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Symptoms of Stagnation in the EU's Southern Neighbourhood

Patrycja Sasnal

In comparison with war-torn Syria and Yemen, the biggest Arab states—Egypt and Algeria—may seem stable. They are, however, sliding further into political, economic and social stagnation resembling that from before the 2011 revolts. Proper differentiation between stagnation and stability and the inclusion of a mass protest scenario for key southern neighbourhood states should form the basis for amending Member State policies toward the region.

The wars in Syria, Libya and Yemen, and political destabilisation of the Arab states of the Middle East and North Africa (MENA) after the 2011 revolts, impede sound analysis of the long-term processes occurring in the EU's southern neighbourhood. The biggest Arab states—Egypt (93 million people) and Algeria (41 million)—are stagnating economically, politically and socially. Similar processes led to the Arab Spring of 2011.

Economic Stagnation. The level of economic stagnation is not uniform throughout the MENA: it is the highest in conflict-ridden Iraq, Syria, and Libya, the lowest in Morocco and the Arab countries of the Persian Gulf, where attempts at reform have been made. In Egypt and Algeria, key EU southern neighbourhood states, stagnation has been increasing continuously since 2011. Egyptian public debt reached 100% of GDP—twice as high as before 2011. The poor state of public finances forced the government to sign a deal with the IMF in November 2016 in which Egypt would get a loan of $12 billion in exchange for economic reforms. The deal also envisages gradual cuts in subsidies on fuel and food, which, together with salaries in the public sector and servicing foreign debt, consume two-thirds of the budget. Because of the devaluation of the Egyptian pound, inflation reached 40% in February 2017. Cutting down subsidies on fuel stirred the anger of the middle class while the decision to decrease ratios of subsidised bread caused immediate protests from the poor and forced the government to reverse it. The situation is exacerbated by breaks in the power supply and decreased income from tourism (the number of tourists fell from 15 million in 2010 to 5 million in 2016). At the same time, salaries for the army, which controls up to 40% of the Egyptian economy, rose by 35% and its economic dominance calcified further.

The economic stagnation in Algeria recently is the result of low oil prices. Exports of oil amount to 95% of all Algerian exports and provide 60% of state budget revenues. Currency reserves decreased in just 2015 from $180 billion to $143 billion. Faced with lower revenue, the government decided to reduce spending by almost half, from $110 billion in 2015 to $63 billion in 2017. That hit the middle and lower classes directly. In January 2017, thousands of Algerians demonstrated against the budget cuts and rising prices. The structure of the market, common to most countries in the MENA and dominated by the grey zone and oligopolies allied with government elites, inhibits the creation and development of small and medium-size enterprises. Investments are low, services are lacking, prices are growing and so too is social dissatisfaction. The lowest level of regional economic integration also adds to the stagnation.

Political Stagnation. According to the *Economist* Intelligence Unit democracy index, most MENA inhabitants live in authoritarian or semi-authoritarian countries (Egypt, Algeria, Morocco, Iraq). Saudi Arabia and Syria are among the 10 least democratic countries in the world. The only democratic Arab state is Tunisia. Political stagnation transpires where there is prolonged political crises (a new budget has not been agreed in Lebanon for 12 years, and Egypt has had four governments in the past four years), unnaturally long rule of heads of state (Abdelaziz Bouteflika has been the president of Algeria for 18 years), and inefficient state administration. Among the gravest, crosscutting problems that also negatively impact the economy and society are the suppression of political opposition and corruption. In Egypt, the number of political prisoners may be as high as 60,000—many times more than before 2011. According to the Transparency International Corruption Perception Index, five out of the 10 most corrupt countries in the world are in the MENA. Except for Israel, Qatar and United Arab Emirates, all are considered corrupt. In February 2017, 50,000 people demonstrated against corruption in Baghdad.

Social Stagnation. Factors that hinder social development—social stagnation—can be best identified among Arabs that are below 30 years of age, who make up close to 70% of the total MENA population. Unemployment in this age group is the highest. According to the 2016 UNDP Arab Development Report, 60 million new jobs will have to be created in the next decade to absorb the new workforce entrants. There is no other region where income inequalities are greater and the participation of women in the labour market is lower. Almost one-third of the population of Egypt, Algeria and Iraq lives below the national poverty line.

In fear of opposition, the governments deliberately try to curb the development of civil society. In 2016 in Egypt, an NGO law was tightened to such an extent that in practice the organisations are unable to function. The terrorist threat facilitates the monitoring of civil society and invigilation. MENA is the most conflict-ridden region—annually, close to 70% of all deaths in combat occur there. Most refugees and displaced people hail from the Arab world and still reside in it. Lack of security fuels religious and ethnic divisions.

Conclusions for the EU Member States. In light of these symptoms of stagnation, the biggest southern neighbourhood states cannot be considered stable. The impression of stability may result from an inaccurate understanding of the term “stability” on the one hand, and from comparisons with protracted conflicts in other countries of the region on the other.

Such multidimensional stagnation may lead to mass revolts in the coming years. All the more so since tools of social mobilisation are readily available: 50–67% of people below 30 have a social media account. While the EU better understands the long-term structural problems of the southern neighbourhood, Member States are pursuing three other goals in their policies: limiting migration, strengthening counter-terrorist cooperation, and increasing trade. In the current situation, however, the policies of some neighbourhood states that antagonise large segments of their societies contribute to the terrorist threat. Large industrial contracts with European countries tend to reinforce the grey zone and income inequalities. As the social discontent and state repression grow, mass migration to Europe is becoming not less but more probable.

The priority of the Member State policies should be to strengthen the structural capabilities of the neighbouring countries to overcome stagnation. In the long term, that will allow for better control of migration, easier cooperation in counter-terrorism, and closer trade relations. Stabilising Egypt, Algeria and Libya—countries located on two major migration routes—is indispensable for easing migration pressure from Africa. Since sudden socio-political upheavals are possible, advanced military cooperation, including equipment or weapons sales, should be avoided for the benefit of contracts and programmes that increase the general welfare of the population and the potential for good governance. The Partnership for Research and Innovation in the Mediterranean Area (PRIMA) is an example of such action.

EU Member States traditionally more involved in relations with the eastern neighbourhood should also conduct and support such policy toward the MENA. Potential social unrest in North Africa, and subsequent mass-migration flows or the occurrence of new internal conflicts in the neighbourhood would impact the whole EU area, including its eastern part, and could temporarily decrease the EU’s interest in the eastern neighbourhood.