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CAN THE NEW PACT FOR THE MEDITERRANEAN ADVANCE SUSTAINABLE AND INCLUSIVE REGIONAL COOPERATION?

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Introduction

Over recent years, the multilateral trade system has faced compounding challenges, including rising geopolitical rivalries, growing protectionism, and declining finance for development cooperation. At the time of writing this policy brief, the war in the Middle East has escalated to unprecedented levels, threatening not only international trade and supply chain security, but also contributing to an increasingly fragile and unsustainable global order.

Amid these rising tensions, the European Union (EU) has been actively seeking to mobilise cooperation frameworks with its Southern Neighbourhood to foster sustainable and reliable partnerships. However, the escalation of the war in the Middle East threatens the potential success of Europe's plans and undermines the prospects for sustainable partnerships in the region. Against this backdrop, this policy brief may prove relevant, provided that efforts to contain and de-escalate the crisis are successful in the medium to long term.

Under more stable circumstances, Europe's Southern Neighbourhood would include some of the Union's most strategic trade partners. Due to their geographical proximity, resource endowments, and strong potential as markets for EU products, partnership with Southern Mediterranean Countries (SMCs) can substantially contribute to supply chain security,

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diversification, and resilience, as well as the effective implementation of the EU's decarbonisation plans. However, the existing partnership framework requires updating to reflect the current global and regional realities. The relatively modest outcomes of past integration efforts, together with mounting global challenges, underscore the need to reassess the rationale, objectives, and instruments of Euro-Mediterranean cooperation in pursuit of a more effective partnership.

Against this backdrop, the New Pact for the Mediterranean, released in November 2025, seeks to modernise Euro-Mediterranean relations. The Pact is structured around three pillars: (1) cooperation in education and skills development; (2) economic growth and regional integration; and (3) security and migration management. Pillar II, in particular, aims to build "stronger, more sustainable and integrated economies" (European Commission, 2025a), thereby establishing a framework for cooperation on climate action, competitiveness, resilience, and regional integration between the EU and 10 SMCs (Morocco, Tunisia, Libya, Algeria, Egypt, Jordan, Palestine, Israel, Syria, and Lebanon).

The objective of this policy brief is to examine how the Pact can deliver tangible outcomes in the region, balancing Europe's goals of decarbonisation and supply chain diversification with the need for its Southern Mediterranean partners to achieve growth and structural change. First, it highlights the key differences between the pre-existing cooperation framework and that proposed by the Pact. Next, it analyses the Pact's content through the lens of the economy-climate nexus as the main anchor of Pillar II. Finally, it concludes with a set of actionable recommendations for a potentially successful partnership.

The Pact: a "paradigm shift" in Europe's economic approach towards the Southern Neighbourhood

The New Pact for the Mediterranean was officially launched on 28 November 2025, marking the 30th anniversary of the Barcelona Process - the foundational institutional framework for Euro-Mediterranean cooperation. Recognising the strategic importance of the Mediterranean region for the EU amid a shifting global order, the Pact aims to revisit the EU's engagement with the region and adopt a more collaborative and inclusive approach (European Commission, 2025b). Early observations of Pillar II of the Pact suggest three major shifts from the old cooperation framework:

First, the Pact emphasises the regional character of the cooperation, based on shared ownership and responsibility. This conceptualisation differs, to some extent, from the predominantly intergovernmental, "top-down" nature of prior cooperation in the region. The Pact emphasises the importance of a "bottom-up approach" to leverage "cooperation at the regional and local levels in the Common Mediterranean Space" (EU Commission, 2025c), thereby combining bilateral political commitment with a more flexible region-wide approach to create a more practical cooperation framework.

Second, the EU's approach to economic cooperation in the region has historically been framed within the "economic development and stabilisation" component of the Neighbourhood Policy and has been largely subject to political conditionality. The Pact signals a relative shift from a values-based development cooperation to a more interest-driven partnership framework. Economic cooperation under Pillar II reflects greater EU pragmatism, focusing on shared interests (Sidlo, 2025). This shift reflects an explicit recognition of the EU's needs to partner with the region to achieve specific objectives and is also part of a broader tendency to counterbalance the growing role of other actors, including Russia and China, in the Neighbourhood (Rossi, 2025).

Third, the Pact introduces a shift in the regional scope of cooperation with the Southern Neighbourhood by supporting "triangular cooperation in with Gulf partners" (European Commission, 2025c). The Pact followed the establishment of the Directorate-General for the Middle East, North Africa and the Gulf (DG MENA), signalling a strategic realignment in the EU's approach towards the region. This restructuring (1) separates SMCs from the EU's Eastern European partners through the division of the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) into two entities - DG MENA and DG for Enlargement and the Eastern Neighbourhood (DG ENEST) (Youngs, 2025) - and (2) incorporates Gulf countries as partners, recognising their growing regional influence and potentially securing more sustainable long-term funding for the Pact (Hahn, 2025).

Can the Pact balance growth and sustainability imperatives in the Euro-Mediterranean space?

Pillar II of the Pact focuses on building more integrated and sustainable economies across the Mediterranean. The overarching objectives explicitly outlined in the Pact include deepening trade relations and economic integration, boosting investments, fostering green transition and sustainable growth, and supporting local businesses and startups in the region. The Pact also emphasises cooperation in strategic sectors such as renewable energy, digitalisation, transport, and connectivity (European Commission, 2025a).

The Pact builds on previous efforts to promote sustainable development by linking climate objectives with structural transformation. The New Agenda for the Mediterranean, approved in 2021, explicitly highlighted the need to turn climate and environmental challenges into sustainable development opportunities (Council of the EU, 2021). Drawing on these earlier initiatives, the Pact envisions the creation of deeper and more sustainable partnerships in the region across several broad and sector-specific areas of cooperation.

This policy brief focuses on four areas of cooperation: two broad areas - economic integration and inclusive growth - and two sector-specific areas - developing clean energy value chains and digital infrastructure.

Deepening economic integration

Pillar II of the Pact explicitly highlights deeper trade relations and economic integration within the Common Mediterranean Space as one of its main objectives. More specifically, the Pact calls for the mobilisation of the necessary financial tools to modernise existing bilateral trade relations "in a more flexible and targeted manner" focusing on "new forms of engagement in key sectors of mutual interest" (European Commission, 2025c). Conceptually, this sectoral focus reflects a shift in Euro-Mediterranean trade frameworks from past ambitions to achieve deep and comprehensive integration towards a more pragmatic yet more selective integration model. More importantly, the Pact promotes the modernisation of trade relations to stimulate trade in sectors that were previously excluded, including agriculture, health and digital services. Additionally, it encourages the development of regional value chains in critical areas such as clean energy.

Since earlier models of "selective deep integration" based on the choice of specific sectors had limited impact on export upgrading, employment, and broader welfare gains (Ezzeddine, 2025), it remains unclear how the Pact will achieve a different outcome. As with earlier initiatives, the success of deeper integration efforts will heavily depend on the political willingness and the capacity of partner countries to implement necessary reforms in priority areas under the Pact, including politically sensitive sectors such as agriculture and services. Amid frequent global shocks and growing concerns about food security and overall supply chain resilience, harnessing complementarities to deepen agricultural trade and develop agri-food value chains in the region is essential yet has so far proven difficult. On the one hand, protective measures under the EU Common Agricultural Policy and food security concerns in SMCs have historically constrained agricultural trade liberalisation. On the other hand, achieving convergence with EU standards to participate in agricultural value chains is costly, often beyond the reach of most producers in SMCs. In the services sector, deeper integration in human capital and technology intensive sectors such as health and digital services requires substantial regulatory alignment, mutual recognition of qualifications, and, where relevant, coordination with migration policies. While concrete details on how these objectives will be achieved remain limited, the Pact provides an initial opportunity to align policies and mechanisms under Pillar I on people, skills, and education, and Pillar III on migration management, with the objectives of deepening regional integration in selected sectors under Pillar II.

Furthermore, the Pact promotes the enhancement of investment frameworks to mobilise capital in priority areas and to address investment gaps in SMCs, with the goal of developing regional value chains in key sectors. In this context, the Pact relies on the Global Gateway as its primary investment pillar. By September 2025, the Economic and Investment Plan underpinning the Global Gateway had already mobilised €30 billion - two years ahead of its target - demonstrating successful capital mobilisation in strategic sectors (European Commission, 2026a). By extending the scope of regional cooperation to include the Gulf countries, as outlined in the Pact, additional avenues for capital mobilisation are possible. To attract investments in SMCs, however, the Pact emphasises the need for cooperation to remove persistent investment barriers and attain regulatory convergence.

The Pact also explicitly foresees technical assistance to help SMCs adopt the necessary reforms. However, the success of the current initiative is likely to be constrained by the potential lack of political willingness among SMCs to implement the necessary reforms and manage the associated adjustments. Previous technical and financial assistance schemes (including MEDA I and II, among others) were largely unsuccessful in promoting investment-related reforms and regulatory alignment due to political constraints, the influence of domestic interest groups, and persistent capacity gaps in SMCs. Given the political economy dynamics of trade and investment policies in the region, it is unlikely that these reforms will extend beyond a few sector-specific (vertical) reforms as the incentives for deep and comprehensive reforms are unlikely to outweigh the power of entrenched domestic interests. The Pact could partially address these challenges as it offers interested partners the option to conclude Sustainable Investment Facilitation Agreements with the EU (European Commission, 2026c). These agreements typically align investments with the achievement of Sustainable Development Goals (SDG) in host countries, creating additional incentives for SMCs to carry out the necessary reforms while addressing sustainable development imperatives.

Fostering inclusive growth

Under the Pact, the potential to negotiate Sustainable Investment Facilitation Agreements can help advance inclusion, particularly with regard to job creation and job quality in SMC markets. This is particularly relevant for labour-intensive sectors such as agriculture, as well as for other priority sectors under the Pact. Some of these sectors, such as renewable energy and hydrogen, are typically capital-intensive and may generate limited sustainable employment opportunities. Prioritising cooperation in these sectors should not come at the expense of a just and inclusive partnership, and job creation should remain a central objective. In line with EU regulations on decent work, the investment facilitation agreements could incorporate labour provisions that promote job creation and ensure decent employment conditions in the Southern Neighbourhood.

Another way the Pact contributes to inclusive growth is by supporting the integration of Small and Medium-sized Enterprises (SMEs) into the regional market. To address this objective, the Pact is to establish a regional startup support system - StartUp4Med. This initiative aims to enhance the growth and job creation potential of micro, small and medium-sized enterprises (MSMEs) in the Southern Neighbourhood, with a particular focus on the inclusion of women and young people (European Parliament, 2025). StartUp4Med is focused on improving access to finance by combining loans from European financial institutions with other forms of financing, including crowdfunding and blended finance. It will also coordinate with other initiatives supporting startups and tech SMEs in the region. Additional support measures include efforts to overcome legal and regulatory barriers and to promote the formalisation of MSMEs through legal assistance, financial incentives, and skill certification (European Commission, 2025c).

Previous initiatives aimed at increasing Southern Mediterranean SME participation in the European market, such the MED MSMEs initiative, the Small Business Support and the Euro Med Trade Helpdesk, have shown little transformative impact in terms of export diversification or deeper integration into EU value chains (OECD/EU/ETF, 2018). SMEs have continued to face structural barriers to integration into EU markets. These challenges are unlikely to weigh any less on startups operating in priority sectors identified under the Pact, particularly those operating in green sectors or seeking to scale up climate-smart business models. Addressing these constraints will require an additional set of incentives, specifically tailored to firms operating in green value chains, in order to catalyse sustainable growth.

Developing clean energy value chains

The energy sector has been explicitly identified as a priority area for regional cooperation. More specifically, the Pact places particular emphasis on collaboration in clean energy technologies, including renewable energy and hydrogen. In line with the global dimension of the EU Clean Industrial Deal, the Pact foresees the modernisation of energy trade and investment relations as well as the promotion of renewable energy and clean tech cooperation with SMCs under the Trans-Mediterranean Renewable Energy and Clean Tech initiative (T-MED) (EU Commission, 2026c). This initiative aims to mobilise EU financial instruments and private sector capital, including from Gulf countries, in clean energy production, electricity grids, and green industries.

Building on recent efforts to accelerate its energy transition - operationalised through several projects under the Global Gateway - the Pact seeks to expand these initiatives by focusing on the development of clean energy value chains across the region. The Southern Neighbourhood represents a strategic partner for Europe in this domain, given its geographical proximity, its untapped renewable energy potential, and presence of existing energy infrastructure linking both shores of the Mediterranean. The implementation of the Pact foresees the creation of a supporting mechanism to enable SMCs to undertake the necessary regulatory and energy-specific reforms to attract investments in clean energy and access EU financial instruments (European Commission, 2025c). Furthermore, the Pact envisions strengthening industrial collaboration across upstream and downstream sectors of the energy value chain, including hydrogen production, among others.

Since some of the previous attempts to promote regional energy cooperation have experienced setbacks (such as the Desertec project and the Mediterranean Solar Plan), it remains unclear how the Pact will avoid past shortcomings. Weak institutional capacities and lack of regulatory convergence are among the main obstacles undermining the success of energy cooperation in the region. More importantly, deep energy sector reforms are constrained by political economy considerations. However, in the context of recurring global energy supply disruptions, harnessing clean energy potential may represent a more viable pathway for several SMCs to address domestic energy shortages and enhance their resilience to shocks in global energy markets.

Improving digital infrastructure

Investing in digital infrastructure is not only central to the region's competitiveness but also aligns with the EU's objectives of greening trade. Digitalisation is a key driver of sustainable economic transformation: it can unlock the region's economic potential, increase its competitiveness, foster inclusion, and reduce the digital divide between Europe and SMCs. Additionally, digitalisation can support job creation, promote digital entrepreneurship, and facilitate skills upgrading.

Improving digital infrastructure in SMCs is a priority under the Pact, as it enhances the region's competitiveness and attractiveness to investors. In this context, the Pact foresees the expansion of the submarine cable systems launched under the Global Gateway initiative (such as the MEDUSA high speed submarine cable system) to interested partners, including Gulf countries (European Commission, 2025c). The cable system provides high-capacity connectivity, enabling businesses to access more reliable internet and improved data infrastructure, which are essential for digital services, cloud computing, and e-commerce. MEDUSA is also expected to connect with terrestrial links to universities and education and research centres in North African countries, facilitating scientific knowledge exchange and innovation sharing (European Commission, 2023). The Pact also envisions providing technical and financial support to roll out 5G and data centres, telecom capacity-building programmes, and promoting the use of Artificial Intelligence (AI) in universities and industries.

The success of digital cooperation will largely depend on the extent to which regulatory convergence can be achieved. Previous efforts to harmonise policies for telecom, data protection and e-services - such as those carried out under the Union for the Mediterranean (UfM) Platform for the Digital Economy - have produced limited results. Domestic quasi-monopolies in the telecom sector remain highly protected in some countries in the region, distorting markets and undermining service efficiency. Regulatory fragmentation and the persistent lack of competition in telecom and digital markets are therefore likely to constrain the Pact's efforts to fully enhance the region's digital potential.

Recommendations for the implementation of the Pact

The Pact represents an opportunity for the EU to reconfigure its partnership with SMCs and to establish realistic, concrete objectives in areas of mutual interest. By framing regional cooperation around co-ownership and mutual responsibility, the EU signals its commitment to partnerships on an equal footing and positions itself as a reliable actor in an increasingly transactional global environment. In this context, the following cross-cutting and sector-specific recommendations provide an initial roadmap for translating the Pact's strategic vision into operational policy actions aimed at building integrated and sustainable economies in the region:

- **Promote incentives-based partnerships:** The Pact should tie financial and technical assistance to measurable outcomes, including SME participation, employment creation, skills development, and knowledge sharing. The EU should use Sustainable Investment Facilitation frameworks to create incentives for interested SMCs to align investment-related reforms with their SDG priorities.
- **Promote inclusion:** The Pact should enable the integration of labour provisions in trade and investment agreements to ensure job creation and decent employment, particularly in key sectors such as agriculture and energy. The EU should support skills development and training programmes, with a focus on youth and women.
- **Mobilise blended finance and private sector engagement:** The Pact should adopt an integrated approach that combines EU funds with private sector capital and, where appropriate, investments from Gulf partners to fill sectoral investment gaps. The implementation of the Pact should avoid repeating mistakes from the past, in particular those related to fragmented and redundant initiatives and funding. The Pact should also promote public-private partnerships, particularly in climate-smart sectors and digital infrastructure, and expand the use of blended

finance and de-risking instruments - such as under the T-Med initiative - to attract sustainable investments.

- **Gradually liberalise trade in agriculture:** Partners should implement selective and deep liberalisation for priority agricultural goods. The EU could start by expanding tariff-free quotas to a broader range of products, gradually reducing tariffs, and avoiding tariff escalation by level of processing. The Pact should also provide financial and technical assistance to harmonise sanitary and phytosanitary (SPS) measures, develop certification and inspection capacities, and support the development of regional agri-food value chains.
- **Promote resilient agri-food value chains:** The Pact should promote technology transfer and knowledge sharing in climate-smart agriculture to enhance regional agri-food trade, increase resilience to climate shocks, and improve food security outcomes in partner countries.
- **Digitalise cross-border procedures:** The Pact should encourage parties to implement electronic certification systems, streamline customs procedures, and promote mutual recognition of certificates. The EU should support these measures, as evidence from Morocco–EU trade during the pandemic demonstrates improved agri-food trade outcomes (Emiliani, 2025).
- **Improve policy coordination in regional services trade:** The soon to be unveiled Action Plan should ensure that deeper integration in selected services, such as health, is aligned with skill mobility and migration management under Pillars I and III.
- **Foster green entrepreneurship:** The StartUp4Med should be expanded to provide additional incentives for green and climate-smart startups, as well as for firms pursuing digital or environmental upgrading. The EU should also support SMEs in accessing EU markets by providing technical assistance to upgrade to EU standards, including carbon and digital compliance.
- **Ensure energy cooperation delivers a "triple-win" to SMCs:** The Pact should promote energy security, decarbonisation, and industrial competitiveness for SMCs. The EU should provide technical and regulatory assistance to develop domestic clean energy markets, avoiding the creation of energy "export enclaves". In the future, the Pact should integrate clean energy into carbon-intensive sectors to accelerate decarbonisation, and the EU should provide technical and financial assistance to help SMC industries align with carbon regulations, facilitating exports to EU markets. These actions could enable partners across the region to balance sustainability objectives with domestic value creation.

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