



# **EUROPE AFTER THE WAR**

**FINANCIAL COOPERATION FOR  
PAN-EUROPEAN EURO-MEDITERRANEAN  
AND EU-AFRICA INTEGRATION**

**RYM AYADI  
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# Europe after the War

## Financial Cooperation for Pan-European, Euro-Mediterranean and EU-African Integration

Editors

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Centre for European Policy Studies (CEPS), Brussels  
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# PREFACE

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The war of aggression against Ukraine has been a watershed moment: for Europe and the world; for the economy, society and the financial sector.

The war has had a devastating impact, both directly and indirectly, from a humanitarian, economic and social point of view. It has impacted dramatically on Ukraine, the whole of Europe, its neighbouring regions and the world. It has undermined the basic values and rules that lie at the foundations of the present system of international relations. It has dealt a brutal blow to multilateralism, international cooperation, global governance, the Charter of the United Nations, the Universal Declaration of Human Rights and international law.

The policy agendas, prospects and very identity of the European continent must therefore be reviewed, adjusted and – to the extent necessary – reset.

Since the start of this war, Europe has already changed significantly.

First, the context in which Europe used to operate now looks much more threatening and unpredictable. Whereas in the past Europe's evolutions and convolutions unfolded in a situation of relative external stability and 'global order', allowing it to focus on its internal dynamics, now external turmoil calls on Europe to step forward, play a stabilising role and assert its autonomy and strategic function.

Second, the Russian threat has forced Europe to look eastwards and embrace further enlargement. It has also pushed Europe southwards in search of energy diversification, food security, management of migration pressures and containment of conflicts. Pan-European integration has finally become a priority in the policy agenda, as it makes Europe wider, more inclusive, more assertive and fairer.

Third, the prospect of a wider Europe has accelerated the pace of institutional reform towards greater deepening and federalism. The European Union needs a more effective, stronger and more accountable supranational governance architecture.

The papers collected in this book discuss these issues, spanning a wide range of areas from geopolitical scenarios to economic prospects, sustainable energy to logistics, and the Eastern European dimension to EU-Africa relations.

The angle from which the papers view the questions above is that of financial market development and cooperation, with a focus on the fundamental European policy objectives of the Banking Union and Capital Markets Union. Not only does this viewpoint enable us to deal with the huge investment and financing gaps, and the equally large public-private protection gaps that constrain business strategies and public policies, but it also enables us to consider the broader risks and opportunities of the new geopolitical scenario, and reflect on how we deal with them through investment, growth, stability and social protection.



Through the prism of banking, insurance and capital markets, new horizons are opening out in terms of business innovation, market development, policy proposals and governance mechanisms. The papers review many such proposals, urging a leap forward in vision, integration and the construction of the future.

From recovery and resilience in Eastern Europe and the Euro-Mediterranean region, to acceleration and sustainability in EU economic growth and financial development.

From common energy strategies to logistics and transportation infrastructure. From the relaunch of EU-Africa relations to more credible and transformative accession processes and partnerships.

From more targeted investment in the European identity to more integrated and cohesive education and foreign policies.

In underpinning these – and many other – bold steps forward, financial integration plays a fundamental role. Quick progress with the financial integration agenda is required to complete the Banking Union, accelerate progress in the Capital Markets Union, and build comprehensive public-private protection systems at the European level. To drive these efforts and put them in the right perspective, it is crucial to engage in the search for sustainable peace and security, and to nurture the vision and commitment that motivates us to build our common European future. Put simply, the passion to achieve the ‘European dream’.

It is this passion that has led us, the editors of this book, to issue a manifesto that aims to capture the basic thrust of the arguments. We were inspired by the authors’ contributions, and by the in-group discussion with the authors. Our intention is to draw lessons and inspiration from the spirit of the 1942 Ventotene Manifesto, which designed the future of a united Europe in the middle of the Second World War. It is in the middle of the war that the determination to build peace and design the future can be found, the direction to take and long-term targets can be seen, and the commitment to action can be strengthened; now, as was the case in the Second World War.

Achieving the accession of Ukraine, Moldova and Georgia to the European Union, building peace and security across the whole of Europe, establishing a long-term friendship with Africa, and strengthening economic governance and democratic accountability: this is the gist of the book, and the essential message of the manifesto.

The war has deeply affected economic and financial prospects and confidence in the future of investments for business and citizens alike. It has been accompanied by other calamities: the resumption of inflation and the looming recession, the energy and food security crises, climate-related natural catastrophes, the scourge of conflict insecurity and instability in many parts of the world, and the growing inability of existing cooperation and governance mechanisms to eradicate poverty, promote peace and enforce international law. Added to those challenges are the erosion of national identities, the quest for dignity and recognition of neglected minorities and majorities, the spread of nationalism, authoritarianism and sovereignism, and the radicalisation of social and political polarisations.

Europe has responded with determination and innovation to the ‘confluence of calamities’ (as named by Kristalina Georgieva, Managing Director of the International Monetary Fund) that we have seen and are seeing. It has pushed ahead with its process of integration through bold reforms, such as the recovery plan and enlargement. It has become aware of the importance of unity, solidarity and strategic autonomy in foreign and defence policies, the management of migration challenges, and progress in the green and digital transitions and in sustainable development. Despite its incomplete institutional architecture, structural gaps and delays, Europe is striving to become more confident, more credible and stronger after each crisis. It has become a beacon of moderation, peaceful and gradual integration, and tolerance of diversity, as well as an anchor of diplomacy, soft power and democracy; a great hope for its citizens, the neighbouring regions and the world.

We believe we are living an unprecedented ‘European moment’, and that this moment can and should be seized upon to respond to present and future shocks. Both the papers collected in this volume and our manifesto point out the most promising directions of the leap forward that is required: more assertive and unified policies towards Eastern Europe, the Euro-Mediterranean region and Africa; a federalist drive towards more effective and fairer economic and social governance; the fight against polarisation and the strengthening of liberal democracy.

Europe after the war can and must rise to the challenge.

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*The usual proviso holds that any remaining errors or omissions are our responsibility, and ours alone.*



# CHAPTER 1. PAN-EUROPEAN, EURO-MEDITERRANEAN AND EU-AFRICAN FINANCIAL COOPERATION IN THE NEW GEOPOLITICAL SCENARIO

*RYM AYADI, PAOLO GARONNA, GORAN SVILANOVIĆ<sup>1</sup>*

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## 1. Introduction: COVID-19 and then the Russian aggression

The double demand and supply shocks of the COVID-19 pandemic, affecting both health and the economy, hit the pan-European region dramatically between 2020 and 2022. In so doing, it unveiled entrenched vulnerabilities and new polarisations.

While the world economy was gradually recovering from the pandemic and bouncing back from the COVID recession, at the beginning of 2022 Russia invaded Ukraine and started a dramatic war, shocking Europe and the whole world and creating a watershed moment in international relations, the economy and finance.

In the new geopolitical context created by the multiple crises, the comparative strengths and weaknesses of Europe particularly in comparison with other global players, were laid bare.

At the time of writing the war in Ukraine is still raging, taking and impacting the lives and souls of millions of people and raising fears and concerns in Europe and all over the world. In response to the aggression, solidarity and support efforts have stepped up, and decision makers in both the public and the private spheres are confronted with new risk scenarios and short- and long-term unprecedented challenges.

The bleak history of Europe is back at the centre stage of geopolitical strategies, bringing into policy making and private sector decisions the new conflicts of the 21st century and security concerns for future EU generations. The nightmare scenarios that daunted Europe's generations throughout the First and Second World Wars have once again become plausible, at a time when the planet is struggling to combat the disastrous consequences of climate change and to recover from a global pandemic that took the lives and jobs of millions of people and impacted their long-term health.

Kissinger once said that all foreign policy issues are ultimately of a domestic nature. This is particularly true for Europe, which lives under the shield of its allies. But now this has

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<sup>1</sup> Rym Ayadi, Euro-Mediterranean Economists Association and European Banking Authority – Banking Stakeholders Group; Paolo Garonna, Luiss Guido Carli University, Rome; Goran Svilanović, former Minister of Foreign Affairs, Federal Republic of Yugoslavia/State Union of Serbia and Montenegro. The opinions expressed in this paper are those of the authors, and do not necessarily represent the views of the respective organisations.

been turned upside down, as all domestic and European policies must be framed in a global security and foreign policy perspective.

As Carl Schmitt noted in the 1940s, quoting Cicero and Grotius, '*inter pacem et bellum, nihil medium*', i.e. conflicts permeate not only international relations but also economies and society, trade, investment, technology, communication and information. We have seen how they disrupt payment and monetary systems, data and finance. Conflicts enter the minds and hearts of communities and individuals, and affect the hopes and visions of leaders and opinion makers.

In this paper we focus on a few of the hard questions facing the future of economic and financial relations in the pan-European region as the new scenarios unfold. Policy makers, financial communities, households, and business players have engaged in an in-depth and wide-ranging reflection on what has changed, what needs to change, and what should be safeguarded and strengthened to preserve an *acquis* that can no longer be taken for granted. We wish to contribute to this reflection by highlighting the need for pan-European, Euro-Mediterranean and Euro-African economic and financial cooperation.

We start from a few working hypotheses:

- The war of aggression against Ukraine by Russia has shown that global conflicts in the 21st century put **European values at stake** and under threat, including the open and rules-based market economy, liberal democracy, rule of law, human rights and international law, social inclusion and sustainable development. These values, which have underpinned the world order of the past, now appear fractured and undermined. Multilateral relations must be revitalised and reformed to better reflect the new realities and respond to the new challenges. Efforts are being made in this direction, but we must acknowledge that progress has been limited and the splits created by the war do not augur well for the near future.
- The **weaponisation of trade, investment, technology, finance** and international relations has led to geopolitical fragmentation, creating inefficiencies, multiple threats to development, social disruptions and bottlenecks in supply chains and commodities, resulting in a loss of trust and lack of cooperation. Security calls for greater resilience and risk reduction in economic and financial relationships. The outlook for growth and employment has been negatively affected. Value chains have been redesigned following friendly contours and security preoccupations. This is a necessary price to pay in order to respond to aggression, avoid escalation and contain the conflict. While efforts should be made to build peace and invest in multilateral dialogue and cooperation, there should be no illusion that the old order can be restored or a new one quickly established. Will there be a return to a Cold War kind of bipolar divide? Will the conflict escalate to oppose wall-to-wall irreconcilable value systems? Will conflicting or rival systems pose mutually existential threats? Probably (and

hopefully) not. But the future will have to manage a very complex interplay of rival, inconsistent economic and financial systems, and a fragmented array of uncertain and conflicting international relations. The United States Secretary of the Treasury, Janet Yellen, has called for a new 'Bretton Woods moment' in response to the overlapping crises, or 'confluence of calamities', as named by Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF). This means an in-depth reform of the international economic monetary and financial system.

- A promising way forward has emerged: that of **strategic regionalism driven by a more forceful global role of Europe**. Regionalism favours bottom-up and pragmatic responses, imaginative technical solutions, and institutional and financial innovations that bypass global stalemates. The Russian aggression against Ukraine has stimulated a sense of (greater) unity in response and strong consensus within the EU in support of the Ukrainian people. Europe is where we have the peak of the crisis (Ukraine) and the bulk of its most dire consequences, but also the best perception of the urgency to act and opportunity to widen and deepen the scope for peace security and development.
- In the past, the co-authors, and some of their respective organizations, in particular the Italian Banking, Insurance and Capital Markets Federation (FEBAF) and the Euro-Mediterranean Economists Association (EMEA) gave a great deal of attention to the **pan-European dimension of economic and financial integration**. The pandemic and even more so the war in Ukraine have shown that the focus on this dimension is both well placed and timely. Ukraine has put forward an application for EU accession, and the response of the EU Member States has been positive, unblocking an enlargement process that had run into difficulties and delays in the last decades. The EU will have to adjust its institutions to enable them to function well with an increased number of Member States. The enlargement and the attractiveness of the 'European model' and European values have provided a lever for modernisation, democratisation, and structured partnerships in the pan-European space. Moreover, the expansion of membership and partnerships corresponds to the perceived need for the EU to exercise more authority and leadership in global and regional relations. The ambition of strategic autonomy in defence, security and foreign policy should lead the EU to take greater responsibility in the pan-European region. The new context shows that the old dilemma of globalism versus regionalism does not apply. Transatlantic loyalty and strategic autonomy go hand in hand, enabling increased efficiency and stronger partnerships.
- The impact of the war has shown the decisive importance of **Europe-Africa relations**. These are critical to the future of the whole pan-European region. The 'neighbourhood' of Africa is key to the destiny of Europe. Europe cannot disentangle its economic security and development prospects from those of our

African neighbours, in terms of both threats and opportunities. This is why the vision of the future of Europe should be built jointly with that of Africa.

- Responsible regionalism would greatly enhance **banking insurance and finance cooperation**. In 'wider Europe' and the neighbourhood regions (mainly in the Eastern Europe, the southern Mediterranean countries and Africa), the EU needs to review its ambitions, relaunch its role and develop 'new generation partnerships' built on shared visions, co-development and sustainability.
- The war in Ukraine is having catastrophic consequences on the economies and peoples of the two countries, and of Europe as a whole. A fair and credible peace deal must be reached as soon as possible to avoid further destruction and losses for all. The authors of the aggression and related war crimes must be held responsible and pay the price for their mistakes. Once the war ends and such a peace deal is reached, however, **the pan-European dimension should also engage Russia, its people and its economy** in a process of shared prosperity, peace building and economic and financial integration. They are also part of the pan-European family of nations.

## 2. Drawing inspiration from the spirit of the Ventotene Manifesto

We start from the premise that in the new geopolitical scenario, Europe needs a new approach to its own security and prosperity, based on green and clean sustainability, resilience and the inclusiveness of pan-European engagement.

At the same time as we face up to the noise of bombshell, human suffering and massive displacement, we must be capable of looking forward, designing post-war reconstruction and recovery, and considering how to build a perspective of co-existence and integration for the different peoples of Europe. This is required to secure the foundations of peace and prosperity.

We need no less than a 'Ventotene moment'. The Ventotene Manifesto, advocating European integration, inspired the establishment of the Common Market and the Treaty of Rome. It was drafted 80 years ago, in 1941, by a group of intellectuals of diverse political orientations. At that time, the Second World War was still raging. Nazi tanks were spreading out all over Europe. There was great uncertainty about the outcome of the war, and the authors of the manifesto were political prisoners confined to a remote island in the Mediterranean, Ventotene. Nevertheless, those remarkable men and women had as their strength the full confidence that the war would be won, and the strong belief that only by bringing together the warring nations of Europe would peace and prosperity be rooted. They proposed the enlightened vision of a common future for the whole of Europe.

We need to draw inspiration from that experience. We believe that the time is ripe to propose a kind of manifesto of pan-European, Euro-Mediterranean and EU-African

financial cooperation, and we welcomed the occasion of the Trieste Eastern Europe and Euro-Mediterranean Forum held in June 2022 to engage in a constructive discussion of such a manifesto.

We call for a 'Pan-European and EU-African Economic and Financial Partnership', led by the EU, addressing the recovery and reconstruction requirements for the whole pan-European space, including Eastern Europe and the Euro-Mediterranean region, and involving our African neighbours. We believe that the private sector, and within it the financial sector, should have a driving role in such a partnership.

### 3. Unblocking enlargement in Eastern Europe and beyond: making the EU's transformative power work

One of the main questions we address is what institutional forms 'wider Europe' and its neighbours, i.e. the pan-European, Euro-Mediterranean and African space, should take, and what processes we should engage in to get there.

In the past debate<sup>2</sup>, the idea was mooted of establishing a new institutional form of pan-European organisation, some kind of **confederation**, a looser and more economically oriented partnership arrangement. This appeared at the time to be a pragmatic or *real-politik* concession to the reluctance of several EU countries and political forces (particularly the populist and sovereigntist movements) to embark on an enlargement process. But the war in Ukraine, with all its dramatic social, political and security implications, has now changed the policy environment. A structural discontinuity has been created and we must seriously come to terms with it.

The EU approach is being reshaped, echoing political sentiment and public opinion significantly. A new perception of geostrategic realities has gained traction, influencing the understanding of what Eastern Europe represents for the EU and what the terms 'Europe' and 'European' themselves mean. This in turn explains why the EU has felt obliged to intervene strongly and unitedly in support of Ukraine, and why it has responded favourably to the accession requests of Ukraine, Moldova and Georgia. The EU should prepare to accomplish a new wave of enlargement, overcoming decades of embarrassing stop-and-go and inconclusive bureaucratic negotiations. The credibility and good faith of the EU, its institutions and its public perception are at stake on this issue.

There is no alternative to opening our minds and hearts to the demands of the countries and people who are on the frontline. They are fighting not only for their freedom, but also for ours. This is why we cannot refuse to move the enlargement process onwards, reaching out to those countries in the pan-European and Euro-Mediterranean space that are willing and able to engage. Besides, we should acknowledge the fact that significant

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<sup>2</sup> See, for instance, Garonna, P., Delneri F. and Seganti, F. (eds) (2020), *Investment and Finance for the Post-Covid Recovery in Eastern Europe*, Luiss University Press, Rome.



pan-European and Euro-Mediterranean organisations (such as the Organization for Security and Co-operation in Europe (OSCE), the Council of Europe and the European Bank for Reconstruction and Development (EBRD)) already exist. They could be reformed or revamped if needed, without necessarily having to create new organisations. We should build on what has been achieved during processes such as the Barcelona Process (since 1995) and the Union for the Mediterranean (since 2008) and stop the hesitations and the hiccups that have characterised the accession process in the Balkans.

The list of countries wishing to join the EU is potentially large. It may include not only Ukraine, Moldova and Georgia, but probably also Armenia, Azerbaijan and others, if they so wish (and qualify). The EU would have to balance east and south by considering Morocco, Tunisia and other Euro-Mediterranean countries, for instance, should they also wish to engage. This prospect should not create dismay and fear among the present membership. Why should the EU not be able to work with more than 27 countries, while the US is fully functioning with 50 states?

Obviously, the problem is not the number of member countries, but the prerogatives of power and the governance arrangements. We need to shift prerogatives from the state to the federal level. We must endow the EU with an effective government with real fiscal, defence and executive powers. Why should national governments be frightened of the growing attractiveness that our standards of democracy, quality of life and freedoms exercise on other peoples? Why do we want to keep the club small? Why do we want to have a monopoly power on deciding what is 'European' and what is not? The calls that we hear are increasingly for Europe to have not only soft, but also 'hard' power, to exert a more muscular role and stronger leadership globally. Are these calls not inconsistent with the lack of ambition to expand?

As a matter of fact, the allegation that the Union is too large, heterogeneous, cumbersome and unable to work efficiently should apply not only to a Union of 30 or 35, but also to a Union of 15 or even six, if such a Union does not have a functioning governance, a single budget, a clear foreign policy, an autonomous energy policy, an army, etc., i.e. some kind of central executive function. The real challenges, from which the EU cannot escape if it wants to become more authoritative and strategically autonomous, are in strengthening the 'federal' level, giving the EU more executive powers under the democratic control of the European Parliament and the Council. This will probably require a vanguard of significant countries willing to give up their national prerogatives and share their sovereignty for the sake of joint European sovereignty and strategic autonomy. A smaller group – or *noyau dur* – of countries, a deeper inner circle, is what the EU needs, rather than a looser outer circle.

Relaunching the accession process should not involve any dilution or weakening of the accession criteria. Rather, it means intensifying the preparatory work, setting ambitious timetables and realistic deadlines, and supporting reforms and structural transformations in candidate countries. Above all, it means doing away with all forms of open or concealed prejudice, political opportunism and discrimination.

The war has dramatically highlighted the attractiveness of the EU because of its values, diverse societies, fundamental freedoms and way of life, and consequently the **transformative power of joining the EU** and engaging in it.

Past opposition to enlargement, when not motivated by sheer prejudice or populist propaganda, has drawn essentially on two arguments: the alleged trade-off between deepening and widening, and the threat of social dumping (often called 'Polish plumber syndrome').

On the first argument, evidence shows that there is no trade-off. As stated above, the EU can and must make progress in integrating its economies, societies and institutions, while at the same time increasing the number of candidates that aspire and qualify for accession. The question is one of effective governance and democratic accountability, and this question exists irrespective of the number of members. The EU must make progress on governance independently of the issue of enlargement, as we will see later.

On the question of unfair competition in the labour market (social dumping), Europe has developed a great tradition of social policy and welfare. People should be helped to compete and advance in the labour market through training, job creation, safety nets, etc. The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), enacted in 2019 in response to the pandemic, has worked well and given Europeans a tangible sign of being protected and accompanied throughout the green and digital transformations.

Enlargement will be the litmus test for EU policy makers and citizens of their ability to show concrete solidarity, to stay true to European values and to overcome isolationist and populist temptations. No wonder the Ukrainians attach such symbolic value to their application for EU accession. Denying accession or putting forward unmotivated obstacles risks the creation of deep scars in Europe, particularly in countries like Ukraine that have suffered – and are suffering – the ravages of aggression, putting the lives of their young people at stake to defend our common values. Let us not repeat the mistakes that we made in South-eastern Europe and in the Euro-Mediterranean region. It is not only a social, political and geostrategic imperative; it is also a moral imperative.

#### 4. The EU model for reshaping global relations: sharing sovereignty and pursuing supranational integration

Before the double crises of COVID-19 and the war in Ukraine, Europe was shaken by Brexit and the impact of the Trump Administration on transatlantic and global relations. Brexit has run against the flow of history and in the wrong direction. In the troubled waters of this century's growing interdependences, 'going alone' is proving to become a fool's paradise and a recipe for disaster. Besides, going alone distracts attention from building credible and resilient alliances. There can be no freedom in solitude; no independence in isolation.

Trump's orientation towards isolationism and unilateralism generated perplexity and concern among allies of the United States. But, after a turbulent passage in American politics, the Biden Administration has been saluted with great hope and a sense of relief. The re-engagement of the US with its historic allies at the international level provides promise for the reconstruction of some kind of new global order and has shown its salience clearly in the dramatic crisis generated by the Russian aggression.

In Europe we have rediscovered the importance of our transatlantic ties, the strength of the values that we share with the US and the importance of US leadership in the 'free world'. But the problems of global governance, made evident by the response to the pandemic and the war, remain daunting and urgent to address. A long and difficult road lies ahead of us, made up of mending fences, healing wounds and picking up the threads of an obsolete dysfunctional multilateral system; a system that cannot simply be patched back up together, but will have to be reformed in depth.

Europe is being called upon, and has shown itself to be well placed, to do its part in this challenging agenda. In the eye of the storm, the EU has managed to hold up remarkably well. It has shown unity, decisiveness and the ability to exercise (not only soft) power. Europe has stayed the course, upholding its values and long-term interests.

In its response to COVID-19, the EU was bold enough to take unprecedented steps towards deeper economic integration through, among others, NextGenerationEU (NGEU), the Green New Deal, new trade and investment agreements with Vietnam and Mexico, Canada, Japan and Singapore, and the EU-China Partnership Agreement signed at the end of 2020. Taken singularly, these may appear small steps considering the broad and complex framework of global disorder that must be resolved, but together they amount to courageous leaps forward for the small, fragmented and inward-looking individual European nation-states.

In response to the war in Ukraine and the collapse of the old European security structure, the EU was again united and quick in implementing severe and unprecedented sanctions on Russia. It did so in several rounds, taking a responsible stance and showing readiness to pay the price to defend not only the people of Ukraine, but also the values on which the EU was built. Besides setting sanctions against Russia, EU leaders visited Ukraine and Moldova, and intensified contacts and relations with Europe's southeast wing, the Balkans. A strong and welcome signal was sent that the EU was reconsidering its neighbourhood and enlargement policies, taking a more open approach than had been the case in the last 20 years. In doing so, the EU at last showed readiness to make amends for one of the most serious stains on its recent history, the inconclusiveness and inconsistency of its approach towards its neighbours in Eastern Europe and the Euro-Mediterranean region, as well as in the recently renewed EU-Africa Partnership.

We applaud these moves and hope that they represent a step forward in the formation of a new long-term vision and more open and credible attitude towards the pan-European space. This new attitude will resonate well, most notably vis-à-vis the peoples of the east and south of that space. It will be perceived as the start of a bolder idea of

the future for the whole of Europe, and of the EU's place in the world. It will represent a new European renaissance and a new model for global relations.

## 5. The European approach to geostrategic regionalism

This model is not only an anchor of stability and growth for the European peoples and their neighbours; it also represents a promising way forward to reshape the global system and respond to the divides created by financial crises, development gaps, the COVID-19 pandemic, climate change and, above all, the war.

We are seeing the scars of **geostrategic fragmentation** brought about by conflict, mistrust and the Russian aggression. The weaponisation of economic, financial and social relations at the global level has created inefficiencies and obstacles to dialogue and cooperation. This new scenario makes it much more difficult today than before to carry out the necessary reforms in global governance and multilateral institutions. The rebuilding of a framework for constructive and efficiency-enhancing global interdependences does not look likely in the near term.

Climate risks and technological and security considerations are being – and will increasingly be – internalised in decision-making processes. The impact on decision makers will be huge. It will involve policy makers and intergovernmental organisations, global value chains, micro- and macro-prudential regulation, monetary and fiscal policies, business investment strategies, and even the personal decisions of households and individuals. All of them will have to become more informed, knowledgeable and hopefully wiser. We need and will have to take more resilient and responsible decisions, but also probably more conservative and less innovative ones. It is a natural reaction, and to some extent cannot be avoided.

In the short term, this fundamental change will pose formidable obstacles to global governance and multilateral reforms. This is why we believe that reliance on the 'European model' might provide a more promising approach. We need **well-coordinated new geostrategic regionalism**. At the regional level, bottom-up innovative solutions can be tested. Pragmatic responses, new technological tools, imaginative alliances and public-private partnerships can be experimented, bypassing global stalemates.

Europe is at the core of – and leading – this new regionalism. It is in Europe that new creative arrangements have been put in motion at the supranational level. Europe is at the centre of a vast geographic, economic, financial and political area, where networks and communities can be profitably interlinked. Because of a recent tradition of moderation and soft power (but also history and culture), values, prerogatives and initiatives can be more easily shared in Europe than elsewhere. Relationships at 360°, between Europe and the east, south, west and north are generally better and easier than in other continents. For these reasons, and possibly others, the new regionalism and next generation global governance could be Europe-centred and promoted by Europe. It is up to Europe now to rise to the challenge and move forward.

## 6. A European future for the whole of Europe: pragmatic and idealistic pan-Europeanism

So far, the EU has had a piecemeal and fragmented approach towards its close European neighbours. This has probably been based on the false assumption that countries that are not in the EU are not in Europe. Undoubtedly, there are considerable differences within and across the various countries, regions and economies of the pan-European space. Moreover, history and geography do not necessarily provide a clear, simple and uncontroversial definition of the borders of Europe. On this score, Putin's fantasies and opportunistic claims represent a good case in point. But this should not be taken as justification for treating non-EU European countries, or countries with European aspirations, as mere occasional partners to be conveniently grouped or re-grouped along separate ad hoc dimensions.

This practice ends up slicing the concept of Europe into variable and changing formats. It is this flawed approach that led to the frustrations of the 'unfinished business' of South-eastern Europe, the 'interrupted business' of the Euro-Mediterranean Partnership, and the still embryonic phase of the EU-Africa Partnership.

We believe that all the areas, countries and regions of the pan-European space should be considered together within a coordinated and consolidated approach. And together they should be addressed at and involve the peoples that live in those areas. Not only because they are the EU's close neighbours, but above all because they represent a wider Europe, another dimension of Europe, having a legitimate claim on the common culture, identity and 'trade mark' (so to speak) of the same Europe from which the EU draws its own identity.

The pandemic has added new patterns to pan-European segmentation and division. It has created new inequalities and divides, which have piled on top of the disappointment and incomprehension generated by the failed convergence and integration policies of the past two decades. The war has sharpened and dramatised even further the dividing lines separating order and disorder, liberal and authoritarian, and free and captured societies and governments.

But the same pandemic crisis and the war have also provided the opportunity for a wake-up call and a leap forward of responsibility and solidarity. This opportunity should be seized now. In a world where the EU can become a protagonist in the construction of a new global order, it should start in its own backyard or, better still, it should start in 'Europe' itself.

In the new regional perspective, the concept of 'neighbourhood' should be refocused and widened. In this endeavour, the Mediterranean provides an illuminating perspective, because Europe projects itself through the Mediterranean towards Asia, Africa, Russia, Central Asia, the Arab world, the Middle East and the Sub-Saharan region. We need a bolder and more dynamic vision of the 'European neighbourhood'.

In this paper, we call for a **pan-European economic partnership and wider concept of European neighbourhood**, shaped according to the post-crisis and post-war economic, financial and geopolitical requirements. And we argue that we should give the financial sector a driving role in this partnership.

## 7. Eastern Europe trapped midstream between the pandemic, the war and enlargement fatigue

The second wave of the pandemic hit Eastern Europe, i.e. the non-EU countries in the East of Europe, with tremendous and unexpected force. The impact on COVID-exposed sectors, highly represented in the local industrial structures, was felt acutely. Think of tourism, retail trade, travel and personal services. Think of the frail and patchy health systems that quickly became overburdened by the concentration and virulence of the contagion. The shock gave evidence to the limited capacity of those economies and societies to respond to crises of such magnitude: the constraints in countercyclical fiscal expansions, the fragmentation and under-capitalisation of the corporate sector, and the limited resilience of household consumption and indebtedness capacity. The outcome was, predictably, the widening of the gap between Eastern Europe and the EU, increasing poverty, social polarisation and a creeping resentment against the élite (local, regional and European) and the concept of Europe itself.

The EU's attitude in response to the pandemic was not able to dispel those feelings of doubt and resentment. The EU gave ambivalent signals towards Eastern Europe. The troubled opening of accession negotiations with Albania and North Macedonia confirmed the grounds for cynicism and the fears that EU accession remained a distant dream, almost a mirage. Enlargement (a word that in EU circles was in the past carefully avoided; almost taboo) is subject to lengthy, bureaucratic procedures that can easily be manipulated. EU enlargement can be sabotaged by the partisan convenience of any election in any of its 27 Member States. The distance between aspirations and realities became evident when confronted with the difficulties posed by accession for Kosovo, Serbia, and Bosnia and Herzegovina, for instance. The EU approach appeared dominated by self-serving political concerns; above all with regard to migration. Comparing this approach with the 'charm offensive' of China, Russia and Türkiye, with their often-vocal anti-EU tone, and considering the opportunist attitudes of the local political élite, often playing one against the other, it comes as no surprise that the 'European dream' weakened significantly in the eyes of the citizens in the region.

The war in Ukraine, however, with its dramatic consequences and implications, has significantly changed the EU approach. Suddenly, it has become apparent that the threats to which Eastern European countries are exposed have a direct and immediate effect on EU security, as well a significant influence on public opinion. EU and Eastern European countries now feel that they are in the same boat as far as security is concerned. What the pandemic did not do, the war has done. It has introduced a new

perception of geostrategic realities, influencing the understanding of what Eastern Europe represents for the EU and what the terms ‘Europe’ and ‘European’ actually mean. This in turn explains why the EU feels compelled to intervene strongly and unitedly in support of Ukraine, and why it has responded favourably to the accession requests of Ukraine, Moldova and Georgia. The war, therefore, with its tragic humanitarian and socio-economic consequences, is also creating opportunities for rethinking the myopia and the inconclusiveness of previous EU policies, unblocking enlargement and igniting a new wave of European integration.

## **8. Euro-Mediterranean and EU-Africa relations facing the war and the crises**

If we compare the threats posed by COVID to Eastern Europe with those concerning the southern shore of the Euro-Mediterranean and the whole of Africa, the related challenges and fears appear to be augmented by a factor of 10 at least, if not more. The health toll and human costs linked to the pandemic crisis have been immense. The already difficult economic and social conditions have amplified the impact of COVID in terms of loss of output, jobs and standard of living. What has already been mentioned about Eastern European vulnerabilities in terms of exposed sectors (such as tourism, travel, shops and restaurants, small and medium-sized enterprises (SMEs), transport and services), social traumas (increasing poverty, inequality and falling public confidence in the institutions) and hopes for the future, also applies to the southern Mediterranean countries and Africa.

Additionally, there are more specific pressures to consider, which the war in Ukraine has made more acute and threatening: volatile commodity prices, which weigh heavily on the balance of payments of those countries; lost remittances of migrants; huge risks of instability; not to mention terrorism, local conflicts, migration pressures and authoritarian regimes. Some of the gains in economic development made by the region in recent years are quickly being eroded and reversed. Moreover, consider that the fiscal and monetary positions of governments in the region, as well as resource constraints, are significantly limiting the capacity for policy response. Many countries are already in debt distress and considering debt restructuring. This is why we have not seen the kind of vigorous reaction that has prevailed in more developed areas. The distance between the north and south of the Mediterranean – between Europe and Africa – has therefore increased enormously. At the same time, the spillover effects in all directions and the interdependence linkages have become more intense and visible. Africa is becoming closer and more crucial to the future of Europe. This is also the case in terms of opportunities. Africa is Europe’s most critical large and precious neighbour.

The war in Ukraine has added a new dimension to this growing divide, and a new form of proximity. Even though the war has focused our attention on the eastern front, Euro-Mediterranean and EU-Africa relations have become a much more important

consideration, and should be placed fully within the same *problématique*. The impact of the war on the Mediterranean and Africa has in fact been quite dramatic. The countries in this region already suffer from weak economic fundamentals and a growing stock of public and private debt, with little policy margin for manoeuvre to stabilise their economies and honour their financial obligations. Increasing private debt is likely to act as a further drag on growth, while interest rates are rising to tackle ramping inflation due to energy and food prices in a context of already low and slowing growth. A stagflation scenario would further hurt the already high unemployment situation. Poverty and inequality will continue to increase where social safety nets are absent, leading to further political instability, conflicts and hardships, migration pressures and social unrest.

In addition, according to the Intergovernmental Panel on Climate Change (IPCC), the Mediterranean and Africa are strongly affected by rising surface temperatures and sea levels, vulnerability to drought and water scarcity. Climate change will lead to a disastrous scenario for agriculture and forestry in the region, not only due to the rise in aridity but also because of the risk of fire in protected terrestrial areas.

Note that many of these outcomes have not been caused, but simply revealed and made more acute by the pandemic and security crises and the unresolved looming climate crisis. In the last few decades, the Mediterranean has undergone an unnatural metamorphosis. What used to be an internal and intercontinental 'lake', knitting together the whole of the 'Old World', has been transformed into an ocean, a border region, the no-man's-land between Europe, Africa and the rest of the world. The Mediterranean has become the source of most of Europe's worst nightmares: irregular migration, porosity of borders to terrorism, tribal wars and authoritarian regimes, a growing European-Arab divide and the European-African one, power and military confrontations in the Mediterranean that Europe is unable to manage or even influence, the Chinese filling the vacuum, and the US leaving messy situations behind. One might object and argue that the deterioration of the picture is not, or not only, Europe's fault. But no doubt it impinges on Europe more directly and acutely than elsewhere from the economic, social and political points of view. It exposes Europe's weakness and often irrelevance, not only on the global stage but also in its own territory.

This dramatic deterioration must be put into some kind of relationship with the unfortunate change that had taken place in the EU's approach to the Euro-Mediterranean, and through this region to Africa, since the 1990s. The Euro-Mediterranean perspective underpinning the Barcelona Process has been phased out, even in terms of language and concept. The outcome has been the abandonment of the enlargement prospects of some of those countries, and their replacement with the thinness and failures of narrow neighbourhood policies. All prospects of EU accession for southern Mediterranean countries, albeit long term and subject to rigorous conditions, have been wiped out. Enlargement has become a purely east-west issue (and only very long term); not a north-south one.



Collaterally, this has eliminated the most powerful and popular driver for reform and European relations in the region (see for instance the negative repercussions in Türkiye). It has encouraged the idea that the Euro-Mediterranean space can be sliced up conveniently and opportunistically into different areas of economic relations based on the specific problems and interests of the individual EU Member States. Take for instance the problem of blocking illegal migration routes; or energy relations in terms of oil exploration, gas pipelines, investment in renewables and hydrogen; logistics, infrastructure and maritime economy; land transportation and road/rail networks. Consider then the questions of terrorism, security and conflict.

This approach, i.e. segmenting the Mediterranean space into specific questions and areas, which may have appeared pragmatic and concrete, has instead been very elusive and ineffective, and has damaged the credibility and reputation of the EU. It has been perceived by the people in the region as top-down and short term, and suspected to cultivate old and new spheres of influence, or patronising EU populist electoral instincts, etc.

This approach should be abandoned. The Mediterranean question should be framed in a different way. It should be seen as an integral part of the pan-European integration process, aimed at eliminating obstacles to the flow of people, capital, goods and services, providing the door to Africa and above all providing mutual benefits to all participating countries – and their populations – in the region. In sum, **the Mediterranean is one**, and should be dealt with as a single economic, social and institutional context for dialogue, cooperation and integration. A single context in terms of risks, challenges and opportunities; a single bridge between Europe and Africa.

Unfortunately, this is not the route proposed by the EU in its 2021 ‘new Agenda for the Mediterranean’<sup>3</sup>, although the money being put on the table is not negligible: EUR 7 billion for the period 2021 to 2027, which is projected to mobilise up to EUR 30 billion of public and private investment. This money is expected to be spent on a long list of piecemeal projects and flagship initiatives, most of which are useful but not underpinned by a strategic vision, nor any concrete objectives of socio-economic integration. In the joint communication accompanying the proposal, we find evidence of the usual patronising attitude of the EU on the importance of the rule of law, good governance, peace and security. How the EU can expect with such a package to achieve ‘real change’ that ordinary people of the region will feel in their quality of life is difficult to understand, especially at a time when conflict, joblessness, food insecurity, bureaucracy and now the pandemic and war have gone on the rampage?

Equally, the most recent declaration following the sixth African Union – European Union Summit in February 2022 fell short of proposing credible action plans, dedicated

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<sup>3</sup> European Commission (2021), *Renewed partnership with the Southern Neighbourhood: A new Agenda for the Mediterranean*, Joint Communication, SWD(2021) 23 final, Brussels, 9 February, [https://www.eeas.europa.eu/sites/default/files/joint\\_communication\\_renewed\\_partnership\\_southern\\_neighbourhood.pdf](https://www.eeas.europa.eu/sites/default/files/joint_communication_renewed_partnership_southern_neighbourhood.pdf).

institutions and effective monitoring mechanisms to address the socio-economic challenges emanating from the new economic and geopolitical scenarios. The ‘renewed’ partnership focuses on the immediate challenge of ensuring fair and equitable access to vaccines by supporting local and regional mechanisms for procurement. The EU committed to provide at least 450 million vaccine doses to Africa, in coordination with the Africa Vaccine Acquisition Task Team (AVATT) platform, by mid-2022. According to the declaration, several EU Member States (Team Europe) have:

... provided more than USD 3 billion (i.e., the equivalent of 400 million vaccine doses) to the COVAX Facility and to vaccination on the African continent, and will mobilize EUR 425 million to ramp up the pace of vaccination, and in coordination with the Africa Centre for Disease Control (CDC), to support the efficient distribution of doses and the training of medical teams and the capacity of analysis and sequencing<sup>4</sup>.

The EU further committed to:

... support the fully-fledged African health sovereignty, in order for the continent to respond to future public health emergencies and hence support a common agenda for manufacturing vaccines, medicines, diagnostics, therapeutics and health products in Africa, including investment in production capacities, voluntary technology transfers as well as strengthening of the regulatory framework to enable equitable access to vaccines, diagnostics and therapeutics.

A common agenda of this scale, however, cannot be executed without substantial efforts to finance the health infrastructure and share the technologies and know-how to manufacture medicines and vaccines in Africa.

Additionally, in view of the macro-economic woes experienced by several countries in Africa, the EU repeated its support to the Common Framework for Debt Treatments (the ‘Common Framework’, established in 2020) beyond the Debt Service Suspension Initiative (DSSI). It called for ambitious voluntary contributions by channelling part of the recently allocated special drawing rights (SDRs) in order to achieve the total global target of at least USD 100 billion liquidity in support to countries most in need, of which a major part should benefit Africa. However, the Common Framework is inoperative and lacks transparency, and has proved its deficiency as acknowledged by the Managing Director of the IMF in spring 2022.

In addition, the AU-EU Declaration states that USD 55 billion has already been pledged from the new allocation of SDRs, of which Team Europe has pledged USD 13 billion. The declaration encourages more EU Member States to contribute to this global effort. African institutions, in consultation with national authorities, will be involved in the use of these SDRs to support the continent’s recovery. Spending should be increased through international programmes in the fields of health, climate, biodiversity,

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<sup>4</sup> See Final Communiqué of the Summit.

education and security to facilitate economic recovery. But no specific proposal has been put on the table on how these programmes should be executed.

Other commitments put forward include the Africa-Europe Investment Package, totalling at least EUR 150 billion, which aims to support the common targets for 2030; and the AU's Agenda 2063, composed of an investment, health and education package. As stated in the declaration, the investment package should boost large-scale sustainable investments, supported by Team Europe initiatives, having due consideration for the priorities and needs of the African countries, including: i) investment in energy, transport and digital infrastructure; ii) energy transition that is fair, just and equitable, taking into account specific and diverse orientations of the African countries with regard to access to electricity; iii) green transition, including supporting the implementation of the nationally determined contributions and national adaptation plans of African countries under the Paris Agreement to enhance mitigation and adaptation; iv) digital transformation, supporting trusted connectivity through investments in infrastructure and affordable and enhanced access to the digital and data economy, while boosting digital entrepreneurship and skills; v) sustainable growth and decent job creation, including by investing in the establishment of youth-owned businesses in Africa; vi) transport facilitation and efficiency of connected transport networks; and vii) human development, notably by scaling up the mobility and employability of students, young graduates and skilled workers. It will support industrialisation and the development of sustainable and resilient value and supply chains, and, obviously, continued cooperation in terms of peace and security, migration and mobility.

## **9. The Mediterranean as part of Europe, Africa and Asia: resetting the Euro-Mediterranean agenda**

The Mediterranean brings together the three big continents of the Old World: Europe, Africa and Asia. There are therefore three dimensions to the Mediterranean: Euro-Mediterranean, Afro-Mediterranean and Asian Mediterranean. Not only do these three dimensions not collide, but their co-existence gives the Mediterranean a special role and unique character. The abandonment, or 'betrayal', by the EU of the Euro-Mediterranean perspective, has deprived the EU of a promising policy perspective for enhancing its regional and global role. It has not alleviated the problems of the southern Mediterranean, nor has it contained the huge spillover effects that the region has on the EU. It has simply reframed them as 'their problems', or the 'foreign problems' of Africa, west Asia or the Arab world. Paradoxically, this approach has, in a way, made Euro-Mediterranean problems bigger, more costly and more complex to address than through a more emphatic joint Euro-Mediterranean perspective.

In the vacuum left by the EU betrayal, other global players have made aggressive inroads and became protagonists in the Mediterranean: China for instance with its ambitious

Belt and Road Initiative, and Russia with its military bases, energy pipelines and vaccine diplomacy. The Turkish regime has taken an anti-EU and illiberal turn, raking up neo-Ottoman aspirations and hoping in this way to canvass Islamic and grassroots resentment. So, we should ask: do conflicts, instability and poverty in the region benefit in any way from the EU shutting its doors on the Euro-Mediterranean perspective? Certainly not.

However, there is a silver lining. The Mediterranean has become more active, assertive and integrated in the African context and in the Arab world, and more open to south-south trade investment and cooperation. This is a positive development and should be welcomed and supported by the EU.

Take the case of Tunisia, for example, now under the spotlight for its precarious political stability, whose financial community has engaged in a fruitful and constructive dialogue with the Italian Banking Insurance and Finance Federation (FeBAF),<sup>5</sup> the Italian counterpart of the Tunisian financial community. Tunisia plays a leadership role in the 5+5 Dialogue, a sub-regional forum of the 10 western Mediterranean countries, which, established in 1990, was recently revamped after the decline of the Barcelona Process. At the October 2020 meeting of the Dialogue, chaired by Tunisia, the Tunisian Minister of Foreign Affairs declared that ‘the 5+5 Dialogue, which aims to make the western Mediterranean a region of peace stability and prosperity, must define a new road for the Euro-Mediterranean Partnership and must take as its priority the development of solidarity’. The implicit reference here is the need to respond to the pandemic in a concerted and cooperative way. It is also worth highlighting that Tunis is the location of the Libyan Political Dialogue, set in motion in 2020 by the Berlin Conference on Libya to move forward the process of pacification and institution building, with a view to running national elections in the near future.

Tunisia is also part of the Agadir Free Trade Agreement with Egypt, Morocco and Jordan, signed later by other Arab Mediterranean countries and supported by the EU. The agreement adopts the EU rules on country of origin, and overlaps and competes to some extent with the United States – Middle East Free Trade Agreement, creating conflicting regimes and burdens for exporters. Note, however, that the Agadir process, albeit significant, did not make the progress in the Arab world that had been expected.

In addition, Tunisia is an active member of the Anna Lindh Foundation for Euro-Mediterranean dialogue among cultures, based in Egypt. Named after the Swedish Foreign Minister murdered in 2003, it represents the civil society arm of the Euro-Mediterranean Partnership. Consequently, it has implicitly suffered from the setbacks of that partnership.

Undoubtedly, the most important event in 2021 marking the growing dynamism of the Afro-Mediterranean perspective was the entry into operation of the African Continental Free Trade Area (AfCFTA), an agreement involving 1.3 billion people and 54 (out of 55)

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<sup>5</sup> <http://www.febaf.it/english/>

African countries, with the aim of cutting tariffs and other barriers to inter-African trade and investment relations by 90 %.<sup>6</sup> The agreement was hailed as a historic moment. It was compared to the Treaty of Rome for its potential impact on the continent's economy and society. '[It] can provide the same impetus to Africa as the creation of the Common Market did in 1957 to the European unification process' (Flor, p. 1). Indeed, the AfCFTA started a process that promises unprecedented opportunities not only for Africa, but also for the EU. Now, the prospect of Afro-Mediterranean integration should not be seen as an alternative or a rival perspective vis-à-vis the Euro-Mediterranean countries. On the contrary, it raises fundamental questions requiring reconsideration of the whole European approach to the Mediterranean and Africa.

The war in Ukraine and related voting at the United Nations General Assembly and Security Council have paved the way for further questions, leading possibly to the resetting of relations and significant discontinuities. A fundamental rethinking is underway on the nature of the relationship between the EU and the southern shore of the Mediterranean and Africa. And *pour cause*. We need more equal and bi-directional relations, where not only the concerns of the EU but also those of the people of the southern countries take priority. A longer-term vision of the region is needed, rather than opportunistically driven and myopic negotiations anchored in intra-EU competition rather than in cooperation and coordination. A comprehensive partnership should be based on a common understanding of what unites us not only in terms of values, cultures and the legacy of a common past, but above all a converging vision of the future. Money (i.e. development aid) is important, particularly in consideration of the size of the challenges implied by the current crises, but it is not everything. A perspective of integration of economies, peoples and communities cannot simply be bought with a few million or billion euro, or exchanged through opaque quid pro quos, conditions and prejudice. It must be built also from the grassroots, involving the private sector and civil society.

We believe that it is urgent to **exhume the Euro-Mediterranean dimension and make it figure prominently in a revamped EU-Africa** approach. We must invest in this on a priority basis with a fundamental change in vision anchored in co-development, co-ownership and solidarity. This runs in parallel with the EU support for pan-African and Afro-Mediterranean integration. Monetary and financial stability, public indebtedness, payments, constrained fiscal capacity, climate degradation, social polarisation and conflicts require deeper and stronger intervention by the EU in its wider 'neighbourhood' of Euro-African relations (see also Chapter 9 and 10 below).

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<sup>6</sup> Hippolyte Fofack, "A competitive Africa", in *Finance and Development*, IMF, Washington DC, December 2018; Elena Flor, "Monetary Aspects of the African Free Continental Trade Area, in *The Federalist Debate*, year 32, n.1, Turin, March 2019

## 10. Post-COVID and post-war opportunities: the response of the private sector

The pandemic and the war, as all major crises, have not only taught us lessons on past shortcomings and current vulnerabilities. Above all, they have created opportunities for adjustment and reforms that must be bold and forward looking to match the scale of the challenges. The response of the private sector has been rapid and substantial; we will review it here. Certainly, we do not want to suggest that the response has been bold enough and sufficient to contribute to reducing the financial woes of the countries in the Mediterranean and Africa. These crises have had dramatic consequences, and countries that are on the brink of default, such as Ethiopia, Ghana, Lebanon, Tunisia, Zambia and others, require painful restructuring. But we draw confidence from some promising developments.

Global value chains have been reformulated and adjusted to the new situation. They have tended to become shorter, more digital and above all **more regional**. The potential therefore for Eastern Europe, the Euro-Mediterranean and EU-Africa relations to establish hubs in the region for the **nearshoring** or **friendly shoring** of investment and technology is enormous. But major transformations and innovative policy frameworks are needed to reduce the distance and gaps between these continents.

In the new drive towards the green economy, responsible investment (environmental, social and governance) and resilient and social infrastructure, the region is strategically placed. In the leading sectors of the Green New Deal, i.e. renewable energy, transport, telecommunications, ICT, bio-science, quality of life, smart services, machine tools, research, etc., ‘wider Europe’ can acquire strategic importance and a unique role. This neglected periphery could be transformed into the centre of pan-European infrastructure networks, and therefore the new frontier of stability, security, inclusion and sustainable development in the pan-European space and Euro-African relations.

We believe that the size and scale of the required investment can give the pan-European dimension a new centrality; centrality where responsibility is spread out and transparency is built on the rule of law and liberal values, where the private sector takes a driving role, and where solidarity shapes the response to the major societal challenges facing our extended region.

Promising developments have taken place at the regional level under the impulse of the so-called Berlin Process. This political initiative singled out the six Western Balkan countries (WB6: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) as being more suitable and prepared for regional integration. At the 2020 Ministerial meeting of the Berlin Process in Sofia, the WB6 endorsed the Common Regional Market Action Plan 2021-2024, with a focus on trade, investment and digital innovation. The plan has a strong private sector perspective and orientation, which is ensured through close cooperation with the WB6 Chamber Investment Forum, which brings together the business associations of the six countries. Supported also by

the Regional Cooperation Council in Sarajevo, and by the Central European Free Trade Agreement (CEFTA) secretariat, the plan aims to deepen regional economic integration between the six economies, seen as a stepping stone towards the EU single market. The underlying assumption of this strategy is that integrating those countries would prepare and facilitate their later integration with the EU. The economic rationale of this assumption is still to be proved correct by the facts. In the popular perceptions in fact, this programme has sometimes been interpreted as yet another delaying factor on the politically charged path to EU accession. The willingness, however, of the WB6 to cooperate with this new condition and embark on such a difficult and probably lengthy process shows that the commitment to accession and its popular appeal represent strong drivers of reform and market liberalisation.

The financial sector merits a special mention in this context. The pandemic crisis has shown that due to the reforms made in the decade following the global financial crisis of 2007 to 2008, the financial sector has been playing – and will play – a decisive role in the recovery and in the twin transition (green and digital). It has often been said that during the pandemic crisis the financial sector has proved to be part of the solution, rather than part (and cause) of the problem (as in the preceding crisis). In the emergency phase, this was certainly the case in the pan-European region. We saw it clearly in the provision of liquidity, loans, funding for investment and SMEs, public private protection schemes (including against pandemic risks), health coverage, equity and private capital markets, etc.

In the recovery phase, the opportunity is there to accelerate the modernisation of the financial sector as part of the wider effort to support the recovery and reconversion of the real economy. This implies addressing old vulnerabilities of banking and finance in the region, such as bank centrism, underinsurance, weak and illiquid capital markets, market fragmentation or ‘Balkanisation’.<sup>7</sup> More importantly, it implies integrating financial markets across the whole region and with the rest of Europe. An integrated, dynamic, open, cross-border financial sector is an essential instrument of resilience and flexibility, a tool for the post-COVID transition and for a greener and more sustainable economy.

To think in these terms encourages optimism and trust in the future. It shows that the private sector and civil society can play a driving role in the post-COVID, post-war transition, provided that public policies create an enabling environment. It also gives direction for stepping up efforts and refocusing policy, business and financial strategies.

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<sup>7</sup> See Vienna Initiative <https://vienna-initiative.com/>

## 11. A proposal to accelerate the stabilisation of the Mediterranean and Africa towards a recovery and resilience path

To respond to the financial woes of Africa, in 2021 the African Development Bank (ADB) called for a comprehensive plan on debt restructuring in Africa. The ADB plan should take the form of a stabilisation mechanism capable of freeing up the fiscal space that Africa needs to deal with its debt. On average, African debt stands at 70 % of gross domestic product. We propose setting up a homegrown financial stability mechanism to mutualise the available funds and limit the spillover effects from external shocks. We believe that this call is realistic, provided the prerequisites to make it work are set in place. Also, we think that such a mechanism would fit within the specific context of the Euro-Mediterranean and revamped Euro-African relationships.

Following the painful global financial crisis of 2007 to 2008, the European Stability Mechanism (ESM) was created in the EU to provide financial assistance to EU Member States experiencing – or threatened by – severe financial difficulties. The mechanism was built on the following conditions: i) a high level of monetary and economic integration within the euro area; ii) a single currency and single monetary policy; iii) the need for an effective stability mechanism targeted at the countries of the euro area; iv) concern that a Member State in financial difficulty would create risks for the financial stability of the euro area as a whole; and v) the principle that reinforced solidarity was needed among the Member States in the euro area for the good functioning of a monetary union, and for the provision of financial assistance under Union law.

ESM loans are guaranteed by the general budget of the EU. In case of default, the European Commission can call additional funds in excess of the Union's assets, taking into account any surplus cash balances, to service the Union's debt. To make the ESM credible vis-à-vis financial difficulties, we have the 'deep pockets' of the 19 ESM shareholders: today the ESM can issue bonds (up to EUR 30 billion annually). It has so far disbursed EUR 295 billion.

The ESM case provides an example of best practice that could be applied to the Mediterranean and Africa. It also shows the conditions upon which to build a fully fledged homegrown stabilisation mechanism to tackle financial instabilities and drive the corresponding regions into a comprehensive integration process. Moreover, a new initiative such as this could be initiated with the support of the EU, leveraging on the experience of the ESM itself, which could act as a European and Euro-African Monetary Fund.

In line with this thinking, and in order to drive the countries into a credible recovery process, we propose a quick start, innovative stabilisation mechanism, aimed at dealing with the huge pile of unpaid debt of the Euro-Mediterranean and Africa. The proposal



(see Ayadi, 2022<sup>8</sup>) is complementary to the extension of the Debt Service Suspension Initiative (DSSI) timeline. This is a necessary stopgap until the global post-COVID recovery takes foot and the war in Ukraine ends with a peace deal.

We believe that the eligibility of the DSSI provisions should be extended to low- and middle-income countries, of which many are in the Mediterranean and Africa. The DSSI should engage systematically with the private sector to contribute to debt relief efforts and ensure that the countries benefiting from debt relief are not excluded from capital markets for new issuances. The Common Framework should become a permanent instrument to inherit the role of the temporary DSSI after its expiry. But it must improve its clarity, become more transparent and provide a credible roadmap for those countries engaging in debt relief negotiations. Countries that access the DSSI must credibly commit to register all forms of new debt in the debt transparency repository of the Organisation for Economic Co-operation and Development (OECD)<sup>9</sup>.

In line with the proposal of Al Tuwaijri, Al-Tuwaijri and Ayadi (2021)<sup>10</sup> and Ayadi (2022)<sup>11</sup>, we propose to complement the DSSI with **a public-private SDG-compliant financing fund/plan**, as part of a global post-COVID recovery plan. The aim of the plan is to accelerate the transition towards the net zero scenario, and to fully comply with the principles of the United Nations Sustainable Development Goals (SDGs) and relevant indicators. The fund should be employed to restructure the existing pile of debts and related interest payments, and to finance a sustainable recovery and transition towards the SDGs and net zero<sup>12</sup>.

The mechanism could take the form of a partial guarantee (between 40 % and 60 %) issued by the IMF Resilience and Sustainability Trust (RST), which has the financial capacity, thanks to the SDR allocation, to help those countries in difficulty to : i) issue long-term maturity (up to 50 years) Recovery, Resilience and Sustainable Transition (RRST) bonds, with lower interest rates (no higher than 1 % above market interest rate levels on the USD<sup>13</sup>); ii) transform existing unpaid debt; and iii) finance their recovery plans and sustainable transition to 2050, in line with the SDGs.

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<sup>8</sup> See G20 insights.org under Indonesia Presidency. <https://www.g20-insights.org/authors/rym-ayadi/>

<sup>9</sup> <https://www.oecd.org/finance/debt-transparency/>

<sup>10</sup> Al Tuwaijri, S., Al-Tuwaijri, B.M and Ayadi, R. (2021), *Debt relief for sustainable recovery in low- and middle-income countries: proposal for new funding mechanisms to complement the DSSI*, Policy Brief, September, [https://www.g20-insights.org/policy\\_briefs/debt-relief-for-sustainable-recovery-in-low-and-middle-income-countries-proposal-for-new-funding-mechanisms-to-complement-the-dssi/](https://www.g20-insights.org/policy_briefs/debt-relief-for-sustainable-recovery-in-low-and-middle-income-countries-proposal-for-new-funding-mechanisms-to-complement-the-dssi/).

<sup>11</sup> <https://euromed-economists.org/download/a-proposal-for-a-blended-financing-framework-for-recovery-and-accelerated-sustainable-transition/>

<sup>12</sup> Other proposals have been vocal on adopting a coherent global approach to deal with sovereign debt in emerging and developing countries, <https://eprints.soas.ac.uk/34346/1/DRGR-report.pdf>.

<sup>13</sup> Undoubtedly, the pressure to increase interest rates to tackle high inflation might hurt a resilient recovery and lead to higher interest rates on issuance in USD.

It is essential that the private sector, represented by the Executive Board of the International Institute of Finance (IIF), contributes to the plan with a firm commitment to provide affordable liquidity within specified period of time for these countries. The DSSI and the RST must work in close coordination with the private sector. Coordination must be achieved via a tripartite taskforce with the country in difficulty to co-design a comprehensive financing approach for recovery, resilience and sustainable transition. There must be a collective approach to avoid massive defaults of countries that have succumbed to their structural problems, exacerbated by the COVID-19 pandemic and the war in Ukraine.

The terms and conditions of the prospectus for the RST bonds must be agreed up front when the DSSI country has completed the debt relief process and committed to the conditions of the RST. The main conditions of the RST are the use of a pre-determined percentage (up to 20 %) of the proceeds of the bond to finance the unpaid debt that matures subsequently. The remaining 80 % must be allocated to the recovery and sustainable transition in line with the RST conditions, with very strict monitoring of the use of proceeds, and a firm requirement to publish the debt issued and the breakdown of its use in the OECD debt transparency repository.

For this proposal to materialise, the details of the plan would have to be clearly spelled out. To this end, the EU, together with key private sector players and experts, should engage in the EU-Med-Africa taskforce mentioned above. The EU could contribute to funding under the Multiannual Financial Framework and Team Europe, partially guarantee new issuances and channel part of the SDRs under the RST for this purpose. At a later stage, the taskforce could support the countries of the Mediterranean and Africa to engage in a meaningful integration process among themselves and with the EU. The countries that participate in this mechanism should redress their monetary and fiscal policies and engage in further integration, looking at examples drawn from the experience of the eurozone and the ESM.

## **12. A recovery and resilience programme for the pan-European region, including Euro-Mediterranean cooperation and EU-African relations**

The current war is particularly tragic and challenging. The policy response has obviously focused on the immediate needs facing multiple emergency situations. The EU has mobilised its policy and financial resources, showing a remarkable unity of intent and willingness to support Ukraine in its heroic resistance to the aggression. This includes assisting refugees and displaced people, diversifying energy sources, accelerating the transition to renewables, containing inflationary pressures (particularly energy and commodity prices), tackling food shortages and supply bottlenecks, and controlling risks of financial instability. The combined shock of continuing contagion and escalating war

will require careful macro-economic management, support for structural adjustment and strong international cooperation.

But it will be in the medium to long term that the challenges raised by the war are decisive. Investment required for recovery and reconstruction after the devastation of the war will be massive, engaging energies and resources in a sustained effort for a lengthy period, while at the same time maintaining financial stability and keeping inflation under control. Recovery and reconstruction will obviously focus on Ukraine, which has been directly hit and devastated, but should not be limited to Ukraine. Support will have to be provided to all countries and peoples impacted by the war and its spillover effects. This means that a **recovery and resilience programme** will be needed **for the whole pan-European region, including the Euro-Mediterranean and Africa**.

Will this be enough? No. Winning the war, achieving a peace deal and building back better will be the most urgent and pressing objectives. But **winning peace** and creating the structural conditions for building lasting security and sustainable development will be equally important, if not more. We should not make the same mistakes that were made after the Cold War. We should be inspired by the visionary example of the Ventotene Manifesto.

We find there to be a clear indication in simple terms of the goals and prospects for the Ukrainian people after the war: to access the EU and share with the other European nations a future of freedom, prosperity and peace. This vision unequivocally shows the way forward. This is what the Ukrainian people are fighting and risking their lives for. That is what the Ukrainian government has asked with its accession request. There is a widespread sentiment and an overall orientation of public opinion towards supporting positively in all possible ways this noble aspiration, opening the way, when the time comes, for accession. The EU leaders must take the necessary political decisions in this direction, while at the same time carefully and urgently considering the fundamental implications of opening the accession channel. In particular, they will have to embark on a bold programme of **EU governance reforms**. Discussion on governance reform has been going on for a long time, but the war and the related policy challenges have made it necessary now to move and act with urgency and determination.

### 13. EU governance reforms

The EU is facing a policy agenda that requires an in-depth reform of its governance structure, taking into consideration the new security challenges, the related investment in economic recovery and reconstruction, the pan-European and Euro-Mediterranean integration process, preparation for a new wave of enlargement, strategic Europe-Africa neighbourhood relations, etc. Such an ambitious set of policy targets cannot be carried out within the existing constraints of the weak, multi-layered governance inherited from the past. A leap forward is required.

The need for reforms was already apparent in previous crises. But the current 'confluence of calamities' (Georgieva) has given such reforms a new sense of urgency. We will probably have to rely on a vanguard of lead countries and a reinforced cooperation procedure. We must review the rules of unanimity voting because we cannot proceed based on multiple veto powers. If progress is made, we assume that more and more countries will join in.

We sum up the required governance reforms under six headings:

1. **Enlargement procedure.** In addition to Ukraine, Moldova and Georgia have also expressed their willingness to join the EU. Other countries' applications or aspirations are also already in the pipeline. The enlargement procedure has lost its credibility, becoming subject to bureaucratic box-ticking, political manipulation and whimsical public opinion. The EU' reputation and values have been undermined in the eyes of the aspiring populations. It is necessary to review the procedure to make sure that it maximises the transformative power of joining the EU.
2. **A federal executive power.** A Union of several Member States can only function with a credible, substantial and effective federal governance structure. This implies continuing to transfer sovereign prerogatives from the state level to the federal one, not only monetary policy, competition, agriculture, trade and other community domains, but also defence, foreign policy, energy, health, education and finance. This will imply sacrificing certain cherished national prerogatives. Think of what it meant for Germany to give up its Deutschmark in the name of the euro. And think what would mean for the French to share their nuclear deterrence and permanent seat at the UN Security Council. But the gain for each and all countries from sharing sovereign prerogatives will be immense, and in any case there is no alternative. Some smaller countries might need more time and effort to find the strength and courage to take such momentous decisions, which is understandable. We would probably have to proceed speedily with just a vanguard of lead countries. But the time to decide is now. There is no room for delaying or compromising tactics. Let us not forget that there is a war in Europe.
3. **Greater democracy and accountability.** Democratic institutions have made great progress in the EU at the federal level. The European Parliament and the Council (the two chambers) are democratically elected and work effectively. We might have to strengthen the democratic accountability of the European Commission if it has to function as an effective and representative government institution (for example a President of the Commission elected by the citizens?).

4. **A single foreign policy and defence.** The ‘Strategic Compass for Security and Defence’ (European Commission, 2022)<sup>14</sup> is a good start, but only the beginning. The war is showing how important this question is today, but it is even more important for the future, as we will have to face the threats of the different ‘Putins’ that might appear on the horizon. The key countries should take political leadership on this issue.
5. **A common migration and border control policy.** The war has shown how important it is to proceed together on this front. The hesitations and the populist blackmail of the past appear out of tune and time vis-à-vis the scale of the humanitarian tragedy underway in Ukraine and the need to show the human face of European power.
6. **Completion of the Banking Union and the Capital Markets Union.** These are projects that were conceived and designed after the sovereign debt crisis, i.e. two crises ago. Some aspects are in the last mile of their completion, for others much more needs to be done. The time is ripe to bring the work to an end and move on; with a spirit of compromise and pragmatism, but also showing leadership and determination.

We mention these six points to give an example of the internal adjustment required of the EU institutions if Europe wants to be credible in its commitments to security, Ukraine and the other pan-European players, and in its understanding of the new geopolitical scenario. We believe that the post-COVID and post-war recovery will provide a great opportunity to make progress, not only in relaunching the pan-European partnership, but also in creating the internal conditions at the federal level to deepen the Union. In other terms, the ‘Ventotene moment’ is inherently linked to a ‘Hamiltonian moment’.

## 14. Institutionalising a network of potential and actual EU candidate countries

We mentioned above the possible risks of EU enlargement in terms of more burdensome governance and social dumping, and we set those risks against the benefits of the transformative power of joining the EU. A way to minimise risks and maximise benefits is to structure the accession process in stages, phasing in the accession gradually rather than all in one go. Consider for instance the Western Balkans: the first stage would consist of putting in place the Common Regional Market. The second phase would be to integrate the countries involved into the revamped and reorganised EU.

An interesting version of such a process could be gauged from French President Macron’s idea of a ‘European political community EPC’, aired at the European Parliament

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<sup>14</sup> European Commission (2022), *A Strategic Compass for Security and Defence*, Brussels, March. <https://www.consilium.europa.eu/en/press/press-releases/2022/03/21/a-strategic-compass-for-a-stronger-eu-security-and-defence-in-the-next-decade/>

in May 2022. The EPC was launched in October 2022 in Prague as an intergovernmental forum for strategic discussions about the future of Europe. It has 45 members of which 27 EU member countries and non-EU countries such as the UK, Armenia, Azerbaijan, Georgia, Iceland, Moldova, Norway, Switzerland Türkiye and Ukraine. The second summit meeting is in Moldova, and then Spain and the UK.

Clearly the risk of overlapping with other regional platforms such as the Council of Europe or the OSCE should be considered, as well as that of becoming a talking shop of dubious relevance. Another concern is that this forum is perceived as an alternative to EU accession, as it happened to the Union for the Mediterranean in relation to the much more engaging Barcelona process of Euro-Mediterranean partnership.

We believe that the EPC would play a very useful role if, in addition to its other aims, it also became a network or a community of potential and actual EU candidate countries. This would clarify that this organisational setting is not an alternative to enlargement, but rather an antechamber, a 'waiting room' of probationary membership, and an instrument for the EU to support the speeding up of accession. Countries would reap considerable benefits from being in that group, such as the opportunity to meet regularly with EU Member States and other candidates at technical and political level, the provision of training, technical assistance on European standards and incentives. Participation in this community would give candidate and aspiring or potential candidate countries symbolic and concrete encouragement to undertake reforms, avoid moral hazard and progressively fulfil the conditions to attain full membership, if they so wish.

At the same time, on the side of the EU, belonging to the same community would show that these countries' achievement of accession and success in fulfilling the necessary conditions was in the EU and their own interest, and therefore Member States would be prepared to help as much as possible. Failure to accede is not only a problem for the candidate country, but a failure for the EU. A European community of candidate or potential candidate countries would also convince recalcitrant EU Member States that applicants would not backslide or diverge from their commitments. Phasing the accession process ensures that we fully exploit the transformative power of EU membership by means of conditionality, engagement and inclusion; a transformative power that should operate both during the accession process and afterwards; a transformative power that applies to both candidate and potential candidate countries and existing EU Member States.

Being in the community could be associated with the benefit of eligibility for the post-war **pan-European recovery and resilience programme** mentioned above. This programme should have **special provisions for candidate countries**. It should also aim to promote economic convergence with the EU, preparing for accession and carrying out the related reforms. We have seen how powerful a mechanism like NGEU can be in stimulating reforms. The programme should provide an opportunity for engaging with those countries (in Eastern Europe, the Caucasus, Central Asia but also **the Euro-Mediterranean**) that show attachment to the European identity and an aspiration to join, and are prepared to pay the price of candidacy in terms of defending the core values of

the EU, related for instance to the war in Ukraine. In sum, this part of the programme, or separate complementary programme, dedicated to accession candidates, should be comprehensive and should involve all countries in the pan-European space that qualify. This means that eligibility for this part of the programme should be conditional upon meaningful reforms and shared values, including basic freedoms and the rule of law; a kind of social contract for a real extended 'European political community'.

## 15. From billions to trillions: the key role of the financial sector in the green, digital and security transitions

Bridging the financing gap in the whole pan-European space and Africa vis-à-vis the huge need for investment in infrastructure, innovation, the green and digital transitions, food security, social safety nets, etc. requires a massive amount of financial resources. These resources must be provided not only in response to crises and on an ad hoc, emergency basis, but as a permanent feature of a sustained and sustainable long-term development process. For this reason, but also for reasons of efficiency, transparency and innovation, the private sector, the market economy and the financial sector *in primis* have a fundamental role to play, both in the recovery and reconstruction phase and in the post-war long-term development and reconstructed geopolitical scenario. In a first instance, the financial sector is called upon for the provision of liquidity credit and financing in public-private partnership mode to prevent the collapse of the economy. But then later it is needed for financing investment and innovation, and for managing the necessary transfer of resources from declining or unviable activities to new business, new jobs and new incomes of the future. This is why the financial sector should be a major component of the support programmes, and of the vision itself of pan-European, Euro-Mediterranean and EU-African integration.

The driving role of the financial sector in the post-COVID-19 and post-war recovery has been shown by the growing number of initiatives in the EU financial communities. The keen and growing interest, for instance, of the Italian financial community towards Eastern Europe, the Euro-Mediterranean and Africa has been reflected in the initiatives of the Italian Banking Insurance and Finance Federation (FeBAF). These initiatives bode well for the future of financial integration in the pan-European space.

It is not only a question of banking. It is also insurance, which finds in Europe a fertile ground of application (for example in health systems and health reform, public-private protection mechanisms against new and global risks, and institutional investment requiring a long-term, 'patient capital' approach). It is equity capital and support for listing (as an alternative to debt), for which deep, transparent and integrated capital markets are a necessary condition. It is private capital, whose complementary role in financing is irreplaceable when dealing with high-risk and high-value investment, start-ups, scale-ups, frontier and disruptive innovation, and new business challenges. It is

pension funds or health funds, shelters of long-term savings, and catalysts of long-term investment.

## 16. Russia in the post-war pan-European scenario

The Russian government started this war. It therefore bears great responsibility for the destruction, pain, displacement and casualties. A deep scar has been inflicted upon the conscience and heart of the European family of nations, a blow to European values and a barrier to relations and dialogue. In the spirit of Ventotene, we are confident that in the end European values will prevail, the generous resistance of the Ukrainians will be rewarded, and those responsible for the aggression and its tragic consequences will be held accountable.

But we should not forget that after the Ukrainians, it is the Russian people and the Russian economy that have also been victims of this war, in terms of loss of lives, wounds, loss of resources, credibility and reputation. So, what role do we envisage for Russia in the future of the pan-European space?

Certainly, the war has created a divide that is not only economic, but also social, diplomatic and indeed ethical, and that divide is here to stay until the massive breach of Russia's international obligations is stopped and remedied. However, we believe that once the war is over and settled, Russia should be engaged and have a place in the pan-European space. This was the vision of Ventotene for the warring nations in post-war Europe. Russia should be involved in the arrangements and programmes of post-war reconstruction pacification and development, and should actively participate in them. Russia is a big and rich country. It has enterprising and clever people. It has great experience in science, international relations, culture and technology, and strong links in many parts of the pan-European region. It is a nuclear power and has a permanent seat at the UN Security Council.

For all of these reasons, and many more, Russia should be fully involved in and actively contribute to the process of pan-European integration. This will be in Russia's and everybody else's interest. We should reserve a seat for Russia at the pan-European table and hope that sooner rather than later it will join the family of civilised European nations, viable market economies and liberal democracies.

## 17. Winning the peace: recovery, reconstruction, pan-European and EU-African integration

Summing up, the following ideas stand out as the next steps that should be set in motion as an outcome of our reflection:

1. A **pan-European post-COVID and post-war recovery and resilience plan (and fund)** should be launched by the EU as a gesture of solidarity at this critical juncture, and of support for the urgent growth- and integration-enhancing



reforms that are needed in the whole of the pan-European region. The plan should obviously focus on and target first Ukraine as the most affected player. But it should then include all the countries of the region that have suffered the spillover effects of the war and the pandemic, meaning the whole of the pan-European region, the Euro-Mediterranean and Africa. Drawing on the parallelism with NGEU, the programme should be based and conditioned on governments engaging in reforms and committing to European values and democratic principles. Intervening now has a double advantage: it sends a strong signal to the peoples and public opinion of the whole region that the EU is not a distant and reticent entity, but rather a partner capable of empathy and concrete help. In addition, such an effort, together with its budgetary implications, would appear fully justified in the eyes of the EU population because it is an extraordinary measure in response to a dramatic shock that has hit the most vulnerable communities the hardest.

2. **The accession process should be unblocked and supported** for all of the countries in the pan-European region, including those in the Euro-Mediterranean region, that qualify. This implies first and foremost doing away with all internal EU political resistance and propaganda that is motivated by prejudice, political opportunism and anti-enlargement rhetoric. Enough with the enlargement fatigue! Making enlargement the scapegoat of all that does not work in the EU has been an exercise of irresponsible leadership, and has paved the way for an escalation of anti-immigration fanaticism and ultimately anti-European radicalism. We endorse the suggestion of a multi-step procedure relying first on the establishment of a network of actual and potential **candidate countries** that will be supported in their efforts to comply with the accession requirements and given a signal of special friendship. And we believe that the newly established EPC could be deployed for this purpose. But whatever mechanism is chosen, being open to the accession of possible candidate countries, provided the necessary conditions are met, should no longer be a taboo. This is in the interests of each and every country in the pan-European space, both EU and non-EU. It has become particularly salient and urgent since the invasion of Ukraine, and will be needed in post-COVID and post-war Europe.
3. An **additional programme specifically targeted at candidate countries** should be set in motion. It could be seen as a complement to – or part of – the recovery and resilience plan mentioned above. It should provide support to candidate countries, stimulate reforms and help in the adjustment and adoption of EU standards and adherence to European values.
4. A **specific innovative stabilisation mechanism for Africa** should be established, aimed at addressing the most urgent needs of debt restructuring, balance of payment financing and sustainable recovery. The possible features of such a plan are illustrated above. It should envisage the participation of the private sector and the channelling of SDRs. It should support the countries in question

in a meaningful integration process designed in view of the experience of the eurozone and the ESM.

5. For the **financing of these plans**, the EU should draw on the **positive lessons learned from NGEU**, in particular conditionality on mutually agreed structural reforms, and involvement of the private sector (institutional investors, banks and insurance companies). There should be no objections to financing through issuance of common debt, considering that both the COVID and war shocks were totally exogenous, therefore no moral hazard or monetary financing is involved. The EU has considerable fiscal capacity (the EU's debt is low and ratings high, not to mention the high demand for EU safe assets), whereas many individual EU Member States are still having to deal with debt overhang and follow tight budgetary rules.
6. The **EBRD**, as the multilateral development bank of the pan-European and Euro-Mediterranean space, **should strengthen its role and make more organic its links with the EU and its institutions, with the Union for the Mediterranean (UfM) and its member countries, and with Africa**. It should be perceived as the reference bank not only for Eastern Europe, but also for the UfM countries. EBRD shareholders should issue a strong political statement to declare that the bank's doors are open for access to those UfM members that are not yet EBRD members (such as Lebanon, Algeria and Mauritania) and that qualify for membership. Now that six Mediterranean countries have already joined (Egypt, Israel, Jordan, Morocco, Tunisia and Türkiye, the EBRD will have to engage more in Africa and for that purpose enter into a special relationship with the African Development Bank.
7. The **ESM should be reformed to become a fully fledged European monetary fund for the whole pan-European region**, working in close **partnership with the IMF**. It will have to have a priority orientation towards Africa, in support of African development. In doing so, it should promote inspiration, advice and innovation in addressing debt and development financing and the balance of payment requirements of African countries, acting decisively. For instance, in the special public-private programme/fund, we propose financing the post-COVID, post-war recovery and sustainable transition in Africa. Close cooperation will therefore be needed with African institutions, the African Union, the private sector and African governments.
8. Finally, the **bilateral and multilateral dialogue between the EU financial communities and those of the pan-European region, including Eastern Europe, the Euro-Mediterranean region and all of our African neighbours**, should continue and intensify. The Italian financial community, represented by FeBAF, is strongly committed to this dialogue, and intends to strengthen and extend it as far as possible. Such dialogue should aim to improve reciprocal knowledge, promote partnerships and explore opportunities for cross-border relationships and activities, and for the integration of banking insurance and capital markets

in the whole region. Partnerships of private financial communities with development banks and multilateral financial institutions should also be strengthened to promote cross-border financial activities and integrated capital markets. It is not – or not only – a question of leveraging private market resources and unleashing the potential for sustainable financial investment. The general principle that should be brought home is that ultimately it is the market and the private sector that have the leading role in financial investment and integration, and should therefore take the driving seat.

# CHAPTER 2. ACCELERATION AND SUSTAINABILITY IN EU GROWTH: THE ROLE OF NGEU

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## 1. Introduction

The COVID-19 crisis has prompted a joint response by EU Member States and by the European Commission. In the short term, temporary measures, such as the suspension of the Stability and Growth Pact and the temporary framework on state aid, have allowed the immediate costs of the COVID shock to be minimised. In the medium to long term, policy makers will have to address the challenges of the twin transition towards digital and green activities, and reinforce the EU growth model.

For this purpose, the European Commission has launched the NextGenerationEU (NGEU) programme and activated its operational arm, the Recovery and Resilience Facility, which is translated into national plans for recovery and resilience. The mission of this (temporary) instrument is to revamp EU growth in quantitative (how much growth) and qualitative (what kind of growth) terms. It does so by supporting public investment and structural reforms through substantial financing. The financing amounts to EUR 650 billion, which is provided by the EU budget and funded through the emission of dedicated ‘European bonds’. Countries receive resources, taking into consideration each country’s needs rather than its performance. Funds are provided partly in the form of grants and partly in the form of loans. Disbursements are conditional upon the fulfilment of intermediate targets to be evaluated by the Commission.

NGEU is a very significant project, which, if well managed, could become the key ‘growth machine’ of Europe, despite being a temporary measure. In what follows we explore the underlying logic of NGEU, linking the specific measures to actual EU growth performance, and evaluate if and to what extent it will be able to deliver growth and transform the EU economy towards the green and digital targets. We do so by looking at existing evidence on the impact of the NGEU policy instruments on growth. We also consider how and to what extent the impact is consistent with the fundamental features of EU post-war growth dynamics in the long term, while taking into account the general economic environment characterised by symptoms of secular stagnation.

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<sup>1</sup> The author is chair of Unicredit. He contributes in his own capacity.

We look at growth as a sequence of sub-periods characterised by growth acceleration episodes (as discussed by Hausmann, Pritchett and Rodrik, 2004<sup>2</sup>). Acceleration is defined as a period of faster growth that eventually comes to an end. It is usually sparked by investment and/or trade openness. However, in order to be sustained, acceleration needs further efforts beyond the initial impulse, such as structural reforms.

## 2. General features of post-war EU growth

The terrible sequence of major crises, from the global financial crisis to the sovereign debt crisis, the COVID crisis and the Russian invasion of Ukraine, as well as signs of deterioration of the macro-economic environment, have put into question the sustainability of the EU growth model and the appropriate fiscal and monetary policy mix.

The discussion about the policy mix between monetary and fiscal policy in the eurozone and in the EU is missing a component: a growth policy, needed to produce a sustainable growth environment in the European Union (and globally).

Growth is relevant to the policy mix for at least two reasons. First, for debt to be sustainable, growth must be higher than the interest rate. If this condition is fulfilled, growth creates fiscal and monetary policy space. Second, growth must be such as to allow the natural rate ( $r^*$ ) to be high, so as to allow the policy rate to be set below  $r^*$ , thus providing space for monetary policy.  $r^*$  is not observable but, according to the literature, it is dependent on demographic factors, declining productivity and high savings. While the role of  $r^*$  may be criticised as being non-observable and hence possibly misleading if used as a benchmark, it provides a useful indicator to signal the limitations that long-term and structural factors may exercise on policy. It reminds us that growth policy must address structural impediments and build a growth-friendly business environment.

Economists look at growth performance through models that explain a smooth process over the long term, driven by exogenous and endogenous factors. However, this approach is ill suited to deal with a sequence of growth, crises and fallbacks such as that experienced by the EU and the global economy. One alternative is to look at long-term growth dynamics using the notion of growth accelerations, i.e. a sequence of relatively short periods, during which growth initially accelerates and eventually decelerates as the push factors (drivers) lose steam. To be sustained, accelerations must develop a growth process based on structural reforms.

The analysis of growth accelerations has been applied especially to emerging economies, but may also be useful in the context of a developed country framework, especially in

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<sup>2</sup> Hausmann, R., Pritchett, L. and Rodrik, D. (2004), *Growth Accelerations*, National Bureau of Economic Research (NBER) Working Paper No 10566, June, <https://www.nber.org/papers/w10566>.

crisis periods. This holds, too, in the analysis of the EU's case, which is characterised by intense institutional dynamics.

Following this approach, growth is understood as a long-term process with drivers, including economic institutions, changing slowly, but also possibly abruptly when crises break out. In other words, the long-term growth process is seen as a sequence of acceleration episodes. Acceleration episodes are generated by a combination of factors drawn from traditional growth theories, but also by more country-specific factors that are often not known *ex ante*. In many cases, institutional changes act as separators between different periods of acceleration, i.e. leading from one acceleration episode that has lost steam to a new acceleration episode that ignites fresh dynamics.

It is not just the amount of growth but also its composition that must be taken into account. This is particularly relevant in the case of the EU. The target of composition of growth is related to the twin transformation, digital and green, which the EU launched before the COVID crisis and which remains its core strategy. Within this framework, NGEU can well turn out to be the main policy instrument for growth (a 'growth machine'). NGEU is a complex mix of demand, supply and financial aspects. Tools include the EU budget, public investments and structural reforms. It is the combination of these instruments that is needed for growth to be sustainable.

Sustainability requires the necessary conditions that have to deliver growth accelerations and the sufficient conditions for those accelerations to be sustained. How does this mechanism operate in the case of NGEU?

We look at this question with the help of the literature on long-term EU growth. At first sight, growth in the EU is driven by several factors that have been evolving over time. Some have lost their relevance, while new factors have increased in their impact. However, as new factors appear, they do not necessarily replace pre-existing factors, but often cumulate.

With the acceleration approach, we consider the evolution of the determinants of EU growth in the post-war period, taking into account different sub-periods and highlighting the main factors at work. To identify sub-periods, we concentrate on the role that institution building has played in determining structural breaks, accelerations and slowdowns. We also look at total factor productivity (TFP) as the single common variable that has driven growth over the long run. Vast economic literature provides support to our assumption.

Post-war EU growth has been declining over the long term. Growth rates have moved from values of around 5 % to near stagnation. From the Bretton Woods days to the present day, the following sub-periods can be identified: i) Bretton Woods and its crisis, from 1950 to 1975; ii) The aftermath of the Bretton Woods collapse, with flexible exchange rates; iii) Bretton Woods II enjoying apparent stability; iv) the global financial crisis; and v) a global tripolar system. The degree of integration of the EU economy has evolved over the same period, moving from: i) the custom union, from 1950 to 1985; ii)

through the single market, from 1985 to the late 1990s; iii) through monetary union and its crisis, from the late 1990s to 2010; and iv) towards economic union, 2010 to present. Throughout this long period, the EU economy has had alternating phases of increasing convergence, periods of no convergence, and eventually divergence during the euro crisis.

The periods recalled above are related to structural breaks associated with institutional change. Over the same timespan, different segments of gross domestic product (GDP) dynamics also reflect evolution in the role of technology and innovation that impact growth, which is reflected in TFP dynamics. As an example, we report the periodisation presented by Cette et al. (2020)<sup>3</sup>, which uses the introduction of information and communication technology (ICT) as a further element of acceleration and separation.

*Table 1. Eurozone GDP and TFP growth in selected periods*

| Years                               | GDP growth | TFP growth |
|-------------------------------------|------------|------------|
| 1960-1975 pre oil shock             | 3.28       | 4.60       |
| 1975-1995 initial ICT diffusion     | 1.69       | 2.44       |
| 1995-2005 highest ICT diffusion     | 0.77       | 2.12       |
| 2005-2019 slowdown in ICT diffusion | 0.30       | 1.09       |

Source: Cette et al., 2020.

As mentioned above, each of the sub-periods is marked by institutional changes that have acted as major growth drivers, such as the launch of the single market, and monetary and economic union. At the same time, integration in the EU has made uneven progress. Yet, some progress has materialised. The only period in which integration dynamics turned negative is the one in which monetary union went through its systemic crisis, which could have brought about the collapse of the euro. The post-COVID scenario may replicate divergence, and the Ukraine invasion may have a similar impact, but the policy impact of NGEU may bring convergence back.

To recap, the main characteristics of EU growth over the post-war period can be described as follows: productivity growth in the EU and euro area has been declining, reflecting a general trend across advanced economies. Also, for the last 20 years labour productivity growth in the euro area has generally been lower than in the United States and Japan. Within the EU, most indicators of economic and institutional structures show large differences across euro area countries.

A variety of potential causes explain the Europe-specific slowdown in productivity growth: highly regulated product, labour and financial markets; legal and regulatory

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<sup>3</sup> Cette, G., Devillard, A. and Spiezia, V. (2020), *Growth factors in developed countries: A 1960-2019 growth accounting decomposition*, AMSE Working Paper No 33, October, <https://shs.hal.science/halshs-02958226/document>.

obstacles to sectoral reallocation; restrictive regulations that hinder innovation and investment; and wider structural impediments, such as insufficient ICT-relevant skills. Specifically, what is often referred to as endogenous TFP reflects the limited contribution of research and development (R&D) and innovation efforts.

If we take into consideration the different growth factors at work throughout the post-war period, we obtain the following general ‘growth model’ for the EU economy. In a nutshell, we are looking at potential output growth based on the notion of acceleration, driven by two fundamental variables: TFP and institutions.

The literature separates acceleration from sustainability, i.e. the process that transforms an initial push towards acceleration into sustained growth (the growth spell). In our framework, TFP captures the sustainability aspect of growth spells (see below). TFP can be seen as the ultimate result of diverse growth mechanisms. ‘Institutions’ are changes in the institutional architecture that contribute to sustained growth accelerations. Growth is generated by a sequence of accelerations, themselves activated by institutional changes and TFP spells.

NGEU should be seen as the most recent example of an accelerator factor. Its success will depend on the capacity to generate sustained and sustainable growth accelerations. This brings us to the role of policy. The two main instruments activated by NGEU are public investment and structural reforms. We concentrate on the direct or indirect impact of structural reforms and public investment on TFP dynamics as the main driver of growth. In addition, TFP growth reflects improvements in allocation mechanisms with, in our case, specific emphasis on the twin transition.

The growth mechanism can be summarised as follows. Policy activates public investment and structural reforms, which have a direct impact on potential output. Potential output is also impacted by TFP in its two components, exogenous and endogenous, which reflect progress in investment and structural reforms. The policy impact of investment and reforms is amplified by EU integration drivers (spillovers) such as the single market and trade integration. Finally, potential output, once stabilised, impacts  $r^*$ , which feeds back on policy space.

Structural reforms help to improve allocation mechanisms, as well as the efficiency of public investment. Allocation also relates to sectoral distribution according to the twin transition. Economic and social complexity reflects the extension of networks and social capital, which act as positive factors in the growth process.

### 3. From COVID to NGEU

We now look at the process that has led to the establishment of NGEU as a reaction to COVID-19. The COVID shock has accelerated the risk of stagnation because it has reduced the policy space through a (further) decline in  $r^*$ . At the same time, the risk of stagnation has sparked a reaction in the EU, with a novel policy approach and instruments. The policy response (NGEU) has mobilised both supply and demand



aspects. The main policy instruments are public investment and structural reforms. The reform and investment programme is financed through grants and loans, with resources collected via bonds issued by the European Commission, a mechanism previously experimented with the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). The expected impact of NGEU is both short term (mostly a demand factor) and long term (mostly a supply factor). Resources are disbursed to Member States, conditional upon the completion of investment and reform programmes to be monitored through intermediate and final targets. Of course, the energy crisis resulting from the war in Ukraine has hugely complicated the overall framework. Nonetheless, the main growth story remains in place.

Let us look at this process in steps:

**Step one.** Governments have provided an immediate response to COVID in terms of national budget resources to absorb the initial impact. The suspension of the Stability and Growth Pact has provided the necessary fiscal space.

**Step two.** Governments define their structural transformation strategy in terms of plans and sectors to be assisted by the resources made available by the Commission.

**Step three.** Governments set the sequencing of measures related to investment and structural reforms. It is interesting to note that, while preparing their national recovery and resilience plans, governments have anticipated milestones relative to structural reforms with respect to those related to investment. The rationale for this is that anticipating reforms would make the implementation of investment faster and somehow smoother.

**Step four.** A possible ‘acceleration cycle’ is activated as follows: i) public investment is activated (also with the support of structural reforms); ii) both the public investment component and structural reforms activate accelerators and cross-border spillovers; iii) private investment in digital and green is activated, with institutions facilitating the effect of reforms; iv) public aggregate demand fills the output gap that may arise; and v) the effect of structural reforms makes the acceleration permanent, depending on the policy mix. This is reflected in higher potential output.

## 4. Public investment

Let us now look at the components of the policy response and discuss the extent to which growth accelerations are possible and sustained.

We start with public investment. According to many analyses, not all public investment impacts long-term growth. The basic assumption in simulation exercises is that grant financed investment does not add to productive capacity, while it does if it is financed by loans. It is also assumed that grants are especially used by high-debt countries to replace existing debt.

Timing is important. Demand effects may be significant in the short term. They also facilitate the implementation of structural reforms, with benefits for supply build-up in

the long term. At the same time, early implementation of structural reforms facilitates the effect of public investment.

What is relevant here, however, is the longer-term impact of NGEU on TFP. Implementing NGEU implies allocating loans and grants to Member States to finance public investment and structural reforms. Allocation follows national priorities within a framework based on the twin transformation: digital and environmental. The issue arises of how to allocate resources – private and public – so as to support the twin transformation targets. Instruments to this effect include the composition of public investment, taxation structures that favour such investment, regulation introducing constraints and incentives, and green finance.

Public investment impacts as a demand factor in the short term, but with multiplier effects that are particularly relevant to smaller countries. It also generates international spillovers in the medium term. The full exploitation of spillovers requires that countries make full use of the additional policy space, and hence coordination may be necessary.

Such effects are larger the deeper the economic integration among Member States. Spillover effects are larger for smaller economies, given their relatively higher degree of openness. They also materialise in the early stage of the policy action, and are present in the case of structural reforms.

There are visible differences in the GDP response to public investment across Member States and financing instruments.

GDP response depends on the content of public investment, and on its financing characteristics. Evidence suggests that grants tend to be used to finance shorter-term measures, while loans tend to be used to finance longer-term measures that impact more prominently on long-term growth.

Periphery countries like Spain and Greece benefit more from public investment boosts. Interestingly, the impact on private investment is also relevant. This is to be expected, as these countries suffered most from secular stagnation. But it is mainly a demand-side effect. Peripheral countries invest a relatively lower amount in intangibles, with a relatively weaker impact on TFP. So, to some extent at least, NGEU is able to contrast divergence and bring the EU economy back on a convergence mode. However, convergence may remain incomplete.

## 5. Structural reforms

There are several types of structural reforms:

**Institutional reforms** enhance the quality of governance and may bring substantial long-term benefits in terms of income and well-being. The quality of institutions helps (in part) to explain long-term growth performance in EU Member States.

Labour market rigidities can be an impediment to market clearing, resulting in high and persistent unemployment. Reforms are needed to overcome rigidities, but also to

improve the job search process, as well as protection at times of adjustment. However, it can take a long time for the effects of **labour market reforms** to be fully implemented and produce tangible results. In addition, labour market structures evolve in response to the changing economic environment.

**Product market reforms** comprise a wide range of policies, including: liberalising or deregulating professional services, retail trade and network industries; reducing barriers to entry and international trade; improving the business climate; strengthening competition policies; and harmonising legislation. Indeed, product market liberalisation and openness to trade have been instrumental in providing acceleration boosts to the EU economy.

Product market reforms are associated with higher productivity and growth. But, as in the case of labour market reforms, they may take time to materialise. Product market reforms support resource allocation. The productivity slowdown in the euro area, which has been going on for some time, is related to rising resource misallocation. If barriers to the mobility of capital persist, low-productivity firms that would exit a competitive environment are kept alive, hindering efficient allocation to more productive firms. This may weigh on aggregate productivity and crowd out growth opportunities for more productive firms, the overall result being a downward pressure on  $r^*$ .

More generally, **structural reforms** should improve the effectiveness of allocation mechanisms in labour, product and capital markets. Indeed, both the global financial crisis and the COVID crisis have weakened the operation of factor and product markets and, as a consequence, the capacity to address secular stagnation.

To enhance long-term growth, policies should improve the diffusion of technology among firms. To this effect, relevant measures include: i) incentives to invest in human capital, managerial ability and intangibles; ii) competition; and iii) measures removing product, labour and financial market distortions that prevent productivity-enhancing reallocation of capital and labour across firms.

## 6. Building policy packages

Growth accelerations are more likely when the spark is generated by a policy basket rather than by a series of single measures. The challenge is to identify the country-specific basket that works best.

Combining reforms with expansionary macro-economic policies creates synergies that mitigate adjustment costs. This is important as reforms might entail transitory costs, such as temporary negative demand effects, or redistributions among segments of the population. Credible implementation of reforms allows future reform-driven income gains to be brought forward, as well as expectations of future benefits to improve, thus mitigating short-term costs. The credibility of institutions that kick off reforms may contribute to enhanced initial reform-related gains. More generally, as the literature on

acceleration shows, the coordination, prioritisation and sequencing (or packaging) of reforms can generate benefits from complementarities and synergies.

However, the 'structural reform cycle' (the sequence of steps that are needed to fully implement a reform measure) may be very long and difficult to complete. It follows that near-sighted politicians may find no interest in launching the process for structural reforms. The cycle begins at the moment the new legislation is introduced and approved by Parliament, followed by the adoption of administrative measures, their implementation and possible revision. It takes a long time for public opinion to appreciate the benefits of reforms (if at all).

The interaction between structural reforms and public investment is a key driver of acceleration in the implementation of NGEU. The 'impact stage' relates to the impact of reforms on the behaviour of firms, households, stakeholders or entities exposed to those reforms, reflecting the change in incentives that they (should) produce. The very final stage implies the (possible) perception (by firms and households) that the reforms have improved or decreased individual welfare. Possibly (but not necessarily), this perception may lead to an increase (or decrease) in approval and political support for government perceived as responsible for the improvement.

An obstacle to gaining political support for structural reforms is the distributional uncertainty associated with the respective pay-off. In such an environment, people tend to favour the *status quo*, fearing that after the reform takes place, they may be worse off. Resistance among those who lose out from reforms often prevails, even if these groups are relatively small in terms of their share in the overall population (or the electorate).

In sum, while structural reforms are essential to support growth, the incentives to introduce them may be too weak to spark reform action. This is reflected in persistent imbalances, lower growth and a low and declining  $r^*$ , as growth accelerations are more difficult to start. This also speaks in favour of the NGEU strategy to combine structural reforms and public investment as accelerator packages.

In terms of impact of structural reforms, evidence points to three major outcomes:

1. Structural reforms may take a long time – up to several years – to produce visible impacts on growth.
2. In an integrated environment, national reform programmes can generate significant spillover effects (which would add to the impact of public investment and related spillovers).
3. Last but not least, the literature confirms that structural reform programmes are very much country specific, reflecting national institutions and characteristics, and that there is no general policy recipe that can be applied to all countries without adaptation to national features.

## 7. Liberalisation and market incentives

In addition to the implementation of reform packages, the success of NGEU, but more generally the intensity of NGEU's impact, depends on the activation of new sources of acceleration (and hence institutional change), as well as a contribution by the private sector to investment in green and digital activities.

The liberalisation of services would be a powerful additional accelerator of EU growth. EU competitiveness has been lagging behind in competitiveness and productivity growth with respect to the US in both manufacturing and services. Services and the single market represent a case of potential interaction between structural action and regime change in the EU, even more so as advanced services are important complements to innovation activities, and in the provision of intangible assets.

The service sector accounts for more than 75 % of employment in the euro area. A well-functioning service sector can act as a catalyst for productivity growth. Many of the potential gains from the full implementation of the Services Directive have yet to be realised. Progress has been uneven across countries, but in the majority of cases well below half of the potential gains have translated into an increase in GDP.

Changes in the regulation of services sectors can boost economic activity and real wages through different channels. Reforms aimed at opening up markets increase competition and lower price mark-ups, stimulating aggregate activity and productivity.

Reforms such as these can improve the reallocation of resources towards the most productive sectors and firms. Completing the single market for services would likely increase the effectiveness of NGEU by acting as a key accelerator, as well as improving factor reallocation and thus contributing to the sustainability of growth acceleration. In addition, the liberalisation of services is instrumental to the increase in productivity in digital investment and more generally in intangible investment. There is therefore scope for accelerations to be successful as they exploit the 'right' combination of reforms. Liberalisation of services in the single market would also boost spillover effects across countries and sectors.

Much progress is also needed in environmental investment. One widely ignored fact is that the stringency of environmental regulation can lead to an increase in TFP investment, as companies react to stringency in regulation by investing more and increasing their productivity of green activities. This is an example of endogenous TFP creation.

This is also seen in green patents. The demand for green patents has largely followed general patent requests. However, the amount of green patenting seems to have dropped more significantly as a consequence of the COVID crisis. This has not been uniform across countries: the demand for green patents has been less marked in peripheral countries. Such a pattern could exacerbate divergence.

This raises the question of the incentive patterns that lead to green investment. Evidence from the European Investment Bank shows that companies will respond positively to

investment in climate activities to the extent that they have set climate targets, are energy intensive, have energy cost concerns, and have adopted digital technologies. Other less prominent factors include company size, and adoption of advanced managerial practices.

Obstacles to green investment are also to be considered. These include uncertainty about environmental regulation, lack of skilled staff, cost of investment, uncertainty about regulation with reference to new technologies, uncertainty about climate change and lack of green finance. It is worth noting that for all specific factors, the obstructing factor is stronger in the EU with respect to the US. More generally, patent counts and R&D expenditure follow an upward trend and are highly correlated. The correlation is somewhat less pronounced for the US. However, the share and count of energy-related start-ups in the US and EU declined steadily in the decade from 2008 to 2018. This is consistent with the declining dynamics of TFP.

## 8. Acceleration and sustainability: summary and conclusions

We have offered a synthetic description of the impact of NGEU on the EU's long-term growth, starting from the observation that its post-war growth has been on a long-term declining trend. First, we summarise the features of EU growth.

1. EU post-war growth can be understood as a sequence of accelerations ignited by institutional changes (structural breaks) against a background of secular stagnation. Within such a framework, growth accelerations are sustained to the extent that the business environment is strengthened by structural reforms. Sustained accelerations determine long-term growth.
2. The drivers of long-term growth in the EU can be summarised by the evolution of TFP, which has been on a declining trend in the post-war period, and institutional change.
3. The increase in potential output is a necessary – but not sufficient – condition for sustained growth, as it may generate a negative output gap. A sufficient condition is the activation of demand-side policies that can fill the long-term negative output gap.
4. If there are no ways to fill the output gap, the increase in potential output may remain unexploited and will eventually vanish. This will perpetuate the secular stagnation pressure, and the growth acceleration may not be sustained.

Let us now describe the policy sequence required for the implementation of NGEU. NGEU is based on public investment and structural reforms. Simulations show that indeed such a policy produces higher potential output. Public investment impacts as a demand factor in the short term. It produces a boost to growth, which is amplified by spillover effects, both in investment and in structural reforms. The deeper the economic integration among Member States and coordination between macro-economic policies, the larger these spillover effects.

Over the longer term, the major impact of investment is on the supply side. This has an aggregate dimension, impacting on potential and actual growth, and a sectoral dimension that supports the twin transformation. Higher growth is obtained through structural change; hence the crucial role of structural reforms.

To assess the impact of structural reforms, the following aspects should be kept in mind. The life cycle of a structural reform is generally quite long. The reform cycle describes the steps that need to be completed before the reform policy is transformed from a political decision to an implemented policy and visible impact. There may be trade-offs between the duration of the reform cycle and the intensity of policy impact. Stronger impact measures take a longer time to deliver results. Usually, reforms come in packages. Complementarities between reforms may generate positive scale effects. However, the ‘growth acceleration’ literature clarifies that packages are country specific as the structural gaps are specific. More generally, the following elements emerge from the literature as conditions for an effective growth policy: structural reforms and the macro cycle (macro policies) interact significantly; spillovers of structural reforms are important; the quality of institutions matters in determining the impact of reforms; and consensus building is essential for reforms to be effective.

The combination of public investment and structural reforms is effective in boosting potential output. However, there is no guarantee that the amount of aggregate demand generated by the policy packages will be such as to avoid the emergence of a negative output gap, i.e. that demand falls short of aggregate supply. The question then arises of where the additional demand will come from?

The following possibilities can be considered: i) Europe runs a permanent current account surplus (excess savings over investment), which is translated into a permanent depressionary force on the EU economy. This configuration also implies a net flow of capital from surplus to deficit regions. At aggregate level this makes the EU a net supplier of capital to the rest of the world. Historical evidence suggests that this may not be sustained indefinitely. So, one way to fill the output gap is to increase net exports, a ‘mercantilist solution’. The next possibility is that ii) a version of such a case implies a devaluation of the euro that could boost export-led growth in the EU. The shortage of aggregate demand can be filled by EU fiscal policy. This can be obtained iii) through a contribution of national fiscal policies (which in turn requires a reconfiguration of EU fiscal rules) and/or iv) by adding a further policy measure and instrument – a permanent fiscal capacity – to be introduced in the governance of the EU economy. Such a fiscal capacity would allow for the production of European public goods. NGEU would also be activated on the demand side.

The assumption in our description is that both investment programmes and structural reforms are implemented efficiently. If this is not the case, a significant confidence gap could materialise, possibly jeopardising the success of NGEU. NGEU promises to be a powerful supply-side instrument. It could raise potential output significantly while activating a structural change oriented by the twin transition. However, NGEU needs a demand-side instrument to avoid the development of negative output gaps over the

long term. Europe lacks a continent-wide fiscal policy instrument that could fill such a gap. National policy stances, on the contrary, have persistently generated current account surpluses at the EU level, or, in other words, excess savings, which have held back actual growth from exploiting full potential growth. This aspect can also be seen in terms of a tendency towards secular stagnation, which shows that decreasing demand growth leads to long-term weakening of potential growth, acting through structural impediments.

Last but not least, the growth acceleration approach allows us to deal, at least in part, with the paradox of reforms, i.e. the observation that the time horizon for a reform policy to bear fruit, including in terms of political support, is usually too long for policy makers to decide to implement it. Growth accelerations can shorten the horizon for policy makers and compress the ambition for structural reforms. Conversely, if performance is good there is no incentive to implement reforms, given their political costs.

However, growth accelerations can also anticipate reform outcomes and, indirectly, boost political support. NGEU can deliver a drive to growth through a repeated sequence of accelerations. This could be the result of the combination of a new institutional change, such as the completion of the single market for services, the acceleration of private green investment, supported by green finance instruments, and the diffusion of digitalisation.

We conclude by summarising the main policy implications.

1. NGEU is an effective policy tool, provided it acts through policy packages of public investment and structural reforms, and allows time to complete the reform cycle.
2. Policy packages are typically country specific.
3. The benefits are visible in terms of higher potential output.
4. The benefits are typically long term; hence the policy maker needs to avoid falling into short-termism.
5. Benefits can be enhanced by spillovers effects, both from investment and from structural reforms; hence the policy action should be supported by further opening of the EU economic space and coordination of national economic policies.
6. Service sector liberalisation may be a powerful accelerator mechanism, also given the growing role of services at the global level.
7. In the long run, there is the need to complement supply-side measures with demand-side measures to fill the output gap that may derive from the boost to potential output. This implies introducing demand-side policy instruments such as an EU-level fiscal capacity.
8. Irrespective of whether it is confirmed as a permanent instrument, NGEU provides a strong case for a policy built on a structural conditionality system, which could be a useful approach in redesigning the EU fiscal framework.



## CHAPTER 3. EU TRANSFORMATIVE POWER: WHAT WORKS, WHAT DOES NOT WORK, WHAT CAN WORK BETTER

GORAN SVILANOVIĆ<sup>1</sup>

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More than once I have been asked a very simple question: ‘Why do you want Serbia to join the European U’? My answer has varied over the last 20-plus years, relative to the context of the discussion and political developments, but the gist of it has never changed: ‘I want my country to reform. I want it closer in every respect to the other EU Member States. Even if we do not eventually become a fully-fledged Member State, the accession process will have helped us to reform. While we negotiate membership, Serbia will change for the better: it will be a better place to live’. In essence, I dare say it is not only a personal belief, but more of a broader common understanding that the accession process itself, accession negotiations as such, help a country improve its performance, improve its service for the citizens. This is *what I was thinking about, while I was thinking about...* the transformative power of the European Union.

It has been years since I started doubting the full EU membership of Serbia and its new Balkan neighbours as a realistic outcome of the accession process (with a European Commissioner and voting rights equal to all other members, including a veto power), and started looking for alternatives to membership. But at least I continued to believe in the transformative power of the process, and that it is good enough of an outcome, beneficial to citizens as a reform process even if there is no happy ending as initially thought. So, trust in the transformative power of the EU was good enough a stimulus to continue pushing towards membership, irrespective of the various outcome scenarios.

Bluntly said, it is all about the transformative power of the EU: transformation without membership is still worth working for, while membership without transformation is not a goal worth seeking. And when we look into developments in some of the newest Member States, it looks like it is the latter that we have seen as the outcome of the last phase of the accession process. This understanding weakens public support in the Balkans for EU membership. Many of those who have long been supporters of EU membership for their countries, these days see the attitude of the EU institutions and leaders towards their national (often autocratic) leadership as a plot, and are becoming

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disillusioned, if not angry and anti-EU oriented<sup>2</sup>. ‘The credibility of the current EU enlargement process in the Western Balkans is at an historic low’<sup>3</sup>.

This weakening of the transformative power of the EU accession process has recently been acknowledged by different players, media, organisations, politicians and civic sector representatives. ‘Most Balkan states are hardly any closer to membership than when they received the promise of entry two decades ago ... For example, corruption, organised crime, politicised judiciaries and weak independent media are common in the region’<sup>4</sup>.

In its report of 14 July 2022, European Stability Initiative (ESI) refers to the lack of transformative power using a metaphor: a bus without wheels<sup>5</sup>. ESI points out that there are already three countries negotiating with the EU where no transformation has taken place: Türkiye (since 2005), Montenegro (2012) and Serbia (2014). This loss of transformative power in recent years is presented using the measurement of the European Commission itself.

*Table 2. Commission average assessments of 33 chapters (October 2021)*

|                | Montenegro       | Serbia | North Macedonia | Albania | Bosnia and Herzegovina |
|----------------|------------------|--------|-----------------|---------|------------------------|
| <b>Average</b> | 2.9 <sup>6</sup> | 3.0    | 3.0             | 3.4     | 4.4                    |

Source: European Commission.

Albania has made progress outside of the process. Montenegro has made progress inside the process. Serbia (negotiating), North Macedonia (a candidate) and Bosnia and Herzegovina (not a candidate) have not made any progress. **Opening and then continuing accession talks has *not* made reforms more likely.** And when it comes to

<sup>2</sup> ‘Today, I’d like you to remember a few numbers. 60 – is the percentage of Western Balkan citizens supporting EU membership, a majority still, even though last year it was 62 %’, Majlinda Bregu, Secretary General of the Regional Cooperation Council, Brussels, at the presentation of the Balkan Barometer on 24 June 2022. The Balkan Barometer shows declining support for EU membership among the public in the Western Balkans, <https://www.rcc.int/balkanbarometer/>.

<sup>3</sup> Dimitrov, N., Cvijić, S., Ioannides, I., Nechev, Z., Armakolas, I., Popescu Zamfir, O., Zeneli, V., Lehne, S. and Balfour, R., in Nechev, Z. and Judah, T. (eds), *What is to be done? The war, the Western Balkans and the EU: Six fixes for the Western Balkan Six*, Europe’s Futures, <https://europesfutures.eu/static/uploads/what-is-to-be-done.pdf>.

<sup>4</sup> ‘This is exactly how some political leaders in western Europe want it, though they prefer not to say so out loud. And the EU door may be permanently closed to Balkan countries if French president Emmanuel Macron’s proposal for a “European political community” ever gets off the ground’, Financial Times (2022), ‘Western neglect and homegrown troubles afflict the Balkans’, 20 August.

<sup>5</sup> ESI (2022), ‘Elephants in Skopje – Balkan turtle race and Ukraine’, *ESI newsletter*, No 6/2022, 15 July, <https://esiweb.org/proposals/end-turtle-race>.

<sup>6</sup> Well advanced (1), good level of preparation (2), moderately prepared (3), some level of preparation (4), early stage (5).

fundamental issues such as the rule of law and human rights, North Macedonia is already ahead of Serbia today – without negotiations<sup>7</sup>.

*Table 3. Where candidate countries stand on rule of law fundamentals (2021)*

| Priority reform area          | North Macedonia | Montenegro  | Albania     | Serbia    | Türkiye   |
|-------------------------------|-----------------|-------------|-------------|-----------|-----------|
| Functioning of judiciary      | 3.5             | 3           | 3           | 4         | 5         |
| Fight against corruption      | 3.5             | 4           | 4           | 4         | 5         |
| Fight against organised crime | 4               | 3.5         | 4           | 4         | 4         |
| Freedom of expression         | 3.5             | 4           | 3.5         | 4         | 5         |
| <b>Total</b>                  | <b>14.5</b>     | <b>14.5</b> | <b>14.5</b> | <b>16</b> | <b>19</b> |

At the same time, Türkiye, the country that has negotiated the longest with the EU, has the worst level of preparation on fundamentals among all candidates today, and is backsliding. Is this the future of Balkan accession negotiations: the longer they go on, the less impact they have?

*Table 4. Commission assessment of Türkiye: rule of law fundamentals*

| Priority reform area          | 2015      | 2019      | 2020      | 2021      |
|-------------------------------|-----------|-----------|-----------|-----------|
| Functioning of judiciary      | 4         | 5         | 5         | 5         |
| Fight against corruption      | 4         | 5         | 5         | 5         |
| Fight against organised crime | 4         | 4         | 4         | 4         |
| Freedom of expression         | 4         | 5         | 5         | 5         |
| <b>Total</b>                  | <b>16</b> | <b>19</b> | <b>19</b> | <b>19</b> |

All of this raises fundamental questions: what has been the *point* of eight years of accession negotiations with Serbia and 10 years with Montenegro if a neighbouring country that never opened such negotiations is as prepared for accession as they are? And will these negotiations ever end?

‘All Western Balkan states are stuck’, concludes ESI in its report. ‘Their accession process resembles a bus without wheels, with North Macedonia discussing conditions for moving up a row of seats inside a vehicle going nowhere’<sup>8</sup>.

Another good illustration of the accession process losing its transformative power is related to the continuous extension of its length.

<sup>7</sup> ESI (2022), ‘Elephants in Skopje’ op. cit.

<sup>8</sup> Ibid.

*Table 5. Length of EU accession talks (up to end June 2022)*

| Country                     | Length     | Status            |
|-----------------------------|------------|-------------------|
| Latvia, Lithuania, Slovakia | 34 months  | Completed         |
| Estonia, Poland, Slovenia   | 56 months  | Completed         |
| Bulgaria, Romania           | 58 months  | Completed         |
| Croatia                     | 68 months  | Completed         |
| Serbia                      | 101 months | Closed 2 chapters |
| Montenegro                  | 120 months | Closed 3 chapters |
| Türkiye                     | 200 months | Closed 1 chapter  |

The only possible conclusion drawn from this information is that ‘it is time for the EU to acknowledge this reality and take action’<sup>9</sup>.

The information shared above is sobering, but also dramatic. I would therefore like to share some ideas and practical proposals that have already been expressed in support of the necessity to introduce changes that would bring the transformative power back into the EU accession process.

ESI proposes the following steps in order to remedy this situation:

One way to reenergise the accession process immediately is for the EU to show that it is still possible for countries that meet membership criteria, as objectively assessed by the European Commission, to become members. The Council could declare in 2022 that it is getting ready for Montenegro, the most advanced candidate with the longest positive track record, to become a member by early 2026, if it meets the criteria.

At the same time the European Union could send a strong signal to the whole region: any European democracy that meets the criteria, including respect for human rights and the rule of law, as assessed by the European Commission in its annual reports, should gain access to the European Single Market and to the four freedoms – the free movement of goods, people, services and capital. Its citizens and businesses would thus enjoy many of the same rights as those from EU members or Norway and Iceland enjoy today. With this step, the assessments of progress – ‘merit’ – would immediately matter once again<sup>10</sup>.

ESI, 2022

Another, more elaborate set of proposals comes from a group of experts gathered by the ERSTE foundation and the Vienna Institute for Human Sciences in their paper, *Six*

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<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

*Fixes for the Western Balkan Six*: ‘Granting Ukraine, Moldova and Georgia an accession perspective will send shock waves through the existing enlargement process. But simply using an already failing template for them would only result in stagnation and frustration in both regions. In order to deliver positive outcomes, the process must become more flexible, dynamic and rewarding’<sup>11</sup>.

These authors suggest adjusting the existing EU accession methodology to the new challenges based on the following principles:

1. **Relentless focus on the fundamentals** – rule of law, democratic standards and economic reforms – in order to promote progress in governance and prevent backsliding. Inclusion in the EU monitoring mechanisms such as the Rule of Law Report, the EU Justice Scoreboard, the European Semester and others in order to counter the perception that enlargement risks diluting democratic standards in the EU. This would allow candidate countries the opportunity not only to compete among themselves, but also to compare themselves with the best performers in the EU while detecting their reforms’ shortcoming and pitfalls.
2. **Gradual phasing-in** of candidate countries in various sectors of EU integration. This would build institutional capacity and promote cooperation and trust between candidates and Member States. The Commission, in coordination with Member States and accession countries, should work towards bold proposals for the phasing-in of EU policies of mutual interest to all, such as the Fit for 55 package<sup>12</sup> on the energy and green transitions. An example of this could be participation in the EU internal market as a priority interim objective for all. Regardless of their status, once countries align with the economic policies regulating the internal market cluster and the economic criteria and associated chapters within the fundamental cluster, as well as complying with the necessary economic standards, the reward should be to participate in the internal market as full members. This could be one of the phasing-in policies for those that have not yet started accession negotiations.
3. **Increased socialisation (including financial) in European institutions**: the fulfilment of precise criteria and standards in specific sectors should be rewarded with targeted financial support from the funds now reserved for EU Member States. Likewise, this could be enhanced with candidate country participation in the capacity of observers with the right to contribute to discussions, but without voting rights in the meetings of the Council and its bodies in specific policy areas. Greater alignment within a chapter or cluster would translate into greater funds and a seat at the table. Foreign policy alignment is very important in the current circumstances, but also has its costs. Moving beyond the values arguments, these actions of alignment produce a

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<sup>11</sup> Dimitrov, N. et al., *Six fixes for the Western Balkan Six*, op. cit.

<sup>12</sup> <https://www.consilium.europa.eu/en/policies/green-deal/fit-for-55-the-eu-plan-for-a-green-transition/>

burden that should be shared in solidarity. Having a seat at the table would also help the socialisation of officials from the region into the EU's organisational culture.

4. **Earlier access to structural funds** to reduce the gap in financial support between candidates and Member States and promote socio-economic convergence. The Western Balkans is the one of the most socio-economically underdeveloped parts of Europe. An earlier and gradual increase in financial support would lead to earlier socio-economic development benefits. This in turn would reduce the region's reliance on Chinese sources of finance that are in effect indebting the countries. In addition, improved implementation of rules and procedures regulating EU structural funds would strengthen candidate countries' absorption capacities well in advance of their accession.
5. **Elevation of foreign and security conditionality** to an equal footing with the current focus on the fundamentals. This would also mean applying the equilibrium principle to the external relations cluster. In the new geopolitical environment, the fundamentals and external relations should be the two pillars that determine progress and/or backsliding in the accession process or possible closer association. Advanced and comprehensive common foreign and security policy (CFSP) coordination should include three interlinked components that together converge to an elevated status in the conditionality and accession process: i) a foreign and security policy component focusing on alignment with the EU on key foreign policy decisions; ii) soft security and advanced cooperation in specific policy areas, such as border security, energy and cybersecurity; and iii) a defence cooperation component focusing on implementing roadmaps for the alignment and gradual inclusion of candidate states into EU defence cooperation platforms and institutions, such as the Permanent Structured Cooperation (PESCO).
6. **Streamlining of the decision-making process** on enlargement in order to reduce the number of vetoes. Without introducing qualified majority voting in the EU enlargement process, and thus in the application of the new methodology, enlargement would be endlessly blocked by a single disappointed or extortion-driven Member State. Unanimity in the accession process provides an easy way for Member States to halt enlargement because of bilateral disputes or their own domestic politics, especially in the case of Member States with disputed track records on democracy and the rule of law. The need to protect and at the same time streamline the decision-making process against the abusive use of veto powers is imperative. Introducing qualified majority voting in the Council — 55 % of Member States representing at least 65 % of the EU population — for all intermediary stages of EU accession negotiations to validate the progress of a candidate country would make the process fairer and more effective. A decision on admitting a candidate country into the EU would still require unanimity.

## Conclusions

The war in Ukraine has dramatically highlighted the attractiveness of the EU because of its values, diverse societies, fundamental freedoms and way of life, and consequently the transformative power of joining the EU and engaging in it.

Relaunching the accession process should not involve any dilution or weakening of the accession criteria. Rather, it means intensifying the preparatory work, setting ambitious timetables and realistic deadlines, and supporting reforms and structural transformations in candidate countries. Above all, it means doing away with all forms of open or concealed prejudice, political opportunism and discrimination.

The list of countries wishing to join the EU is potentially large, including not only Ukraine, Moldova and Georgia, but probably also Armenia, Azerbaijan and others, if they so wish and qualify. Member States would also have to balance east and south by considering, for instance, Morocco, Tunisia and other Euro-Mediterranean countries, should they wish to engage.

It is important to reach an understanding among partners in the EU Member States that any discussion on the relaunch of the existing accession process, or of any other process that provides for wider European engagement and strengthening of the EU's position, must address the transformation component of the process as the most valuable one. The ideas expressed should serve as a guiding principle if we also want to restore the EU's credibility throughout the wider European continent.

## CHAPTER 4. PERSPECTIVES OF EUROPE'S EASTERN DIMENSION: TOWARDS COMPLETING ENLARGEMENT

*TERESA CORATELLA<sup>1</sup>*

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After the global financial crisis, the migration wave and the pandemic, the Russian invasion of Ukraine has again reshaped the balance of power within Europe and between the European Union and other global powers. It has urgently redirected the EU's attention from its southern flank to the eastern one. It has overthrown the list of EU regional priorities, such as energy and the accession process, but has also introduced unexpected new dossiers and opened new opportunities for cooperation.

The aftermath of summer 2022 confirmed all of these trends, marked by both important domestic developments in the EU and by significant moments and remarkable events for the international community. All of these were influenced by the consequences of the war, but also by the different perceptions that each of us developed personally after the Russian invasion of Ukraine. The Kremlin's decision to invade Ukraine, a sovereign state, has forever changed both the course of history and Western relations with Russia. Therefore, since 24 February 2022 every analysis, prediction and strategy has had to be built and conceptualised through this irreversible lens. The Russian decision is going to impact Europe and the Western order politically, economically and socially for years, if not decades.

Looking at the wider international context, the debate around the death of former USSR leader Michail Sergeevič Gorbačëv, who passed away on 30 August 2022, gives perfect context to how we look at Russia today and how Russia looks at us, as well as how Russia looks at itself under Putin's leadership and in the framework of the current state of its domestic and foreign policy affairs.

Then, new events came in with a medium- to long-term impact, on which the EU will need to work sooner rather than later. The attack by Azerbaijan on Armenia on 13 September, apart from opening a new chapter on Russia's (non-)influence in the region, has added another hot dossier for the EU to deal with in the framework of its Eastern Partnership association programme, which again sees Russia as a major obstacle and influencer regarding the two countries involved.

Looking inside the EU, a special mention should be dedicated to Italy, which is an EU founding member but also, until 24 February 2022, among the most problematic of European countries because of its relations with Russia. The end of the Draghi government and the snap elections of 25 September put an end to an 18-month period of political continuity that had seen the Prime Minister acting as a guarantor of economic

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reforms and implementation of the recovery objectives and disbursement of funds. The elections might also have reversed a remarkable and unprecedented change in Italian foreign policy, namely its position towards Russia, which saw an end to the special economic and energy relations that the two countries had shared for decades.

But, the Russian invasion of Ukraine not only put Italy at the forefront of those EU Member States firmly condemning Putin. Moscow's military decision also pushed Italy to pay unprecedented attention to the EU's eastern flank and neighbourhood, after decades of monogamous relations with its southern neighbourhood and the Mediterranean region.

Italy, under Prime Minister Draghi, pushed EU leaders, some of them initially quite reticent like French President Macron and German Chancellor Scholz, towards a hard reaction against Russia. Draghi was also among the first of the European voices to put the urgent and unprecedented need to grant Ukraine EU accession status to the top of the European agenda. So, it was only with strong political commitment, this time coming unexpectedly from Italy, that the following developments could take place: on 28 February Ukraine officially signed and submitted its membership request, followed on 17 June by the European Commission's recommendation to the European Council to grant Ukraine (together with Moldova) membership perspective and accession candidate status<sup>2</sup>. This was supported on 23 June by a European Parliament resolution, which officially stated that 'EU leaders must live up to their historical responsibility and give a clear political signal to Ukraine, Moldova and Georgia, confirming their European perspective'<sup>3</sup>.

This historic decision opens an immense Pandora's box containing additional challenges that the EU and candidate countries will have to deal with while managing their wartime relations with Russia, namely: i) the prospects of the enlargement process with a country currently at war; ii) the difficult enlargement process with the Western Balkans; and iii) the discussion regarding the southern European flank, overshadowed by the war in Ukraine but still with key domestic weaknesses, as well as opportunities for both the EU and regional cooperation.

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<sup>2</sup> [https://ec.europa.eu/commission/presscorner/detail/en/statement\\_22\\_3822](https://ec.europa.eu/commission/presscorner/detail/en/statement_22_3822)

<sup>3</sup> EP resolution of 23 June 2022 on the candidate status of Ukraine, the Republic of Moldova and Georgia. The Resolution was adopted by 529 votes in favour, 45 against and 14 abstentions, <https://www.europarl.europa.eu/delegations/en/d-ua/documents/ep-resolutions#:~:text=EP%20resolutions%20EP%20resolution%20of%2023%20June%202022,votes%20in%20favour%2C%2045%20against%20and%2014%20abstentions.>

## 1. The EU and the new generation of candidates countries

Let us start with the first issue, the enlargement process of Ukraine, a country at war, currently being invaded and with at least 12 million displaced citizens since the start of the Russian aggression<sup>4</sup>.

As pointed out in a policy brief by the European Council on Foreign Relations (ECFR), *Survive and thrive: A European plan to support Ukraine in the long war against Russia*<sup>5</sup>, 'Russia's war on Ukraine is likely to last many years ... The violence may subside at times, but the absence of any sort of resolution will mean that it could reignite at any moment. Ukrainians, and their supporters in Europe and elsewhere, have to embark on a long war'.

To sustain Ukraine during this conflict, according to the authors, Europeans should draw up a four-part 'long-war plan', comprising: i) military assistance to Ukraine in the form of a 'security compact'; ii) security assurances that respond to scenarios of Russian escalation; iii) help to secure Ukraine's energy supply; and iv) economic support, giving Ukraine access to the EU's single market.

In the framework of the last point, economic support is a step at which Ukraine's accession process could have its initial basis. The process is usually long and complicated, the current circumstances will not help and there is no chance of shortening the procedure because of the mandatory need to implement and fulfil the requirements already included in the seven policy baskets listed by the EU. These are: i) reform of the Constitutional Court; ii) continuation of judicial reform; iii) anti-corruption, including the appointment of the Head of the Special Anti-Corruption Prosecutor's Office (SAPO); iv) anti-money laundering; v) implementation of the anti-oligarch law, including recommendations of the Venice Commission; vi) harmonisation of audiovisual legislation with European legislation; and vii) change in legislation on national minorities.

Considering the exceptional times in which this special membership process has been launched, among the different proposals, it is important to take a closer look at a proposal described by Piotr Buras and Kai-Olaf Lang as a partnership for enlargement 'that offers Ukraine, Moldova, Georgia, and Western Balkans states concrete steps towards deeper integration – and a pathway to eventual membership. This new partnership should include three "pillars": single market integration and the

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<sup>4</sup> BBC (2022), *How many Ukrainian refugees are there and where have they gone?*, 4 July, <https://www.bbc.com/news/world-60555472>.

<sup>5</sup> ECFR (2022), *Survive and thrive: A European plan to support Ukraine in the long war against Russia*, Policy Brief, 9 September, <https://ecfr.eu/publication/survive-and-thrive-a-european-plan-to-support-ukraine-in-the-long-war-against-russia/>.

reconstruction of Ukraine; a reinforced commitment to energy security and climate transition; and stronger political cooperation in security matters'<sup>6</sup>.

## 2. The EU and the oldest guard of candidates countries

The second issue is the EU's relations with existing candidates in the aftermath of Russia's invasion of Ukraine, and how those candidates see their current accession status, already slowed down by the pandemic and then by the Russian invasion.

As Polish journalist and ECFR expert Piotr Buras writes:

The truth is that having EU candidate status today has almost no practical significance. Such is the experience of the countries of the Western Balkans, which have been candidates for many years and have not sighted light at the tunnel for some time. The examples of Albania and North Macedonia are particularly pertinent. These countries were granted candidate status long ago, but, even after they met the necessary conditions, accession negotiations have still not begun. The decision to proceed depends on the Member States and is hostage to political games. Moreover, the negotiation process itself is tedious and overly bureaucratic. Indeed, the demanding nature of the reforms required is for good reason. But, in practice, those EU countries that are critical of enlargement can – and do – use this stringency for their own ends<sup>7</sup>.

As Chancellor Scholz stated in his famous and quite discussed speech at the Charles University in Prague on 29 August 2022<sup>8</sup> when referring to Ukraine, Moldova, Georgia and the six countries of the Western Balkans, 'their EU accession is in our interest ... After all, we have given our accession candidates our word – and, in the case of the countries of the Western Balkans, that was almost 20 years ago. And these words must be followed by deeds at long last'.

The issue at stake today is where to find the political deeds to follow these words, and how to adapt these words and deeds in the current scenario of enlargement when the EU is dealing with a war at its doors.

Security, energy, climate and connectivity should be the main baskets that the enlargement process focuses on today, looking at the medium- to long-term perspective of the end of the war: security and energy because of their emergence as new challenges due to the Russian invasion of Ukraine; and climate and connectivity because they were

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<sup>6</sup> ECFR (2022), *Partnership for Enlargement: A new way to integrate Ukraine and the EU's eastern neighbourhood*, June, <https://ecfr.eu/publication/partnership-for-enlargement-a-new-way-to-integrate-ukraine-and-the-eus-eastern-neighbourhood/>.

<sup>7</sup> Ibid.

<sup>8</sup> Speech in Prague 'Europe is our future', Federal Government, <https://www.bundesregierung.de/breg-de>.

already very important opportunities, but were overshadowed first by the pandemic and then by the war.

The big issue will be how to tackle these four game changers – security, energy, climate and connectivity – whose weaknesses have proved to be a real challenge for Europe and which will be the real stress test for the next generation of European citizens. All of these game changers are interlinked, not only because of the impact that COVID-19 has had on them but also for the role they can play in shaping the future financial framework, and how this framework can support communities in the EU and its closest neighbourhood in becoming partners and allies to each other, once the war is over.

According to the World Bank's *Western Balkans Regular Economic Report* (spring 2022<sup>9</sup>), the war in Ukraine is sending shockwaves across the region, particularly through higher energy and food prices as well as disruption to trade and investment flows, putting the region's recovery at risk. However, although the response to COVID-19 has resulted in higher public debt and left lasting scars, and potential growth remains constrained by the need for structural reforms to boost productivity, increase competition, invest in human capital and strengthen governance, the economies of the Western Balkans saw a strong growth rebound in 2021, with a broad-based bounce back in economic activity. In 2021, GDP growth in the Western Balkans reached 7.4 % after a contraction of 3.2 % in 2020. GDP has surpassed pre-pandemic levels by 2022.

So, although the conflict between Russia and Ukraine is expected to disrupt this trend, the economy is slowly returning to normal. But politics still remains the obstacle. Politics at bilateral level remains problematic because Russia still has (sometimes difficult but sometimes privileged) relations with many Western Balkan countries, and these relations are making the impact the war is having on some of them ever stronger. As Majda Ruge wrote for the ECFR, 'Russia's war on Ukraine threatens to destabilise the Western Balkans. In recent months, the single most important question in the region has been whether a renewed conflict may erupt in Bosnia and Herzegovina, or in the north of Kosovo, where tensions have been rising. The fear is that Russia, even while bogged down in the war in Ukraine, may attempt to destabilise countries in the European Union's neighbourhood'<sup>10</sup>.

Not only bilateral politics, but also politics at the broader level is impacting the region. Although the pandemic and then the war froze many developments and decision-making processes, we still have many open dossiers that connect Europe to its neighbourhood even more than before. They connect Member States from the east and southeast; they connect the EU to accession countries and regional partners. This implies old and well-known divisions, and the persistent weakening of key dossiers, undermining the EU's projection and strategy. Among these dossiers is the issue of unanimity in the accession

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<sup>9</sup> World Bank (2022), *Western Balkans Regular Economic Report no. 21, Spring 2022: Steering Through Crises*, Washington DC, <https://openknowledge.worldbank.org/handle/10986/37368>.

<sup>10</sup> ECFR (2022), *The past and the furious: How Russia's revisionism threatens Bosnia*, September, <https://ecfr.eu/publication/the-past-and-the-furious-how-russias-revisionism-threatens-bosnia/>.

process; the undermining of the EU's reputation by China, Russia and Türkiye, which are filling too many gaps; the eternal dilemma of NATO vis-à-vis EU security; a different level of US engagement, also in the EU neighbourhood; and of course relations with China as a major problem always coming first, especially in the field of technological competition.

In her State of the Union Address on 14 September 2022<sup>11</sup>, Commission President von der Leyen referred to the very strong connection between the power of democracies, which includes the core group of EU like-minded partners in every single democratic nation in the world, and with whom the EU shares the same values and global goods; but should also include those countries that are already protagonists on their path towards EU membership, namely the Western Balkans, Ukraine, Moldova and Georgia. For both groups – the oldest and the newest generation of candidate countries – the final objective is a common one: a future inside the EU, which today is still incomplete.

However, although very committed and powerful in words, the State of the Union Address still reiterated the same mistake already made in the past with the big 2004 enlargement process: one approach for the whole group of countries, instead of targeted strategies for each of the candidates in order to take into account their different political, economic and social specificities, and also the specific consequences of the Russian invasion of Ukraine for those candidate countries. We see today in the Western Balkans the consequences of this lack of differentiated strategies, especially on public opinion in those countries, and it is probable that we will see this soon again in the new candidates if the EU does not decide to change its course of action.

### 3. And the south?

The Mediterranean, again, has become a playing field where the consequences of this war are the most visible and tangible for Europe, with one big difference if compared with the past: the eastern flank is now equally, if not more of a priority for the EU than it ever has been since the big 2004 enlargement. But if 2004 marked a milestone because of a common vision of growth and cooperation, 2022 is a milestone because of the war.

Cooperation in the Mediterranean is now really and again at risk. The first reason for this is the urgent search for a new energy balance of power and independence from Russia, which sees many Middle East and North African (MENA) and Mediterranean actors and supplies involved, many of which have a politically and democratically unstable domestic situation.

The second reason is the political momentum that has emerged from the current war. Support for Ukraine's candidacy to join the EU does not consider all the enlargement protagonists, among them the Western Balkans. Third, the main fields of opportunity for cooperation, namely infrastructure, energy connectivity and homogenisation of trade

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<sup>11</sup> President von der Leyen (2022), *State of the Union Address*, Strasbourg, 14 September, [https://ec.europa.eu/commission/presscorner/detail/ov/speech\\_22\\_5493](https://ec.europa.eu/commission/presscorner/detail/ov/speech_22_5493).

rules, still lack effectiveness. Fourth, a multipolar Mediterranean and Middle East is emerging as the US 'right-sizes' its position in the region, and as regional states and external powers, including Russia and China, become more assertive.

Fifth, European sovereignty is at risk. European sovereignty is about boosting the EU's capacity to manage the complex interdependencies that characterise today's world. And the Mediterranean is the perfect example of how complex these interdependencies can be.

If 2020 was seen as a constructive turning point for Europe's approach towards the Mediterranean, today we are again in a situation of great instability because of the war's influence on domestic developments in the region, and because of the war's consequences, primarily on food security in the region.

Migration might likely dominate the debate between the EU and the MENA partners in 2023. If in 2021 the eastern route dominated the European public political debate, and in the first half of 2022 the refugee crisis did the same, 2023 will see migration coming back on the European agenda, not only because of the political instability of many of the MENA actors involved, but also because of critical electoral meetings that have taken place in some key Member States, such as Italy and Sweden. And also because many foreign actors like China, Türkiye and Russia might think about using this dossier as a way of destabilising or influencing EU relations with the region.

# CHAPTER 5. THE ROLE OF CAPITAL MARKETS IN PAN-EUROPEAN INTEGRATION

*ALEX PIVOVARSKY AND KATE GALVIN<sup>1</sup>*

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In light of the geopolitical shifts of the past decade and Russia's ongoing war in Ukraine, pressures have increased, leading to the fracturing of the global financial system. At the same time, long-term global challenges such as climate change, accelerating inflation, rising inequality and the breakdown of international supply networks after the pandemic call for greater economic integration, particularly in the pan-European area and EU neighbourhood. Once peace in Europe is inevitably re-established, it is clear that financial and capital markets will have a big role to play in supporting and bolstering European cohesion. Cross-border finance will be critical in helping to address economic and social challenges throughout the European Union, the neighbourhood and Ukraine in particular.

In order to foster this financial integration and development, it is necessary to complete the Banking Union and progress towards a real Capital Markets Union (CMU) – the EU's ambitious plan to create a single market for capital. Through the CMU, European policy makers have taken the first steps to overcome regional barriers and promote capital market integration. This has been reinvigorated by the additional measures recommended by the so-called CMU 2.0, adopted in September 2020. Capital markets are already playing an important role in helping to fuel the post-COVID recovery, making the EU more resilient against future shocks and reducing its dependence on other markets. Even the EUR 800 billion NextGenerationEU recovery programme and its main component, the Recovery and Resilience Facility, are novel in comparison to previous EU structural funds, as they specifically aim to reduce regional divergence across the EU.

It is encouraging that EU capital markets are bigger and deeper than they were before the CMU was launched in 2015. In terms of size, the value of activity in nearly all capital markets sectors increased between 2014 and 2021. In terms of depth, EU capital markets are deeper than they have ever been<sup>2</sup>. However, bank lending represents 75 % of corporate borrowing for EU companies, with the rest covered by the capital markets. The opposite is the case in the United States, where bank lending accounts for just 26 % of corporate borrowing (according to New Financial, the London-based think tank). On

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<sup>1</sup> Are from the European Bank for Reconstruction and Development (EBRD). With special thanks to Rada Tomova, EBRD, for her review and input.

<sup>2</sup> Breen, C., Bierbaum, M. and Wright, W. (2022), *The politics of EU capital markets*, New Financial, September, <https://newfinancial.org/wp-content/uploads/2022/09/2022.09-The-politics-of-EU-capital-markets-New-Financial.pdf?r=1797&i=926601&R6wF9AvbqY=E77E4412CF157A2510AE82CF66EFB75B>.

average, capital markets across the EU's 27 Member States are half as large relative to GDP as in the United Kingdom, which in turn are roughly half as developed as in the US. Last year there were approximately 2 700 initial public offerings globally, of which fewer than 12 % took place in the EU and more than 60 % in the US and Asia<sup>3</sup>.

It is clear that more needs to be done to deepen the highly fragmented capital market in Europe. At the same time, a realistic conversation is needed about how to tackle this. It simply does not make sense for there to be a full-fledged, local stock exchange in every EU Member State. Such a high level of fragmentation and inefficiency makes capital markets more costly for market participants and ultimately end-users of financial markets.

While a regional approach across the continent is required and should be the main priority, it is also important to have an understanding of the issues affecting capital and financial markets in individual economies in Europe. There are many reasons why developing local capital markets in EU Member States and the wider European region is important. Efficient and self-sustained domestic capital markets play a critical role in mobilising a stable source of private capital to finance domestic development, reduce currency mismatches and increase a country's ability to withstand volatile capital flows, thereby strengthening resilience and reducing overall systemic risks. Furthermore, the availability of diverse and liquid domestic financial instruments creates tools to better manage macro-economic and fiscal risks, and provides important pricing benchmarks.

Local capital markets in many European countries (particularly in Central, Eastern and Southeastern Europe) do not attract much interest among international investors, nor do they support larger issuers because of their limited scale and capabilities (sometimes referred to as the 'tyranny of size'). Often, the local institutional investor base is weak and secondary markets are nascent, limiting the liquidity and efficiency of these markets. Facilitating access for international investors to local markets is therefore key, as well as developing connectivity, which in turn reduces transaction costs.

Tailored policies by multilateral development banks, such as the European Bank for Reconstruction and Development (EBRD), are also key to developing these domestic capital markets. Diversification of long-term funding sources, expansion of the local investor base and increased saving rates through pension reforms are all challenges to be addressed. New kinds of connecting infrastructures, such as virtual trading hubs interlinking the smaller markets within Europe, is one example of an effective solution. The rise of 'regional initiatives', something that the EBRD has championed in the Western Balkans and the Baltics, should be a priority for all policy makers across Europe. For instance, in 2014 the EBRD helped to develop the SEE link<sup>4</sup>, a joint stock company that now unites eight exchanges across the Western Balkans and Southeastern Europe.

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<sup>3</sup> <https://www.ft.com/content/6b5008f0-d101-4ed5-9270-bae5c32d7389>

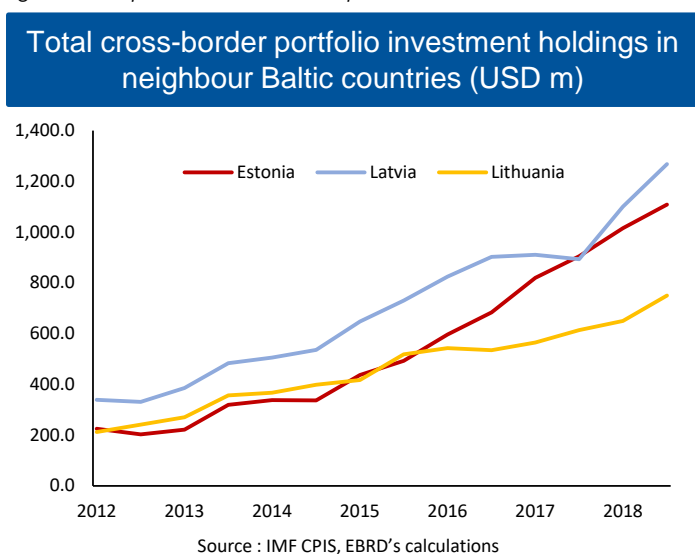
<sup>4</sup> <http://www.see-link.net/>

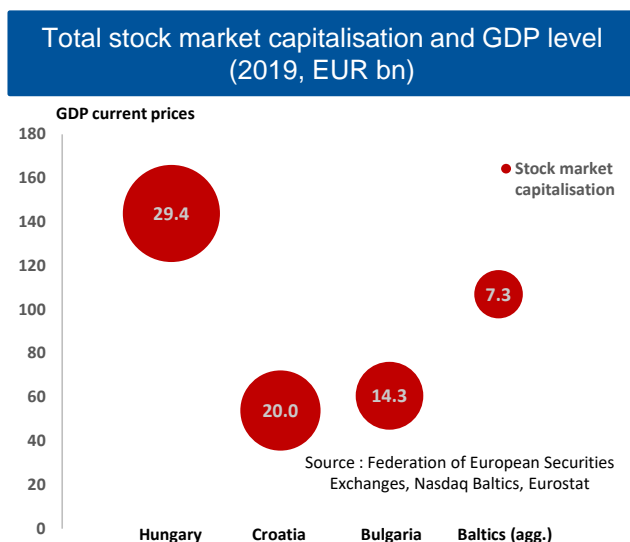


In the Baltics, the EBRD has been supporting the authorities in paving the way for the creation of a pan-Baltic capital market through a number of initiatives. These include a framework for corporate commercial paper using common issuance documentation, which saw the first transaction in 2021 with EBRD participation, and a pan-Baltic accelerator fund to support access to finance for pre-IPO, exchange-traded small- and mid-cap companies.

Significant progress has also been made in establishing covered bond legislative frameworks in the region (which saw the first issuances in 2020), including aligning these frameworks to enable issuances covered by pan-Baltic pools of assets – a very attractive solution for financial institutions operating in all three countries. Another important initiative involves policy dialogue with index providers on the potential establishment of a pan-Baltic single index classification. If successful, the introduction of such an index would bring the region closer to size requirements allowing for their future classification in the emerging markets category. Although the combined size of the three markets remains small compared with other emerging economies, these initiatives are already having an effect. As evidenced by Figure 1, cross-border portfolio investment holdings among the three Baltic countries increased rapidly from USD 0.8 billion in 2012 to USD 3.2 billion in 2019. At the same time, additional efforts to list large-cap companies (> EUR 1 billion) and further alignment of regulatory policies would be needed to meet the criteria set by index providers.

*Figure 1. Capital market developments in the Baltic countries*





Sources: EBRD Baltics Capital Market Diagnostic (2020), Cbonds, MSCI.

The availability of accurate and relevant data is another important area requiring further development. The devil, as always, is in the detail. To help address this gap, at least to some extent, in 2020 the EBRD established the Financial Markets Development Index (FMDI) to provide a very granular (asset class by asset class) measure of development based on a wide range of quantitative and qualitative data. The FMDI aims to provide a practical tool to help identify and pinpoint specific areas of improvement that could be prioritised in order to achieve optimal economic impact. The index covers all EBRD countries of operation and several benchmark countries (including Canada, France, Germany, Japan, the UK, and the US). It has proved useful in terms of highlighting the specific areas for improvement in each country and informing decisions on how best to intervene.

Separately, the EBRD has conducted a comparative analysis of transaction costs and timing for the issuance, listing and trading of locally issued debt securities in 25 countries of operation, including many EU Member States and neighbourhood countries. This allows each country to benchmark itself against other emerging economies from the region and to track its progress over time. We believe that the results of this benchmarking exercise will incentivise authorities to try to ensure that their markets are run more efficiently and in a more cost-effective manner, thereby stimulating further issuances and developing their domestic debt markets.

It is clear that when promoting and developing regional solutions, harmonisation of regulation is key: it both facilitates investments and enhances private sector competitiveness. The EBRD has been focused on the harmonisation of EU regulations in a number of its countries of operation over the last years. Thus, it is supporting the Bank of Albania in closing identified gaps in the country's banking prudential framework to

achieve a high level of alignment with EU regulations and supervisory practices. The benefits of receiving a positive equivalence assessment from the European Banking Authority would be manifold. First, EU banks' subsidiaries in Albania would benefit from favourable risk weights for sovereign exposures in the local currency. Second, the integration of Albania's banks in the EU's financial system would improve. Third, Albania's preparedness would increase in relation to financial services legislation, as required by the EU accession process.

The EBRD almost always combines such technical support with investments. In this instance, it was an innovative EUR 100 million 'Guarantee for Growth' transaction signed with Raiffeisen Bank International (RBI) in 2020, which provided an AAA-rated EBRD guarantee for RBI's Albanian sovereign bonds portfolio, converting the exposure into risk-free assets and thus freeing the bank's capital available for lending to local small and medium-sized enterprises (SMEs). Similar regulatory alignment work is planned for the wider Western Balkan region, and is already ongoing in Ukraine and continuing at pace despite the war. The foundations are also already being laid by the EBRD to assist Ukraine in the post-war reconstruction phase through a number of targeted interventions, including developing the requisite legal and regulatory framework for the issuance of social and infrastructure bonds by financial institutions in the country.

Two major challenges that the global economy continues to face, and that are prioritised at the EU level, are: i) the increasing need to adapt to the digital age; and ii) the urgent action required to move away from fossil fuels and channel sufficient capital towards green investments. Capital and financial markets are instrumental to both of these strategic priorities. Through its newly established Digital Hub, the EBRD has committed to putting the digital transition at the heart of its activities across its regions through investments, policy and advisory services. Deploying fintech products such as regulatory sandboxes, as the EBRD has assisted with in Greece, could develop regional capital markets and support their transition to dynamic, resilient economies.

Developing green products and transitioning to a cleaner, greener world were already high on the political agenda, but the surrounding complexities have become even more acute since Russia's invasion of Ukraine and the resultant energy crisis. The EU has been playing a leading role in this space, both within the EU and beyond. We see this reflected in its work on sustainable finance and the implications flowing from it in terms of policy, regulation and financial market practices, norms and behaviours. Initiatives such as the Sustainable Finance Strategy, the EU taxonomy for sustainable activities, the European green bond standard and the International Platform on Sustainable Finance have all hugely supported the mobilisation of capital towards environmentally sustainable investments.

In this context, the EBRD has worked with many authorities across Europe to develop sustainable and green capital market strategies. Again, this is always done with regional integration and collaboration in mind, particularly in Central and Eastern Europe. As a bank, the EBRD has committed to aligning all of its activities with the goals of the Paris Agreement by the end of 2022, and to be a majority green bank by 2025. It has been

issuing green bonds since 2010, and actively invests in sustainable bonds in its countries of operation. Over the years, the EBRD has invested more than EUR 1.5 billion in over 45 green bond and sustainability-linked bond issuances combined.

Developing capital markets on a pan-European scale is therefore not a niche proposal with advantages only for bankers and financial services, and negligible benefits for the general population – far from it. It is one of a number of ways to tangibly improve political and social integration across Europe, at a time when the need for such integration has never been more pressing. Capital markets link to and support the many strategic initiatives already prioritised by the EU. Harmonised and well-functioning capital markets will positively enhance the everyday lives and tasks of millions of citizens and businesses, including SMEs, which form the backbone of European economies. In Ukraine in particular – where equity in many companies has been depleted during the war – relaunching the capital market and connecting it effectively to that of the EU will be key to accelerating the country's post-war recovery. It is crucial that we make capital markets work for these types of companies, and we can only do this if we continue to work on policies that improve the depth and liquidity of these markets at scale, thereby contributing to growth, creating jobs and increasing investments in every European country. Framing the benefits of the CMU in a convincing and digestible narrative is therefore as important a task as the complex legal and political reforms that are required to implement it.

# CHAPTER 6. TOWARDS A WIDER EUROPE DRIVEN BY INVESTMENT AND FINANCE

*JOSE MARIA ROLDAN<sup>1</sup>*

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## 1. Introduction

The Russian invasion of Ukraine has been a wake-up call for Europe. Europe's neighbourhood has always been a difficult one, but we need to be reminded from time to time that prosperity in Europe requires a stable region. This is not the case for the United States, Russia, China or Japan. Compared to Europe, they are more isolated from local problems.

But it is not just our eastern frontiers that matter. The Mediterranean is also a relevant part, since time immemorial, of Europe's destiny. It took only one year for Hannibal to reach Italy in 218 BC. One thousand years later, it took only seven years for Arab conquerors to dominate most of Spain. With the population in Africa expected to grow from 1.3 billion citizens in 2020 to 2.5 billion by 2050, we cannot fool ourselves: the challenges of our neighbours are our own challenges, and failing to recognise this reality would only lead to more havoc within Europe. For Europe, being internationalist is not an option, but simply an exercise in realism.

## 2. The state of the world: global challenges but local solutions?

### *Global challenges*

Never in our lifetime have we seen the world confronted with such global challenges. The pandemic was a stark, harsh reminder of how global our civilisation has become, but as hard as COVID-19 was, the reality is that it was just the tip of the iceberg.

COVID-19 has shown that health issues are, at heart, global issues; that you cannot achieve your goals by pursuing purely local strategies. But there are many more global challenges. Let us review just two of the most significant ones: climate change and the digital revolution.

### *Climate challenges*

That climate change is a global phenomenon is an oxymoron. Climate knows no boundaries, and greenhouse gases are not earmarked. Either we find a solution as

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<sup>1</sup> is from JMR Spain. He contributes on his own capacity.

mankind or we will have to confront the stark consequences of our failure. But the global nature of the problem goes beyond this: the solution requires a level of international coordination never seen before.

Although the problem is global, the effects are local, and some parts of the world may not perceive the problem as a serious threat while others will feel the direct pain provoked by it. Some degree of social education of voters will be needed.

The problem of climate change is a problem of stocks, which can only be solved by reducing flows. In other words, the countries that need to make the greatest effort to reduce the flows are not those countries that have contributed the most to the stock of greenhouse gases in the atmosphere. The developed world needs to show solidarity with emerging markets.

The risk of local solutions for global problems is that they may lead to a discussion of the climate fight content of goods and services, and the emergence of green trade wars that would undermine the necessary cooperation at the global level, which is indispensable to solving the problem.

### *The digital challenge*

The existential threat posed by climate change certainly cannot be compared with other global challenges, but ignoring them does not help solve the climate challenge. Turning to the digital revolution, represented by the emergence of the smartphone, cloud computing and data storage, cheaper speed of processing, decentralised trust technologies (blockchain), digital currencies (cryptos, stablecoins and central bank digital currency), the emergence of multisector and multinational companies (bigtechs), the revolution in the way that financial business is done, etc., the challenges that this transformation brings are truly global.

The digital revolution is blurring the frontiers between sectors, countries and products (between financial and non-financial products in particular). Bigtechs have a truly global scale, blockchain technologies may make jurisdictions and local legal systems irrelevant, and stablecoins will sooner or later have a global scale outside the control of governments. The challenges posed by these global phenomena can only be dealt with efficiently through global cooperation.

Turning to the menaces, cybercrime and cyberthreats have a global dimension. Leaving aside activities undertaken by countries on a defence/revenge basis (cyber is increasingly just another weapon used in the fight for military supremacy), tackling these menaces requires close cooperation and information exchange among jurisdictions.

Finally, the digital revolution is creating a zero marginal cost world that is setting the incentives for the emergence of very big corporations: the bigtechs. This world of 'increasing returns to scale' brings enormous opportunities for consumers, but also creates competition policy challenges (issues of lack of a level playing field between bigtechs and their smaller competitors) that cannot be resolved at a national jurisdiction level. In other areas, such as cloud, the challenges are associated with the emergence of

systemic providers of critical infrastructures. Either way, a global response is of the essence to face these challenges.

### *The global response: a return to parochialism?*

The global response to the pandemic has been double sided and contradictory. In the area of policy coordination, we have seen a stark difference to the 2007 to 2012 crisis, where the lack of coordination (and solidarity within the European Union) worsened the crisis. This time, the big economies agreed very generous programmes of government-guaranteed lending to the private sectors most affected by lockdown, agreements were reached among the central banks to help stabilise the financial markets, and there was greater solidarity in the EU (NextGenerationEU funds).

But while we saw the positive side, there was also a less positive reaction, a ‘cave syndrome’ of countries rather than people. Frontiers were closed at the first sign of virus mutation, and responses were unequal across countries, with emerging economies less able to support their economies, vaccination prioritised for local populations of producing countries, and export prohibitions that ignored the needs of emerging economies. A close and objective examination of the reactions at the national (or even regional or local) level to COVID-19 leaves little room for complacency, for sure.

Frankly speaking, this trend towards isolation and unilateralism was neither created by the pandemic nor disappeared once the virus petered out. The trend towards parochialism has been present for quite some time. Let us examine in particular three trends: the limits to financial globalisation after the global financial crisis (GFC), the process of Brexit and the US trade policy shift from free trade and multilateralism towards bilateralism and protectionism.

The GFC, which started as a limited fire in a quite irrelevant part of the US financial system – the US subprime mortgage market – turned into the worst financial crisis since the Great Depression, due to the contagion across financial markets worldwide. And although there were some specific factors in each jurisdiction (for instance, the eurozone crisis was to a great extent self-inflicted), the fact that the contagion was far worse, faster and more devastating than initially expected led to a financial package reform that, among many things, tried to limit contagion by penalising cross-banking exposures. This, together with strict requirements on anti-money laundering / know your customer, and the fear of reputational impacts coming from failures in this area, led to a retrenchment of international banking, including correspondent banking. The higher capital requirements and the restructuring of some problem banks also led to the closure of a large number of branches and subsidiaries of international banks. In short, financial globalisation has been in retreat since the GFC. And a big question mark hangs over whether globalisation in goods and non-financial services can survive without financial globalisation, without international banks.

Brexit is another case in which we have seen the temptations of retrenching to home quarters. Leaving aside the political complexities of an issue that starkly divided the UK

population, the bottom line is that a country that has led globalisation since the 19th century, a country with the biggest financial centre of the world, a country that was the euro area's financial centre of reference, decided to retrench and leave the biggest domestic market in the world (the EU single market).

The shift in US trade policy from multilateralism (supporting the World Trade Organization (WTO) and pushing for free trade agreements) to bilateralism and the use of unilateral protectionist measures is extremely significant in this context. And while a new US Administration is reversing some of its policies in other areas (significantly, in the fight against climate change), in the trade area the shift is less evident, most probably as a result of rising tensions with China, but also due to a profound rethink of the benefits that globalisation was bringing to US shores. Once again, a country that has led globalisation in the 20th century is fundamentally reviewing its position.

And last but not least, the tensions in the EU, the biggest domestic market in the world, cannot be ignored. From the panic response to the pandemic and unilateral closing of frontiers to the political tensions as expressed by the presence of anti-EU political parties in national parliaments (where many UKIP-style parties are popping up), the EU is no stranger to this retrenchment process. And prior to the energy crisis this winter, we heard arguments on the need to close down domestic markets to preserve supply.

To sum up, many commentators point to the crisis of the international liberal order, but it seems that this crisis is, in fact, not provoked by external elements but rather an inside job.

### 3. What to do

What can be done, in this strange world of global challenges and parochialism? The first thing that needs to be done is not to fall into denial on both fronts: we cannot solve the challenges that lie ahead of each country in isolation. We must put an end to parochialism if we are to succeed.

#### *The importance of the narrative*

There is a widespread view that the international liberal order is in crisis. Frankly speaking, the alternatives that are popping up in different parts of the world seem, by far, worse than this supposedly problematic international liberal order. By trying to point to its limits, and partial failures, and by striving to reform it without a clear direction or purpose, the West has lost its narrative.

The international liberal order has to strike back: it was not the evil empire but rather the rebels who, after the disastrous Second World War and Cold War, decided to build a better world, leading by example. The failure is not of *showing* results, but of *selling* them.



There are undoubtedly many elements that challenge this positive narrative: media globalisation, the explosion of one-sided press and news sites (where people's views are reinforced rather than called into question), and the fact that negative news items are more attractive than positive ones. Our brains are geared towards negative impulses due to the greater survival chances. Missing a piece of negative information has a greater impact than missing positive information (missing a fruit is not the same as missing a tiger about to eat you in the jungle!). But without a proper 'defence' strategy showing the merits and achievements of globalisation, we will not be able to reverse the trend towards retrenchment. And far too often, well-intentioned ideas on how to reform the liberal order and globalisation to make it fairer have been counterproductive precisely due to the lack of a positive narrative around the idea of reform: it is about making globalisation better, not skipping it altogether!

### *The need for continued engagement*

The last decades have seen a rebalance of forums for cooperation, from exclusive groupings such as the G7, towards wider groupings such as the G20. This has especially been the case in the financial sphere. Despite the overwhelming size of the 'G7 plus' (including the Netherlands, Spain and Switzerland), financial markets and institutions, and standard-setting bodies such as the Financial Stability Board and the Basel Committee on Banking Supervision have expanded their membership to include emerging players such as Brazil, China, Hong Kong, India, Mexico and Singapore. This expansion has been crucial to ensure uniform application of the post-GFC reforms (Basel III, for instance) across the globe.

But this shift towards inclusion in international forums seems in jeopardy. Russia's invasion of Ukraine has certainly heightened tensions and, to some extent, made it impossible to sit at the same table to talk about issues of common interest. The 'extended' G7 meetings are a practical way of keeping communication channels open, but the absence of China from this extended group points out that the problems run deeper and existed before the invasion of Ukraine.

The G7 encompasses what we could call the 'hard core' of the international liberal order. It represents those western countries that have pushed for financial globalisation and free trade in the last decades. The G7 countries stand for a political ideal of free trade and free societies (democracies with free speech). The way in which they look at the world, at societies and at individual life is the result of centuries of common history and culture (from literature to architecture; from music to painting) and, let us be clear, of fierce confrontation and infighting.

But with the emergence of developing nations, the G7 no longer makes sense. It was obvious at the start of the 21st century that you could not pretend to rule the world without listening to and engaging with countries such as Brazil, China, India, Indonesia, Mexico and Saudi Arabia (I leave aside Russia, because Russia has always been at the table thanks to its mighty military power). This is why multilateral organisations such as

the International Monetary Fund (IMF) and World Bank (WB) were reformed, why the WTO was finally created to include these new players in international trade, and why the Financial Stability Board (FSB) and the Basel Committee were enlarged after the GFC.

Considering the nature of the problems we are confronting, in particular the fight against climate change and the challenges brought about by the digital revolution, the need to engage with these emerging, massive economies is of the essence. The solutions to these challenges, which are far from easy, are just not possible without consensus across countries. For instance, in the area of climate change, the wildfires in Siberia will contribute to yearly greenhouse gas emissions by the order of three times the contribution of a big economy such as Germany. But the broader dialogue is stalling, and we have to ask why. There are two main reasons, one geostrategic, the other political.

The geostrategic problem is Thucydides. Well, not Thucydides himself, dead in 400 BC, but rather what he is best known for: the Thucydides trap, which describes what happens when an emerging power threatens the incumbent power (confrontation, with war as an unavoidable outcome). Nowadays, this concept applies to the US and China. And although war between two nuclear powers is highly unfeasible, proxy wars in other areas such as economy, trade, finance and technology are, most probably, unstoppable. With the US being reluctant towards an increasingly mighty China, confrontation is highly probable, and dialogue extremely difficult.

The political reason lies in a somewhat naïve view held by western powers that economic liberalisation would bring about a shift towards open, democratic societies that are respectful of individual rights and free speech. This has not been the case of China (or Russia).

What should we do? We must understand that we cannot, and should not, engage in social engineering. Instead, we should lead by example, and bit by bit the strengths of our social models will triumph, without force, without urgency. And we have to remain engaged: in the G20, in the IMF/WB, in the WTO, in the FSB, and in the Basel Committee. Because it is precisely in the difficult forums (where progress is difficult and dialogue painful) that the big results await. A G7 meeting, even in its enlarged format, runs the risk of creating a sense of complacency at odds with the global challenges ahead of us. The EU, in particular, should encourage other jurisdictions not to abandon dialogue in the medium term, even when interests differ and we have to confront, and respond to, military aggression towards peaceful countries.

### *Prevention is the best cure: look south!*

Bringing in a European dimension, Europe needs to understand that its environment has always been extremely fluid, far more than that of other regions. In fact, Europe's cultural heritage is the result of many influences: in Spain we have seen Romans, Carthaginians, Phoenicians, Germanic tribes (the Visigoths) and Arabs come by and leave parts of their culture. A similar pattern applies to many European countries. For sure, this also applies to wars, invasions, havoc and destruction. But we have learned from our

mistakes and, until the invasion of Ukraine, we have not seen a war situation in Europe (the Yugoslavian Civil War corresponds to a sad, different category).

As we try to prevent havoc, we must work on prevention, rather than cure. We must identify the sources of future challenges. And here is where we should look: the South.

It is of course natural, and necessary, to look east, given the developments in Ukraine. We have to respond to the enormous challenges that we face since the Russian aggression towards a peaceful country. No doubt this has to be the number one priority in the short run.

But we should not forget the southern front, the Mediterranean area. For centuries *Mare Nostrum* has been a source of commerce, cultural exchange and prosperity, but also a channel of conflict. In other words, we will not have a peaceful future without a secure, stable Mediterranean area. Centuries of history demonstrate this.

And we should not forget that the Mediterranean is the door to Sub-Saharan Africa. The explosion of demographics there means that a peaceful South as a precondition for stability extends well beyond the Tropic of Cancer, even well beyond the equator. Institution building, investment-based growth, access to education and the improvement of skills seem to be of the essence if we are to prevent chaos in our southern neighbourhood.

### ***Commercial links as the best glue: the relevance of the EU single market***

Since the Second World War, Europe has experienced the longest period of peace for centuries. The EU has been an extremely successful project in this respect. The rationale behind the project is very simple: the best glue for peace is trade. Intertwined economies lead to intertwined societies and political systems, and resolving conflicts through war is simply too expensive.

The process of deglobalisation offers a glimpse into the costs associated with turning back commercial tides. If the EU decided to disintegrate, the costs would be of such a volume that no EU Member State would be in a position to get through the process without a costly setback and huge political and social turmoil. The process of Brexit, planned for years and negotiated by interested parties, offers a glimpse of just how burdensome dismantling the EU would be. This is why the EU always perseveres, integrating further, as the prospect of going backwards is simply too daunting.

The strength of the EU single market as a peacemaker, always overlooked even within the EU, offers a path ahead for increasing security on the southern front. The EU must bring forward a trade policy that encompasses the Mediterranean region and goes beyond to the south. This includes not just free trade agreements but also, more fundamentally, institution building, support in training the labour force and, last but not least, access for these countries to the EU financial markets in order to finance investment projects.

## *The importance of the financial side: the Banking Union and Capital Markets Union*

The EU is colossal in size. It is the third economy in the world in terms of size, the US being the first and China the second (China is first and the US second when measured in purchasing power parity). In terms of trade (exports and imports) of goods and services, the EU is the world leader. And when looking at foreign direct investment, the picture is similar: both as an investor and as a receiver of investment, the EU is number one.

Despite these figures demonstrating the strength of the EU, however, there is an area of dissatisfaction: financial markets and institutions. The EU, in the area of financial services, does not have the clout that corresponds to a major economy. For instance, EU banks are much smaller, both in balance sheet size and in terms of market capitalisation, than US or Chinese banks. And the EU does not have a sizable financial centre. In fact, years after Brexit, London continues to be the main financial centre of the EU (even of the euro area!).

The paperwork has been done: the Capital Markets Union (CMU) and Banking Union (BU) were approved years ago. And, yet, the CMU and BU remain far from delivering the transformation that was needed.

Why is this a problem? There is a short answer: because it represents a strategic mistake that can cost the EU dearly in turbulent times. When the financial markets you operate with on a daily basis are sceptical of the benefits of the EU (because they are not part of it) or, going further, sceptical of the success of the euro (because it is not their currency), the chances are that when an economic crisis hits (or a financial crisis or period of political turmoil), the reaction of faraway markets is not going to help.

When confronted with an increasingly fragmented world that is more and more inward looking, this benign neglect by the EU of the financial dimension of the single market is most probably the biggest single strategic mistake of its leadership. Let us reverse the situation and do whatever it takes to make the CMU and BU a reality in the next decade.

## **4. Conclusions**

We cannot deny reality: we are living in a strange, dangerous world. Historically, EU Member States have always been more exposed to global turmoil, and the recent invasion of Ukraine by Russia is a stark reminder of this uncomfortable truth. In order to survive to this chaotic world, the EU needs to hope for the best, but prepare for the worst. We need to continue pushing for global dialogue in forums such as the G20 (where we need to engage with jurisdictions that do not share our values) and on issues such as the fight against climate change or the perils of the digital world. But we also need to look after our close neighbourhood, playing the prevention card and paying attention to emerging problems in the Mediterranean area. We need to build on the success of the single market and expand the free trade concept to the regions close to

us. The EU experience demonstrates that trade is the best glue to construct a peaceful future. And the EU itself has some homework to do: become a global financial player. In the end, open societies must lead by example and push for an open world.

# CHAPTER 7. EUROPE'S GRAND ENERGY RESHUFFLE

*BEN MCWILLIAMS, GIOVANNI SGARAVATTI, SIMONE TAGLIAPIETRA, GEORG ZACHMANN<sup>1</sup>*

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In energy annuals, 2022 will be remembered as the year of Europe's great energy crisis. Europe experienced an energy situation every bit as concerning as the oil shocks of 1973 and 1979, which profoundly impacted the global energy and political order. Over the course of the year, three shocks rapidly converged, pushing the continent into an energy crisis and upending Europe's energy market: the effects of COVID-19; Russia's invasion of Ukraine and related sanctions on oil and gas; and a series of unlucky coincidences.

Public policy has discouraged upstream fossil fuel investment, but has not accelerated sufficiently the deployment of alternative clean energy sources or reductions in fossil fuel demand. This has resulted in a profound energy supply-demand imbalance in the context of the bounce back of global energy demand after the peak of the COVID-19 crisis.

Next came Russia's weaponisation of energy and its invasion of Ukraine. Russia has been manipulating European natural gas markets since summer 2021 by substantially reducing exports and failing to refill Gazprom-owned storage sites in the European Union ahead of last winter. This move, initially considered to be part of Russia's strategy to push Germany towards the quick certification and entry into operation of the newly built Nord Stream 2 pipeline, saw another potential explanation when the war began.

Since spring 2022, Russia has used its remaining supplies as a geopolitical weapon to divide the European front in support of Ukraine, notably by reneging on long-term supply contracts that were considered sacred by European partners. After initial cut-offs to Poland and Bulgaria, Gazprom cut supplies to a dozen additional European countries and substantially reduced flows to its main markets: Germany and Italy. By early July, Russia was only sending one third of previously anticipated volumes of gas overall. As a result, gas prices in the EU exploded more than tenfold, and governments are nervously trying to protect consumers against this price shock by handing out billions in subsidies.

Europe has managed to compensate for reduced Russian supplies by importing record levels of liquefied natural gas (LNG), most notably from the United States. At the same time, several new gas deals have been signed by European governments with alternative suppliers, namely in Africa, with additional supplies expected to come online in the next years.

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Finally, a series of unlucky coincidences have exacerbated an already tight energy situation. Corrosion problems pushed France to temporarily shut down half of its nuclear power plants, increasing the need for gas in power generation. A severe drought in parts of Europe compromised not only hydropower generation, but also thermal plants that require cooling and coal-fired power plants that rely on waterways to deliver coal. As extreme weather events become more frequent, this situation raises a longer-term issue around the impacts of climatic change on electricity production.

## 1. Disruption to demand

The consequence of the convergence of these three shocks has been an extremely tight supply-demand balance both globally and within the EU. As almost all fuels are affected, short-term fuel-switching supply elasticities are close to being exhausted (a typical example would be between gas- and coal-fired power generation). Instead, demand reductions – both actual and anticipated – now play an outsized role in price setting (any bearish outlooks for energy prices are typically predicated based on recession eroding demand).

High prices and forced demand reduction result in a huge political problem for all countries. Accordingly, governments have tried to address this exceptional situation with exceptional policies. European countries are spending more than 1 % of gross domestic product propping up energy systems, with subsidies often tied directly to energy consumption, thus boosting demand. From the joint purchase of natural gas to energy price caps, rationing plans and nationalisations, an ever-growing range of ideas to intervene in energy markets in order to address the crisis are being discussed.

Both the impact of the energy crisis – which varies between regions – and differing national policies to address the crisis will shape the physical and institutional setting of the European energy sector. For example, excessive nationalisation of energy policies will substantially undermine the ability of Europe to cope with the current crisis and imply jointly choosing a steeper path towards decarbonisation. With each government focused on ensuring its own security of supply, the EU as a whole risks building substantial gas overcapacity. This would be an inefficient use of resources and risk entrenching new interest groups opposed to the speedy phasing-out of natural gas.

The reality is that Europe might not have enough energy to fully meet the desired demand over winter. This represents Europe's greatest systemic risk right now from both an economic and political perspective. A disordered energy crisis would not only push Europe into a spiral of economic recession and social tensions, but also expose its political unity to the risk of energy protectionism. This would weaken its foreign policy, most notably its stance against the Russian aggression in Ukraine.

Putin's strategy to weaken Europe's support for Ukraine by weaponising energy is now clear to all. For European leaders not to succumb, they must rapidly prepare a counteroffensive for what will be a difficult winter. Choices over how to manage limited

energy supply will shape the future of Europe's energy system and have wider political ramifications. If managed correctly, deeper integration and accelerated investments can allow Europe to defeat Putin's strategy and drive the transition towards cleaner and more affordable energy.

## 2. The EU's grand bargain

To this end, European leaders must strike a grand bargain to pool the diverse untapped energy potentials of Member States in order to release the EU from its dependency on Russia and lay the foundations for a rapid wave of clean energy investments. But what steps must be taken for this to happen?

First, all countries must honestly and immediately exploit every available supply-side flexibility to the European energy market. This will require painful political compromises. German nuclear power might reduce gas dependency on Russia by 10 %. Dutch gas fields could contribute a significant amount. Stronger imports from Ukrainian nuclear plants could displace a few percentage points of gas-burn, and temporarily lowering pollution and labour-time standards even in less Russian energy-dependent countries would help supplies. Energy security is being challenged as never before, and some trade-offs with social and environmental goods must be temporarily reassessed.

Second, agreeing to jointly procure gas on international markets will reduce the risk of eroding unity among Member States as they outcompete each other over limited supply. Moreover, joint procurement promises to lower financial and political costs for gas, and might allow the EU to use pooled gas volumes to provide energy to the most severely hit consumers.

Third, all countries must make honest and comprehensive efforts to reduce demand. This requires serious and straightforward communication to the public. Policy makers must explain to citizens that there is an impending trade-off between household energy consumption and the preservation of jobs and peace. To achieve this, countries need to ensure that all consumers have strong incentives to reduce consumption. European leaders should agree to stop directly subsidising energy consumption, and instead agree to subsidise energy saving. Regulatory tools such as introducing lower vehicle speed limits or changing the minimum temperature rules for buildings need to be on the table. Politically unlocking untapped energy supply and demand-reduction potential in Europe will substantially alleviate market pressures.

The fourth crucial element of the grand bargain will be to secure political commitment to maintain a well-functioning European energy market that ensures that molecules and electrons flow to where they are most needed. Instances of fragmentation of the EU energy market, such as the Iberian exception, must be contained as much as possible and, indeed, be exceptional.

Fifth, European money should be pooled to provide compensation for difficult domestic decisions. For example, households in Groningen should be compensated for increased



tremor risk from gas drilling, and it is not the Dutch government that faces strong incentives to provide this compensation. Given the importance of the gas field for the EU's security of supply, the compensation should come from an EU instrument. Likewise, in terminating Algerian gas contracts and allowing gas to flow into Italy, Spain should be reimbursed the substantial price differential for more expensive LNG. Compensating a demand reduction in southern Europe might also be facilitated by providing joint incentives.

Sixth – and crucially – the poorest in society exposed to energy poverty are more vulnerable than ever, and continue to need support. National governments should provide lump-sum transfers or other social aid that does not weaken price signals for reducing energy consumption. Given the massive fiscal imbalances in the EU, in this case a joint European fund might be considered.

Finally, short-term imperatives must not detract from the deployment of long-term solutions to reduce fossil fuel consumption. Investment in clean energy technology and the associated infrastructure is an essential part of escaping the energy crisis and meeting the EU's decarbonisation targets. This crisis is an opportunity to invest in further connecting Europe's energy grids, which will improve resilience to future shocks and facilitate a cost-efficient transition. One estimate from the green think tank Ember is that the EU must double the pace of wind and solar deployment to meet its goals based on limiting global warming to 1.5 degrees Celsius. The current approval process is slow and cited as a major obstacle to rapid renewable deployment. This should be simplified and accelerated.

Scaling up the deployment of renewables and long-duration storage, and more rapid electrification for heating, public transport solutions and clean mobility (among many other decarbonisation measures) should be reinforced. Long-term investment in these initiatives will improve energy security and decisively eliminate Europe's dependence on Russian gas.

Underpinning this bargain will be commitments to ensure that efforts are equalised around the continent, as all countries cooperate in taking difficult decisions. However, in many cases the efforts will not be distributed equally. Relatively well-supplied countries will have to take action largely for the benefit of their neighbours. The creation of the above-mentioned European fund alongside an EU-level agreement on redistribution must be accompanied by a political commitment to maintain a well-functioning energy market ensuring flow to where it is most needed.

By sealing a special declaration on a European grand energy bargain, EU leaders would commit their governments to a coordinated and fair approach to the energy crisis. This would bind ministers and regulators, guiding them through the difficult choices they will have to make. Choices over how to manage limited energy supply will shape the future of Europe's energy system. If managed correctly, deeper integration and accelerated investment can allow Europe to defeat Putin's strategy, while also pushing the transition towards cleaner and more affordable energy.

# CHAPTER 8. LOGISTICS AND ENERGY AT THE CORE OF NEW EURO-MEDITERRANEAN AND EU-AFRICAN INTEGRATION

*MASSIMO DEANDREIS<sup>1</sup>*

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Today it seems clear that we are facing a redefinition of geo-economic and political scenarios with completely new, and partly still unknown, impacts.

If we observe the lines along which the international economy appears to be changing, thus looking at the past while also gazing at the direction we are taking, there seem to be great changes underway. All of these involve **logistics** and **energy**, the two key factors affecting the whole global economy.

The first change is represented by the regionalisation of globalisation, where global regions that are increasingly integrated within themselves in terms of supply chain and trade engage in dynamic competition with other such regions: America with the United States-Mexico-Canada Agreement (USMCA, or NAFTA 2.0), Europe with its own market and single currency, and Asia with the Regional Comprehensive Economic Partnership pivoting around China. And now also Africa is taking its first steps with the new African Continental Free Trade Area.

A reflection of this can be seen in maritime routes. If we consider that 90 % of global trade is seaborne<sup>2</sup>, we can use this to show current developments: over the last 12 years, with a marked acceleration in the last two to three years, all intra-regional routes have grown significantly (+70 %) in addition to the north-south ones (+36 %). This means that maritime traffic has grown within continents and between the northern and southern areas of continents. Examples of this can be seen in the routes between North and South America, those within Asia and the routes between Europe and North Africa. On the other hand, growth has been less marked along the equator, between Asia and Europe, and on the transpacific and transatlantic routes, which are exactly the typical routes of globalisation.

Another great change is a consequence of the first: the shortening of supply chains. With economic tensions and increasing political opposition leading world trade to regionalise, the excessively long subcontracting chains that were the norm before (for example production in Asia, assembly in Europe and sales in the US) suddenly became fragile and exposed to trade retaliation, delays and logistical bottlenecks. Hence, the need grew to

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<sup>2</sup> Clarksons (2022), *Seaborne Trade Monitor*, August.

shorten them and gradually bring them within 'regional' borders, making them safer and closer to the final destination markets.

The effect of this shortening of subcontracting chains is the search for new, closer suppliers and the push towards reshoring or nearshoring. After years in which the mantra was the 'delocalisation' of production activities to Asia in search of lower labour and production costs, today the trend has been reversed: to bring essential production back to Europe or the surrounding area (the Mediterranean). Based on the latest available data<sup>3</sup>, Italy is second after France in terms of reshoring cases. 44 % of reshoring cases refer to companies bringing back operations that had previously moved to Asia, and 20 % concern cases of return from Russia and Eastern Europe. This was already the situation before the war broke out in Ukraine.

It is quite clear that all of these phenomena (alone and without considering the tensions in the energy and commodity sectors) are among the causes of another ongoing, very significant and impactful change: inflation and rising commodity prices.

We have come from more than two decades of stable prices to now find ourselves immersed in an inflationary context in which certain cyclical phenomena have combined with structural factors that point to a rather long season of price tensions.

Another major change that we are facing is the profound restructuring of the productive systems due to the energy transition and the Green Deal, especially in Europe. The goal of carbon neutrality that Europe has set itself comes at a difficult time, and inevitably contributes to exacerbating some inflationary tensions. The target of abandoning fossil fuels and switching to renewables will indeed have the strategic effect of making Europe less dependent on energy and accelerating a model of environmental sustainability, but in the transitional phase in which we are now immersed, this inevitably has some important economic and social costs.

These ongoing trends are also influencing companies' business strategies and organisational choices. Up until before the pandemic, the key concept for companies was 'just in time'. In the fast-paced world as it was before, where goods and people moved with speed and relative punctuality, when faced with an order or material need, one would call the supplier. If the supplier could not fulfil the request, the next supplier on the list would probably do so. Within a few days, the goods or material would arrive, at essentially stable prices. Today we all know that this is no longer the case, and this change has forced companies to replenish their stocks and warehouses.

But this paradigm shift has important consequences: it means higher costs, different organisation, complex space and logistics management.

It is therefore now clearer **why logistics and energy are today at the centre of the processes of change in the global economy**, while also representing the transmission belt of inflationary pushes. Or, rather, we could say that inflationary pressures represent

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<sup>3</sup> See Alessandro Panaro, *Dinamiche e tendenze dell'economia marittima tra potenzialità di sviluppo e autonomia strategica nazionale ed europea*", SRM, Naples May 2022; Cfr. Uniclub Polimi (2021).

the barometer of the demands being placed on these two axes of the world's economy. To understand this, we need only look at maritime freight rates, which have risen enormously in recent months. Today, although slightly declining, they remain very high, also due to the phenomenon of port congestion, which is expected to continue in the short to medium term.

Russia's invasion of Ukraine and the consequences of war, sanctions and international tensions have certainly exacerbated the phenomena we have described, making them disruptive in some cases, as with commodity prices. However, it is worth emphasising that most of these transformations had started well before the war and already become evident during the pandemic.

In this general scenario, **the Mediterranean and North Africa emerge as an area of the world that is regaining centrality compared to the past.**

Some key numbers signal this evolution: 20 % of world maritime traffic, 27 % of container handling and 30 % of global energy traffic pass through the Mediterranean, which represents 1 % of the global seas. And then there is the fact that traffic in the top 25 Mediterranean ports has grown uninterrupted by a total of 120 % from 2005, passing unscathed through the various crises that have occurred since that year.

These figures highlight the fundamental point that the **Mediterranean is evolving its geo-economic role** into a strategic junction between the world's macro-regions. This is because it is the only area in the world where there is close contact between three continents, namely Europe, Africa and Asia, and because it is also an obligatory passage (via Gibraltar) to reach the Atlantic coast of America.

The Mediterranean is thus being **transformed from a sea of passage into a sea of competition**, where the regionalisation of globalisation can be seen at close quarters.

There is a strong risk that this area will become a place of confrontation and tension; a new 'iron curtain' for global rifts and tensions between the West, Russia and China. On the contrary, the opportunity is to make it the main point of contact; of economic and logistical osmosis between global macro-regions; a strategic intersection between areas of the world that, although in competition with each other, inevitably need to have a connecting point.

This new global context, although difficult, uncertain and different from the past, can generate new opportunities for Europe and Italy. Once again, logistics and energy are at the centre.

With the cut in gas supplies from Russian pipelines, the flow from the southern Mediterranean becomes even more strategic. And Italy is the European gateway for flows from the south, with the pipelines from Algeria and Tunisia and the Trans Adriatic Pipeline.

Then if we look at the map of existing pipelines and those under construction (the new planned 'Poseidon' pipeline will link Israel, Cyprus and Greece with Italy), we see that they all come close to the ports of southern Italy. Once again, Italian ports are proving to be strategic for the country's role and for European interests.

Ports are also at the centre of a strategic transformation: from being merely logistics hubs (for the transportation of goods and passengers), they will soon become energy hubs. Technologies now allow for floating offshore photovoltaic installations as well as wind farms to produce renewable energy for use in ports and the industrial areas around ports. This makes them independent, stronger and better able to respond to the ongoing transformation needs of the shipping industry.

To achieve this, however, it is **necessary for Europe to relaunch a strategic partnership with North Africa**, building not only on an increase in the flow of hydrocarbons (necessary in the current economic situation), but also on a **structural alliance for renewables and hydrogen**, at least with some countries. Today's technologies allow what was not possible in the past, such as producing electricity with photovoltaic panels and then transforming it into synthetic gas that can be fed into existing pipelines or to produce hydrogen. This approach would represent a mutually beneficial development opportunity.

Italy, traditionally a geographical bridge between Europe and North Africa, could (or 'must') play the role of a logistical and energy hub, both in the interest of the European Union and in line with its traditional Mediterranean policy. This would help strengthen its role in Europe and benefit Mediterranean stability and mutual economic growth.

## CHAPTER 9. MEDITERRANEAN AND EU-AFRICA RELATIONS: TRANSFORMING LOST DECADES INTO OPPORTUNITIES

*RYM AYADI<sup>1</sup>*

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The Mediterranean region brings together countries with different cultural backgrounds and economic, social and political realities that are each developing at a different pace and integrating with variable geometry. To the north, countries have engaged in a deep integration process under the European Union and its progressive process of enlargement. This process experienced a slowdown in the aftermath of the financial and economic crisis, but is expected to continue with the planned accession of countries in the Western Balkans and the negotiation of association agreements with small states such as Monaco. With the Sub-Saharan countries, relations are governed by the Cotonou Agreement, signed in 2000 between the EU and the African, Caribbean and Pacific (ACP) countries, which are differentiated from the other Mediterranean African and Middle Eastern countries. With the Cotonou Agreement, regional integration has assumed an important role and become one of the key objectives of the partnership.

In 2020, the EU (particularly its southern part) was hit hard by the global COVID-19 pandemic and the drastic halt in economic activity. While still grappling with a timid recovery from a prolonged period of economic crisis and budgetary austerity, dampened by a number of economic imbalances within the Union, the EU found itself caught in an unprecedented conflict with Russia after the invasion of Ukraine. This exacerbated an already fragile economic recovery as a result of the EU's high dependence on Russian oil and gas, leading to the worse energy crisis in its history. In addition, migration pressures from the north and south, which fuelled an upsurge of nationalist sentiment, leading to extreme right positioning in the political scene and the emergence of new political dividing lines, were reinforced by lockdowns, social distancing and mobility restrictions, resulting in a surge of racism and discrimination. These dynamics not only contributed to a slowdown of the enlargement process, starting with the disintegration brought about by Brexit, but also to an increase in fiscal spending to respond to the deadly global pandemic and, soon after, to resist energy price hikes and preserve jobs as a part of the recovery plan.

To the south of the Mediterranean and in Africa, the integration process has largely lagged behind, despite several attempts to accelerate it (such as the Agadir Agreement

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and other agreements with Africa<sup>2</sup>). Since the Arab uprisings, southern and eastern Mediterranean countries have witnessed disruptive political, social and economic hardships and transformations, further accelerated by the COVID-19 pandemic and the containment measures taken. These factors have led to further fragmentation and poorer economic prospects, exacerbated by the conflict in Ukraine, rising energy and food prices, and increasing risk of uprisings, government defaults and social unrest.

In Syria and Libya, protracted wars involving neighbouring countries have resulted in the disintegration of their polities, societies and economies, with the ensuing mistrust and chaos destabilising the region as a whole and leading to the refugee crisis. Lebanon is battling with compounded crises ranging from political, economic and financial to environmental, social and humanitarian (see Ayadi and Challita, 2020<sup>3</sup>). Such a situation increases the prospects of internal destabilisation in a region that is already, and continues to be, in heightened tension. Tunisia and Egypt are battling with high government debt, rising inflation due to the energy crisis, worsening poverty and inequality, and the risk of social disruption and unrest. Many countries in Sub-Saharan Africa, such as Ghana, are grappling with increasing government debt and the gloomy prospect of defaults.

## 1. EU-Mediterranean and Africa: diagnosis of decades of partnership and development policy

Developments in the Euro-Mediterranean region over the last decade highlight a trend towards greater fragmentation, which continues to widen. As projected in the foresight analysis by Ayadi and Sessa (2013)<sup>4</sup>, developments in the region between 2010 and 2020

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<sup>2</sup> These include the African regions formally recognised in the ACP, the regional groups negotiating economic partnership agreements (EPAs) with the EU, the eight formally recognised regional economic communities (RECs) and the regional indicative distribution under the European Development Fund (EDF 2014-2020).

<sup>3</sup> Ayadi, R. and Challita, S. (2020), *Lebanon: a case of a compounded crisis: A TRIS path for the Phoenix to re-emerge from the ashes*, EMEA Paper, Euro-Mediterranean Economists Association, June, <https://euomed-economists.org/download/lebanon-a-case-of-a-compounded-crisis-a-tris-path-for-the-phoenix-to-re-emerge-from-the-ashes/>.

<sup>4</sup> Ayadi, R. and Sessa, C. (2013), *Scenarios Assessment and Transitions towards a Sustainable Euro-Mediterranean in 2030*, EMEA Policy Paper, Euro-Mediterranean Economists Association, November, <https://euomed-economists.org/download/scenarios-assessment-and-transitions-towards-a-sustainable-euro-mediterranean-in-2030/>. The authors devised a number of alternative scenarios that could play out in Euro-Mediterranean relations. Starting from a reference scenario (in 2010) that postulates a continuation of the trend of inter-governmentalisation of Euro-Mediterranean relations through bilateral agreements between the EU and individual non-EU countries, three scenarios can be envisaged. The 'red transition' scenario foresees the progressive weakening and eventual failure of cooperation schemes in the region, leading to the emergence and multiplication of conflicts. The 'green transition' scenario consists of full-fledged integration through the creation of a Euro-Mediterranean

highlight that essential elements of the conflict scenario leading to a 'red transition' have materialised and continue to prevail.

Ayadi and Ronco (2023)<sup>5</sup> provide a thorough assessment of EU-Africa development policy over the decades. Figure 2 reports the milestones in development policy and relations with Africa, which were mainly anchored in aid policy and official development assistance (ODA). The green circles represent the turning points (phases) in the evolution of the partnership.

*Figure 2. EU and global governance milestones in development policy and relations with Africa*



Note: Global governance milestones in pink; EU-North Africa milestones in orange; EU-OACPS milestones in purple; EU-Africa milestones in light blue; EU development policy milestones in yellow. The green triangles represent the different phases of the evolution of the partnership.

The COVID-19 crisis put further pressure on the Mediterranean and Africa, and fundamentally questioned the process of regional integration, with the enforcement of lockdowns and mobility restrictions and the overall disruption of global value chains. The Ukraine conflict has amplified this trend.

union, including but not limited to the establishment of a common/single market. The 'blue transition' scenario foresees the shedding of Euro-centred, enlargement-like policies for the integration of the region as a whole in favour of multilateral policies between distinct but related sub-regions over areas of shared interest and mutual benefit.

<sup>5</sup> Ayadi, R and Ronco, S (2023), The Role of International Cooperation and Development Aid in the EU-Africa Partnership: Governance, Actorness and Effectiveness Analysis, EMEA study, Euro-Mediterranean Economists Association, February, <https://euromed-economists.org/download/the-role-of-international-cooperation-and-development-aid-in-the-eu-africa-partnership-governance-actorness-and-effectiveness-analysis/>



When assessing the performance of regional integration in the EU-Mediterranean region, including the milestone of the Barcelona Process<sup>6</sup> in 1995, the assessment is regrettably disappointing<sup>7</sup>. Besides fragmentation and increasing divides between the shores of the Mediterranean, several decades of economic integration have failed to help the poorer countries catch up with the richer ones in the Euro-Mediterranean region. During the process of regional integration, the EU played a catalyst role in north-south integration and encouraged south-south integration (by supporting the Agadir Agreement, for example) but the results were abysmal. The EU-centred approach to integration is the problem, as it underpins a preference for bilateral cooperation and competition between countries, rather than cooperation and complementarities, which may not lead to the expected outcome.

There are indeed important differentials across the region concerning the conditions, and therefore opportunities, for further political association and economic integration. In the Maghreb, on the one hand, the relative convergence of political aspirations between Tunisia, Morocco and the EU are creating the conditions for deeper integration to be pursued, but under the condition of greater co-ownership of the regional integration process and a co-development approach. In the case of Tunisia, on the other hand, signs of economic fragility, with increasing risk premium in the international markets (the country's rating was downgraded by Fitch to CCC in March 2022), the Libyan war and foreign interference are driving the country into absolute political stalemate<sup>8</sup>. In the Mashreq, the situation is more complicated. The persistence of the Israeli-Palestinian conflict continues to be the main source of tension, ambiguity and mistrust, while the Syrian conflict put the important role of foreign powers such as Iran and Russia under the spotlight.

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<sup>6</sup> The Barcelona Process was an initiative aimed at enhancing economic integration and political and civilian dialogue between countries in the Euro-Mediterranean region. The three main objectives of the partnership were: i) definition of a common area of peace and stability through the reinforcement of political and security dialogue (political and security dimension); ii) construction of a zone of shared prosperity through the gradual establishment of a free trade area (economic dimension); and iii) the rapprochement of the region's peoples through social, cultural and human partnership (civilian dimension).

<sup>7</sup> Assessment by Ayadi, R. and Sessa, E. (2017), *Regional Integration in the Euro-Mediterranean*, EMNES Working Paper, No 1, June, <https://emnes.org/publication/regional-integration-in-the-euro-mediterranean/>.

<sup>8</sup> United Nations (2022), *Libya: Political stalemate and lack of progress on elections*, UN News, 30 August, <https://news.un.org/en/story/2022/08/1125812>.

## 2. EU-Mediterranean and Africa partnership: opportunities

Ayadi et al. (2020)<sup>9</sup> provide a new approach to integration to transform lost decades into new opportunities for cooperation for the Mediterranean and Africa. It is an approach inscribed in a more resilient integration model and process built on a multidimensional approach that integrates trade, foreign direct investment (FDI), the political dimension, governance, finance, infrastructure, human mobility, higher education and research. The **Regional Integration Matrix (RIM)** emphasises the role of complementarities and variable geometry, going beyond the usual geographical boundaries of the Euro-Mediterranean region (including Africa). It is aligned with the Transparent, Responsible, Inclusive and Sustainable (TRIS) model proposed in Ayadi and Sessa (2020)<sup>10</sup>.

The RIM is composed of seven mutually interactive dimensions:

*Trade integration* drives increasing exchanges between countries, which in turn enhance interdependence between their economies. Under the right conditions, trade openness enables foreign firms to access domestic markets, increasing competition and resulting in productivity gains, while also enabling domestic firms to access foreign markets and achieve economies of scale. For these positive dynamics to unfold from increasing interactions between foreign and domestic firms, trade integration should be accompanied by investments in productivity, suggesting that FDI levels between integrating countries should increase in the short term and converge in the mid to long term.

This explains the importance of monitoring *FDI integration*. However, for FDI to increase, stable institutions, policies and underlying governance factors (such as rule of law, anti-corruption, regulatory quality and government effectiveness) are essential to keep countries' risk premiums manageable.

Increasing interdependence between economies translates into increasing correlation between the financial markets supporting those economies, which in turn requires *financial integration* to better manage monetary and systemic risks and enhance overall stability. The resulting reduction of uncertainty related to financial transactions between integrating countries facilitates FDI, while also reducing the interest paid by countries on financial markets, thereby increasing their capacity to invest in infrastructure.

*Infrastructure integration* is crucial to connect countries with each another physically and digitally. It facilitates exchanges, including people-to-people contacts, and the

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<sup>9</sup> Ayadi, R., Fragkiadakis, K., Paroussos, L. and Sessa, E (2020), *Assessing Regional Integration in the Euro-Mediterranean: A Multi-Dimensional Regional Integration Matrix*, EMEA-EMNES Study, July, <https://euromed-economists.org/download/assessing-regional-integration-in-the-euro-mediterranean-a-multi-dimensional-regional-integration-matrix/>.

<sup>10</sup> Ayadi, R. and Sessa, C. (2020), *Blue Transition Policy Roadmap: Towards Transparent, Responsible, Inclusive and Sustainable (TRIS) Development in the Mediterranean*, EMEA-EMNES Study, March, <https://euromed-economists.org/download/blue-transition-policy-roadmap-towards-transparent-responsible-inclusive-and-sustainable-tris-development-in-the-mediterranean/>.

mobility of goods, capitals, services and labour. That said, labour mobility might lead to the contrasting dynamics of brain drain and brain gain, rather than beneficial brain circulation between integrating countries if labour market conditions are not sufficiently equal.

Against this backdrop, convergence between labour market conditions is a precondition for the reduction of barriers to mobility and *labour market integration*, which under the right conditions would enable labourers to access a wider pool of available jobs and, conversely, firms to access a wider pool of available skills.

*Integration between education systems* underpins convergence between the quantity and quality of skills that students are equipped with, thereby creating a level playing field for labourers to compete for available jobs and firms to find the required skills.

Last but not least, *integration in research* will result in higher innovation capacity for the region as a whole, as innovation is largely driven by emulation and cross-fertilisation.

Looking at the prospects of regional integration post COVID-19 and post war in Ukraine, several factors will come into play to define more resilient models and processes of regional integration: i) the role of digitalisation; ii) alignment with the United Nations Sustainable Development Goals (SDGs); iii) regional value chains; iv) acceleration of the development of green energy sources (renewables); and v) new models for financing sustainable development based on guarantees proposed by Ayadi (2022)<sup>11</sup>.

The COVID-19 crisis and war in Ukraine have tested the traditional models of integration. Within the space of a few months, global trade, FDI and remittances have declined dramatically because of massive lockdowns and the subsequent economic slowdown, while global value and supply chains have been disrupted and the mobility of people put on hold. The war in Ukraine has made clear that reliance on fossil fuels for development is no longer an option, and that investing in renewables is the way forward to create new complementarities between Europe, the Mediterranean and Africa. Countries that have developed solid digital infrastructure and connectivity are more prepared than other countries to continue their education programmes, financial activities, telecommunication operations, development of clean energy sources and pipelines, and participation in global value chains. At the same time, several declarations have been made to produce essential products and services domestically and/or close by, in order to avoid the detrimental effects of global supply chain disruptions and export restrictions, particularly for essential goods. Moreover, calls have multiplied to accelerate the green transition to comply with the requirement of the Paris Agreement to reduce polluting activities.

What is needed is to extend the EU Green Deal to the neighbourhood beyond the Mediterranean, including Africa. This requires a well-designed investment plan with

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<sup>11</sup> Ayadi, R. (2022), *A proposal for a blended financing framework for recovery and accelerated sustainable transition*, T20 Indonesia Policy Brief, August, <https://euromed-economists.org/download/a-proposal-for-a-blended-financing-framework-for-recovery-and-accelerated-sustainable-transition/>.

technology transfers to boost renewable sectors; adaptation and mitigation plans to tackle climate change; decisive action towards the net zero scenario; green and sustainable entrepreneurship; a change to the SME business model towards greater alignment with the SDGs; and collaboration between universities and the public and private sectors. Equally, a clear Euro-Mediterranean and EU-Africa strategy should be designed for biodiversity conservation and the preservation of species in sea and land.

In addition, more funding in research and development is needed to accelerate the green transition and the circular economy towards more sustainable patterns of consumption and production, and systematic transfers to businesses (for profit, social objectives and multiple bottom lines). Upscaling functioning regional centres under the Mediterranean Action Plan and Stockholm Convention<sup>12</sup> could help the acceleration effect, while creating appropriate synergies with innovative approaches to sustainable finance anchored in environmental, social and governance (ESG) measurement, disclosure and monitoring.

Finally, private and public-blended financing is essential to accelerate the transition towards complete independence from extractive sectors and exporting countries, and full reliance on renewable energy and technologies such as blue hydrogen.

It is timely to put in place a **public-private SDG-compliant financing fund/plan**, as proposed in Ayadi (2022)<sup>13</sup>, as part of a global post-COVID and post-war recovery plan. The aim of the plan should be to accelerate the transition towards the net zero scenario and to fully comply with the SDG principles and relevant indicators. The fund should be employed to restructure the existing pile of debts and related interest payments, and to finance a sustainable recovery and transition towards the SDGs and net zero. The mechanism could take the form of a partial guarantee (between 40 % and 60 %) issued by the International Monetary Fund (IMF) Resilience and Sustainability Trust (RST), which has the financial capacity, thanks to an extension of the special drawing rights (SDR) allocation, to help those countries in difficulty to: i) issue long-term maturity (up to 50 years) Recovery, Resilience and Sustainable Transition (RRST) bonds, with lower interest rates (no higher than 1 % above market interest rate levels on the US dollar); ii) transform existing unpaid debt; and iii) finance their recovery plans and sustainable transition to 2050, in line with the SDGs.

For this to happen, the EU, together with key private sector players, should engage in a taskforce to use the funding under the Multiannual Financial Framework (MFF) and Team Europe to partially guarantee these new issuances and channel part of the SDRs under the RST. At a later stage, an EU-Med-Africa taskforce should support the countries of the Mediterranean and Africa in engaging in a meaningful integration process. And while these countries engage in such a mechanism, they could start revamping their

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<sup>12</sup> <http://www.pops.int/TheConvention/Overview/tabid/3351/Default.aspx>

<sup>13</sup> Ayadi, R. (2022), *A proposal to fund a resilient and sustainable recovery for the Mediterranean and Africa*, EMEA Policy Paper, June, <https://euromed-economists.org/download/a-proposal-to-fund-a-resilient-and-sustainable-recovery-for-the-mediterranean-and-africa/>

monetary and fiscal policies and engage in further integration, looking at examples such as the eurozone and the European Stability Mechanism.

In a post-COVID-19 era and following the war in Ukraine, regional integration models and processes must be revisited to factor in these new conditions. It has become evident that there is an acceleration of digitalisation, which is creating a deeper digital divide and greening, exposing those countries that are locked in a polluting economic model. In the Mediterranean and Africa, digital and green agendas that encompass all dimensions of regional integration and are compliant with the SDGs should be the priority of the EU, the neighbourhood countries, and regional and international organisations. A model of financing anchored in a new philosophy is needed to drive Europe, the Mediterranean and Africa towards a path of transparent, responsible, inclusive and sustainable growth.

### 3. A focus on Main dimensions of the EU-Africa Partnership: background and recent steps

The Africa-EU Partnership is the recent attempt by both continents to collectively address shared global challenges, going beyond their traditional donor-recipient relationship of the past. The EU has cooperated with Africa since the beginning of its constitution, applying a very differentiated strategy with the different African regions. The Euro-Mediterranean Partnership (EUROMED) and European Neighbourhood Policy (ENP) govern relations between the EU and North African countries. Relations between the EU and Sub-Saharan countries have been governed by the EU-ACP Cotonou Agreement since 2000. With the Cotonou Agreement, regional integration has assumed an important role and become one of the key objectives of the partnership<sup>14</sup>.

Nevertheless, relations between the two continents are governed by overlapping policy frameworks, actors and regions. With regard to the African regions, these can be categorised as follows: the regions formally recognised as ACP<sup>15</sup>; regional groups negotiating economic partnership agreements (EPAs) with the EU; the eight formally recognised regional economic communities (RECs); and the regional indicative

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<sup>14</sup> Ayadi, R and Ronco, S (2023), The Role of International Cooperation and Development Aid in the EU-Africa Partnership: Governance, Actorness and Effectiveness Analysis, EMEA study, Euro-Mediterranean Economists Association, February, <https://euromed-economists.org/download/the-role-of-international-cooperation-and-development-aid-in-the-eu-africa-partnership-governance-actorness-and-effectiveness-analysis/>

<sup>15</sup> The African, Caribbean and Pacific Group of States (ACP) is an intergovernmental body created by the Georgetown Agreement in 1975 between 79 African, Caribbean and Pacific States, all signatories to the Cotonou Agreement in 2000 (48 Sub-Saharan, 16 Caribbean and 15 Pacific countries). The Organisation of African Caribbean and Pacific States (OACPS) replaced the African, Caribbean and Pacific Group of States on 5 April 2020, under the revised Georgetown Agreement.

distribution under the European Development Fund (EDF 2014-2020)<sup>16</sup>. While Cotonou and EUROMED are agreements based on trade, investments, aid and cooperation between the EU and the individual countries or regions involved, in 2000 the Africa-EU Partnership was launched, defined as ‘a formal political channel between EU and the African continent’<sup>17</sup>. The partnership assumes a new continental approach with the aim of overarching existing development and cooperation frameworks between the EU and African countries. This multi-level, multi-actor partnership is guided by the Member States of the EU and of the African Union (AU)<sup>18</sup>, along with civil society organisations, youth bodies, the private sector and other economic and social actors<sup>19</sup>. The main channels that the EU provides for the partnership’s implementation are the Pan-African Programme (PanAf)<sup>20</sup> and the African Peace Facility<sup>21</sup>.

During the AU-EU Summit in Lisbon in 2007, both continents declared their willingness to move beyond the traditional donor-recipient relationship. Jointly identifying mutual and complementary interests, they engaged in developing a new approach that created a real partnership based on equality, mutual understanding and recognition, encouraging the full inclusion of migrant communities/diasporas. The first Joint Africa-EU Strategy (JAES) and Action Plan were launched in 2008 for 2008-2010, followed by others implemented for the periods 2011-2013 and 2014-2017, and the last one adopted in 2018 after the fifth AU-EU Summit held on 29-30 November 2017 in Abidjan, Côte d'Ivoire.

The partnership has been effective in reinforcing multilateral ties between the AU, EU and UN. Here, criticism comes when looking at national governments’ commitment, civil society engagement, and effective and transparent resource management<sup>22</sup>. Ten years after the adoption of the first JAES, the fifth AU-EU Summit in Abidjan focused on ‘investing in youth for a sustainable future’. The joint declaration emphasised the importance of reinforcement of a mutually beneficial AU-EU partnership, and of trilateral AU-EU-UN cooperation.

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<sup>16</sup> See <https://ecdpm.org/wp-content/uploads/Charting-the-course-to-2020-Fundamental-choices-for-the-negotiation-of-a-future-ACP-EU-partnership-Medinilla-BossuytECDPM.pdf> and [https://www.tandfonline.com/doi/abs/10.1080/713701373?casa\\_token=ohIPd5LmrjMAAAAA:TB-9BCok\\_EztGY4ThSgqwCqlgOzu032Nznq0beMh5JrxSRLxf2GKlmvbCofblkSvb6QS6VCKci8](https://www.tandfonline.com/doi/abs/10.1080/713701373?casa_token=ohIPd5LmrjMAAAAA:TB-9BCok_EztGY4ThSgqwCqlgOzu032Nznq0beMh5JrxSRLxf2GKlmvbCofblkSvb6QS6VCKci8).

<sup>17</sup> See <https://africa-eu-partnership.org/en/partnership-and-joint-africa-eu-strategy>.

<sup>18</sup> The African Union (AU) is a continental body of 55 countries, launched in 2002 as a successor to the Organisation of African Unity (OAU, 1963-1999).

<sup>19</sup> See <https://africa-eu-partnership.org/en/about-us/how-it-works>.

<sup>20</sup> PanAf is a dedicated financial instrument to support the Africa-EU Partnership, financed through the Development Cooperation Instrument (EU budget).

<sup>21</sup> Created in 2004 in response to a request by African leaders, financed through the EDF (outside the EU budget).

<sup>22</sup> See [https://www.europarl.europa.eu/RegData/etudes/STUD/2017/603849/EXPO\\_STU\(2017\)603849\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2017/603849/EXPO_STU(2017)603849_EN.pdf).

In March 2020, the President of the European Commission and the High Representative for Foreign Affairs and Security Policy announced a proposal for a new comprehensive strategy with Africa. In the Joint Communication to the European Parliament and the Council<sup>23</sup>, the European Commission pointed out that the strategy reflects the African leaders' vision for transformative initiatives. In particular, it refers to the AU's Agenda 2063, the African Visa-Free Area, the Single African Digital Market, the Single African Air Transport Market and the African Continental Free Trade Area (AfCFTA) (in force since May 2019). The idea of the Commission is to define a strategy building a new partnership based on five key areas:

1. Green transition and energy access;
2. Digital transformation;
3. Sustainable growth and job;
4. Peace and governance;
5. Migration and mobility.

It is interesting to note that the EU stresses the importance of 'strengthening the political, cultural and economic ties between the two continents in a multipolar world'<sup>24</sup>, suggesting the recognised importance of a strong partnership between the continents to have a stronger impact at international tables. The Organisation of African, Caribbean and Pacific States (OACPS) and the EU represent over 1.5 billion people and more than half of the contracting parties of the United Nations, therefore its strength represents a big opportunity to play an important role on the world stage.

In February 2021, the EU published a joint communication on a renewed partnership with the southern neighbourhood, proposing a 'New Agenda for the Mediterranean' to relaunch the cooperation and realise the untapped potential of the region after a recognised failure of the Barcelona Process. The agenda proposes five main areas of action: i) human development, good governance and the rule of law; ii) strengthened resilience, building prosperity and seizing the digital transition; iii) peace and security; iv) migration and mobility; and v) the green transition: climate resilience, energy and environment. The new agenda stresses the importance of increasing cooperation between North and Sub-Saharan Africa in the form of triangular cooperation with the EU, and of increasing coherence with the EU. Similarly, inter-regional cooperation with the Gulf and Red Sea regions is important. Increased cooperation with regional actors and organisations, notably the League of Arab States, the AU and relevant sub-regional groupings will be key. Pragmatic initiatives based on variable geometry should be explored to support those willing to advance further in the cooperation on **common Mediterranean goods**.

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<sup>23</sup> European Commission (2020), *10th African Union Commission – European Commission Meeting*, Joint Communiqué, 29 February, [https://ec.europa.eu/commission/presscorner/detail/en/statement\\_20\\_365](https://ec.europa.eu/commission/presscorner/detail/en/statement_20_365).

<sup>24</sup> Ibid.

In the same year, the EU and OACP countries reached an agreement for a post-Cotonou partnership. The negotiations on a post-Cotonou Agreement took more than two years: negotiations started in September 2018 and concluded with a political deal reached between the EU and OACPS negotiators on 3 December 2020. The new Cotonou Partnership Agreement maintains a common foundation based on six strategic priority areas: i) human rights, democracy, and governance in people-centred and rights-based societies; ii) peace and security; iii) human and social development; iv) environmental sustainability and climate change; v) inclusive sustainable economic growth and development; and vi) migration and mobility.

These fundamental principles are linked to the specific action-oriented regional protocols for the respective ACP regions. The Africa-EU Protocol is based on five key areas of intervention, promoting/improving: i) inclusive, sustainable economic growth and development; ii) human capital and social development; iii) environment and natural resource management; iv) peace and security, human rights, democracy and governance, particularly gender equality, rule of law, justice and financial governance; and v) the partnership on migration and mobility.

On the trade dimension, EPAs remain the framework to follow and improve. On the development dimension and institutional framework, there are key changes from the past. The development budget is not part of the agreement but is managed by the EU (since the EDF has been budgetised). The articles on means of cooperation and development place a lot of emphasis on the diversification of means and funds (different policy instruments and actors), including innovative financial instruments and co-financing, enhancing domestic public resources as well as domestic and international private resources. Furthermore, Article 85 underlines the importance of debt sustainability and debt relief initiatives.

On the institutional side, what changes is that beyond the joint institutions provided by the Cotonou Partnership Agreement, new regional joint institutions have been set up to manage each regional protocol and better respond to each region's needs. On migration and mobility, the importance is stressed of all parties to the agreement encouraging triangular cooperation between Sub-Saharan, Mediterranean and European countries (fostering dialogue to address all migration issues and cooperating to build appropriate and relevant response strategies).

The Multiannual Financial Framework for 2021-2027, which was finally approved on 17 December 2020, merges most of the existing instruments into the Neighbourhood, Development and International Cooperation Instrument (NDICI). The NDICI will allocate resources based on three main pillars: i) geographical preferences; ii) specific projects in the areas of human rights and democracy, civil society, stability and peace; and iii) a rapid response pillar to complement humanitarian aid, to be used in case rapid action is needed to address foreign policy needs. The NDICI will also include a 'flexibility cushion', which will not be programmed in advance, but will be allocated based on emerging needs. Beyond a new development funding architecture, the Commission has also changed the name – and in part the structure – of the main Directorate-General



managing development aid and international partnerships. In January 2021, the Directorate-General for International Cooperation and Development (DG DEVCO) officially became the Directorate-General for International Partnerships (DG INTPA)<sup>25</sup>. The transition started in 2019 and reflects the Commission's new geopolitical emphasis on the importance of international partnerships in building a stronger role for the EU in the global fight against poverty and the promotion of the SDGs. The directorates under DG DEVCO were centred on: Sub-Sahara Africa and horizontal ACP matters; neighbourhood policy; Latin America and the Caribbean; and Asia, Central Asia and the Pacific. DG INTPA's Directorate for Africa has different offices, focusing on: strategic partnership with Africa and with the ACP; regional and multi-country programmes for Africa; western Africa; eastern and central Africa; southern Africa, Indian Ocean; and finance and contract. Furthermore, the European Parliament and the Council endorsed the political agreement on the 'Global Europe' instrument for the next MFF, supporting the EU's external action with an overall budget of EUR 79.5 billion.

The EDF was the main instrument for financing development in Sub-Saharan countries and the only instrument outside the EU budget. With the budgetisation of the EDF and the new flexible NDICI, from one side (the European Union Institutions), the general thinking is that financing development will be more efficient and effective. On the other side (the ACP countries), fears are that the allocation of funds will be led more by EU interests. In fact, ACP-EU financial cooperation will be governed by the EU's internal rules through the NDICI regulations, and for some ACP States this represents a setback from the previous agreement because the predictability of funds is largely lost and aid programming and management rules are no longer established jointly. Finally, even if blending and public-private partnerships for raising development funds are increasingly gaining relevance in the international arena, several scholars are concerned about the risk of prioritising business interests over development objectives.

Restructuring the development aid framework will be key for the future of the EU-Africa relations, particularly to enable Africa to face the global challenges affecting the continent. Indeed, the Organisation for Economic Co-operation and Development (OECD) reports that Africa is the region that receives the largest amount of net ODA<sup>26</sup>. Figure 3 below provides an overview of ODA trends in Africa since 1995. Both multilateral and bilateral aid to Africa show an increasing trend. The United States is the largest bilateral donor to Africa over the period considered. The EU, when taken together with EU Member State contributions, is the largest donor to Africa overall. The table in Figure 3d shows that the US and the European institutions are always among the top donors to Africa. By the early 2000s, the effectiveness of ODA was already starting to be questioned. While there seems to be global agreement on the important role of

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<sup>25</sup> See [https://ec.europa.eu/international-partnerships/news/dg-international-cooperation-and-development-becomes-dg-international-partnerships\\_en](https://ec.europa.eu/international-partnerships/news/dg-international-cooperation-and-development-becomes-dg-international-partnerships_en).

<sup>26</sup> The OECD 'Development Aid Statistic at Glance, Statistic by Region' (2019 Edition) reports that Africa in 2017 received USD 52 800 million of Net ODA, followed by Asia (USD 48 769).

development aid in achieving key social improvement, the latter also comes extensively from FDI, trade and remittances, among others<sup>27</sup>. Looking at data on FDI, trade and remittances to Africa, it is evident that all three instruments saw a steady increase in the first decade of the 21st century, and then assume a non-consistent trend during the most recent decade (except in the case of remittances in North Africa).

The last decade has seen an increase in blending finance for development, while this still seems to barely reach the LDCs. Moreover, international and regional trade will play an even greater role as an instrument for development since the start of the implementation of the African Continental Free Trade Agreement (AfCFTA). Indeed, the new trade policy strategy launched by the EU in February 2020<sup>28</sup>, is supporting the implementation of the AfCFTA<sup>29</sup> via engaging in dialogue with African countries on the WTO reform agenda among other initiatives. Meanwhile, private finance mobilization will be key for complementing other development funds and initiatives.

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<sup>27</sup> On the importance of the non-aid dimension of the relations between rich and poor countries, see Bob Picciotto in his comment on 'The White Man's Burden' by William Easterly – Robert Picciotto, King's College, London, 21 September 2006, <https://www.odi.org/events/116-white-mans-burden-west-efforts-aid-rest-have-done-so-much-ill-so-little-good>.

<sup>28</sup> See <https://odi.org/en/insights/the-eus-trade-policy-review-and-the-five-debates-it-triggers/#:~:text=The%20EU's%20new%20trade%20policy,its%20own%20interests%20and%20rights>.

<sup>29</sup> ECA (2020), *African Union approves start of trading under AfCFTA on 1 January next year as earlier agreed*, 5 December, <https://www.uneca.org/stories/african-union-approves-start-trading-under-afcfta-1-january-next-year-earlier-agreed>.

Figure 3. ODA towards Africa 1995-2018/2019

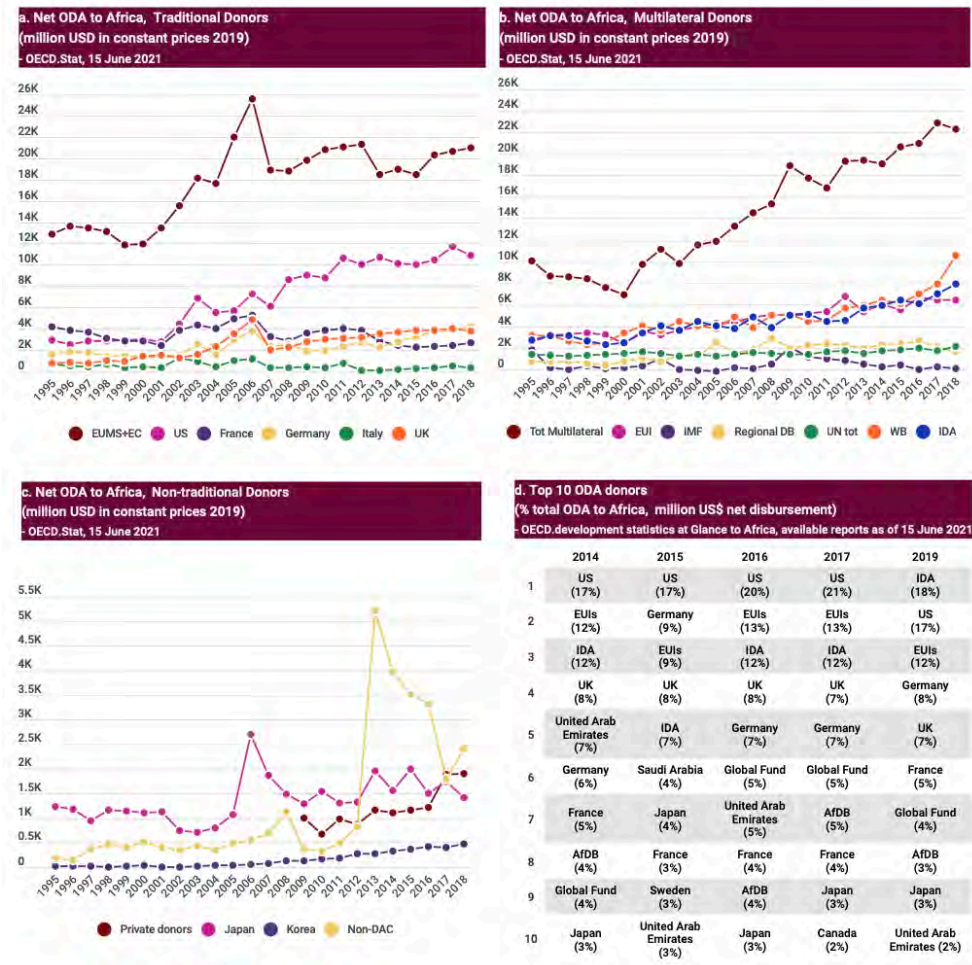
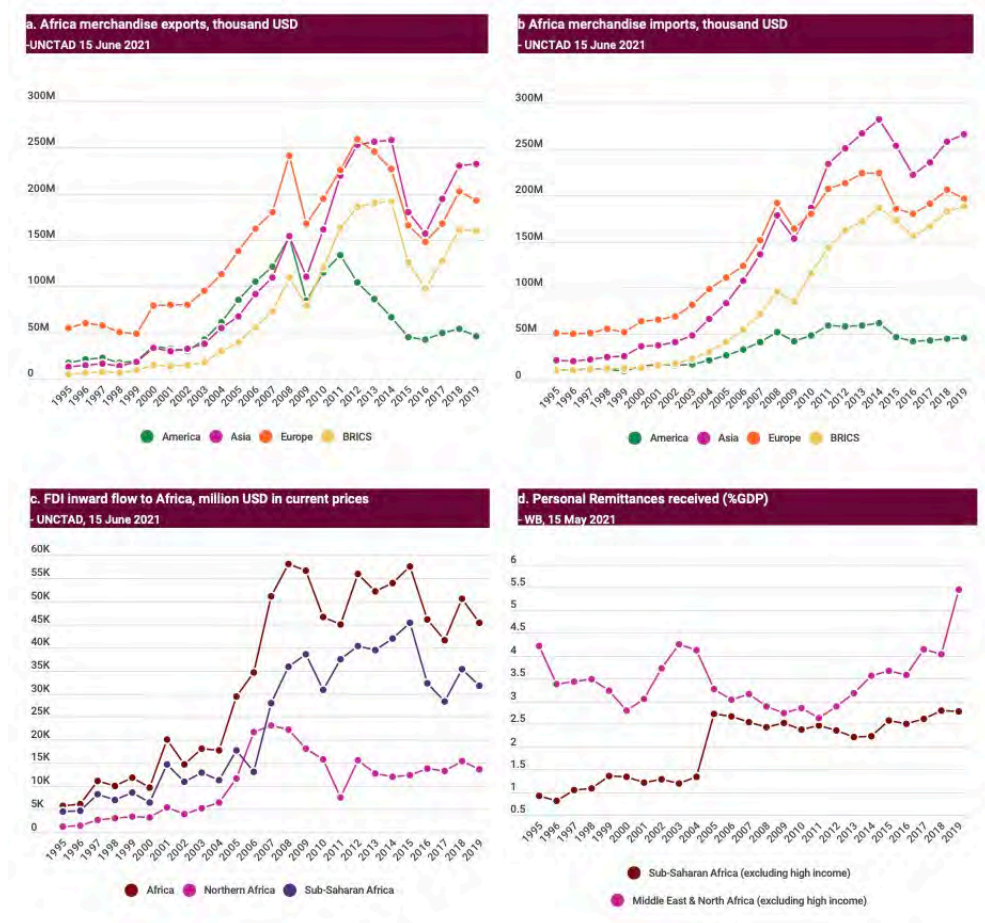


Figure 4. Instruments for development in Africa other than ODA



The international community has been strongly engaged in trying to better coordinate and harmonise aid, improving the monitoring of flows and programme delivery. Particularly since COVID-19, the role of the private sector in financing development has become increasingly important. The need to gather funds to boost sustainable and inclusive development raised by the 2030 Agenda is being hampered by the pandemic, which risks causing the precarious socio-economic situation in most developing countries and fragile states to deteriorate. Blending and the involvement of the private sector in financing development started to be recommended by the international communities more than a decade ago, and the EU followed this line, particularly after the Lisbon Treaty, with the EU having the legal possibility to manage multi-donor funds.

The Commission started blending facilities in **2007** with the **EU-Africa Infrastructure Trust Fund** and the **Neighbourhood Investment Facility**, among others. Between 2007 and 2012, regional blending facilities spread across the regions of the EU's external

cooperation (the Southern Neighbourhood and Africa, Latin America, Central Asia, Caribbean, Asia and Pacific).

The Agenda for Change (2012) emphasised the role of blending in leveraging additional resources and increasing the impact of EU aid. In the same year, the **EU Platform for Blending in External Cooperation (EUBEC)** was created. Following the rising instability in Africa and the Mediterranean, the consequences of the global financial crisis and the new 2030 Agenda, **in 2016 the Commission launched its ambitious External Investment Plan**, specifically encouraging investment in Africa and the EU neighbourhood. In line with the Addis Ababa Action Agenda on financing for development, the EU tried to develop an innovative financing model to achieve the SDGs, mobilising public and private resources. The plan is based on three pillars: i) the European Fund for Sustainable Development (EFSD); ii) technical assistance; and iii) promotion of a conducive investment climate. With the MFF 2021-2027, the EFSD will become EFSD+ and will be the main instrument for EU cooperation with partner countries, together with the NDICI. Recent decades have been characterised by a strong international effort to make development aid more effective, but more efforts are needed to design new instruments and strategies to mobilize and raise funding effectively to enable the African continent to deal with the multiple crisis it is facing.

**The main questions to be asked are:**

1. Are blending and guarantee schemes the future of EU development policy in Africa?
2. Will the EU be able to meet the development needs of Africa's least developed countries (LDCs) and fragile states, and coordinate financing efforts from other private/international donors?
3. Is there a risk of lack of coordination of financial efforts resulting in the most vulnerable in the African continent being missed?

In the aftermath of the COVID-19 crisis, the EU started quickly to mobilize funds for helping Africa dealing with the pandemic (i.e., Investing in Young Business in Africa, a new permanent coordination platform, Sustainable Healthcare Industry for Resilience in Africa (SHIRA), a financing platform that will enable political and development finance partners to coordinate and strengthen health security and resilience in Africa). With the start of the war and climate change together pushing increasingly more people to extreme poverty and food insecurity in the continent, a structured new effective strategy is urgent to finance resilience and recovery in Africa.

# CHAPTER 10. EU-AFRICA: RESETTING THE AGENDA FOR A NEW RELATIONSHIP OF LONG-TERM FRIENDSHIP

PAOLO GARONNA<sup>1</sup>

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## 1. Introduction

On 17-18 February 2022, the European Union (EU) and African Union (AU) held their sixth summit in Brussels, issuing a stilted declaration, ‘A Joint Vision for 2030’, through which they intended to renew their partnership and respond to the most pressing needs, including vaccines and the pandemic, growing indebtedness, the net zero transition, migration, and the channelling of special drawing rights (SDRs) towards those countries most in need<sup>2</sup>. The EU put EUR 425 million on the table to ramp up the pace of vaccination; an Africa-Europe Investment Package of EUR 150 billion for, among others, the 2030 Green New Deal and the AU’s Agenda 2063; and additional packages for health and education, official development assistance (ODA), peace and security, and migration. A strong joint commitment was boasted, emphasising the relaunch of multilateralism, strengthening trade and financial cooperation, supporting employment and small and medium-sized enterprises (SMEs), and engaging in science and cultural cooperation, etc.

Alas, there was no time for celebration and self-complacency. Only a few days later, on 24 February, Putin launched his war of aggression against Ukraine. Under the bombs, missile strikes, devastation caused by tanks and humanitarian atrocities, the AU-EU’s good intentions were hit by an unanticipated and shocking reality check. The war changed everything. It represented a watershed moment, including for EU-Africa relations.

The African economy and population bore the brunt of the devastating (direct and indirect) consequences of the war. Think of the rise in energy and commodity prices, the bottlenecks in supply chains and energy, the blockage of grain imports and food insecurity, the risk of abrupt economic slowdowns, inflation and unemployment, shifts in monetary policies and rising interest rates, and the impact of sanctions. Coming on top of precarious equilibria and difficult adjustments, these shocks created enormous

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<sup>2</sup> European Commission (2022), *Statement of the Sixth European Union – African Union Summit: A Joint Vision for 2030*, Brussels, 17-18 February.

risks of greater instability and conflict in Africa, with probable huge spillovers of migration pressures, impoverishment and humanitarian catastrophes.

The longer-term and indirect consequences of the war are even more concerning. The blow to the 2021 revival of multilateralism, of which the AU-EU Agreement is probably the last example, has affected the role and place of Africa on the global stage. The wave of reforms of multilateral institutions that was launched just before the war has been frozen, or worse. Global governance appears to be weaker and fragmented, torn apart by rivalrous blocs, subject to growing pressures for alignment on one side or the other in a conflicting multipolar disequilibrium. The focus of attention has been diverted from the north-south axis towards the east-west one. Africa risks drifting further away from the developed world affected by growing technology, trade and finance divides. Its quest for greater strategic autonomy and self-sustaining and sustainable development exposes it to growing vulnerability to global shocks and protectionism, higher dependence on ODA and support tied to taking sides in a more polarised and unstable geopolitical setting.

It is time therefore to raise fundamental and pressing questions. Where do we stand in the AU-EU relationship? A realistic assessment is needed. Where do we go from here? There are serious threats of further divides, instability and conflicts, but also new opportunities for partnership, economic and financial integration, political dialogue and cooperation. What implications for Europe, its future, its external projection, its stabilising role? What can Europe and Africa do to face the challenges of their present and future relationship?

We will argue in this paper that we need a reset and a bolder, forward-looking and innovative new partnership.

## 2. The EU-Africa relationship in crisis and put to the test of the crisis

The dramatic change in context has immediately cast a negative light on the significant achievements reached in the lively and innovative period of international policy making from the downfall of Donald Trump to the outbreak of the war in Ukraine. The response to the pandemic (a genuinely exogenous and global public good – or rather ‘bad’) and the recovery of the US leadership gave rise to an impressive array of policy openings and breakthroughs at both the global and regional level in many different domains: health and finance (the vaccination targets and the G20 taskforce), food security (the Matera Declaration), the unprecedented issuance of SDRs by the International Monetary Fund (IMF), the investment in science and technology that led to the production of vaccines in record time, agreements on base erosion and profit shifting (BEPS) and the global tax reform (OECD), the commitments to net zero and the nature-positive transitions at the COP26 (climate change) and COP15 (biodiversity), and the mobilisation of the private

and financial sectors, not to mention the bold advances in EU integration with the SURE<sup>3</sup> and NextGenerationEU (NGEU) programmes.

It appeared as if a new impetus in the political leadership of globalisation would open the way to effective reforms of multilateral institutions that had been deadlocked for decades, from the United Nations to the IMF quotas, from the World Trade Organization (WTO) to the World Health Organization (WHO), financing for development and better coordination in monetary and macroprudential policies. The threats posed to people, the planet and prosperity by climate change, health security, biodiversity and inequality became intensively and urgently perceived, and were supported by youth movements around the globe. A vibrant international community of governments, business, civil societies and other stakeholders took to the stage, setting a sequence of events in motion to revitalise and reform global governance. New lifeblood was injected into globalisation to make it more inclusive, effective and fairer. This new globalisation drive – it was thought – should have been capable of lifting all boats, gaining popular support and trickling down into greater peace and security, greater consideration for human rights, and a greater appeal of liberal democracy and the rule of law.

But then came 24 February 2022. The Russian aggression crashed this hopeful mood and brought about devastating repercussions, most notably for EU-Africa relations. The outcome of the previous week's AU-EU Summit immediately changed its meaning, shifting from the glass half full to the glass half empty scenario. In fact, no concrete action plan with concrete targets and deliverables had been decided at the summit. Efforts to secure access to vaccines fell short of financing health infrastructure, sharing technologies and know-how and manufacturing medicines and vaccines in Africa, which would have contributed to the strategic autonomy of the continent.

In addressing the mounting problems of debt sustainability and balance of payment disequilibria experienced by several countries in Africa, the proposed solutions did not go beyond reliance on the Common Framework, which is still not operational and is rather opaque and on the whole inadequate, as recognised by the IMF Managing Director at the IMF spring meetings in April 2022 (see also Gaspar and Pazarbasioglu, 2022<sup>4</sup>). Of the SDR allocation, USD 55 billion has been channelled to countries most in need, of which only USD 13 billion is from the EU (Team Europe). We are therefore falling well short of the USD 100 billion in SDRs committed to reaching developing countries, and even further from defining how those resources should be spent in support of Africa. In comparison, the resources pledged by the G7 countries in support of Ukraine are much more considerable and clearly targeted: USD 19.8 billion in 2022 alone, not to mention arms support and the granting of EU candidate status.

It is not surprising then that there is a strong sense of deception in Africa given the previous commitments, and concern that in the EU, and in the West, attention will turn

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<sup>3</sup> European instrument for temporary Support to mitigate Unemployment Risks in an Emergency.

<sup>4</sup> Gaspar, V. and Pazarbasioglu, C. (2022), 'Restructuring Debt of Poorer Nations Requires More Efficient Coordination', IMF Blog, International Monetary Fund, Washington DC, 11 April.



away in the foreseeable future from the global south and Africa, to focus on the war and on security in Eastern Europe. Ambitious plans to reform the UN, IMF, WTO and WHO, among others, have been frozen by the war. The gloomy prospect is that those multilateral institutions representing the backbone of development efforts – institutions that were already struggling in the past for relevance and effectiveness – will be even more marginalised and sidelined in the future. Are we on the eve of a Europe-Africa conflict? Probably not. But the Europe-Africa joint vision, the renewed partnership, the enhanced cooperation for peace and security, the common commitment to multilateralism that was voiced just a week before the war, now looks more like a dream of the past than a concrete prospect for the near future.

A tangible sign of this growing coldness in the relationship can be drawn from the African votes at the UN General Assembly condemning the Russian invasion (see Table 6) and suspending Russia's membership of the Human Rights Council (Table 7) during an emergency special session on Ukraine. In the latter case, of the 42 African votes, 21 were abstentions, 10 were against and only 11 in favour. The resolution was adopted in the end with a large majority (93 for, 58 abstentions and 24 against), but it is somewhat surprising that facing a blatant violation of the principles of territorial integrity and inviolability of borders, to which the African states have always paid the utmost attention, the General Assembly did not express unanimous condemnation.

Table 6. Votes at the United Nations General Assembly on the resolution condemning Russia's invasion of Ukraine

| Voting Started                        |                     |                      | 02-Mar-22        |                     | 11:55:14           |                     |
|---------------------------------------|---------------------|----------------------|------------------|---------------------|--------------------|---------------------|
| Item 5 - Draft resolution A/ES-11/L.1 |                     |                      |                  |                     |                    |                     |
| Aggression against Ukraine            |                     |                      |                  |                     |                    |                     |
| AFGHANISTAN                           | CAMEROON            | FINLAND              | KUWAIT           | NEPAL               | SAUDI ARABIA       | UKRAINE             |
| ALBANIA                               | CANADA              | FRANCE               | KYRGYZSTAN       | NETHERLANDS         | SENEGAL            | UNITED ARAB EMIR    |
| ALGERIA                               | CENTRAL AFR REP...  | GABON                | LAO PDR          | NEW ZEALAND         | SERBIA             | UNITED KINGDOM      |
| ANDORRA                               | CHAD                | GAMBIA               | LATVIA           | NICARAGUA           | SEYCHELLES         | UNITED REP TANZA... |
| ANGOLA                                | CHILE               | GEORGIA              | LEBANON          | NIGER               | SIERRA LEONE       | UNITED STATES       |
| ANTIGUA-BARBUDA                       | CHINA               | GERMANY              | LESOTHO          | NIGERIA             | SINGAPORE          | URUGUAY             |
| ARGENTINA                             | COLOMBIA            | GHANA                | LIBERIA          | NORTH MACEDONIA     | SLOVAKIA           | UZBEKISTAN          |
| ARMENIA                               | COMOROS             | GREECE               | LIBYA            | NORWAY              | SLOVENIA           | VANUATU             |
| AUSTRALIA                             | CONGO               | GRENADA              | LIECHTENSTEIN    | OMAN                | SOLOMON ISLANDS    | YENEZUELA           |
| AUSTRIA                               | COSTA RICA          | GUATEMALA            | LITHUANIA        | PAKISTAN            | SOMALIA            | VIET NAM            |
| AZERBAIJAN                            | COTE D'IVOIRE       | GUINEA               | LUXEMBOURG       | PALAU               | SOUTH AFRICA       | YEMEN               |
| BAHAMAS                               | CROATIA             | GUINEA-BISSAU        | MADAGASCAR       | PANAMA              | SOUTH SUDAN        | ZAMBIA              |
| BAHRAIN                               | CUBA                | GUYANA               | MALAWI           | PAPUA NEW GUINEA    | SPAIN              | ZIMBABWE            |
| BANGLADESH                            | CYPRUS              | HAITI                | MALAYSIA         | PARAGUAY            | SRI LANKA          |                     |
| BARBADOS                              | CZECH REPUBLIC      | HONDURAS             | MALDIVES         | PERU                | SUDAN              |                     |
| BELARUS                               | DEM PR OF KOREA     | HUNGARY              | MALI             | PHILIPPINES         | SURINAME           |                     |
| BELGIUM                               | DEM REP OF THE C... | ICELAND              | MALTA            | POLAND              | SWEDEN             |                     |
| BELIZE                                | DENMARK             | INDIA                | MARSHALL ISLANDS | PORTUGAL            | SWITZERLAND        |                     |
| BENIN                                 | DJIBOUTI            | INDONESIA            | MAURITANIA       | QATAR               | SYRIAN ARAB REP... |                     |
| BHUTAN                                | DOMINICA            | IRAN (ISLAMIC REP... | MAURITIUS        | REP OF KOREA        | TAJIKISTAN         |                     |
| BOLIVIA                               | DOMINICAN REP...    | IRAQ                 | MEXICO           | REP OF MOLDOVA      | THAILAND           |                     |
| BOSNIA-HERZEGOVINI...                 | ECUADOR             | IRELAND              | MICRONESIA (FS)  | ROMANIA             | TIMOR-LESTE        |                     |
| BOTSWANA                              | EGYPT               | ISRAEL               | MONACO           | RUSSIAN FED...      | TOGO               |                     |
| BRAZIL                                | EL SALVADOR         | ITALY                | MONGOLIA         | RWANDA              | TONGA              |                     |
| BRUNEI DARUSSAL...                    | EQUATORIAL GUINEA   | JAMAICA              | MONTENEGRO       | SAINT KITTS-NEVIS   | TRINIDAD-TOBAGO    |                     |
| BULGARIA                              | ERITREA             | JAPAN                | MOROCCO          | SAINT LUCIA         | TUNISIA            |                     |
| BURKINA FASO                          | ESTONIA             | JORDAN               | MOZAMBIQUE       | SAINT VINCENT-GR... | TURKEY             |                     |
| BURUNDI                               | ESWATINI            | KAZAKHSTAN           | MYANMAR          | SAMOA               | TURKMENISTAN       |                     |
| CABO VERDE                            | ETHIOPIA            | KENYA                | NAMIBIA          | SAN MARINO          | TUVALU             |                     |
| CAMBODIA                              | FUJI                | KIRIBATI             | NAURU            | SAO TOME-PRINCIPE   | UGANDA             |                     |
| IN FAVOUR:141                         |                     | AGAINST:5            |                  | ABSTENTION:35       |                    |                     |

Table 7. Votes at the United Nations General Assembly to suspend Russia's membership of the Human Rights Council

Voting Started

07-Apr-22

12:48:47

Item 5 - Draft resolution A/ES-11/L.4

Suspension of the rights of membership of the Russian Federation in the Human Rights Council

|   |   |  |  |   |  |   |
|---|---|--|--|---|--|---|
|  AFGHANISTAN         |  CAMEROON            |  FINLAND              |  KUWAIT           |  NEPAL               |  SAUDI ARABIA       |  UKRAINE             |
|  ALBANIA             |  CANADA              |  FRANCE               |  KYRGYZSTAN       |  NETHERLANDS         |  SENEGAL            |  UNITED ARAB EMIR... |
|  ALGERIA             |  CENTRAL AFR REP...  |  GABON                |  LAO PDR          |  NEW ZEALAND         |  SERBIA             |  UNITED KINGDOM      |
|  ANDORRA             |  CHAD                |  GAMBIA               |  LATVIA           |  NICARAGUA           |  SEYCHELLES         |  UNITED REP TANZA... |
|  ANGOLA              |  CHILE               |  GEORGIA              |  LEBANON          |  NIGER               |  SIERRA LEONE       |  UNITED STATES       |
|  ANTIGUA-BARBUDA     |  CHINA               |  GERMANY              |  LESOTHO          |  NIGERIA             |  SINGAPORE          |  URUGUAY             |
|  ARGENTINA           |  COLOMBIA            |  GHANA                |  LIBERIA          |  NORTH MACEDONIA     |  SLOVAKIA           |  UZBEKISTAN          |
|  ARMENIA             |  COMOROS             |  GREECE               |  LIBYA            |  NORWAY              |  SLOVENIA           |  VANUATU             |
|  AUSTRALIA           |  CONGO               |  GRENADA              |  LIECHTENSTEIN    |  OMAN                |  SOLOMON ISLANDS    |  VENEZUELA           |
|  AUSTRIA             |  COSTA RICA          |  GUATEMALA            |  LITHUANIA        |  PAKISTAN            |  SOMALIA            |  VIET NAM            |
|  AZERBAIJAN          |  COTE D'IVOIRE       |  GUINEA               |  LUXEMBOURG       |  PALAU               |  SOUTH AFRICA       |  YEMEN               |
|  BAHAMAS             |  CROATIA             |  GUINEA-BISSAU        |  MADAGASCAR       |  PANAMA              |  SOUTH SUDAN        |  ZAMBIA              |
|  BAHRAIN             |  CUBA                |  GUYANA               |  MALAWI           |  PAPUA NEW GUINEA    |  SPAIN              |  ZIMBABWE            |
|  BANGLADESH          |  CYPRUS              |  HAITI                |  MALAYSIA         |  PARAGUAY            |  SRI LANKA          |   |
|  BARBADOS            |  CZECH REPUBLIC      |  HONDURAS             |  MALDIVES         |  PERU                |  SUDAN              |   |
|  BELARUS             |  DEM PR OF KOREA     |  HUNGARY              |  MALI             |  PHILIPPINES         |  SURINAME           |   |
|  BELGIUM             |  DEM REP OF THE C... |  ICELAND              |  MALTA            |  POLAND              |  SWEDEN             |   |
|  BELIZE              |  DENMARK             |  INDIA                |  MARSHALL ISLANDS |  PORTUGAL            |  SWITZERLAND        |   |
|  BENIN               |  DJIBOUTI            |  INDONESIA            |  MAURITANIA       |  QATAR               |  SYRIAN ARAB REP... |   |
|  BHUTAN              |  DOMINICA            |  IRAN (ISLAMIC REP... |  MAURITIUS        |  REP OF KOREA        |  TAJIKISTAN         |   |
|  BOLIVIA             |  DOMINICAN REP...    |  IRAQ                 |  MEXICO           |  REP OF MOLDOVA      |  THAILAND           |   |
|  BOSNIA-HERZEGOVI... |  ECUADOR             |  IRELAND              |  MICRONESIA (FS)  |  ROMANIA             |  TIMOR-LESTE        |   |
|  BOTSWANA            |  EGYPT               |  ISRAEL               |  MONACO           |  RUSSIAN FED...      |  TOGO               |   |
|  BRAZIL              |  EL SALVADOR         |  ITALY                |  MONGOLIA         |  RWANDA              |  TONGA              |   |
|  BRUNEI DARUSSAL...  |  EQUATORIAL GUINEA   |  JAMAICA              |  MOROCCO          |  SAINT KITTS-NEVIS   |  TRINIDAD-TOBAGO    |   |
|  BULGARIA            |  ERITREA             |  JAPAN                |  MOZAMBIQUE       |  SAINT LUCIA         |  TUNISIA            |   |
|  BURKINA FASO        |  ESTONIA             |  JORDAN               |  NAMIBIA          |  SAINT VINCENT-GR... |  TURKEY             |   |
|  BURUNDI             |  ESWATINI            |  KAZAKHSTAN           |  MYANMAR          |  SAMOA               |  TURKMENISTAN       |   |
|  CABO VERDE          |  ETHIOPIA            |  KENYA                |  NICARAGUA        |  SAN MARINO          |  TUVALU             |   |
|  CAMBODIA            |  FIJI                |  KIRIBATI             |  NAURU            |  SAO TOME-PRINCIPE   |  UGANDA             |   |
|  RUSSIA              |   |  |  |   |  |   |
|  IN FAVOUR: 93       |   |  |  AGAINST: 24      |   |  ABSTENTION: 58    |   |

Clearly, the fracture distancing Europe and Africa has not been caused only by the war or by Russian sympathies. But the war has unveiled a deeper sense of incomprehension and resentment that must be analysed carefully. The African reaction to the war reflects past mistakes, prejudice and missed opportunities on both sides of the equation. At the same time, the war has shown vividly how much Europe needs Africa and Africa needs Europe. It is a question of mutual interest, but also of shared prospects and values.

### 3. Europe needs Africa: partnership through crisis

On the European side, this crisis has signified a wakeup call and a quantum change in the way we look at Africa. Traditionally, the African narrative has been based on images of instability, tribal wars, endemic corruption, big governments and fledgling markets, and religious fundamentalism. This view has stirred in the public opinion a natural reticence couched in fear of contagion, foreignity, irreconcilable values (and therefore identities) and distance. Admittedly, the conventional view has also promoted solidarity, sympathy and compassion, pushing towards technical assistance and development aid.

The traditional view is not the way Europeans look at Africa now in the present crisis (see Murphy, 2022<sup>5</sup>). The war is driving Europe to rapidly reduce its dependence on Russian oil and gas. This means looking for alternative suppliers and/or accelerating the

<sup>5</sup> Murphy, T. (2022), *Partnership through crisis: the real meaning of Scholz's Africa trip*, European Council on Foreign Relations, ECFR Africa Programme, Brussels, 25 May, <https://ecfr.eu/article/partnership-through-crisis-the-real-meaning-of-scholz-s-africa-trip/>.

transition to renewable energy. The latter implies significant investment in green technologies such as solar panels, wind turbines, batteries, etc., which in turn demand minerals and metals to produce. These critical raw and mineral materials can be found in many places, including Russia and China, but Africa is a convenient source for reasons of both proximity and geostrategic interest. In Africa we find significant reserves of natural gas and fossil fuel to bridge the gaps created by the need to decouple from Russia. Africa is linked to southern Europe via pipelines and electricity grids. It can be the basis for investment projects in infrastructure to produce renewable energy, green hydrogen and liquefied natural gas that are exportable and transportable by sea or pipeline.

In REPowerEU, the EU's ambitious renewable energy plan, Africa is identified as a priority source of renewable energy and an essential and critical partner for the net zero transition.

Energy has been a crucial sector for looking at Africa afresh in terms of a geostrategic trade and investment partnership. But this is not the only sector: think of agricultural production (grain, for example), trade and food security, tourism and professional services, demography and labour market mismatches, technology and education, etc.

The new 'Strategic Compass for Security and Defence' (European Commission, 2022)<sup>6</sup> was endorsed by European leaders on 24 March amid Putin's war of aggression on Ukraine. Part strategy, part action plan, the Compass spells out EU security and defence ambitions for the next five to ten years. Great emphasis is given to partnerships, among which strategic cooperation with Africa and in particular the AU, which features prominently. This cooperation is already in place, but the EU now wishes to strengthen it, making it a 'more robust and balanced security partnership with African partners ... based on political dialogue and operational engagement'. It will involve 'closer operational ties with regional and sub-regional organizations', and enhance 'its efforts to support African-led initiatives that contribute to peace and security on the African continent'.

The political dialogue component of the partnership is also highlighted in the Compass, including promotion of the 'implementation of the AU human rights compliance framework' and strengthening of 'trilateral cooperation between the EU, the UN and the AU, as well as ... coordination between the African and the EU Member States in the UN Security Council'. In the Compass, a long paragraph is devoted to strengthening cooperation with the Organization for Security and Cooperation in Europe (OSCE), 'notably in the field of conflict prevention and crisis management'. Note that the intention is also to develop 'closer operational linkages with the OSCE in the Western Balkans, the eastern neighbourhood and Central Asia', i.e. the whole pan-European region.

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<sup>6</sup> European Commission (2022), *A Strategic Compass for Security and Defence*, Brussels, March. <https://www.consilium.europa.eu/en/press/press-releases/2022/03/21/a-strategic-compass-for-a-stronger-eu-security-and-defence-in-the-next-decade/>

To conclude, thanks to the war, Europe is definitively moving out of the ‘charity paradigm’ (Murphy, 2022<sup>7</sup>) – the conventional storytelling that limits EU interest in avoiding spillovers, damage (and migration) control, minimising interdependence and keeping Africa at a safe distance. It is instead entering a new paradigm based on equal partnerships, mutual interest and joint prospects for shared prosperity and stability.

## 4. Symptoms of the EU-Africa crisis

So far, the difficulties in the Africa relations have not flared up into open confrontation, but they are smouldering gently under the ashes. Nevertheless, the evidence is compelling and should not be neglected or underestimated. Let us look deeper and examine a few symptoms.

**Why the reluctance in Africa to engage with Europe?** Recognising that the Europe-Africa relationship is in crisis is probably the most useful collateral benefit of the war in Ukraine. For too long we have pretended that all is well and indulged in diplomatic niceties. This is the wrong approach. There are deep-rooted sentiments of mistrust and mutual neglect that must be carefully analysed and discussed. On the other hand, finger-pointing at each other’s multiple mistakes, feeding the acrimony and the blame game, or passing the buck to one another, are not helpful either.

Understanding the long history and tradition of mutually beneficial exchanges, cultural cross-fertilisation and interdependent identities that characterise the two continents is an excellent starting point to rebuild confidence. But history, culture and identity can be also exploited to penalise diversity, highlight conflicts of interest and take advantage of common enemies to overcome internal disunity. Populist leaders are quite skilful in manipulating public opinion with techniques and communication based on history and identity. History, culture and identity cannot be ignored either, because there are deep sensitivities involved in cross-country relations. Not only rational arguments but also psychological perceptions play a role. A few recent examples are provided below, illustrating the complexity of the matter.

**Is it enough to ask for help in times of crisis?** In a conversation organised by the European Council on Foreign Relations (ECFR) in June 2022 on ‘Europe and Africa in a time of crisis’, Bankole Adeoye, Commissioner for Political Affairs, Peace and Security of the African Union Commission, quoted the traditional marriage vows to elaborate on the concept of partnership: ‘... for better, for worse; for richer, for poorer; in sickness and in health; till death do us part ...’. His point was that you do not call a friend only ‘in times of crisis’.<sup>8</sup> You build a friendship by giving and taking, sharing prosperity and adversity, growing together through the ups and downs of life. The policy focus on short-term interest conveys a message of opportunism and segregation: ‘I need you now, but later?’

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<sup>7</sup> Murphy, T. (2022), *Partnership through crisis: the real meaning of Scholz’s Africa trip*, op. cit.

<sup>8</sup> ECFR (2022), *Europe and Africa in a time of crisis*, Seminar co-hosted by the ECFR, the Institute for Security Studies and the European Union Delegation to the African Union, Addis Ababa, 27 June.

Probably not'. Business partnerships that must be pragmatic and focused are increasingly developed with the long term in mind, for instance in networking for efficient and trustworthy supply chains or for responsible investment and sustainable finance. Policy making should do the same. Partnerships should be built around packages with a longer-term perspective. Mutually beneficial business, trade and investment agreements should be seen in the framework of a longer-term and structural relationship of market integration and policy cooperation.

**Do pragmatic economic relations really 'trickle down' to produce a free market economy, better democratic governance and convergence in values?** Economic cooperation and integration are the strongest basis for promoting peace and security. On this assumption, the EU started its journey post Second World War and became ever more integrated more integrated from an economic, financial and political standpoint, leaving behind the endemic conflicts of the past centuries. After the fall of the Soviet Union, on the basis of the same assumption, the West engaged with Russia, hoping that growing economic and business interdependence would gradually eradicate the antagonistic feelings of the Cold War and support the Russian transition towards the market economy and pluralist democracy. Unfortunately, events took a different turn, the regime became ever more illiberal and authoritarian, and now, following the aggression against Ukraine, there is a war.

What went wrong? I do not believe that the basic philosophy of the argument, and therefore engaging with Russia, was wrong. We should probably have engaged *more* and *better*. The flaw in the reasoning lies in the 'trickle down' part. There is not – and cannot be – any automatism; no invisible hand between economic progress and political reforms. This is why in any process of technical, economic and financial cooperation there should also be a component of policy dialogue and promotion of good governance reforms. Dedicated efforts must be put in place to produce the convergence of values, the enforcement of human rights and the rule of law. Investment in social capital and social infrastructure is as essential as investment in competitiveness and productivity growth.

**Should international cooperation focus on technical assistance and transfer of know-how?** In a technical assistance relationship, seniority plays an important role: those who know and have experience must transfer knowledge to those who do not and are willing to learn. The division of roles between teachers and learners is clear-cut and well recognised. But does this division of roles exhaust intercontinental relations? Does it capture the essence of the relationship between sovereign countries and, even more so, democracies? And does it represent the core of the Europe-Africa relationship? I doubt it.

When the dialogue concerns government policies, performance of institutions and application of shared values (such as those inscribed in the UN Charter or the Universal Declaration of Human Rights), any rigid top-down mechanism does not work effectively. Countries and peoples do not like to be preached at. Peer and joint relationships of mutual learning and teaching, of bi-directional exchange, have proved to be much more

appropriate, effective and accepted. This point is particularly important in the case of Europe-Africa relations, where the legacy of the colonial past and of imperialism still stirs emotions. Besides, in matters of democratic performance and effective governance there are solid values and principles that reflect centuries-old thinking and experience. But there are no immaculate teachers and no naïve pupils. What would have happened if Macron had lost the elections in 2022? What about Trump's America and the populist governments that preceded Draghi in Italy? The democratic peace theory has robust bases of analysis and evidence, but should be applied with great tact and humility to Europe-Africa relations. Effective international leadership should highlight the fact that the fundamental values underpinning international law and multilateralism, like the Universal Declaration of Human Rights, now belong to the whole global community and not only to the enlightened West or advanced democracies. These considerations should be kept clearly in mind when pursuing the idea of a 'Global Alliance of Democracies', and in the proposal for an OECD-Africa Partnership (OECD, 2022<sup>9</sup>).

**Commitment to values, consistency and long-term investment in international 'social capital'.** The issue of 'double standards' is deeply resented in international relations, particularly in north-south relations. In practice, it is difficult and often controversial to distinguish between the consistent application of the same principles or standards in different situations (which is not only legitimate, but also necessary), and the opportunistic manipulation of such standards to fit conveniently specific cases and interests (the double standards syndrome). This is why commitment to values and adherence to international law should be pursued rigorously, with no exceptions and in full transparency. It should also be well communicated and publicised so that perceptions and opinions can be positively and widely influenced.

In this context, the commitment to multilateral dialogue and support of multilateral institutions like the UN appear particularly important and appreciated by developing countries. It should not be, or be seen as, a fair weather affair or occasional flirt, but a consistent and determined long-term investment in international social capital. On this score, we must recognise that the credibility of the western world has been seriously undermined in the past, and must now be repaired and strengthened. Oscillating and opportunistic support, the practice of unilateralism, the growing strength of populist tendencies in the political arena, and lukewarm support for the UN and other multilateral forums have accompanied and overlapped with the slow and cumbersome procedures of multilateralism, the complexity of international politics and multipolar equilibria, and the difficulty of reaching consensus and moving on the global agenda.

Europe should take the lead in making an explicit, long-term investment in multilateralism, and not sparing any effort to make it work better. This also means financing, but not only financing: political attention, focus, and respect for the heads of multilateral institutions should lead to regaining global credibility and authority.

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<sup>9</sup> OECD (2022), *Towards an OECD-Africa Partnership*, Meeting of the OECD Council at Ministerial Level, Paris, 9-10 June.

Europe's soft power and consensual leadership should give it an advantage, at a time when the Anglo-Saxon world has great difficulties in accepting supranational mechanisms and sharing sovereign powers, and is often tempted by the option of going alone (think for example of Brexit, the question of the appellate body at the WTO or the International Criminal Court).

**The return of the Non-Aligned Movement?** Whereas Sweden and Finland are changing course and joining NATO, and Switzerland – the champion of the neutrality principle – is adopting the sanctions against Russia and engaging actively as a member of the UN Security Council, the trend in Africa is going in the opposite direction. In the developing world, and in Africa, the justification adopted by many of the countries who voted no (four out of five were non-aligned countries) or abstained (28 out of 35) in the resolution at the General Assembly condemning Russia for its aggression against Ukraine made (implicit or explicit) reference to the principle of non-alignment. This attitude has raised several questions and eyebrows. Is this a prelude to the revitalisation or even strengthening of the so-called Non-Aligned Movement? This country grouping played a fundamental role during the Cold War. The movement was not formally structured as an organisation with secretariat and statute; it did not work as a voting bloc at the UN or other intergovernmental mechanism; but it used to be, and still is, highly influential in multilateral organisations and the UN.

The Non-Aligned Movement claims to represent the voice of the developing countries. It involves four to five billion people, nearly 60 % of the world's population. I do not believe that we are at the eve of a new wave of non-alignment tendencies, as we are not back to the bipolarisation or Cold War confrontations of the past. The world has now become multipolar and more complex than in the Cold War. The EU and the West have been keen to reassure the developing world that they do not seek to establish iron curtains or rigid demarcations (see on this Kifukwe, 2022<sup>10</sup>). But many African countries fear that we might be drifting exactly in that direction, and want to do their best to avoid it. At the June 2022 G7 Summit, Jake Sullivan, US National Security Advisor, clearly stated: 'Competition does not mean confrontation or conflict. We are not looking to divide the world into rival blocs and make every country choose'.

It is noteworthy and positive that the majority of former non-aligned countries voted in favour of the resolution, among them Indonesia, the G20 Chair in 2022. However disappointed the EU might feel, it should be very careful not to fall into the trap of considering any country that hesitates to stand by it in the clash against Russia as an adversary, or a friend of the enemy. It should also reflect on how sceptically its appeals to ethical principles resonate with African countries, understand the widespread preconceptions of its potential partners, and strive to regain credibility and moral authority in the long term. India's Foreign Minister expressed a view very well that

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<sup>10</sup> Kifukwe, G. (2022), *No cold war, please: How Europeans should engage non-aligned states*, ECFR Africa Programme, Brussels, 30 June, <https://ecfr.eu/article/no-cold-war-please-how-europeans-should-engage-non-aligned-states/>.

appears to be quite popular among the African partners: ‘Europe has to get out of the mindset that Europe’s problems are the world’s problems, but the world’s problems are not Europe’s problems’.

## 5. The missing link: the Euro-Mediterranean

The ‘Great Sea’ is, and has always been, the natural bridge between Europe and Africa, as well as Europe and Asia. The Mediterranean can, in fact, be considered part of Europe and at the same time part of Africa, and all countries and peoples along its shores have both Europe and Africa in their interests, identities and future prospects. At the 2022 meeting of the *Conferenza Episcopale Italiana*, Italian Prime Minister Draghi called for the Mediterranean to become ‘a laboratory of peace, tolerance, prosperity, at the centre of Europe’<sup>11</sup>. *At the centre of Europe*, not in its periphery or at its borders. ‘Africa is engraved ... in the identity of France’ (and Europe – we should add), stated French President Macron in 2017, explaining that the two sides needed to ‘reinvent their relationship’ based on a ‘*pax mediterranea*’.

Unfortunately, EU policies have not evolved in that direction over the last two decades. On the contrary, the Mediterranean represents the greatest black spot and missed opportunity of the EU’s external policy, which has dealt a severe blow to the EU-Africa relationship. After the launch of the Barcelona Process, or Euro-Mediterranean Partnership programme, great hopes were raised that the southern dimension of European integration would acquire a new centrality. But progressively that perspective was first downplayed and diverted, and then eventually abandoned. The so-called ‘enlargement fatigue’, i.e. the populist response to widespread migration and identity concerns, played a significant role in this. This was a serious geopolitical mistake, as it was a mistake not to invest in the Turkish EU candidacy.

These mistakes have in hindsight become increasingly apparent over time, and now weigh heavily on the severity of the present crisis. They have undoubtedly had a (negative) impact on the growing divides, instability and conflicts that have characterised events in the Mediterranean since the turn of the century. The fading-out of the Euro-Mediterranean perspective left a vacuum that has been filled by dangerous and heterogeneous trends: the resurgence of neo-Ottoman aspirations, the rekindling of antagonistic Islam, the activism of Russia and China expanding their spheres of influence and projecting their ‘model’ of illiberal and authoritarian regimes, the growing reticence of the US to get involved, internal conflicts and social unrest in the region without a constructive outlet, the deteriorating economic situation feeding unemployment, public and private debt overhang, sluggish growth and faltering productivity, not to speak of terrorism, wars, human trafficking and social upheavals.

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<sup>11</sup> Draghi, M. (2022), *Mediterraneo frontiera di pace*, Intervention of the Italian Prime Minister at the Italian Episcopal Conference, Firenze.



The war in Ukraine not only represents a climax in European conflicts, but has also had a negative spillover onto the Mediterranean. Indeed, the war has the potential to become a watershed moment in Euro-Mediterranean relations, with negative but also positive implications. The EU, in fact, is looking there eagerly for alternative sources of energy to diversify its imports away from Russia. The growing threat of illegal immigration requires collaboration with the southern shore of the Mediterranean. While we might have feared that with attention turning eastwards, the south and the Mediterranean would be forgotten and marginalised, this is not the case. Gradually the tide that drowned the great hopes of the 1990s has started to turn towards a reset, or a promising new beginning of Euro-Mediterranean and Africa-Europe relations. These fledgling signals must be encouraged.

Certainly, the situation in the Mediterranean today has greatly deteriorated and is not what it was 30 years ago. But not everything is lost. Several factors point in a promising direction: growing trade and investment interdependence; the presence in the region of European entrepreneurs, particularly southern European entrepreneurs and SMEs; the outreach of the EU financial sector; the technical, scientific and educational linkages; the proximity factor in the design and geostrategic redesign of global value chains; and the pharaonic new projects for the doubling of the Suez Canal. Summing this up, the potential is still there for the Euro-Mediterranean area to play a central role in European integration, not only in terms of damage control to contain irregular immigration, promote energy diversification and respond to other short-term European preoccupations, but also more positively to create a long-term perspective of Euro-Mediterranean social, economic and political integration aimed at shared prosperity, stability and a common future.

There are two critical new frontiers that we should work on to give the Mediterranean a new centrality in the European integration process: i) the reopening of the EU accession process, which could (and should) extend also to the southern Mediterranean dimension; and ii) the strengthening of the organisational architecture of the Euro-Mediterranean institutions.

## 6. EU enlargement towards the Mediterranean

The historic decision of the European Council to grant candidate status to Ukraine, Moldova and *de facto* Georgia has overhauled the EU enlargement philosophy of the last 20 years. This is a very welcome change and marks a discontinuity with the geopolitical mistakes of the past (see Garonna, 2021<sup>12</sup>; Garonna, Delneri and Seganti, 2021<sup>13</sup>). Enlargement objectives, procedures and processes should be defined having in mind the

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<sup>12</sup> Garonna, P. (2021), 'The transition to the post-Covid economy in the Pan-European region: a crisis not to be wasted', in Garonna, P., Delneri, F. and Seganti, F. (eds) (2021), *The Covid-Era Financial Challenges in Eastern Europe*, Luiss University Press, Rome.

<sup>13</sup> Garonna P., Delneri F. and Seganti F. (eds) (2021), op. cit.

role and status of the EU in Europe and the world, its authority and credibility as an international player and its strategic autonomy. This has not been the case until now. The EU has wasted time and has been conditioned by the petty concerns of medium-range powers preoccupied about losing their relative importance in the club, or by the nationalistic obsessions of quarrelling neighbours.

On the correct premises, the EU is geared to expand. It is an expanding power and should behave accordingly. Its capacity to attract provides a powerful and peaceful transformative drive for the upholding of the free market economy, liberal democracy and the rule of law. Its stability and prosperity enable a standard of living and a model of societal organisation that has no equal in the world (see also Morina, 2022<sup>14</sup>).

Clearly, enlargement makes the flaws of the EU governance mechanisms more evident, and calls for an acceleration of fundamental changes to these mechanisms. The Conference on the Future of Europe has highlighted these problems and indicated many ways to correct them. It has set in motion a process of federalisation of Europe that will lead, hopefully in the not-too-distant future, to a common foreign policy, a federal budget, a single energy policy and a common defence (see CEP, 2022<sup>15</sup>). The war in Ukraine has rung the alarm bells: the time for moving the agenda onwards is now. What is at stake is the EU's strategic autonomy, and the security and prosperity of European citizens that individual Member States that go it alone are unable to provide.

The global role that the EU can, and should, take is also at stake. It is evident now that it is not enlargement that has prevented, and will prevent, the EU from having a strong and viable governance structure. This was an excuse all along. The US works well with its 50 states; the EU in its present structure would not work efficiently with only a handful of members.

Naturally, neither the enlargement nor the federalisation of Europe can be taken for granted. There is still stubborn resistance. The missteps that accompanied the granting of candidate status to Georgia and the 'total fiasco' of the EU-Western Balkans Summit in June 2022 show how difficult and uncertain the road ahead is (see CEPS, 2022<sup>16</sup>). But the direction of travel is clear and the vision of the future we need is defined.

The Euro-Mediterranean region should be fully included in this direction of travel. The South, and Africa, should not be forgotten. Here is how the enlargement mechanism goes: the process starts with a country (its government but with the widespread support of public opinion and representative institutions) requesting accession to the EU. This request should not be formulated lightheartedly. It not only involves prospective benefits (the European way of life), but also costly and painful adjustments. Ukrainians

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<sup>14</sup> Morina, E. (2022), *Enlarged and in charge: Why the EU needs a new approach to accession*, European Council on Foreign Relations, Wider Europe Programme, Brussels, 29 June.

<sup>15</sup> CEP (2022), *The Next Level of Europe, How the Pandemic and Putin's War Create a European Moment Which Offers New Ways Forward*, CEP Input, No 7, 31 May.

<sup>16</sup> Fouéré, E. (2022), *Yet another failure of EU leadership in the Western Balkans*, Commentary, Centre for European Policy Studies (CEPS), 28 June.

have shown their determination and attachment to the European values by putting their lives at stake on the battlefield. As far as the Mediterranean is concerned, I am not sure that at the moment there are any countries, governments or evidence of public opinion that can demonstrate such credible aspirations. But the situation might change, and the EU should do its part: it should state clearly that the Euro-Mediterranean countries are welcome to apply, and that there is place in the EU membership for those Euro-Mediterranean candidates that qualify.

This is not what the European institutions, the Commission and the Council, have done in the last two decades. They have done their best to convey the opposite view and discourage accession aspirations in all possible ways (this stance has been particularly harsh and myopic in relation to Türkiye). The approach has been, at best, bureaucratic, top-down box-ticking. The impression it has given is that candidates only have something to gain from accession, which is quite a popular view with member governments and public opinion hegemonised by populist and nationalistic sentiments. This attitude has generated mistrust and deterred governments and electorates in aspiring countries from facing up to the challenges of the adjustments required. This must change. The approach should be supportive, encouraging and empathetic. It should convey the message that the EU wants to embrace new members and is ready to support them in the reforms necessary to qualify.

It is also a question of narratives and widespread misconceptions, such as the idea that accession is bound to take a long time (see, among others, Sapir, 2022<sup>17</sup>). Did it take long for Romania and Bulgaria to qualify? How about Cyprus and Malta? Did it take long for Greece and Italy to comply with the strict Maastricht parameters? Besides, the transformative power should not only be put to work before accession, but also afterwards, when participation in the community of EU Member States stimulates the lengthy changes in mindset and convergence in practices that membership entails.

A special role in the pre-accession and accession process should be played by young people and youth movements, because it is their future at stake, and because the demography is favourable to giving a bigger voice to youth in the Euro-Mediterranean region and Africa. At the moment, the only way that seems open to the European aspirations of young people appears to be through emigration, including irregular emigration, i.e. the dream of starting a new life across the other side of the Mediterranean. We should tell them clearly that there is another way, a better way.

The Commission has a special responsibility in this process and should change its approach. It should engage with countries with European aspirations, or candidate countries, and provide support to encourage them to reform and qualify. In Chapter 1, Ayadi, Garonna and Svilanović, drawing on the initiative of President Macron to establish a European Political Community, suggest that such a Community should work as a 'political community of European potential candidate countries', where countries that

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<sup>17</sup> Sapir A. (2022), 'How should the EU respond to Georgia, Moldova and Ukraine's membership aspirations?', Bruegel Blog, Brussels, 14 March.

have European aspirations or are on their way to acceding would be provided with support, advice and incentives (including economic) to adopt European standards and engage in structural reforms. This would create an antechamber for enlargement, where candidate country governments and civil society organisations could interact among themselves and with EU Member States and other non-EU European countries, share their experience, identify best practices, learn and train. As all professors know, before the exam season there must be a much more intensive and rewarding period of learning and teaching, requiring mutual commitment and investment, and building trust.

## 7. The architecture of Euro-Mediterranean institutions

The EU should also make sure that a consistent, effective and comprehensive array of institutions are in place to provide not only opportunities for peer dialogue and policy exchanges, but also economic, financial and political support to the Euro-Mediterranean region. Several institutions operate in the pan-European space that can provide a useful role in this direction. They should be fully utilised, strengthened and if necessary reformed.

The European Bank for Reconstruction and Development (EBRD), based in London, is not only the multilateral development bank for Eastern Europe, but also for the Euro-Mediterranean region. Open to a fruitful and constructive relationship with the private sector (banks and capital markets), the EBRD should strengthen its role to finance infrastructure and SMEs, and help Euro-Mediterranean countries to develop their own banking and capital markets intermediaries (see the EIB, EBRD and World Bank Report, 2022<sup>18</sup>). It has been suggested that the EBRD should receive voluntary SDR contributions from EU Member States to be channelled to the priority liquidity and investment needs of the region.

The Organization for Security and Cooperation in Europe (OSCE), even after the outbreak of the war, remains an important player in the security architecture of the pan-European region. It has already developed important programmes in the Euro-Mediterranean region, and probably could do more. Obviously, it will have to adjust to the war and post-war situation, becoming a peacebuilding and peer dialogue actor, to the extent possible.

The Union for the Mediterranean (UfM) still has to overcome its original sin of having been designed and built more as an alternative to enlargement than a complement to it. There should be no major difficulty in adapting its mission to include support and preparation for EU accession of the relevant countries, i.e. those that are willing to join and engage in the corresponding reforms (see the UfM Annual Report, 2021<sup>19</sup>).

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<sup>18</sup> European Investment Bank, European Bank for Reconstruction and Development, and World Bank (2022), *Unlocking Sustainable Private Sector Growth in the Middle East and North Africa*, Evidence from the Enterprise Survey.

<sup>19</sup> Union for the Mediterranean, *Annual Report 21*, [https://ufmsecretariat.org/wp-content/uploads/2022/05/Annual-Report-2021\\_Digital\\_02.pdf](https://ufmsecretariat.org/wp-content/uploads/2022/05/Annual-Report-2021_Digital_02.pdf).

What we miss in this architecture is a **pan-European and Euro-Mediterranean monetary fund** that, working closely with the IMF, would be capable of providing liquidity and support for the balance of payment adjustments and public debt restructuring of the Euro-Mediterranean countries. The European Stability Mechanism (ESM) could evolve to play this role, but would have to be substantially reoriented and reformed in its membership, programmes, mission and mandate.<sup>20</sup>

For all of these institutions and possibly others, partnership with the corresponding bodies in the pan-African institutional space (such as the African Development Bank and the AU) should be promoted and encouraged.

## 8. Euro-Mediterranean and Afro-Mediterranean integration

It should be made clear that the Euro-Mediterranean perspective is not an alternative to, or competitor of, pan-African integration. On the contrary, the EU should be a strong supporter of the continental pan-African integration of all countries, including Northern Africa. It should provide support for the African integration of the Euro-Mediterranean countries. The ultimate aim is to support overall Europe-Africa intercontinental integration in all possible ways. The two dimensions, therefore – Euro-Mediterranean and Afro-Mediterranean – are complementary and synergic, with the ‘Great Sea’ representing a bridge to bring the two together.

We should add that the direction of integration should not necessarily go from Europe to the Euro-Mediterranean and Africa, i.e. from north to south. It could, and should, be bi-directional, therefore also from south to north, from Africa to Europe. We could even imagine the possibility of EU Member States on the northern shore of the Mediterranean aspiring to African membership and accession to the AU. Why not? If ‘Africa in engraved ... in the identity of France’, as Macron said, and in the identity of Europe (I would add), why should a few EU Member States not wish to engage in a pan-African integration process? Already, France, Italy and the EU are highly involved in security operations in Africa to fight against terrorism and prevent the spread of conflict. If some EU countries became members of African institutions, interventions like these would appear more peer-based and friendly. If Italy became a full and active member of the AU, it could give very useful contributions, and would greatly benefit by being directly involved in peer dialogue and cooperation under the aegis of pan-African institutions.

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<sup>20</sup> Almagro Herrador, J.J., Macovei, M. and Bizer, M. (2022), *The role of the euro in Southern Neighbourhood Countries*, European Commission Discussion Paper, No 163, June.

## 9. A long-term friendship package to reset the agenda of Europe-Africa relations

When we think of Europe-Africa relations, the current narrative leads us to argue in terms of technical assistance and billions of euro for development aid. We must change that narrative. The most important contribution that Europe can give Africa is in terms of support for African integration, in the direction of comprehensive pan-African continental integration, but also in terms of the Euro-Mediterranean and Afro-Mediterranean frameworks. It is well known that efforts aimed at pan-African integration and the AU process have taken the EU as their model. This is the case for trade and investment, economic cooperation and monetary union, but also for security, international relations, energy, agriculture, social policy and other matters. This approach does not exclude or underplay the importance of technical advice and aid. Instead, it suggests that aid and technical transfers should be placed in a broader and more peer-based process of Europe-Africa economic, social and political integration.

European support is of fundamental importance because African countries by themselves do not have the resources (economic or political) to move ahead on the road to pan-African integration. The same rationale in the 1950s had American support for European integration, and the Marshall Plan. Therefore, the EU should take the initiative and propose a new package aimed at building a long-term friendship and mutually beneficial partnership.

What should there be in such a package? Of course, economic and financial resources. The right amount and the most appropriate format of delivery, starting from the volume of resources pledged in the past but not yet delivered. As we have said, however, money is not enough, nor is it likely to be the first and most important component. Friendship cannot merely be bought at a sufficiently expensive price on the political ODA market. The most essential component of the package is the mutual recognition that Europe and Africa need for each other and the importance of peer dialogue and policy exchanges. Joint action at the global level is also important. Europe and Africa, being more committed to multilateralism and international dialogue than other continents, could make an effort and commit to coordinate their actions and initiatives in multilateral forums such as the UN, the IMF/WB, and specialised multilateral agencies, funds and programmes such as the UN Food and Agriculture Organization, the International Labour Organization, the WHO, the WTO, the UN Development Programme, and the Conventions on Climate Change and Biodiversity. They could also engage jointly in an enhanced and constructive dialogue with the private sector and civil society organisations of the two continents.

Ayadi, Garonna and Svilanović propose a recovery and resilience plan and fund, specifically targeted at Africa and financed at least in part by the EU (see Chapter 1). The purpose of the plan would not only be to provide assistance and financial support, but also to make sure that the two continents join forces and succeed in the twin transition (green and digital), which both have embarked upon, and to ensure that the

commitments made towards net zero and nature-positive outcomes are consistent and well-coordinated with one another in a synergic and ambitious common strategy.

## 10. Conclusions

The war in Ukraine was a watershed moment for Europe-Africa relations. It provided a litmus test on the state of mutual relations at the time of an unanticipated and unprecedented crisis. The outcome of the test was disheartening: the relationship between Europe and Africa is in deep crisis. It reflects old and newly entrenched divides. It shows social, economic and political fractures that interact and overlap, fomenting mutual mistrust and misunderstandings. But the war has also shown how much Europe needs Africa, and Africa needs Europe, and therefore the potential, which is huge, for engaging in a close, long-term friendship. Such a friendly compact could be of great mutual benefit and represent a powerful drive for better international relations and global governance.

The scars of the past, and of the present, must be addressed seriously by both sides, with honesty and determination. This implies constructive discontinuity with the past and the resetting of the agenda, based on a few broad and structural conditions. I would sum these up under four categories:

1. A new narrative and conceptual foundation for the relationship based on a peer relationship of trust and dignity, rather than on one of development support and technical assistance; and recognition of the great value of the friendship for shared prosperity, stability and social development;
2. A strong alliance at the global level in support of multilateral institutions, consistent with the joint commitment to the UN Sustainable Development Goals, and a common effort to achieve in-depth reforms of the global governance arrangements inspired by universal values (such as the Universal Declaration of Human Rights) and the principles of the UN Charter;
3. A joint commitment to support the Euro-Mediterranean and Afro-Mediterranean dimensions of economic, social and financial integration as a bridge to supporting pan-European and pan-African continental integration and Europe-Africa ties;
4. A new long-term friendship package responding to the most pressing and urgent needs of both Africans and Europeans. This should include European support for recovery and resilience in Africa, contributing to financing investment in infrastructure, the climate and nature-positive transitions (see for instance the EU-Egypt statement on climate change in preparation of COP27).<sup>21</sup> It should also support the diversification of energy sources and exploitation of

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<sup>21</sup> European Commission (2022), *EU-Egypt Joint Statement on Climate, Energy and Green Transition*, Brussels, 15 June.

renewables, modernisation of the economy and the digital transition, collaboration on migration issues, energy and security, collaboration on conflict prevention and resolution, and on the fight against terrorism, etc.

Money is naturally an important component of the package, as without sufficient financial resources and support, the African and European development and stability objectives would not be achievable, and progress in the relationship would not be attained. But in the friendship money is not the only thing, and indeed not the most important thing. Europe is already the most generous donor and partner in technical assistance to Africa. And the relationship between Europe and Africa is not simply a question of redistribution of existing resources, solidarity, bridging of the gap between the haves and the have-nots, and the transfer of technology and know-how. That old narrative must be changed. The decisive component of the Europe-Africa compact<sup>22</sup> must be the joint commitment and partnership to create value, new wealth and prosperity, and work together on both continents and at the global level to bring about peace, stability and good governance.

Joining forces, strengthening dialogue and exploiting the great potential inherent in the European and African growth capacity, and the even greater capacity that could be unleashed by working together, should lead to more integrated market economies, more open societies, and more effective and accountable institutions.

Europe and Africa together: ‘... for better, for worse; for richer, for poorer; in sickness and in health; till death do us part ...’.

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<sup>22</sup> See Chap 9.



# CHAPTER 11. THE FEDERAL EXPERIENCE IN THE UNITED STATES: LESSONS FOR EUROPE?

*RICHARD EDWARDS AND PETER LONGO<sup>1</sup>*

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The United States has lived under its federal governing structure for over two centuries. During this time, the nation has achieved some remarkable and historic triumphs, and it has also produced some notable and tragic failures. It is currently undergoing perhaps its most severe test since the American Civil War, with the outcome still to be determined.

In what follows, we provide a summary of the US experience in operating its federal system. By doing so we hope to stimulate questions that Europeans may want to ask themselves as they contemplate their future governance. We begin with a brief history of the 18th century origins of American federalism and the Constitution of the United States. We then review the three great challenges to American federalism: i) slavery, the secession of member states and the Civil War; ii) the rise of massive private corporations, regulatory conflicts, and the establishment of the Federal Reserve; and iii) the denial of civil rights and individual liberties, especially (given the US context) those concerning race and gender. Finally, we assess US federalism's weaknesses and strengths, with an eye towards how federalism might work best. We provisionally offer the suggestion that an intelligible and meaningful constitutional framework that assures rights and liberties and shares power among governmental levels may be achieved through a constitutional adoption of the tenets of the Universal Declaration of Human Rights.

Taking lessons from one society to apply in another is fraught with peril. The culture and history of the first may contain unique factors that shaped its experience. The second may have other elements that make transferring lessons misleading or invalid. This caution certainly applies to any lessons transported from the US to Europe.

## 1. Origins of the US Constitution

The 13 British colonies in North America emerged from their revolution with a ramshackle confederation linking separate or sovereign states in what may be considered America's first and weakest form of federalism. The Articles of Confederation and Perpetual Union, ratified in 1781, declared that 'each state retains its sovereignty, freedom and independence, and every power, jurisdiction and right' not expressly granted to the national government. Powers granted to the United States of America

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included the power to make war and peace, to adjudicate disputes between states, and to send embassies and make treaties. Conspicuously missing was a national power to tax or to regulate domestic or international commerce. Congress' authorised expenses were to be paid from a common treasury supplied by the states, using taxes levied by each state's legislature. Each state had one vote in Congress, with nine votes constituting a majority. Free people in each state were guaranteed the right to move without restriction among the states and to enjoy the other privileges and immunities of free people in those states<sup>2</sup>.

The Articles of Confederation, promising perpetual union, lasted eight years. They failed because the states were committed to banding together for war but little else. They lacked enforcement mechanisms, so when states failed to produce assigned tax revenue or fulfil their soldier quotas, the national authority had little remedy. The super-majority (nine votes out of thirteen) required for Congress to approve bills on all major issues greatly limited its ability to act. They provided for no executive, relying instead on specially appointed and temporary committees to execute the law. They created no separate judiciary. Member state leaders, zealous in defending their own state's sovereignty, prevented a closer union.

The 1780s were a time of weakness, commercial chaos, internal rebellion and dissatisfaction with the national authority. In 1786, George Washington expressed what had become a general concern, 'I do not conceive that we can exist long as a nation without ... a power which will pervade the whole union'. In 1787, Congress called a convention to revise the Articles, but the delegates, with Washington presiding, decided to start over, thoroughly inventing a new government structure. They borrowed ideas from Enlightenment thinkers, in particular John Locke and Baron de Montesquieu. They also drew upon a base of practical experience gained in the flurry of constitution building among the states. The states operated as laboratories for trying out alternative ideas, and the convention drew particularly on the Virginia Declaration of Rights (1776) and the Pennsylvania (1776) and Massachusetts (1780) constitutions. The framers presented the American people with a federalist structure for ratification that we now know as the US Constitution<sup>3</sup>.

It is unnecessary to review the Constitution here in detail, because its features are widely known: a federal system; the national government organised in a tripartite structure, with legislative authority vested in Congress, executive power in the president, and an independent judiciary. The Constitution notably begins with 'We the People of the United States ...', asserting that sovereignty is derived from the people (rather than the member states). Compared to the Articles, it enumerates a much longer and stronger list of powers granted to the national authority, reserving the remainder for the

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<sup>2</sup> The Articles of Confederation are at <https://www.archives.gov/milestone-documents/articles-of-confederation>.

<sup>3</sup> The US Constitution is at [https://www.senate.gov/civics/constitution\\_item/constitution.htm](https://www.senate.gov/civics/constitution_item/constitution.htm).

individual states. It includes a mechanism for amendment. And it provides for a constrained but not unimportant role for the states.

In the ratification debate that followed, opponents focused on the lack of guarantees for individual rights. To achieve the nine state ratifications necessary to implement the Constitution, proponents agreed to recommend that the new Congress approve as amendments a set of limits on national government powers. What emerged were ten amendments known as the Bill of Rights. The Constitution was ratified in 1788, and the Bill of Rights approved in 1791. Although individuals or organisations have proposed over 11 000 amendments since 1789, Congress and the states have ratified just seventeen beyond the Bill of Rights. This structure endures to the present day.

The framers accepted a compromise between small and large states in determining the number of representatives that each state would have in Congress. They allocated members of the lower legislative chamber – the House of Representatives – to each state according to its population, making it democratic. For the Senate, however, they allocated two members to each state regardless of population, creating large deviations from the democratic norm. The Constitution left the power to set qualifications for voting to the states, which at the time of ratification typically extended the franchise only to propertied white males. It carefully avoided the sectional issue of slavery, except for banning the importation of slaves after 1808 and including its notorious clause counting each slave as ‘three fifths’ of a person when calculating a state’s population for congressional representation.

The new government struggled to achieve legitimacy, as it usurped the powers of individual states and reshuffled governmental benefits. It was aided by the afterglow of the recent independence struggle and the immense personal popularity of its first president, George Washington. Two key turning points were: i) Washington’s self-withdrawal from executive power after two terms in office, rejecting lifetime tenure (‘monarchy’) and setting an informal norm that was respected until Franklin Roosevelt won a third term in 1940 (the 22nd Amendment, ratified in 1951, embedded the two-term presidential limit in the Constitution); and ii) the Supreme Court’s *Marbury v Madison* ruling, in which the Court successfully asserted its role as arbiter of whether acts of Congress or the president were constitutional, thereby establishing the principle of independent judicial review of arbitrary exercising of power.

Member states accepted the national government’s supremacy in conducting foreign policy, with little dissent. Only the national authority had the power to wage war, make treaties, impose tariffs, regulate immigration, send embassies and conduct relations with foreign governments. In the 19th century, the most hotly contested foreign policy issue was tariffs. It was soon replaced by immigration.

The US, with a large land mass and relatively few people, has long encouraged immigration. During its first hundred years, the national government imposed virtually no restrictions on foreigners wanting to become US citizens. But in the last decades of the 19th century, and fuelled by social Darwinism, Congress became worried over *who*

the migrants were. The Chinese Exclusion Act of 1882, along with other measures, prohibited or discouraged Asian migrants. The Immigration Act of 1924 prioritised the entry of migrants from western and northern Europe by creating a quota system based on the proportion of citizens in 1920 who traced their ancestry to each nation. Congress repealed this system when it passed the Immigration and Nationality Act of 1965, which gave preference to relatives of US citizens and permanent residents, people with specialised skills, and refugees.

Both Republicans and Democrats believe (for different reasons) that the current system has failed in the face of the large migration from Central and South America. Some 11 or 12 million long-term residents have entered the country without legal authorisation; their incomplete legal status limiting their opportunities and creating a subclass vulnerable to discrimination. Member states bordering Mexico have borne the brunt of this unauthorised migration, and some of their officials have sought, for self-aggrandising political gains, to develop their own enforcement mechanisms. But while there has been sharp debate over what federal policy should be, few have questioned that immigration, like other foreign policy matters, is a national government responsibility.

By contrast, member states have continuously challenged the national government's supremacy regarding domestic policy. In the 1830s, South Carolina attempted to promulgate a 'nullification' doctrine. It declared that if a state found a federal law – the specific instance being a restrictive new tariff – to be unconstitutional, it could declare the measure 'null and void' within its own boundaries and therefore unenforceable. The national government rejected the doctrine. More recently, some states have decriminalised the possession of marijuana (which federal law bans), and other states have periodically introduced an increasing number of restrictions on abortion practices (federal law between 1973 and 2022 guaranteed access to abortion). Regarding marijuana, member state action effectively gutted the national law because national authorities declared their intention not to enforce the federal law. On abortion, anti-access advocates' persistent litigation to test the grey areas gradually weakened the federal guarantee, and in 2022 the Supreme Court abruptly eliminated it entirely.

Promulgating the US Constitution served as a stimulus to the 'age of constitutions' that followed. In Europe, the French Revolution unleashed disruptions and the formation of new states, which then typically wrote new constitutions or had constitutions imposed upon them. In South America, revolts against Spanish and Portuguese colonial subjugation similarly produced new states requiring constitutions. The scholar Linda Colley tabulated constitution building and showed its wide application<sup>4</sup>.

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<sup>4</sup> Colley, L. (2021), *The Gun, the Ship, and the Pen*, Liveright, p. 161.

| New Constitutions, 1776–1820 <sup>11</sup> |     |        |                            |             |
|--|-----|--------|----------------------------|-------------|
|  | USA | Europe | South America<br>and Haiti | Africa      |
| 1776–91                                    | 20  | 2      | —                          | —           |
| 1792–1800                                  | 7   | 20     | —                          | —           |
| 1801–10                                    | 2   | 59     | 5                          | —           |
| 1811–15                                    | 1   | 38     | 16                         | —           |
| 1816–20                                    | 7   | 24     | 7                          | 1 (Liberia) |
| Totals                                     | 37  | 143    | 28                         | 1           |

## 2. American federalism's first great challenge: slavery and sovereignty

Slavery, and the Constitution's intentionally ambiguous acceptance of it, caused the first serious challenge to the American federal system. At the time of ratification, slavery was legal in most states, north as well as south, although in 1780 Pennsylvania began a parade of northern states that abolished it: Massachusetts and New Hampshire (1783), Connecticut (1784), New York (1799) followed. Generally, these laws provided for gradual emancipation, so most continued to still have slaves present decades later. By 1861, at the start of the Civil War, there were 19 free states and 15 slave states.

In the years leading up to the 1860 presidential and congressional elections, slavery had rendered the nation 'a house divided,' in Abraham Lincoln's words. The southern states' economies, concentrated on cotton and to a lesser degree rice, tobacco and corn, were built on the labour of four million Black slaves. The northern economy consisted mainly of smallholding farmers largely disengaged from the slave economy. In New York, Boston, Philadelphia and other cities, however, businesses engaged in banking, insurance, the transport and marketing of raw cotton, textile mills, and the supply of slave-made consumer goods and other lines were necessarily intertwined with the slave system.

The southern slave-owning elite, sometimes termed the 'slave power', had long dominated the national government. Nine of the first 15 presidents were major slave-owners themselves; most of the others highly sympathetic to the South. Until the 1850s, southerners also held a virtual veto in the Senate over any major legislation, and the long string of southern presidents meant that their nominees dominated the Supreme Court. But as the North added population faster than the South, and several additional free states (Oregon, California and Kansas) entered the union, southern leaders felt

increasingly threatened. A growing abolitionist movement in the North challenged the legitimacy of slavery.

One point of severe tension concerned the settlement of the West, the lands beyond the Mississippi River, where slave-owners wanted to extend their operations and create new slave states. Southern leaders feared the creation of a populous smallholding yeomanry that would become an ally of the North and result in the emergence of additional free states. Northern free-labour advocates insisted that the West be reserved for small farmers. The Republicans (Lincoln's party) arose in the 1850s by resolutely opposing the expansion of slavery into western territories and promising free land ('homesteads') to settlers.

The slave-owning elite also aggressively insisted not only that slavery be protected in the South, but also that the rest of the nation support it. The Fugitive Slave Act (1850) obliged even the free states to capture runaway slaves and return them to their owners. The Kansas-Nebraska Act (1854) empowered voters in each new state to decide for themselves whether the state would enter the Union as a free or slave state. The Supreme Court's *Dred Scott* decision (1857) ruled that people of African descent could never be US citizens.

Lincoln won the presidential election in 1860, and Republicans won most congressional elections in the North and West. However, Democrats swept the South, and with some congressional victories elsewhere, they appeared in a position to hobble a divided government. But southern leaders interpreted Lincoln's election as a mortal attack on the South, and 11 of the slave states withdrew from the Union, forming a new entity among themselves, the Confederate States of America. Nearly all southern representatives withdrew from Congress, leaving the Republicans in overwhelming control of both the executive and legislative branches.

The stark issue first posed by war was whether states could secede from the federal structure. The 1781 Articles of Confederation had bound members to 'perpetual union', but the Constitution only declared that its purpose be (among others) to 'form a more perfect Union'. It was silent on whether its signatory states retained the right to withdraw. Lincoln immediately took up the challenge of disunion, calling for volunteer soldiers and setting in motion the creation of a massive military, which eventually enrolled 2.6 million soldiers and sailors. (The largest armies previously in North America had numbered no more than 40 000 or so.) The Confederate States' army opposing them numbered between 750 000 and a million men. After four years of intense warfare, the bloodiest in US history, some 600 000 Americans were killed and another 470 000 wounded. At tremendous cost, federal forces prevailed, and the principle of perpetual union was upheld.

The course of the war also altered the government's war aims. The northern population, reeling from the carnage and cost, became disenchanted with the idea of returning to the *status quo ante*. Most people understood that slavery had been the root cause of the conflict, and the dominant faction in Lincoln's party – the Radical Republicans –

increasingly insisted that the slaves be freed. Lincoln himself had opposed slavery, declaring in 1858 that ‘I have always hated slavery’ and saying in 1859 that the underlying principle of the Republican Party was ‘hatred to the institution of slavery; hatred to it in all its aspects, moral, social, and political’<sup>5</sup>. But, as president, Lincoln believed the Constitution did not allow the national government to abolish slavery in the states where it already existed – a constraint imposed by the US’ federal structure. He maintained this position for the first 14, very bloody months of the war.

Eventually, the emancipation of slaves became both a battlefield necessity (denying the South the logistical support of millions of its productive hands) and a needed measure, both to clarify understanding in the North of what the war was being fought for, and to sharpen popular support for it. Lincoln resolved his mental reservations that the Constitution prevented the national government from abolishing slavery by framing emancipation as a war measure, required to defeat the rebellion. He issued his famous Emancipation Proclamation on 1 January 1863 to free all slaves in the Confederacy. Ratification of the 13th Amendment in 1865 made slavery illegal in all US territory. After the war, the national government introduced its reconstruction programme to assist new Black citizens adjust to freedom. Reconstruction produced 12 years of expanded economic and political rights for freed people.

While the North won the Civil War on the battlefield, by 1877 the former Confederate states had reintegrated into the Union. The South was able to reclaim a powerful political position, which has coloured subsequent political debates, especially on civil rights but on most other issues as well, to the present day. Democrats returned to power, and southern white elites unleashed severe repression and violence against the Black population. That regime survived until the Civil Rights Movement of the 1960s, and continues to shape white political attitudes in the region<sup>6</sup>.

America’s federal structure survived the slave power’s great challenge to it. The North became a great industrial power, and the West, open for mass settlement, thrived. The South, with its economy destroyed by war damage and weighed down by retrograde racial relations, descended into chronic stagnation, poverty and anti-Black violence. So equipped, the nation gradually ascended to ‘great power’ status.

### 3. The second challenge: regulating business and the financial sector

American federalism also reconfigured how and which governmental units regulated business. The Constitution assigned the power to the national government to collect taxes and duties, issue coinage and regulate commerce with foreign nations and among

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<sup>5</sup> Quoted in Foner, E. (1970), *Free Soil, Free Labor, Free Men*, Oxford, p. 215.

<sup>6</sup> Elazar, D., ‘Capitol Perspectives: There’s got to be a better way’, <https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6555-K9R1-JCMN-Y2HC-00000-00&context=1516831>

the member states. But the extent of its powers and role in regulating domestic private business remained unclear.

Prior to the Civil War, different interest groups, increasingly defined geographically in terms of North and South, contended most fiercely over how the national government regulated the nation's international commerce via tariffs. So too, these groups clashed over the national government's proper role in promoting internal improvements – roads, canals, railroads and the like. But most businesses (aside from cotton) operated in largely local and regional economies, and, as such, regulation of them fell mainly to state governments.

The Civil War stimulated the growth of large-scale industries, which spread across state lines. During the half century from the mid-1880s to the mid-1930s, the operation of these behemoth businesses challenged the nation's federal system. Member states found their ability to regulate such firms increasingly enfeebled, because the firms' scale and complex operations put them beyond a single state's effective enforcement. Larger scale operations opened the opportunity for each industry's most successful enterprises to exercise dominant monopoly power. The challenge to federalism was: would the corporations dominate, or would the federal system govern?

The railroads were the first and most egregious manipulators of unrestrained monopoly power. After a period in which short lines and local companies prospered, trunk lines began consolidating tracks and power. The Pennsylvania Railroad and the New York Central Line dominated the northeast and east of Chicago. The Northern Securities Company, formed in 1901, controlled all lines running west of Chicago. These companies acquired smaller lines, or used their size to drive the smaller lines out of business. They arbitrarily set differential fares, charging 'what the traffic would bear'. Most harshly, they discriminated against freight shippers who lacked access to alternative transport, and their policies particularly disadvantaged local producers and western and southern farmers. The companies' resources gave them immense political influence in state capitols. But their harsh and predatory behaviour also created a backlash, including notably outcries from other businesses – small and large – who saw the railroads' extortions diminish their profits.

Edwin Seligman, a contemporary political economist, noted that:

Railway tariffs may be regarded from two essentially different standpoints, the private and the public. In so far as a railway is a business corporation, it is a private matter. It may fix its prices in accordance with general business principles. It will endeavor to subserve primarily the interests of its owners. It will strive for the greatest possible profits. Its course is legitimate and praiseworthy. But in so far as the railway forms our public highway, it is a public matter. The objective point now is the general welfare, the interests of the community. It aims not at the greatest possible profits, but at the greatest possible benefits. It looks not at the interests of its owners, but at the interests of the public. The one point of view is



individual, the other is social. The modern railway corporation shares both these characteristics. Its nature is hybrid.

Edwin Seligman, 1887<sup>7</sup>

This conflict between private property rights and societal benefits would bedevil for decades the attempt to find a national government role in the regulation of domestic business.

Congress passed the Interstate Commerce Act in 1887, marking the first significant intervention by the national government to regulate domestic private business. The law created the Interstate Commerce Commission (ICC), charging it with monitoring railroad companies' market behaviour and ensuring that they complied with the new rules. Among its regulations, the act required railroads to publicise their shipping rates, and that their rates be 'reasonable and just'. It also outlawed short- or long-haul fare discrimination. With passage of the act, railroad companies became the first purely private businesses to come under the supervision of a federal regulatory body. Passing the law and forming the ICC did not, of course, mean that the lines' excesses stopped. Railroading and especially railroad pricing was a complex business, and neither public accounting standards nor qualified officials existed to effectively enforce the new law.

Businesses in other industries also consolidated into giant, monopolistic enterprises. Between 1872 and 1892, Andrew Carnegie and his partners came to dominate the iron and steel industry, and the industry was further concentrated in 1901 by the financial firm of J.P. Morgan when it formed the enormous US Steel Corporation. In 1870, John D. Rockefeller founded Standard Oil and soon dominated the nation's oil refining. In 1882, he and his partners created the Standard Oil Trust, monopolising the domestic oil market and extending its dominance worldwide. In 1891, Charles Havemeyer incorporated the American Sugar Trust (later Domino Sugar), which captured 98 % of US sugar refining. The Beef Trust, coordinating the operations of Armour, Swift and two other meatpacking firms, monopolised US slaughterhouses and meat processing. In 1899, the largest copper mining companies combined into the Amalgamated Copper Mining Company, creating a copper monopoly. Some 200 other trusts, including the American Tobacco Company (cigarettes), American Steel and Wire Company (barbed wire), United Fruit (bananas) and numerous others came to monopolise many national branches of industry. Such combinations were beyond the reach of state regulation, and the national government lacked a regulatory infrastructure.

Congress passed the Sherman Anti-Trust Act in 1890 to provide a counterweight to the monopolisation trend. It declared that 'every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal', and warned that 'every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other

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<sup>7</sup> Seligman, E.R.A. (1887), *Political Science Quarterly*, Vol. 2, No 2, June, pp. 223-224.

person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony'. But enforcement of something as ambiguous and hard to prove as the law's ban on 'restraint of trade' lagged.

The public grew increasingly opposed to the trusts' predation and abuses. The populist revolt in the 1890s was a strong expression of opposition, and the reform (or 'progressive') movements in both major political parties carried it further. In the first significant case attempting to enforce the Sherman Act, in 1904 federal prosecutors convinced the Supreme Court to break up the Northern Securities Company. In its most far-reaching case, in 1911 the Court ruled that Standard Oil was a monopoly and must be broken into separate operating companies. In that same year, the Court ordered that American Tobacco be split into four competing companies.

National regulation of business quickly spread beyond just whether or not an enterprise was restricting competition. Congress passed the Pure Food and Drug Act in 1906 to prohibit the sale of misbranded or adulterated food and drugs in interstate commerce, establishing a system of inspections and standards intended to protect consumers' health and safety. Individual states took the lead in passing workplace regulations that limited working hours, set mine and factory safety standards, compensated employees for workplace injuries, prohibited child labour, and established minimum wages. A key turning point occurred when the Supreme Court in *Muller v Oregon* (1908) considered an Oregon law that allowed for a maximum ten-hour workday for women who worked in mechanical establishments, factories and laundries. The Court ruled that the law was constitutional, finding that the Oregon legislature had a compelling interest in protecting women. The decision in *Muller* allowed other states to regulate women's and children's wages, working hours and work conditions.

Federal labour law, however, was and continues to be one of the most contested areas of federal regulation. In several other rulings, especially *Lochner v New York* (1905), the Court disallowed laws which, in its view, unconstitutionally limited individual workers' rights to contract for their own labour. *Lochner* became a crucial barrier to labour unions until it was replaced by later jurisprudence. Modern labour relations would only come into being during the catastrophe of the Great Depression, when mass labour protests, including the famous sit-down strikes, forced a regulatory regime more favourable to workers' rights. The National Labor Relations (or 'Wagner') Act (1935) established the right of workers to form unions. This, together with the Fair Labor Standards Act of 1938, both of which have been substantially amended in later legislation, remain the foundations of modern labour law.

A final area of federal regulation concerns banks. After two early attempts to create a central bank generated such bitter opposition that Congress let their charters expire, public sentiment in the country ran strongly against any centralising proposals. The National Bank Act of 1864 attempted to provide some regulation with only weak centralisation. The act, which would govern banking until 1913, created a system of national banks and a uniform national currency. National banks, chartered by the federal

government, were required to have minimum levels of capitalisation and reserves. And to create a uniform currency, national banks were required to honour each other's banknotes at par and to only issue banknotes printed by the Comptroller of the Currency, guaranteeing standardisation in appearance. However, the act created neither a central bank nor a lender of last resort. Currency, though uniform in appearance on the front side, remained just notes issued by private banks, as indicated on the reverse. State banks were chartered by individual states and had wildly varying regulations. Neither national nor state banks were subject to much effective supervision.

The result was a profusion of small banks with inadequate capitalisation, opened by speculative investors during flush times. By 1907, there were 6 439 national banks and 10 761 state banks. These were highly vulnerable to downturns. Deposit holders panicked at bad news, rumours, over-extension and bankruptcies, causing runs on banks deposits and triggering financial panics. There were severe bank panics in 1873, 1893 and 1907, and lesser stringencies in 1884 and 1890. The panics caused many banks to fail: 101 in 1873, 503 in 1893, and 73 in 1907<sup>8</sup>.

Failing banks meant that industrial companies experienced difficulties in meeting payrolls, stock exchanges were disrupted, and consumers hoarded currency. Bankers in viable institutions became reluctant to pay out their cash, leading to further factory closures, layoffs and the creation of currency substitutes. Firms responded to the collapse of payment mechanisms by demanding cash payment, further reducing real transactions. Financial panic would thus turn into widespread bankruptcies among industrial firms, soaring unemployment and depression. The 1890s collapse was called the Great Depression until the 1930s disaster displaced it.

The financial system suffered a shocking and severe bank panic in 1907. A contemporary scholar called it 'the most extensive and prolonged breakdown of the country's credit mechanism since the establishment of the national banking system'<sup>9</sup>. The panic spread from New York to cities across the country, and European banks stopped lending to Americans. This frightening experience shifted public opinion, traditionally resolutely opposed to centralisation, to endorse the need for some central supervision of banks. Even so, business elites rejected the European model of a single central bank.

In 1913, Congress passed the Federal Reserve Act. The act created a federal structure within central banking, establishing 12 *regional* Federal Reserve Banks and charging them with managing the country's money supply. They were empowered to make loans and provide oversight to banks, and were to serve as lenders of last resort<sup>10</sup>. When the stock market and then the economy collapsed in 1929, the Federal Reserve System was

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<sup>8</sup> <https://eh.net/encyclopedia/us-banking-history-civil-war-to-world-war-ii/>; Wicker, E. (2001), 'Banking Panics in the US: 1873-1933', in Whaples, R. (ed.), *EH.Net Encyclopedia*, Economic History Association, 4 September, <http://eh.net/encyclopedia/banking-panics-in-the-us-1873-1933/>.

<sup>9</sup> Andrew, A.P. (1908), 'Substitutes for Cash in the Panic of 1907', *The Quarterly Journal of Economics*, Vol. 22, No 4, August, p. 497.

<sup>10</sup> Lowenstein, R. (2015), *America's Bank: The Epic Struggle to Create the Federal Reserve*, Penguin.

able to decentralise financial strains and forestall nationwide bank panics, but it was less effective in propping up weak banks, especially state-chartered banks.

As the Depression of the 1930s wore on and spread to all sectors of the economy, the Federal Reserve proved powerless to stop the bank failures caused by the underlying fundamental economic weakness. A total of 161 banks failed in 1930, 409 in 1931, 276 in 1932 and 1 101 in 1933<sup>11</sup>. The banking system fell into nearly complete collapse. Newly elected President Franklin Roosevelt declared a bank holiday, closing all banks for one week. Congress then passed the Banking ('Glass-Steagall') Act of 1933, which dictated a separation of commercial and investment banks and set minimums for bank capitalisation. Its most controversial feature was deposit insurance. When individual states first implemented deposit insurance in the 1910s, critics, worried about what later would be called 'moral hazard', groused that it was a futile effort to 'make men good by law'. But deposit insurance was highly popular with voters<sup>12</sup>. The Banking Act remained the foundation of banking regulation for the next half a century. Congress, with President Clinton's support, repealed Glass-Steagall in 1999, and its repeal was credited by many with contributing to the financial crisis of 2008.

The great calamity of the 1930s Depression washed away most of the effective opposition to having the national government take a dominating role in regulating private business. The Supreme Court proved the last holdout, regularly declaring unconstitutional key pieces of President Roosevelt's New Deal. The Court invalidated the National Industrial Recovery Act (1935), Agricultural Adjustment Act (1936) and other legislation on the minimum wage and other topics as unconstitutional infringements on the right of individuals to enter into voluntary contracts. When President Roosevelt gained the opportunity to name several new justices – Hugo Black (1937), Stanley Reed and Felix Frankfurter (1938) and William O. Douglas (1939) – the Court's opposition ceased. Congress passed the Social Security Act in 1937, and the Court declared it constitutional the same year. The following year, in 1938, Congress approved the Fair Labor Standards Act, and the Court found it constitutional in 1941.

By 1940, then, after more than half a century of political and legal struggles, with starts and stops and backward steps as well as forward ones, the national government's framework for regulating private businesses had been put in place. It had developed tools that for a generation would limit the excesses of monopolistic businesses in the public interest. It produced landmark anti-trust prosecutions, like the 1954 case that forced Kodak to license the processing of colour photographic film, and the 1982 suit that broke up the giant AT&T telephone monopoly. The national government had also established a network of laws to protect workplace safety and regulate relations between private employers and their workers. And it had established a system for

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<sup>11</sup> Federal Reserve (1937), *Federal Reserve Bulletin*, September, <https://fraser.stlouisfed.org/title/federal-reserve-bulletin-62/september-1937-20993>, Table 1.

<sup>12</sup> Preston, H.H. (1933), 'The Banking Act of 1933', *American Economic Review*, Vol. 23, No 4, December, pp. 585-607; Lowenstein, R. (2015) *America's Bank*, op. cit., p. 81.

supervising the financial sector, providing a lender of last resort, insuring ordinary bank customers' deposits and monitoring bank behaviour. The challenge to federalism by runaway, predatory corporations had been transformed into an effective system of national regulation.

A regulatory regime could never ensure final victory in dynamic capitalism. New technologies have opened the doors to the rich rewards of monopoly power, and firms like Google, Microsoft, Facebook (Meta), Apple and Amazon continue to place a strain on old models of anti-trust regulation. Corporations have learned to escape regulation by making their operations strategically transnational, with their tax home in Ireland, manufacturing in Mexico or China, shipping flagged in Liberia, insurance in Switzerland and headquarters in the US. Gigantic new financial firms and changing technologies like bitcoin are further undercutting and challenging the efficacy of nation-based regulation.

#### 4. The third challenge: protecting and expanding individuals' civil rights

The Constitution's Bill of Rights formed the basis for individual rights in American federalism. It guaranteed citizens the right: to free speech, uncensored by government; to assemble and petition government; to enjoy a free press; to exercise one's religion freely; to own a firearm; to be free from unreasonable searches; to be brought to a speedy jury trial when charged with a crime; to not be subject to double jeopardy; to not be forced to incriminate oneself; and to not be subjected to cruel and unusual punishment. Later amendments outlawed slavery, granted citizenship to anyone born in US territory, and guaranteed the right to vote regardless of race, sex, age of eighteen or greater, or failure to pay a poll tax.

Relations between the government (at all levels) and organised religion have proved especially problematic. President Thomas Jefferson in 1802 famously wrote to a church congregation in Connecticut:

Believing with you that religion is a matter which lies solely between Man & his God, that he owes account to none other for his faith or his worship, that the legitimate powers of government reach actions only, & not opinions, I contemplate with sovereign reverence that act of the whole American people which declared that their legislature should 'make no law respecting an establishment of religion, or prohibiting the free exercise thereof,' *thus building a wall of separation between Church & State.* (Emphasis added)

Thomas Jefferson, 1802<sup>13</sup>

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<sup>13</sup> <https://billofrightsinstitute.org/primary-sources/danburybaptists>

But while few have challenged the principle motivating Jefferson's stark dictum, many have sought relief from its stringency. Religious leaders have appealed for public subsidies for religious schools, permission for teachers and administrators to lead mandatory prayers in public schools, exemptions for religiously organised hospitals so they do not have to follow government antidiscrimination laws, immunity for religious organisations to support political causes without losing their special tax status, and so on. With a federal structure, petitioners have found multiple entry points to argue their cause – state courts as well as national ones, and rulings by member state administrative bodies as well as national government agencies. Courts have often failed to enforce Jefferson's wall of separation.

Religious adherents have, for the most part, not segregated themselves into separate communities. Rather than cocooning themselves into isolated religious groups, Americans have been increasingly likely to work with, live alongside and marry people of other religions – or people with no religion at all. Nonetheless, religion-based advocates play a significant role in US politics: in opposing abortion rights, gay marriage and transsexual rights; in supporting Israel and antiterrorism policy. In the 1960s and 1970s, Christian pastors played a significant role in promoting the expansion of Black rights and advocating for peace; today, religious leaders add their weight primarily to the defence of traditional social patterns, and oppose the extension of rights<sup>14</sup>.

The Bill of Rights initially guaranteed rights by imposing restrictions on the national government, but in the 20th century courts extended those restrictions to member states and their operations, through what is known as the Incorporation Doctrine. Thus, basic rights were guaranteed at both levels of federalism. Many of these rights were also extended to non-citizens officially recognised as permanent residents, temporary residents on visas, and even individuals who had entered the country illegally.

Despite this panoply of guarantees, however, some individuals did not enjoy full rights in their daily lives, and their struggles to achieve full rights formed the third great challenge to American federalism. In part this lapse occurred because social and demographic changes required new rights beyond those conceived in the Constitution; for example, the right of access to contraception and abortion. And in part it occurred because the national government failed to enforce respect for the guaranteed rights; a tragic example is the southern states' century-long disenfranchisement of most Black voters.

These lapses challenged American federalism, because if the structure could not in practice deliver the basic social and civil rights it ostensibly guaranteed and that people wanted, growing numbers of citizens would come to see it as illegitimate. The struggle to achieve full observance of rights, still ongoing, would transform American federalism.

Black Americans struggled to achieve full rights, creating one line of development. After the Civil War, freed people were recognised as citizens and guaranteed the right to vote,

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<sup>14</sup> Putnam, R.E. and Campbell, D.E. (2010), *American Grace: How Religion Divides and Unites Us*, Simon and Schuster, pp. 551-580.

along with all other American rights. But, in the South, where the overwhelming number of Black people resided, white elites repressed the Black population through a reign of violence and intimidation. Billie Holiday sang that ‘Southern trees bear a strange fruit, Blood on the leaves and blood at the root; Black bodies swinging in the southern breeze, Strange fruit hanging from the poplar trees’. Southern whites went on a lynching frenzy, killing an average of 56 African Americans *every year* between 1905 and 1924. Local prosecutors, despite clear photographic and other evidence, almost never identified and charged the perpetrators.

The ‘strange fruit’ hanging from southern trees and other violence intimidated Black people into submission. They were held in an oppressive system of racial dominance – politically, economically and socially – only slightly less harsh than slavery. Whites denied Black people the right to vote; they established the network of ‘Jim Crow’ laws, which segregated schools, public accommodation, commerce and social life; and they tightened the fetters of sharecropping and debt peonage. Southern state courts regularly enforced these racial disparities, and member state administrative agencies routinely disadvantaged Black people in their policies. Consequently, a trickle of Black people left the South to take up homesteads in the Great Plains.

The first major break in this pattern occurred during the Great War, when northern war plants, deprived of infusions of European immigrant labour, opened up jobs to Black workers instead. Some Black people responded to the new job prospects by leaving the South, initiating what later became known as the Great Migration. During the Second World War, employers both in the North and on the West Coast offered war production jobs to Black people, furthering the flow out of the South. Heavy out-migration continued through the 1970s, by which time some six million (out of 20 million) Black people had left the South.

Black people now had a power base from which to demand an end to Jim Crow, racial subjugation and disenfranchisement. Between 1860 and the 1930s, most Black people were affiliated with the Republican Party as their advocate, but after Franklin Roosevelt’s elections and growing Republican hostility to further Black progress, they switched their allegiance to the Democrats. Black people’s votes counted, and in many elections they were vital to northern Democrats’ victories. They also constituted a growing economic presence in the marketplace. And their demands for equality based on merit rather than prejudice found increasing favour among those whites who prided themselves on fair play.

Pressure from Black people for change began to produce results. Until 1948, the US military was a segregated and highly racist institution, drawing much of its officer corps from the South. That year though, President Harry Truman, who faced an almost hopeless re-election prospect, desegregated the military. (Truman won re-election.) In 1954, the Supreme Court issued its landmark *Brown v Board of Education* ruling, overturning its notorious 1898 decision in *Plessey v Ferguson*, which had declared as constitutional state laws that erected racial segregation. In *Brown*, the Court found that even when the physical facilities, curricula, teacher qualifications, teacher salaries and

other ‘tangible’ factors were equal, ‘separate educational facilities [were] inherently unequal’ and a violation of the 14th Amendment’s ‘equal protection’ guarantee<sup>15</sup>. Nine young Black girls desegregated the Little Rock (Arkansas) schools, but federal troops had to accompany them to class each day, passing through hate-filled, threatening white mobs. Congress enacted the Civil Rights Act of 1957, and although the amendments accepted during consideration considerably weakened the bill, it was the first national civil rights legislation since 1875.

The struggle for Black rights revealed a key feature of federalism: local civil rights advocates often formed an alliance with the national government to overcome member state retrograde policies. One important instance occurred in 1955 in Montgomery (Alabama), when Rosa Parks, a Black woman, refused to give up her seat on a municipal bus to a white person, as the law required. Parks was arrested. In response, Black leaders, most prominently Dr Martin Luther King Jr, initiated a Black boycott of the city’s buses. Reduced ridership greatly damaged the transit system financially, and the protest infuriated local whites, who responded with brutal violence. The boycott ended after 382 days, when the Supreme Court upheld a federal district court’s ruling in *Browder v Gayle* (1956) that Alabama’s racial segregation laws for buses were unconstitutional. Similarly, Black people attempting to integrate the Little Rock schools succeeded only when federal troops arrived to enforce the federal courts’ decrees.

Between 1955 and 1970, the Civil Rights Movement created enormous pressure for further change. Dr Martin Luther King Jr vaulted to national prominence when the Montgomery boycott generated nationwide support. This was followed by an era of sit-ins, Freedom Riders, voter registration campaigns, boycotts and demonstrations, often accompanied by police violence, mass jailings, assassinations, threats and attempted intimidation. Dr King’s ‘I Have a Dream’ speech at the Lincoln Memorial in Washington DC in 1963 became the classic plea for racial equality. Majority opinion in the nation, especially outside the South, swung strongly in favour of supporting Black rights.

The campaign reached its highpoint when Congress passed the Civil Rights Act of 1964 and the Voting Rights Act of 1965. This legislation became the bulwark of anti-racist civil rights protection going forward. Other legislation such as the Fair Housing Act of 1968 extended federal protection to other areas of social life. Many states in the North and West enacted state-level antidiscrimination laws as well.

Women forced a second line of protest, social change and development of the federal system. During the late 19th and early 20th century, the first wave of feminism focused mainly on securing women’s right to vote. Although the Constitution contained no clause limiting voting to men, nearly all states had laws that did. The campaign succeeded when the 19th Amendment to the Constitution was ratified in 1920, declaring that ‘the right of citizens of the United States to vote shall not be denied or abridged by the United States or by any State on account of sex’.

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<sup>15</sup> <https://www.archives.gov/milestone-documents/brown-v-board-of-education>.



Despite winning suffrage, women continued to be discriminated against in many aspects of social and civic life. The Women's Movement that emerged in the 1960s and 1970s, sometimes called Second Wave Feminism, sought to dismantle all the ways in which women were explicitly or implicitly disadvantaged in schooling, employment and other areas of public and private life. Although the proposed Equal Rights Amendment – 'Equality of rights under the law shall not be denied or abridged by the United States or by any State on account of sex' – failed to be ratified, women's advocates won many other legislative acts, court rulings, administrative regulations and other directives that attempted to dismantle gender discrimination.

One key area that women pushed for was reproductive rights. They demanded access to contraception and to abortion, but many states had laws prohibiting people from providing them. Federal and state laws prohibited the dissemination of materials used in providing contraception or abortion, or even information about them. In 1873, Congress passed an 'Act for the Suppression of Trade in, and Circulation of, Obscene Literature and Articles of Immoral Use', and in 1909 a federal law expanded its prohibitions and strengthened the penalties for people convicted of violating them. Known as the 'Comstock Laws' after a postal inspector and vicious anti-'vice' activist, Anthony Comstock, this legislation made it a crime to send materials through the US Mail containing obscenity, contraceptives, information about abortifacients, sex toys or other sexual matter. In addition to the federal laws, about half of the states enacted laws similar to the Comstock Laws.

Women and their allies campaigned to get these laws rescinded, particularly in states outside the South. Then, in 1965, the Supreme Court ruled in *Griswold v Connecticut* that a right to privacy could be inferred from the Constitution, and that this right prevented states from prohibiting the use of contraception by married couples. Since a right to privacy is not explicitly stated anywhere in the Constitution, the Court's majority searched for evidence of it in the enabling context of several constitutional amendments. Access to contraception thus became a constitutional right for married couples, and was soon extended to all women.

The Women's Movement also demanded that state laws prohibiting abortion be overturned. After *Griswold*, with the Court now enunciating a 'right to privacy', women sought national recognition of a right to abortion. In 1973, the Court in *Roe v Wade* applied its right-to-privacy standard and agreed, issuing a ruling making access to abortion a national constitutional right. As in the Montgomery boycott case, reform advocates had employed access to the power of the national government to overcome state backwardness. The Court had now extended protections to women for access to both contraception and abortion.

Women's rights advocates had many other items on their agenda for achieving equality for women, especially proposals affecting schooling, work and social life. They achieved one of the most impactful laws in 'Title IX', a 1972 amendment on education to the Civil Rights Act of 1964. It declared that 'no person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to

discrimination under any education program or activity receiving Federal financial assistance'. Since almost all elementary and secondary schools, most colleges and universities, and many professional schools receive some form of federal aid, Title IX has had an enormous impact in opening opportunities for women in education. Nowhere is this impact more evident than in sports, because many youth and pre-professional sports are organised through high schools, colleges and universities. Sports administration has traditionally been male dominated and often male exclusive, and has offered few opportunities to girls and women. After long struggles to convince or require male coaches, sports administrators, league officials and others to respect the law, women have achieved a remarkable upsurge in sports participation and achievement.

Following the lead of Black people and women, other groups, especially gay people and disabled people, have lobbied for and achieved recognition as 'protected classes' in antidiscrimination laws and regulations. Thus, through long campaigns of organising, lobbying, challenging tradition-bound stereotypes, educating, demonstrating and political struggle, Black people, women and others have reshaped the meaning and content of American rights.

Unfortunately, few of these newly recognised rights have been explicitly written into the US Constitution, and so are highly vulnerable to being overturned or reversed when the political winds change. Given that the nation is politically and ideologically divided, the path to ratifying constitutional amendments is blocked in practice – it requires a two-thirds vote in both houses of Congress, followed by the approval of three quarters of member state legislatures. This path is now nearly a political impossibility for proposals from either side.

Instead, the new rights have come through Court rulings, legislation, administrative regulations and executive branch policy, all easily changed with new Court majorities, a different makeup in Congress or when a hostile president assumes power. In 2013, the Supreme Court in *Shelby County v Holder* drastically undercut the effectiveness of the Voting Rights Act of 1965, putting Black people in the South at great risk of disenfranchisement. In 2017, President Trump issued a flurry of executive orders, and his cabinet secretaries published many revisions to regulations that had the effect of reducing antidiscrimination protections for LGBTQ persons and people brought into the US illegally as children. In 2022, the Court in *Hobbs v Jackson* overturned its 1973 *Roe* decision and revoked the national constitutional right to abortion.

Federalism's guarantee of individual citizens' rights thus continues to be a matter of great political conflict and flux.

## 5. Lessons?

'Federalism' is usually thought of as a system for structuring the relations between member states and the central authority. It is that, but as American experience has shown, federalism must do more.

A federal structure must define the roles of the central authority and its member states, including deciding on the difficult issue of sovereignty. The first great challenge to American federalism, the Civil War, was provoked and driven by the substantive issue of slavery, but was framed by the fundamental fight over sovereignty. Could individual states, exercising sovereignty, leave the Union? Or does sovereignty inhere in the Union, to which the states are perpetually bound? The Civil War determined that for the United States, the latter was true, while Brexit has demonstrated that for the European Union, the former is true.

There is no correct answer to which model is 'right', because that depends on the circumstances and political realities, but they do have differing consequences. In the first model, continued participation is contingent, and so internal bargaining and politics must seek not to trigger any member's exit. That possibility is taken off the bargaining table in the second model.

A federal structure allows for variation in some policies and rules that may accommodate differing local conditions and customs. The United States is apparently going to try such variation in abortion policy, now that the Supreme Court has devolved abortion regulation to the state level. A federal structure may provide a platform to test out the effectiveness and popularity of policies, using the states as laboratories. For example, several states introduced deposit insurance two decades before Congress enacted it in the (national) Banking Act of 1933; the states provided proof of concept. And a federal structure may provide a framework for narrowing the differences between states in income and wealth. The national government's social programmes have reduced poverty in the southern US states, in the same way that the European Regional Development Fund has benefited the EU's poorer regions.

The second great challenge to US federalism demonstrated that in societies with a capitalist economic system, federalism also needs to structure the relations between different levels of government and private businesses. US federalism struggled for half a century to put in place a basic framework within which the national government could confront monopolistic firms. Federalism needs to determine which operations and outcomes of the private sector will remain regulated only by markets, which ones will be subject to regulation by the states in their own territories, and which ones will be overseen and controlled by the central authority.

Establishing the optimal level of governmental supervision of private enterprises requires a delicate and often changing balance. The conflict observed by Edwin Seligman in the case of railroads between private profits and public benefits continues to drive policy. Federal oversight of business must be devised in such a manner as to leave enterprises free to innovate, create and build a dynamic private sector. The policy makers' task is rendered trickier by technological change – how to regulate Microsoft, Google, Amazon and an increasingly complex financial world populated by derivatives traders, massive hedge funds and crypto currencies. These developments create new and difficult conundrums for how to balance public welfare against private innovation.

Finally, federalism must specify how the governmental structure will protect and enforce the rights of individual citizens. In the case of the US, the Bill of Rights, ratified in 1791, provided the foundation, but in the third great challenge it proved inadequate to guarantee rights demanded and deserved by new political actors. The Civil Rights Movement, the Women's Movement and other groups forced the US to construct a more complete edifice above its Bill of Rights foundation. However, as we have seen, building a new rights structure on an old foundation has resulted in unfortunate limitations and weaknesses.

A different and more promising approach might be to specify a federalism based on the Universal Declaration of Human Rights<sup>16</sup>, issued by the United Nations General Assembly at its meeting in Paris in 1948. It was intended to promote recognition 'of the inherent dignity and of the equal and inalienable rights of all members of the human family' in order to achieve 'freedom, justice and peace in the world'. It would constitute 'a common standard of achievement for all peoples and all nations, to the end that every individual and every organ of society ... shall strive ... to promote respect for these rights and freedoms'. Its 30 articles outline specific individual rights to be enjoyed by all people. The Universal Declaration presents a host of rights far more expansive than the US Bill of Rights. For example, Article 12 asserts in part that 'no one shall be subjected to arbitrary interference with his privacy, family, home or correspondence'. Article 16 states that 'men and women of full age, without any limitation due to race, nationality or religion, have the right to marry and to found a family. They are entitled to equal rights as to marriage, during marriage and at its dissolution'. Article 25 declares that 'everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control'. And Article 26 states that 'everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory'. These declarations extend individual rights far beyond the US case.

A second difference between the Universal Declaration and the Bill of Rights is the differing conceptions of individual rights. The 18th-century drafters of the Bill of Rights largely saw liberty as the absence of government intrusion; as a result, most of the rights contained in the Bill are stated in the form of restraints or prohibitions on government ('Congress shall make no law ...'). In contrast, the Universal Declaration conceives rights as applying to individuals, and asserts those rights affirmatively ('Everyone has the right to ...'). The Universal Declaration's approach implicitly recognises that other entities besides established governments may impinge upon and deny people's rights – corporations, religions, private associations, even cultural patterns. For example, its

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<sup>16</sup> The Universal Declaration of Human Rights is at <https://www.un.org/en/about-us/universal-declaration-of-human-rights>.

declaration in Article 16 that ‘marriage shall be entered into only with the free and full consent of the intending spouses’ appears to be directed more at cultural practices enforced by family hierarchies and religious leaders outside of government than at government-imposed rules.

The Universal Declaration is silent on several current issues, perhaps betraying its age. It prominently mentions a right to health, but it does not mention a woman’s right to reproductive rights, contraception or abortion. In the US, in 1973 the Supreme Court found an implied (but never stated) right to privacy in the US Constitution, on the basis of which it declared abortion to be a right. In 2022, the Court reversed its earlier finding and revoked the right to abortion. Can the Universal Declaration’s statement that ‘no one shall be subjected to arbitrary interference with his privacy’ in Article 12 be stretched to provide a basis for abortion? Similarly, the Universal Declaration makes no mention of sexual orientation. Would its statement that ‘men and women of full age, without any limitation due to race, nationality or religion, have the right to marry and to found a family’ include same-sex marriages? Such questions indicate that a 75-year-old declaration of rights would need updating.

The Charter of Fundamental Rights of the European Union came into force in 2009 with the Treaty of Lisbon<sup>17</sup>. It fixes some deficiencies in the Universal Declaration but is silent on others. It includes in Article 21, for example, a statement that ‘any discrimination based on any ground such as sex, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation shall be prohibited’. This collects most of the groups seeking protected-class categorisation, although some would complain that it omits transsexuals and perhaps others. It is silent on women’s rights of access to contraception and abortion. Its Article 2 states that ‘everyone has the right to life’. Much of the debate in the US between those in favour and those against the right to abortion centres on the answer to when life begins – would Article 2 protect foetal life starting from conception, thereby denying access to abortion, or not?

Moreover, the Charter is greatly weakened by its disproportionate deference to national differences. Many of its clauses include the phrase, ‘in accordance with Union law and national laws and practices’. For example, Article 9 states that ‘the right to marry and the right to found a family shall be guaranteed in accordance with the national laws governing the exercise of these rights’, and Article 30 states that ‘every worker has the right to protection against unjustified dismissal, in accordance with Union law and national laws and practices’. Such deference weakens the Charter as a manifesto for liberty.

A successful federal system must recognise and respect individuals’ fundamental human rights. The formal status of human rights ought to be the centrepiece of the constitutional arrangement between citizens and government. But rights may be used

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<sup>17</sup> The Charter of Fundamental Rights of the European Union is at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012P/TXT>.

either to unify or divide a polity. Rights that are designed to achieve universal application and equip all individuals with universally enjoyed protections tend to promote solidarity. By contrast, rights that apply only to subgroups or to individual cultural communities tend to fissure society, as evidenced by the rise of 'identity politics' in the US.

The successful system must also provide a viable mechanism for amending, redefining and extending those rights as society's mores and values change. This requires achieving a delicate balance, securing fundamental rights in the face of changing tides of political sentiment, while still permitting alteration when legitimate new needs arise. Europe is divided, as is America, along ideological, religious, class, region, racial, gender and other lines, and these fissured constituencies frequently clash precisely at the point where new rights are expected and demanded. Achieving a statement of rights that promotes solidarity in the presence of such fissures may be the greatest challenge facing those who would construct a federal system.

American federalism has endured for more than two centuries, but today Americans are again deeply divided. Reflecting fissures not unlike those fracturing some European nations, a significant portion of Americans have lost faith in their system of government. Aristotle noted in his *Politics* that 'there are two parts of good government; one is the actual obedience of citizens to the laws, the other part is the goodness of the laws which they obey'<sup>18</sup>. It is yet unclear whether American federalism, by both regaining the support of disaffected voters and creating good laws, will survive its latest challenge. But in the past it has shown itself to be both durable and flexible, defeating its internal enemies and accommodating groups making just demands for change. Once again, it will be tested to prove it can endure.

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<sup>18</sup> Jowett, B. (1885), *The Politics of Aristotle*, translation into English, Clarendon Press, Oxford, Book IV.

## APPENDICES

### APPENDIX 1: A MANIFESTO ON PAN-EUROPEAN, EURO-MEDITERRANEAN AND EURO-AFRICAN FINANCIAL COOPERATION

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This **manifesto** proposes a vision of what the future of Europe should look like after the war, highlighting the role of financial cooperation. A future free of fears and unmet fundamental needs, united in consolidating European values. A future requiring determination and innovation in upholding the market economy, open society and liberal democracy, based on the rule of law, justice and freedom. A future with a strong sense of inclusiveness, security and solidarity.

#### 1. The context: geostrategic regionalism driven by Europe

After the double shock of the COVID-19 pandemic and the Russian invasion of Ukraine, Europe is confronted with unanticipated challenges and new security concerns. History is back at the centre stage of policy making, bringing with it the geopolitical conflicts of the 21st century and daunting risk scenarios for the next generations of EU citizens.

- The Russian war of aggression against Ukraine has shown that global rivalries and conflicts put European values at stake and under threat: the open and rules-based market economy, liberal democracy, human rights and international law, social inclusion and sustainable development. These values underpinned the world order of the past, but have been undermined by the war and must now be revitalised through the reform of global governance and the recovery of multilateralism. Progress on this front has stalled and the divisions created by the war do not bode well for the future.
- The weaponisation of finance, trade, investment, technology and international relations has led to geopolitical fragmentation, creating inefficiency, multiple threats to development, social disruptions and bottlenecks in supply chains and commodities. Globalisation and value chains are being redesigned following friendly contours and security preoccupations. This is a necessary price to pay to contain conflicts, respond to aggression and avoid escalations. There should be no illusion that the old order can easily be restored or a new one quickly established.

- The ghosts of the past have reappeared. We may have to face a re-emergence of the bipolar divide of the Cold War, with competing value systems and mutual existential threats. The future will have to manage the full complexity of rival and fragmented economic and financial relations. In this context a promising way forward has emerged: that of geostrategic regionalism driven by a more assertive and credible global role of Europe. Regionalism favours bottom-up and pragmatic responses, imaginative technical solutions and institutional and financial innovations that bypass global stalemates.
- The Russian aggression against Ukraine has stimulated a positive response in Europe: a new sense of unity within the European Union and in transatlantic relations in support of the Ukrainian people and European values. Europe is where we have the peak of the crisis (Ukraine and Russia), the bulk of its dire consequences but also the best perception of the urgency to act and the opportunity to widen and deepen the scope for peace, security and development.
- We have paid great attention throughout to the pan-European dimension of economic and financial cooperation, including Eastern Europe and the Euro-Mediterranean region. We consider this cooperation a stepping stone towards peace, prosperity and development for the whole of the European continent and its neighbours. The impact of the war has shown the decisive importance of Europe-Africa relations. They are critical to the stability, security and prosperity of the whole pan-European region. The 'neighbourhood' aspect of Africa to Europe is key to the destiny of both the African and European continents. Europe cannot disentangle its economic security and development prospects from those of its African neighbours, in terms of both threats and opportunities. This is why the vision of the future of Europe should be built jointly with that of Africa.
- In response to the war, the EU ambition of strategic autonomy in foreign policy, defence and security has gained traction. This implies the EU assuming more leadership in the whole of the pan-European region and in Europe-Africa relations, promoting development, stability and security. For a long time, we have supported the unblocking of the EU enlargement process. With Ukraine, Georgia and Moldova knocking at the EU's doors, this argument has gained a compelling urgency and vigour. At the same time, the EU will have to adjust its institutions to function well with an increased number of Member States. Deepening the Union in foreign policy, defence, security and other fields is a pre-condition for the EU to exert more leadership both in its own territory and globally. Moreover, transatlantic loyalty and strategic autonomy go hand in hand, enabling a stronger and more efficient partnership across the Atlantic.
- Responsible regionalism would greatly enhance banking insurance and finance cooperation. In a 'wider Europe' and the neighbourhood regions, i.e. the East, the Mediterranean and Africa, the EU must relaunch its role and develop 'new



generation public-private partnerships' built on shared values, co-development and sustainability.

- The Russian war of aggression is having catastrophic consequences on the economy and the people of Ukraine, but also on Europe as a whole. A fair and credible peace deal must be reached as soon as possible to avoid further destruction and losses for all. Those responsible for the aggression and related war crimes will have to be held responsible and pay the price for their mistakes. However, once the war ends and the peace deal is reached, the pan-European dimension should also engage Russia, its people and its economy, as they are also part of the pan-European family of nations and should be helped to return to democracy and stability.

## 2. Drawing inspiration from the spirit of the Ventotene Manifesto

Some 80 years ago, in 1941, in a fascist political prison on the remote island of Ventotene, a group of intellectuals issued a visionary manifesto, which after the war became the blueprint for the European recovery and reconstruction. They were motivated by the strong belief that the war against Nazi-fascism would be won, and that peace could only be built by integrating all the different nations of Europe – north, south, east and west – through a common post-war economic, social and political process of European integration. The time is now ripe to revive that spirit, seizing the 'Ventotene moment' and designing a future of peace and common prosperity for all the peoples of Europe. This is the purpose of the present **Manifesto on the future of pan-European, Euro-Mediterranean and Euro-African financial cooperation**.

We call for a **Pan-European and Euro-African Economic and Financial Partnership**, based on a peer relationship and long-term friendship, supported by the EU. The partnership would address the recovery and reconstruction requirements of the pan-European space, including Eastern Europe and the Euro-Mediterranean region, and would involve our African neighbours. We believe that the private sector, and within it the financial sector, should have a driving role in such a partnership.

## 3. Unblocking enlargement in Eastern Europe and beyond: making the EU's transformative power work

The war in Ukraine has entirely reshaped the EU's approach to the region, echoed also in public opinion. A new perception of the geostrategic realities has gained traction, influencing a better understanding of what Eastern Europe represents for the EU and what the terms 'Europe' and 'European' actually mean. This turn explains why the EU felt obliged to intervene strongly and unitedly in support of Ukraine, and why it responded favourably to the accession requests of Ukraine, Moldova and Georgia. The

EU should prepare to accomplish a new wave of enlargement, overcoming decades of embarrassing stop-and-go and inconclusive bureaucratic negotiations. The credibility and good faith of the EU, its institutions and its public perception are at stake on this issue.

Relaunching the accession process should not involve any dilution or weakening of the accession criteria. Rather, it means intensifying the preparatory work, setting ambitious timetables and realistic deadlines, and supporting reforms and structural transformations in the candidate countries. Above all, it means doing away with all forms of open or concealed prejudice, political opportunism and discrimination.

The war has shown the attractiveness of the EU because of its values, diverse societies, fundamental freedoms and quality of life, and consequently the transformative power of joining the EU and engaging in it.

Past opposition to enlargement, when not motivated by sheer prejudice or populist propaganda, has drawn essentially on two arguments: the alleged trade-off between deepening and widening, and the threat of social dumping (often called the ‘Polish plumber syndrome’).

On the first argument, evidence shows that there is no trade-off. The EU can and must make progress in integrating its economies, societies and institutions, while at the same time increasing the number of candidates that aspire and qualify for accession. Why does the US work perfectly well with 50 states and Europe panics at the prospect of growing in terms of people, territory and wealth? Clearly, the question is one of effective governance and democratic accountability, and this question exists irrespective of the number of members. The EU must make progress on governance independently of the issue of enlargement, as we will see later.

On the question of unfair competition in the labour market (social dumping), Europe has developed a great tradition of social inclusion and welfare policies. People should be helped to compete and advance in the labour market through training, job creation, safety nets, etc. The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), enacted in 2019 in response to the pandemic, has worked well and given Europeans a tangible sign of being protected and accompanied throughout the green and digital transformations.

Enlargement will be the litmus test for EU policy makers and citizens of their ability to show concrete solidarity, to stay true to European values and to overcome anti-democratic and populist temptations. No wonder the Ukrainians attach such symbolic value to their application for EU accession.

#### **4. Euro-Mediterranean and EU-Africa relations facing the war and the crises**

The already difficult economic and social conditions in the Euro-Mediterranean region and Africa have amplified the impact of COVID and the war in terms of loss of output,

jobs and standard of living. Additionally, more specific pressures are being felt: volatile commodity prices, weighing heavily on the balance of payments of those countries; lost remittances of migrants; huge risks of instability; not to mention terrorism, local conflicts, migration pressures and authoritarian regimes. Many countries are in debt distress. Increasing private debt is likely to act as a further drag on growth, while interest rates are rising to tackle ramping inflation driven by energy and food prices in a context of sluggish growth and looming recession.

Due to the crisis, the distance between the north and the south, Europe and Africa seems to be growing in terms of social hardship and inequality. The spillover effects in all directions and the interdependence linkages across the Mediterranean have become more disruptive, intense and visible. Africa is becoming closer and more crucial to the future of Europe. This is not only the case in terms of contagion, but also in terms of opportunities. Africa is Europe's most critical large and precious neighbour.

The Mediterranean has often been perceived in the past as the source of the worst of European nightmares, with migration pressures, porosity of borders to terrorism, tribal wars and despotic governments, authoritarian regimes, a growing European-Arab divide, and the European-African one. Europe has proved unable to manage or even influence power and military confrontations in the Mediterranean, the Chinese filling the vacuum and the US leaving a messy situation behind. But the Mediterranean has also become more active, authoritative and integrated in the African context and in the Arab world; more open to south-south trade investment and cooperation. It represents the door to Africa and to the rest of the world for the EU. This is why the Mediterranean should be seen as an integral part of the pan-European integration process, reinforcing the southern dimension of that process.

A fundamental rethink is underway on the nature of the relationship between the EU, the southern shore of the Mediterranean and Africa. We need more equal peer and bi-directional relations, where not only the concerns of the EU but also those of the peoples of those countries take priority. A longer-term vision for the whole region is needed. A comprehensive partnership should be based on a common understanding of shared values and a converging vision of the future. A perspective of integration of economies, peoples and communities must also be built from the grassroots, involving the private sector and civil society.

We believe that it is urgent to exhume the Euro-Mediterranean dimension of European integration and make it feature prominently in a revamped Europe-African perspective. We must invest in this dimension on a priority basis with a fundamental change in approach anchored in co-development, co-ownership and solidarity. Threats and opportunities require deeper and stronger EU intervention in its wider 'neighbourhood', including the whole of Africa.

Partnership first requires openness on the part of the EU to future potential accession aspirations from the Mediterranean countries, in case some of them are willing and qualify for candidate status. Second, it requires giving Europe-Africa relations the same

importance as neighbourhood policies, because Africa interacts with the EU in a close relationship of mutual interdependence and collaborative neighbourhood. Finally, the EU should act urgently to address the difficulties experienced in Africa, some of which originated from the recent crises and the war, taking a leadership role in stabilisation and development initiatives in the region.

In particular, we propose within the framework of a post-COVID and post-war recovery plan an innovative stabilisation mechanism aimed at restructuring the existing pile of debts and financing sustainable recovery, the transition to net zero and the targets for the Euro-Mediterranean region and Africa towards the United Nations Sustainable Development Goals (SDGs). The plan should be financed by the EU, and should envisage the participation of the private sector and the channelling of special drawing rights (SDRs). It should also support the countries of the region to engage in a meaningful integration process, whose design should be based on the experience of the eurozone and the European Stability Mechanism (ESM).

## 5. EU governance reforms

The EU is facing a policy agenda that requires an in-depth reform of its governance structure, taking into consideration, among others, the new security challenges, the related investment in economic recovery and reconstruction, the pan-European and Euro-Mediterranean integration process, preparation for a new wave of enlargement, and strategic Europe-Africa neighbourhood relations. Such an ambitious set of policy targets cannot be carried out within the existing constraints of the weak, multilayered governance inherited from the past. A leap forward is required.

The need for reforms was already apparent in previous crises. But the current 'confluence of calamities' (as named by Kristalina Georgieva, Managing Director of the International Monetary Fund) has given these reforms a new sense of urgency. We will probably have to rely on a vanguard of lead countries and a reinforced cooperation procedure. We must also review the rules of unanimity voting, because we cannot proceed based on multiple veto powers. If progress is made, we assume that more and more countries will be willing and able to join in.

We sum up the reform priorities under six headings.

1. **Enlargement procedure.** In addition to Ukraine, Moldova and Georgia have also expressed their willingness to join the EU. Other countries' applications or aspirations are also already in the pipeline. The procedure has currently lost its credibility, becoming subject to bureaucratic box-ticking, political manipulation and whimsical public opinion. The EU's reputation and values have been undermined in the eyes of the aspiring populations. It is necessary to review the procedure to make sure that it maximises the transformative power of joining the EU.

2. **A federal executive power.** A Union of several Member States can only function with a credible, substantial and effective federal governance structure. This implies continuing to transfer sovereign prerogatives from the state level to the federal one, not only monetary policy, competition, agriculture, trade and other community domains, but also defence, foreign policy, energy, health, education and finance. The gain for each and all countries sharing these sovereign prerogatives will be immense, and in any case there is no alternative.
3. **Greater democracy and accountability.** Democratic institutions have made great progress in the EU at the federal level. The European Parliament and the Council (two chambers) are democratically elected and work effectively. We might have to strengthen the democratic accountability of the European Commission if it is to function as an effective and representative government institution (for example a Commission President elected by the citizens?).
4. **A single foreign policy and defence.** The Strategic Compass for Security and Defence is a good start, but only the beginning.
5. **A common migration and border control policy.** The war has shown how important it is to proceed together on this front. The hesitations and the populist blackmail of the past appear out of tune and time vis-à-vis the scale of the humanitarian tragedy underway in Ukraine and the need to show the human face of European power.
6. **Completion of the Banking Union and the Capital Markets Union.** These are projects that were conceived and designed after the sovereign debt crisis, i.e. two crises ago. Some aspects are in the last mile of their completion, for others much more needs to be done. The time is ripe to bring the work to an end and move on; with a spirit of compromise and pragmatism, but also showing leadership and determination.

We mention these six points to provide an example of the internal adjustment required of the EU institutions if Europe wants to be credible in its commitment to security, Ukraine and the other pan-European players, and in its understanding of the new geopolitical scenario.

## 6. Institutionalising a ‘European political community’ inclusive of potential and actual candidate countries

We mentioned above the possible risks of EU enlargement in terms of more burdensome governance and social dumping, and we set those risks against the benefits of the transformative power of joining the EU. A way to minimise risks and maximise benefits is to structure the accession process in stages, phasing in the accession gradually rather than all in one go. Consider for instance the Western Balkans: the first stage would consist of putting in place the Common Regional Market. The second phase would be to integrate the countries involved into the revamped and reorganised EU.

An interesting version of such a process could be gauged from French President Macron's project of a 'European political community', proposed at the European Parliament in May 2022 and established with a first meeting in Prague in October 2022. The community should work as an arrangement to support aspirations of possible future 'candidate countries' and clarify that it is not an alternative to enlargement, but rather an antechamber, a 'waiting room' of probationary membership. Countries would reap considerable benefits from being in that group, such as the opportunity to meet regularly with EU Member States and other candidates at technical and political level, the provision of training, technical assistance on European standards and incentives. Participation in this community would give candidate countries and other members of the European family of nations symbolic and concrete encouragement to undertake reforms, avoid moral hazard and, if they have or will have aspirations to join, progressively fulfil the conditions to attain full membership.

At the same time, it would convince current EU Member States that applicants would not backslide or diverge from their commitments. Dividing the accession process into phases ensures that we fully exploit the transformative power of full and potential EU membership by means of conditionality, engagement and inclusion; a transformative power that should operate both before and during the accession process, as well as afterwards.

The political community should be supported by a post-war **pan-European recovery and resilience programme** of the kind mentioned above. **This programme should have special provisions for candidate or potential candidate countries.** It should aim to promote economic convergence with the EU, carrying out the related reforms and preparing for possible accession. We have seen how powerful a mechanism like NextGenerationEU (NGEU) can be in stimulating reforms. The programme should provide an opportunity to engage with those countries in Eastern Europe, the Caucasus, Central Asia and the Euro-Mediterranean that show attachment to the European identity and possible aspiration to join in the future, and are prepared to pay the price of such attachment in terms of defending the core values of the EU, related for instance to the war in Ukraine. In sum, the programme should be comprehensive and involve all countries in the pan-European space that might wish to be 'candidates' and qualify. This means that eligibility for the programme should be conditional upon meaningful reforms and shared values, including basic freedoms and the rule of law; a kind of social contract for a real extended 'European political community' (as proposed by Macron).

## 7. From billions to trillions: the key role of the financial sector in the green, digital and security transitions

Bridging the financing gap in the whole pan-European space and Africa vis-à-vis the huge need for investment in infrastructure, innovation, the green and digital transition, food security, social safety nets, etc. requires a massive amount of financial resources.

Moreover, resources must be provided not only in response to crises and on an ad hoc, emergency basis, but as a permanent feature of a sustained and sustainable long-term development process and friendship. For this reason, but also for reasons of efficiency, transparency and innovation, the private sector, the market economy and the financial sector *in primis* have a fundamental role to play, both in the recovery and reconstruction phase and in the post-war long-term development and reconstructed geopolitical scenario. In a first instance, the financial sector is called upon for the provision of liquidity credit and financing in a public-private partnership mode, to prevent the collapse of the economy. But then later it is needed for financing investment and innovation, and for managing the necessary transfer of resources from declining or unviable activities to new business, new jobs and new incomes of the future. This is why the financial sector should be a major component of the support programmes, and of the vision itself of pan-European, Euro-Mediterranean and Euro-African integration.

## 8. Russia in the post-war pan-European scenario

The Russian government started the aggression and the war in Ukraine. It therefore bears great responsibility for the destruction, pain, displacement and casualties. In the spirit of Ventotene, we are confident that in the end European values will prevail, the generous resistance of the Ukrainians will be rewarded, and those responsible for the aggression and its tragic consequences will be held accountable. But we should not forget that after the Ukrainians, the Russian people and the Russian economy have also been the victims of this war. So, what role do we envisage for Russia in the future of the pan-European space?

We believe that once the war is over and settled, Russia should be engaged and have a place in the pan-European space. That was the vision of Ventotene for post-war Europe in relation to post-Nazi-fascist Germany and Italy. A democratic Russia should be involved in the arrangements and the programmes of post-war reconstruction pacification and development, and actively participate in them.

We should reserve a seat for Russia at the pan-European table, and hope that sooner rather than later it will join the family of civilised European nations, viable market economies and liberal democracies.

## 9. Winning the peace: recovery, reconstruction, pan-European and EU-African integration

The following ideas stand out as the next steps that should be set in motion as soon as possible:

1. A **pan-European post-COVID and post-war recovery and reconstruction plan (and fund)** should be launched by the EU. Drawing on the parallelism with NGEU, the programme should be based and conditioned on governments

engaging in reforms, committing to European values and democratic principles, and being willing to satisfy the related criteria. Such a programme will be needed **for the whole pan-European region, including the Euro-Mediterranean, and for Africa.**

2. The **European Bank for Reconstruction and Development (EBRD)**, being the multilateral development bank of the pan-European and Euro-Mediterranean space, should strengthen its role and make more organic its links with the EU and its institutions, the Union for the Mediterranean (UfM) and its member countries. It should be perceived more as the reference bank not only for Eastern Europe, but also for the UfM countries. It will have to engage more in Africa and for that purpose enter into a special relationship with the African Development Bank.
3. The **ESM should be reformed and become a fully fledged European monetary fund for the whole pan-European region**, working in close partnership with the International Monetary Fund. It will have to have a priority orientation towards Africa, in support of African development. In doing so, it should promote inspiration, advice and innovation in addressing the debt and development financing and the balance of payment requirements of African countries, acting decisively. For instance, in the special public-private programme/fund, we propose financing the post-COVID, post-war recovery and sustainable transition in Africa. It will therefore have to cooperate closely with African institutions, the African Union, the private sector and all our African neighbours.
4. **The accession process should be unblocked** for all of those countries in the pan-European region, including the Euro-Mediterranean, that are willing to join and are committed to qualifying. Enough with the enlargement fatigue! In this manifesto we have endorsed the suggestion of a stepwise procedure that gives a special role to the 'European political community', enabling the transformative power of the EU to exercise its unique influence. Opening the EU to the accession of possible candidate countries, provided the underlying conditions are met, should no longer be a taboo.
5. Finally, **the bilateral and multilateral dialogue between the financial communities** of the pan-European region, including Eastern Europe, the Euro-Mediterranean and Africa, and those of the EU should continue and intensify. This dialogue should aim to improve reciprocal knowledge, promote partnerships and explore opportunities for: i) more cross-border relations; and ii) integrating banking insurance and capital markets in the pan-European region. Development banks and multilateral financial institutions should promote cross-border financial flows and activities, and open and integrated capital markets.



## APPENDIX 2: A LIFE IN AND FOR EASTERN EUROPE: FRANCO DELNERI

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### Interview with Fevzi Delneri

*Paolo Garonna*

**Introduction.** With this interview, we wish to commemorate our esteemed colleague and friend Franco Delneri, who passed away in February 2022. Franco worked as a Senior Advisor at the Italian Banking Insurance and Finance Federation (FeBAF) from 2014. He headed the Brussels Office of the Federation and was responsible for its international activities, particularly those in Eastern Europe. He co-edited several of the Federation's books with me on the subject of Eastern Europe and pan-European economic and financial integration, and was the main organiser of the Trieste Eastern Europe Investment Forum, which has been held annually in Trieste since 2016.

We have asked his wife, Fevzi Abduramanova, to talk to us about how Franco viewed Eastern Europe and the prospects of European integration. Franco was an engineer, an entrepreneur, an international cooperation expert, a financial advisor. He lived and worked in Trieste, Ravenna, Belgrade, London, Rome and Tashkent (Uzbekistan), where he met Fevzi.

The interview took place in April 2022. It provides an insight into how personal histories mix and overlap with European history, adding a precious human dimension to the analysis of the issues dealt with in this book. It aims to pay a tribute of gratitude and esteem to a scholar and friend, and his family.

Paolo Garonna (PG)

Fevzi Abduramanova Delneri (FD)

**PG:** Thank you, Fevzi, for having agreed to respond to our questions. First, I would like to know how Franco felt about his activities of financial dialogue and cooperation in Eastern Europe, and the Trieste Eastern Europe Investment Forum, of which he was the main organiser. I would say that he was the brain and heart of the Eastern Europe activities of FeBAF, and of the Trieste Forum.

**Fevzi:** Naturally the forum was a professional commitment for him, and – as a professional – Franco was keen to do well in whatever his job required him to do. But the Trieste Forum and the Eastern Europe activities meant much more than that to him. He put into it not only his expertise and experience in the region, in the Balkans, in Eurasia and in Europe, but also his personal engagement, his passion, his vision. He thought a lot about it all year round and spoke of it often in our family conversations. You know, Eastern Europe was part of his life, of our life.

**PG:** He was born in the East, wasn't he?

**Fevzi:** In Ronchi, near Trieste. He grew up on the hills of Carso. His family was active in manufacturing and moved around the Adriatic coast, Ravenna, Ferrara, but also Yugoslavia. He himself graduated as a mechanical engineer and worked in industry travelling all over the world, but especially in Eastern Europe, which he got to know very well. It was a business project that brought him to Tashkent in Uzbekistan, where we met. He was fascinated by Uzbekistan, and we fell in love. That is how he decided to settle back there and got a job at the EBRD as a representative of the Bank at the Tashkent office. He spent five years there.

**PG:** You said he was fascinated by Uzbekistan and the region.

**FD:** He used to say that it is a place of discoveries and to discover. Everything surprisingly new and at the same time familiar. It gave him the idea that we have endless opportunities in Europe to see different things, and to see things differently. We can live differently in Europe. Perhaps more simply, more openly, with more warmth, less consumerism, more solidarity ...

**PG:** You were born in Uzbekistan, quite far from Trieste and other main European cities. What did Europe represent to you? What meaning and value does an Uzbek give to the European perspective? How did you and Franco see Europe from Tashkent?

**FD:** Uzbekistan is, and has always been, a land of sharp contrasts. But you feel there also the continuity and the multiple shades that link Europe and Asia, Asia within Europe, and Europe within Asia. Different cultures, ethnicities, religions, lifestyles and traditions co-exist. And at the same time, you are struck by the specific traits of the Uzbek way of life. The dramatic contrast between the openness of urban life and the archaic mentality of the countryside. Between the still plains and the steep mountains. Basically, everything is mixed there. Everything mixes. Mixing and migrating is an integral part of the local culture. And its deep link with the European identity. After the collapse of the Soviet Union, we had huge waves of Uzbek emigration towards Russia, Crimea, EU, Israel, etc.

And now we see a massive inflow of Russians fleeing the war in Ukraine and its unbearable consequences.

**PG:** How did Franco feel as an Italian, and a western European, in Uzbekistan?

**FD:** Franco became integrated fast and easily in Tashkent. He learned the language, made friends, loved the food, the culture, the arts ... Think that he was often invited to traditional Osh parties, the home banquets at six in the morning that signify special friendship, intimacy and hospitality, an old local peasant tradition. Besides, the Italian presence in Eurasia dates back centuries, from the Venetian travellers (Marco Polo) to the Genoese merchants. After 1989, Italian entrepreneurs were among the first and quickest to visit and do business, to establish joint ventures. Franco particularly enjoyed the company of artists, painters and musicians. He also loved artisans and carpet weavers. All over the region there is plenty of that. You see, from the 1930s onwards vanguard artists settled there either fleeing Soviet orthodoxy (socialist realism) or attracted by the exotic beauty of the places. Franco felt at home in Tashkent, and in the whole of Eastern Europe. Italians mostly do. Do you know where the famous song '*O' sole mio*' was composed?

**PG:** Where?

**FD:** On the shores of the Black Sea. The composer, Edoardo Di Capua, visiting in the 19th century, thought that the coast looked like the '*costiera amalfitana*', and became homesick!

**PG:** What about the economic and financial perspectives for the region, and for the future?

**FD:** Franco believed that Uzbekistan and the whole region have great potential. Rich in raw materials, an educated labour force, logistics-transport-trade (the silk road), cultural heritage and landscape (tourism), etc. If only infrastructures could be improved and good governance promoted... He saw plenty of opportunities for economic and financial cooperation with the West, and Italy in particular. He used to say that the wonderful people there 'deserved' closer integration with the EU. With extraordinary mutual benefits. That was the business scouting, investment financing and development expert in him speaking.

**PG:** I remember he was very excited after meeting the Uzbek Finance Minister in Sarajevo. He had suggested establishing a bilateral dialogue between the Italian and the

Uzbek financial communities. Fevzi, your name does not sound Uzbek or Russian, does it?

**FD:** That is right. It is a Turkic name. My family comes from the Tartars of Crimea. My grandparents were based there. My father was only 14 when he was put on a truck by the Nazis in 1944 to be deported to a German labour camp, but was spared because he was considered too young for the job. Later it was Stalin who deported the Tartars from Crimea to different locations in the Soviet Union, scattered around, away from big cities. My parents ended up between Tashkent and Samarcanda. More than 200 000 people had to leave, including many women and children, my whole family among them. My mother vividly remembered how they were rounded up at night and given only 15 minutes to collect their things. And the travel, for more than a month, in terrible conditions... They settled then in Uzbekistan, where I was born. After the perestroika in 1992 my parents and many other Tartars went back to Crimea. A difficult choice after 50 years in exile. Fear of deportation is in the DNA of my family, and my people. After 2014 and the Russian occupation of Crimea, my mother had the terror of being deported once again. She died in 2016 with that fear. Many people and friends, and myself, fear that deportation from Crimea might happen again. Now.

**PG:** I believe then that this war has involved you personally in many ways. What are your feelings?

**FD:** I remember my mother saying: I hope you will not have to go through what we did. As a child, I thought this was a refrain typical of old folk. But now the war is a shocking reality. We see old tragedies repeating themselves, unfolding before our eyes like old nightmares. Franco would not have believed this war to be possible. He was more optimistic about the future than I was. And I have family, friends, Ukrainians, Russians, Tartars, all dramatically involved. It is a fratricidal war. To see the destruction and the human suffering in Ukraine is a shock and an unbearable pain. In my courses at the University in Tashkent I made friends with people coming from the whole of the Soviet Union, and we kept in contact. Franco and I went almost every year to visit family and friends in Kyiv, Crimea and of course in Uzbekistan and the whole of Eastern Europe. I also have friends in Russia. I fear contacting them. What will they think? How are they affected by the propaganda and the repression? I see dramatic splits even within families, between generations. And I feel paralysed by the fact that we cannot travel, we do not have enough information, no idea of when and how this war will end.

**PG:** Ukraine has asked to access the EU. Likewise, Georgia and Moldova. This should imply that accession procedures for the Balkans and elsewhere are unblocked. So, I hope. What future do you see for the countries, and the people you know, in Europe?

**FD:** I was born in the Soviet Union. I saw first-hand the transition from communism to a more open society. I have lived in a closed economy and a totalitarian society and can now fully appreciate what it means to live in a democracy. When I was a student, Europe for us represented the dream of freedom and prosperity. The European dream. The attraction, particularly on the young generation, was very strong. That attraction led many of us to leave. That attraction is still, I believe, very strong. It motivates people towards more openness, democracy and reforms. The Russian invasion has shown how precarious and challenging, but also necessary, the efforts are to integrate all the peoples of our region into a pan-European community. Franco thought that the Trieste Forum contributed and will contribute to that purpose. He was an idealist European. I have shared that belief and commitment, and continue to share it. With him.

**PG:** Do you think it is realistic in the present difficult context? And how long will it take?

**FD:** An old proverb says: 'the mujik the peasant of the steppes, is very slow. He takes a long time to harness, prepare his horse, put the saddle in place, get ready to go. But when he is on the saddle, he rides fast, and nothing will stop him'.

**PD:** Thank you, Fevzi.

# EUROPE AFTER THE WAR

The war of aggression against Ukraine has completely changed Europe. Not only has it impacted dramatically on Ukraine and Europe, but the entire world. It has undermined the foundations of international law and multilateralism. It has affected the prospects and the identity itself of the European continent and its global mission. Europe reacted by sticking together, looking eastwards and embracing further enlargement. It turned southwards towards the Mediterranean and Africa in search of energy diversification, climate and food security and to contain instability and conflict. It put pan-European integration higher up the policy agenda.

The papers collected in this volume view the challenges above from the angle of financial market development and cooperation. They focus on how to bridge the huge investment and financing gaps, and respond to the growing demand for security, protection and stability. Through the prism of banking insurance and capital markets, new horizons open up in terms of resilience and recovery for eastern Europe and the Euro-Mediterranean, common energy and industrial strategies, governance reforms and integration, and a new EU-Africa relationship.

We are living in an unprecedented 'European moment', comparable to the one that gave rise to the 'Ventotene Manifesto' in the middle of the Second World War and lay the foundations for the post-war European and world order.

Europe after the war can – and must – rise to these challenges.

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