COUNTRIES

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Introduction

The Global Gateway investment programme, launched in December 2021, aims to build connections between Europe and the rest of the world by financing infrastructure projects. The Global Gateway's ultimate objective is to make the EU a global power by harnessing its economic size and normative attractiveness. In its first phase, linked to the current EU multiannual budget, the EU intends to generate EUR 300 billion for investment projects by 2027 (EC/EEAS 2021).[1] The Global Gateway's significance for the 'Southern Neighbourhood' is obvious – a gateway opens first to the next-door neighbours.

Although the Global Gateway is not a democracy promotion instrument, the EU intends that it will promote 'democratic standards' via its investments.[2] This intention raises the core dilemma the EU faces in its investment cooperation with authoritarian partners. In

[1] The EUR 300 billion by 2027 is mostly public investment. The EFSD+ is to make available up to EUR 135 billion in investments, including a EUR 40 billion External Action Guarantee for Global Gateway projects, in addition to up to EUR 18 billion in grants from the NDICI. A further EUR 145 billion in investment is to come from European development financial institutions, such as Germany's KfW and France's AFD.

[2] See https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway_en (accessed 15 February 2024).

the decade since the Arab Uprisings briefly raised the prospect of democratic change across the Arab World, the region's autocrats have tightened their control over their societies (Wehrey 2023). Proximity dictates the reality that the EU has no option but to work with autocratic governments in its Southern Neighbourhood, but in the long term, authoritarianism poses a significant geostrategic risk to Europe.

Thus far, however, the fact that the Global Gateway necessitates entering into long-term, strategic infrastructure partnerships with authoritarian governments has not been widely discussed, even though its implications are highly significant for the EU and its southern neighbours. If an investment project is rejected because of 'democratic standards,' the EU will face pressure to either moderate its language or compromise on its values. This potentially increases legitimacy risks as the EU says one thing and does another (Grimm and Roll, 2023).

As Ikenberry (2024) has argued, the EU's dilemma reflects a fundamental difference in worldviews that has emerged in the first decades of the 21st Century. The 'global West' worldview, based on liberal-democratic social organisation and governance, is increasingly contested by the 'global east' (led by China and Russia) and 'global south' worldviews. Increasing multipolarity is driven by geopolitical interests, but also by different political and economic projects, and different ideas about modernity. For Middle East and North Africa (MENA) autocrats, offers of cooperation from China, Russia or the Gulf States that do not carry political or governance conditions are obviously attractive.

This does not mean that the EU has nothing to offer its southern neighbours. Europe remains a wealthy and powerful neighbour to the MENA. The EU's worldview, lifestyle, economy and systems of governance are certainly attractive to the millions who migrate to Europe annually. The Global Gateway can be seen as a strategy for managing the need to cooperate amid a changing global balance of power, waning respect for the old principles of world order, and conflicting ideas about political, social and even economic relations. How the EU deals with the autocracy dilemma in the Global Gateway context will go a long way towards determining Europe's response to these 21st Century challenges.

The Autocracy Dilemma

The dilemma posed by the need to cooperate with authoritarian governments in the Southern Neighbourhood is not new. For many years, the EU has supported democratic change in the MENA region via its diplomacy, policy frameworks, official development assistance and investment offers. Observers have debated at length whether the EU's efforts have been adequate or even genuine. Following the euphoria of the Arab Uprisings, a more pragmatic and stability-focussed stance towards MENA countries was outlined in the 2015 ENP-South review (Furness et al. 2019). The Global Gateway's focus on connectivity and infrastructure further de-emphasises a previously core aspect of the EU's strategic approach to the Southern Neighbourhood, namely the desire to support democratic political reform in MENA countries.

The financial and political risks for EU investment posed by the autocracy dilemma in the MENA region are significant. It is naïve to believe that the inherent tensions in authoritarian Arab polities will not result in more social and political upheaval. Indeed, the social, political and economic factors that drove the Arab Uprisings in 2010 and 2011 have not been resolved, as evident from protests that have arisen from time to time especially in Iraq, Lebanon, Tunisia and Algeria. Elite memories of the Arab Uprisings are fresh, and MENA autocrats are likely to react to upheaval with greater repression in order to protect themselves from change. The re-ignition of the Israel-Palestine conflict after 7 October 2023 exposed the weakness of the so-called Abraham Accords, aimed at normalising relations and increasing investment between Israel and several Arab states. The geopolitical tensions and instability driven by Iranian-Saudi rivalries and the probable end of Arab-Israeli détente as a consequence of the Gaza war are likely to create windows of opportunity for disruptive forces in Europe's Southern Neighbourhood.

Foreign direct investment (FDI) plays a complex role in the autocracy dilemma. Nevertheless, the political consequences of FDI for authoritarian countries have received less attention than the question of how countries can become more attractive to investors (Escribà-Folch 2017). Similarly, the question of how democratic investors can best manage the risks of investing in authoritarian countries has not been widely researched. Studies that have touched upon these issues indicate that although the challenges are significant, there are options available if policymakers are willing to take them.

Autocrats have long needed to legitimate and limit their oppression, rather than merely engaging in arbitrary violence, in order to attract foreign investment. As Revkin (2023) notes, this may be changing as populist movements erode the rule of law all over the world, increasing autocrats' freedom to repress dissent and abuse human rights. As autocracy is becoming more widespread globally, it is not surprising that FDI in autocratic countries is increasing. Bastiaens (2016) found that the global share of FDI inflows to authoritarian countries increased from 16% to 23% between 2000 and 2015.

In general, this FDI does not act as a force for political liberalisation. FDI in authoritarian contexts has been shown to increase the resilience of regimes against coups and revolutions (Tomashevskiy 2017, Bak and Moon 2016). Escribà-Folch (2017) showed that FDI provides autocrats with new opportunities to distribute benefits to supportive elites, thereby entrenching autocratic incumbents. Similarly, Rommel (2023) showed that the material risks associated with FDI decrease regime support only among the poorly educated, who have no say in investment decisions. The economic gains from FDI bolster support for the incumbent regime for well-educated individuals. Foreign investment can increase the vulnerability of emerging markets to global volatility, which paradoxically also contributes to authoritarian stability. Apaydin and Çoban (2023) provided evidence from Turkey to show that domestic policy constraints following an economic crisis enabled autocrats to instrumentalise monetary and regulatory institutions as agents of political repression.

Bastiaens (2016) argued that foreign investors prefer to invest in authoritarian regimes that are constrained from 'above' and 'below.' 'Above' refers to the signal an international investment treaty sends to potential investors of a regime's liberal economic orientation. 'Below' refers to the levels of public deliberation and policy negotiation among citizens, civil society, business actors and government. Bastiaens found that in countries with higher levels of public deliberation, authoritarian leaders are better informed, more responsive to local concerns and more stable with regard to policy choices. Consequently, authoritarian leaders that rely on public deliberation processes have greater incentives to honour the terms of FDI agreements, because more of their citizens associate investment with growth and jobs. Ideally, foreign investors should also participate in deliberation and consultation processes. Bastiaens' empirical analysis found that bilateral investment treaties attracted more FDI in authoritarian countries with higher levels of public deliberation.

The Global Gateway's Slow Start in the Southern Neighbourhood

The Global Gateway builds on existing investment strategies in the Southern Neighbourhood region, especially the Neighbourhood Investment Facility (later Platform) which has been operational since 2008. Given this background, it is not surprising that provisions have been made to reduce risks in authoritarian contexts. A EUR 40 billion guarantee capacity provided by the European Fund for Sustainable

Development Plus (EFSD+) is intended to backstop additional private sector investments in challenging markets. As Tagliapietra (2024, 5) notes, 'The EU guarantee will have a maximum impact on Global Gateway investments in those partner countries where sovereign and other public sector risks are still a major bottleneck'.

To date, however, the Global Gateway has made a slow but steady start in the Southern Neighbourhood. According to available information from the European Commission, projects have been launched or are being planned in four ENP-South countries. In Egypt, the Team Europe Initiative 'Connected Economy and Society,' includes a project to modernise the Alexandria Area Control Centre, financed by France's Development Agency (AFD) and an EU grant. In Tunisia, the 'ELMED Interconnector Electricity Transmission Project' supports the construction of an undersea high-voltage electricity cable between Italy and Tunisia. The 'SoutH2 Corridor' pipeline to transport hydrogen from Tunisia to Southern Germany through Italy and Austria is planned to be operational by 2030. In Morocco, a Team Europe Initiative blending loans from AFD and the European Investment Bank (EIB) with an EU grant is to finance extensions to Rabat's tram network. In Jordan, the EUR 3 billion Aqaba-Amman Water Desalination and Conveyance Project is planned to begin in June 2024. These flagship projects are complemented by regional initiatives. One high profile regional project is the 'Medusa Submarine Cable System,' which aims to connect universities and Small and Medium Enterprises (SMEs) in Egypt, Tunisia, Algeria, and Morocco with southern EU Member States. A second major project is the 'Global Maritime Green Corridor,' which aims to produce six million tonnes of methanol annually for green shipping and is to include private sector participants. A further regional initiative, aimed at mobilising private institutions to invest in climate-smart solutions, digital transformation and financial inclusion projects, was launched in mid-2023 (EC 2024).

There is significant potential for increasing this activity. According to the latest World Investment Report, FDI in the MENA region is low by global standards. Western Asia and the whole of Africa accounted for just over 7% of global FDI inflows in 2022 (UNCTAD 2023). Even with increasing infrastructure investment from China and the Gulf countries, a major push from the EU to increase its investment in the Southern Neighbourhood would make a difference in a region facing a critical infrastructure deficit (Arab News 2023).

The Southern Neighbourhood region offers investment opportunities in green energy (especially hydrogen production), transport and logistical links between MENA countries and Europe, including digitalisation infrastructure, and nearshoring supply chains for European manufacturers (Rizzi and Varvelli 2023). Indeed, as Scazzieri (2023) notes, there is potential for climate- and tech-focused partnerships to recast Europe's relations with the Middle East. Europe is well placed to provide capital and technical expertise to southern neighbours interested in energy transition and diversifying economies. Connectivity could extend beyond the region, for example in the context of the India-Middle-East-Europe Economic Corridor announced by the G20 (Siman 2024). Reconstruction is likely to be an area requiring increasing investment over the next 10 years, especially in Palestine and Lebanon, and also in resource-rich countries like Libya, Iraq, Morocco and Turkey following the earthquakes in 2023 (GIZ 2021).

The EU and its Global Gateway are of course far from the only option for ENP-south countries looking for investment partners. Chinese FDI in connectivity and infrastructure in the MENA region is increasing via the Belt and Road Initiative (BRI). China offers cooperation based on a different set of values than those offered by the EU, namely that prosperity can enhance regime security via 'non-interference' and 'developmental peace'

(PRC 2016). This model is naturally more attractive to authoritarian MENA governments than cooperation based on the Western notion of 'democratic peace' (Siman 2024). Arabian Gulf states have long sought to use investment to leverage 'soft power' in the southern and eastern Mediterranean. Saudi, Emirati and Qatari investments do not come without political conditions, linked to the geostrategic and sectarian tensions in the Gulf region (Jacobs 2020).

The potential for instability in the MENA poses significant risks for all foreign investors, including China and the Gulf States. The autocracy dilemma sharpens the risks to Europe, because it adds a political dimension to the financial and economic risks. For example, Siman (2024) raises the prospect of the EU, as part of the Global Gateway, offering credit guarantees to enable the Egyptian central bank to issue Euro-denominated bonds. If the Al-Sisi regime were to resort to violent repression while issuing Euro-denominated bonds, the EU would face pressure to either abandon investments or to relativize a partner's behaviour that does not meet the democratic standards promoted by the Global Gateway.

The EU's cooperation model offers advantages that China and others do not. As Tagliapietra (2024) notes, the EU offers a mix of grants, soft loans and investment guarantees, whereas China only offers loans under the BRI. These tools create some potential for leverage. The Global Gateway aims to diffuse economic governance norms and standards via financial regulation rules underpinning investment projects (Prontera and Quitzow, 2023). Scazzieri (2023) argues that the Global Gateway's long-term timeframe has potential to build personal and institutional relationships, which may enable it to discuss human rights issues in different settings. The autocracy dilemma is likely to test whether and how the EU makes use of the interpersonal connections and expertise that the Global Gateway builds along with internet cables and railways.

Conclusions and Recommendations

The autocracy dilemma both reflects and reinforces the broader contestation over modernity that Ikenberry (2024) raises. Many countries in the Global South have withdrawn their consent for the Western-led order, partly because of the perception that those who wrote the rules in the wake of World War II respect them only when it suits them. Meanwhile, the EU and its member states are no longer powerful enough to say one thing and do another.

It may be that the Global Gateway is exactly the right kind of framework for the new strategic environment in the EU's Southern Neighbourhood. It is interest based, or at least it intends to build relationships based on areas where both parties have an interest in successful outcomes. It aims to build 'connectivity,' bringing people together and establishing physical and virtual links, which have the potential to develop in unexpected ways.

While there is a sense that the Global Gateway is competing with China's Belt and Road Initiative, this is not considered a zero sum game by MENA countries and should not be seen as such by Europe either. As Siman (2024) points out, China and the EU have a common interest in a stable regional order. The overlaps and potential synergies between the BRI and the Global Gateway could be exploited for the benefit of MENA societies as well as the EU and China. If the EU is able to show that the benefits for MENA countries in cooperating with the 'European model' are greater than in cooperating with the 'Chinese model', it is likely that China will want to cooperate with Europe as well.

One concrete policy recommendation is that EU should encourage investment partners to open public deliberation processes regarding investments. As Bastiaens (2016) showed, such processes are very important in local communities, providing bottom-up legitimation to infrastructure projects even in authoritarian contexts. The other side of this coin is of course that the EU should avoid financing projects where high degrees of public opposition emerge during the planning process.

The Global Gateway is not a force for change. This is both understandable, as the EU has reduced its efforts to extend 'external governance' to non-EU countries, and inevitable, as decades of half-hearted efforts to transform neighbouring countries in the EU's image have not worked. The EU cannot democratise the region from outside.

The Global Gateway nevertheless provides an opportunity to demonstrate the benefits of an open, liberal and democratic system: public goods provision, for example with regard to renewable energy or vaccine production, or capital for public investment in sustainable development. Despite populists exploiting its weaknesses, the EU can remain confident that its model is both effective and attractive. Democratic openness is resilient and productive. Partners want to engage with Europe, even as they engage with others. The Global Gateway's success depends on how Europe navigates the autocracy dilemma, with all the economic, political and reputational risks that this entails.

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