

## REPORT LAUNCH

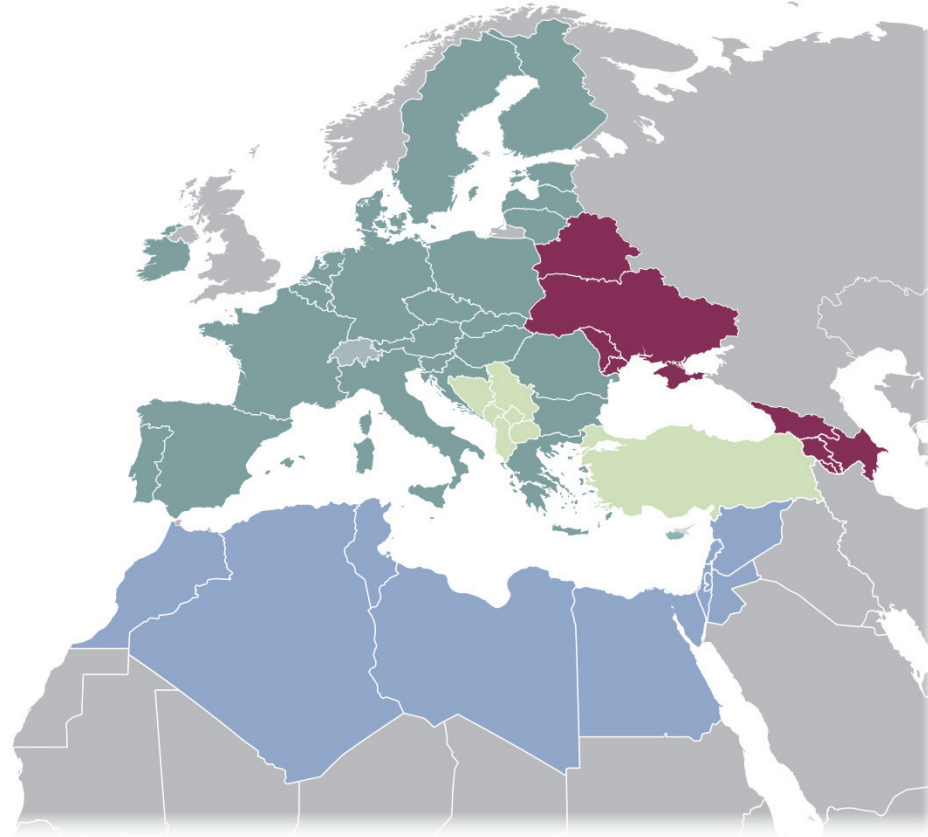
# Keeping friends closer

- Introduction      Christian Hanelt
- Presentation     Richard Grieveson
- Q&A session

### Keeping friends closer:

Why the EU should address new geoeconomic realities and get its neighbours back in the fold

## To live up to its geo-political ambitions, the EU has to learn to use geoeconomics in its neighbourhood

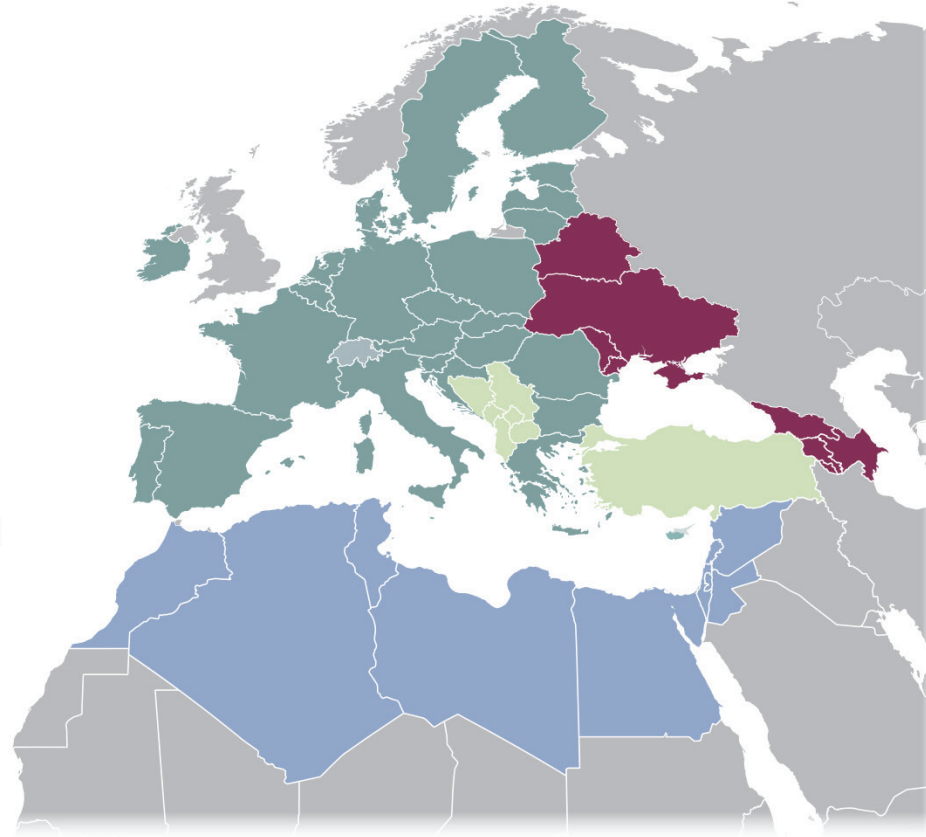


- EU 27
- **Eastern Partnership**  
Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Ukraine
- **Western Balkans + Turkey**  
Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia, Turkey
- **Southern Neighbourhood**  
Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia

To live up to its geo-political ambitions, the EU has to learn to use geoeconomics in its neighbourhood



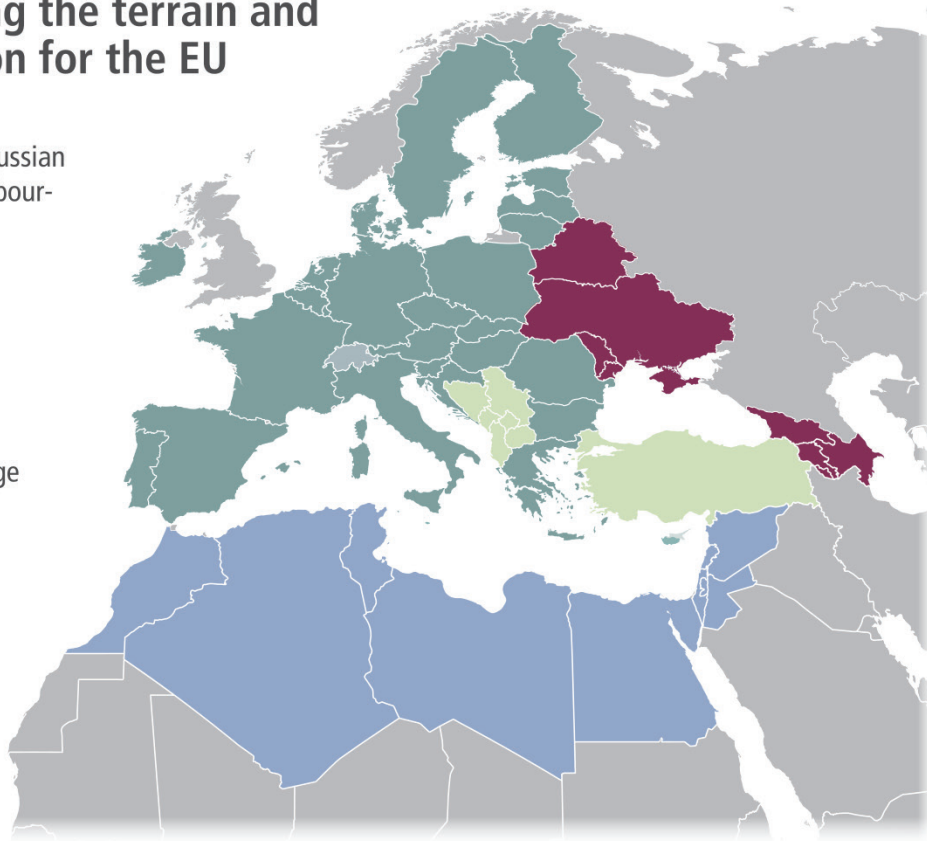
What economic levers does the EU have and how can it use them better?



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## Our approach: Mapping the terrain and plotting fields of action for the EU

- ▶ Quantifying EU, US, Chinese and Russian interconnectedness with EU neighbourhood
- ▶ Time period: 2007-2021
- ▶ 65 indicators across five areas:
  - ↗ Trade in goods and services
  - ↗ Finance
  - ↗ Technology/knowledge exchange
  - ↗ Infrastructure connectivity
  - ↗ Labour mobility
- ▶ Fields of action:
  - ⊙ Build on EU strengths
  - ⊙ Minimise EU weaknesses
  - ⊙ Respond to China/Russia threats while strengthening EU-US cooperation

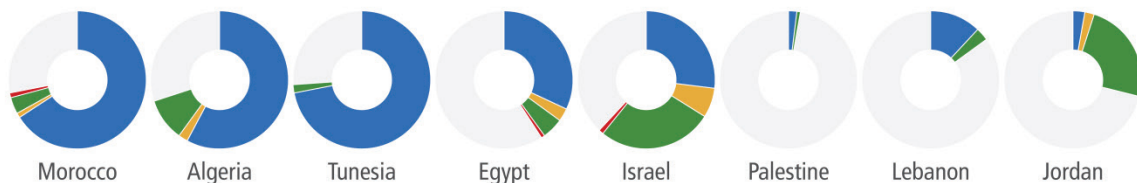
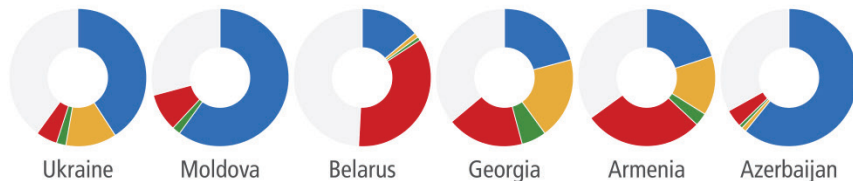


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## Trade **The EU is the dominant actor in its neighbourhood**

► Countries' exports by destination, % of total exports, 2021

- to the EU
- to China
- to the US
- to Russia
- to other



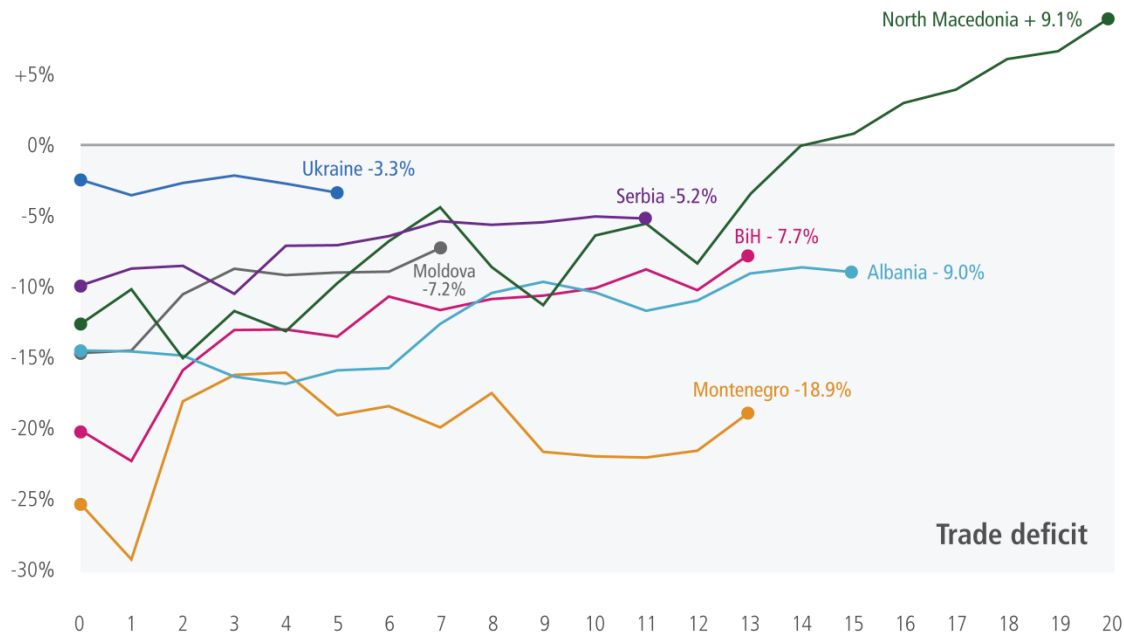
Source:  
UN COMTRADE-WITS

## Trade But the integration model leads to lasting trade deficits, and doesn't provide enough of a "carrot" to incentivise reforms and political alignment with the EU

- ▶ Merchandise trade balance with the EU, % of GDP. Year of Deep Trade Agreement (DTA) coming into force = 0

Source: wiiv, national sources

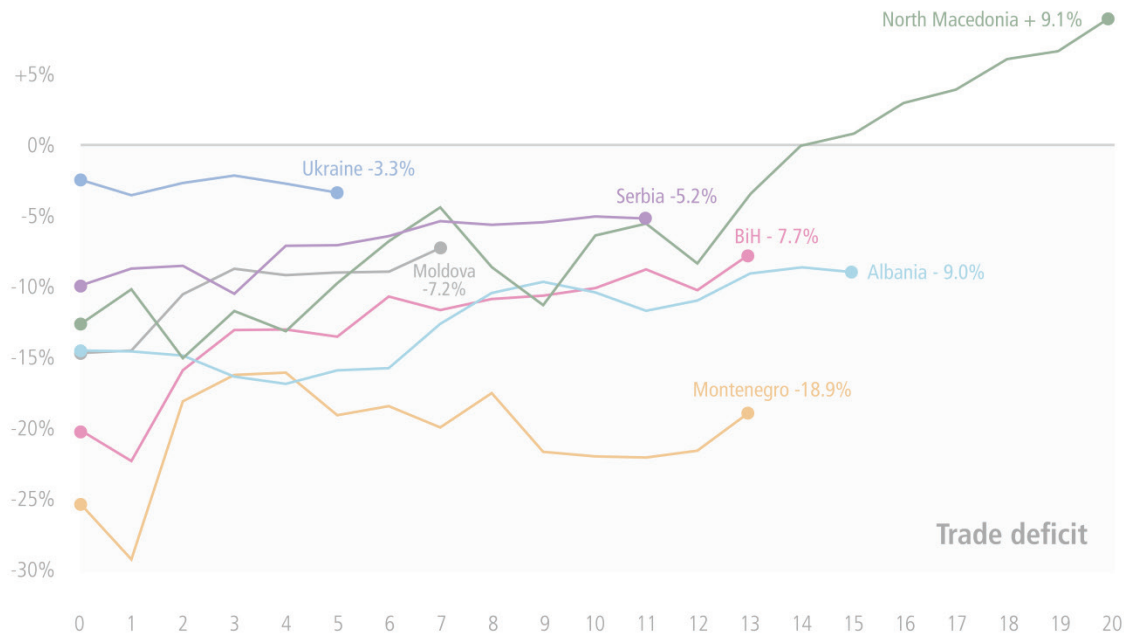
Note: Deep Trade Agreements refer to either SAAs or DCFTAs



## Trade Fields of action:

### ⊙ A fairer, deeper and more sustainable integration

- ⊙ More access to EU market
- ⊙ Help neighbours to maximise this access
- ⊙ Partnership approach on standard setting + regulation
- ⊙ Incentivise EU private sector to „nearshore“ production to neighbourhood
- ⊙ Enforce high standards



## Finance The EU devotes limited resources to non-members. More money would make big difference + increase credibility at low cost to EU

### ► Cumulative transfers from the EU budget 2004-2018\*, averages per country (in % of annual GDP)

Note: For EU member states, data are transfers since 2004. \*For non-EU Western Balkan countries transfers are IPA funds received during 2007-2018.

Sources: European Commission, national sources, wiiw





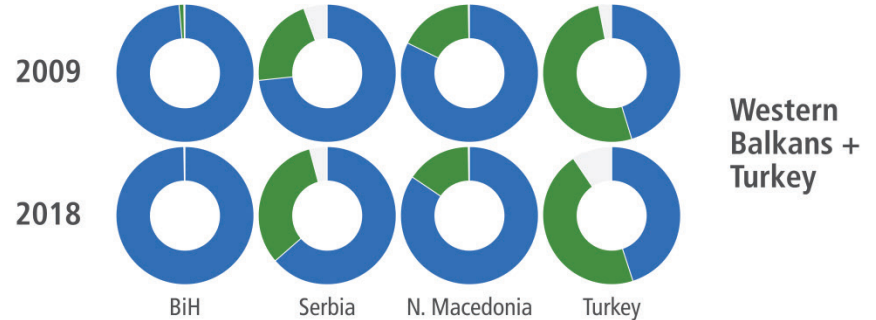
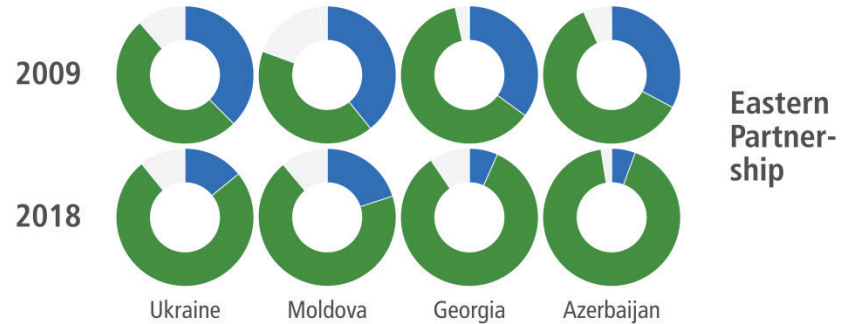
**Finance** EU has geoeconomic tools (e.g. €) to defend interests and improve regional security in coordination with the US

► Central banks' FX reserves by currency, %

- EUR €
- USD \$
- Other

Source:  
Reserve Currencies in an  
Evolving International  
Monetary System.  
IMF Departmental  
Paper No. 20/02.

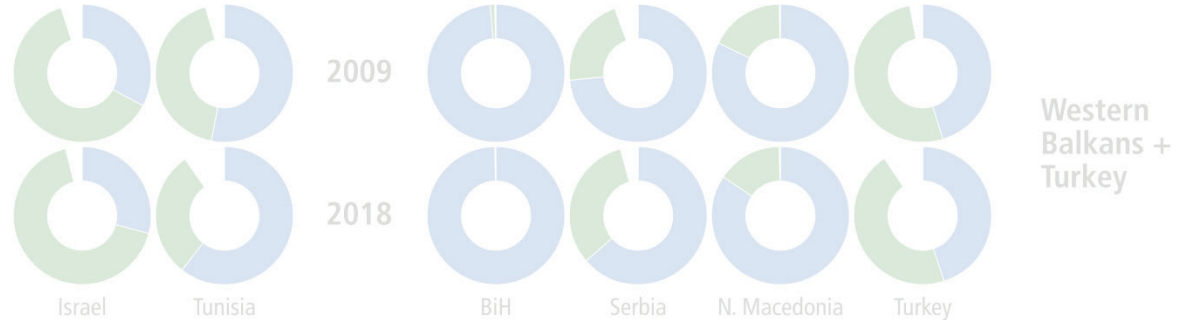
**Southern Neighbourhood**



**Finance** | **Fields of action:**

📍 **The EU should make much more of its financial strength in the neighbourhood**

- 📍 Increase budget transfers
- 📍 Fund connectivity- and growth-enhancing projects
- 📍 Focus investments in renewable energy, circular economy + digital infrastructure
- 📍 Ease access to private capital
- 📍 Tie these incentives to tougher conditionality
- 📍 Strengthen euro as reserve currency + work with US to increase leverage



Technology/  
knowledge  
exchange

EU not using full potential, and losing out in some areas to China

► % of total high-tech imports from China



Source:  
UN COMTRADE



Technology/  
knowledge  
exchange

Fields of action:

Make EU more competitive,  
deepen integration + align-  
ment with neighbourhood

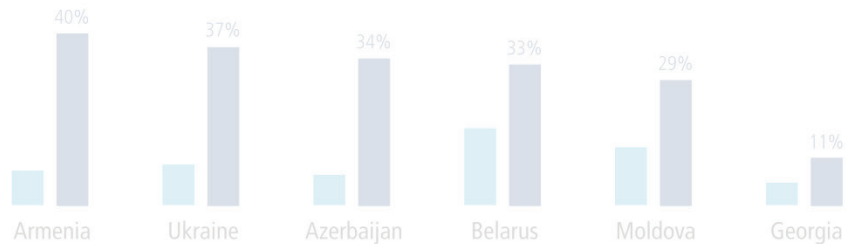
Invest in technological  
competitiveness

Integrate EU + neighbour-  
hood digital markets

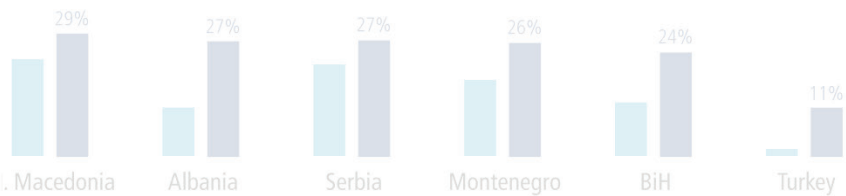
Adapt and simplify  
European patent law

Expand technology +  
scientific cooperation

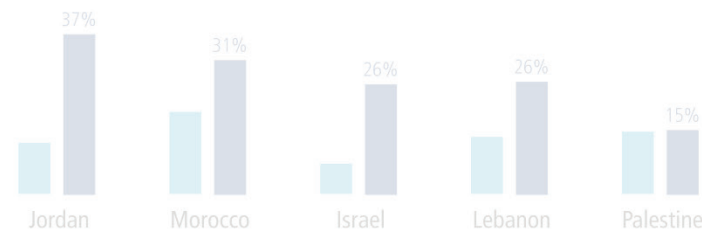
Expand the ERASMUS+  
programme



Eastern  
Partner-  
ship



Western  
Balkans +  
Turkey



Southern  
Neigh-  
bourhood

## Infrastructure EU has left gaps in financing in the Western Balkans that China has stepped in to fill

► Value of Chinese infrastructure investments, Western Balkans + Turkey



Source:  
China Global Investment Tracker



## Infrastructure Fields of action:

### Improving the leverage effect of public development financing

- More investment financing to counter Chinese influence (building on Global Gateway and Build-Back-Better Initiative)
- Tie investment plans closely to green transition
- More investment in transport
- Improve leveraging of public money to crowd in private resources
- Create more investment incentives for EU companies



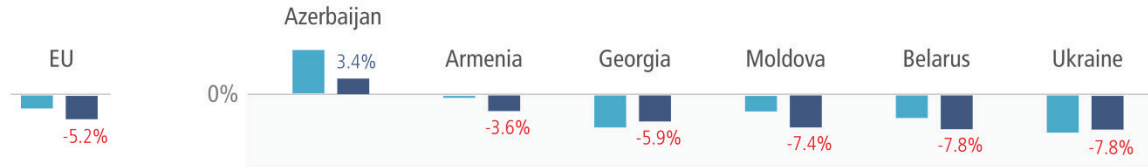
## Labour mobility

Push/pull factors will continue to drive migration towards the EU, but Southern Neighbourhood will contribute increasing share of future arrivals

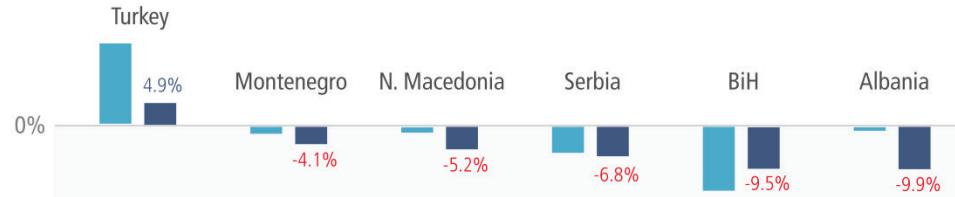
### ► Working age population (15-64), percent change



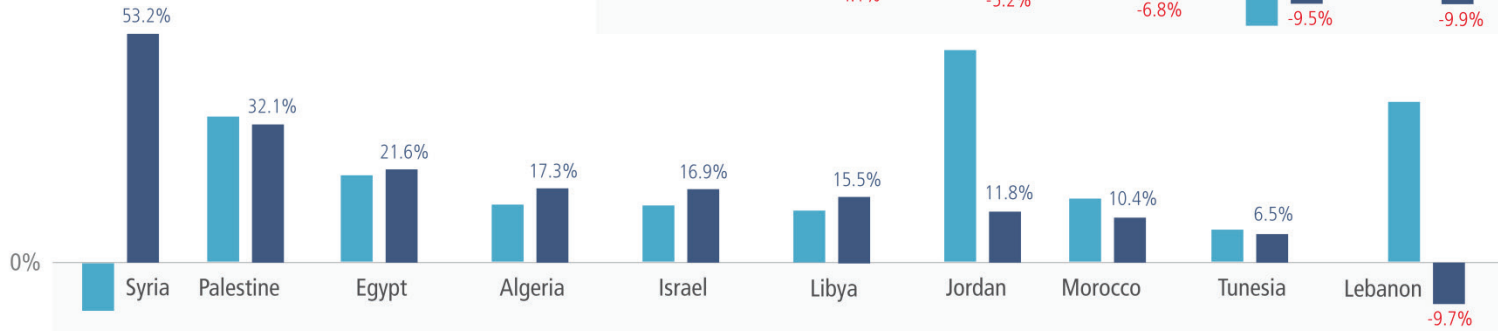
Source: Own elaboration using UN World Population Prospects 2019.



Eastern Partnership



Western Balkans + Turkey



Southern Neighbourhood

Labour mobility | Fields of action:

Balance the needs of the EU, the neighbourhood, and migrants themselves

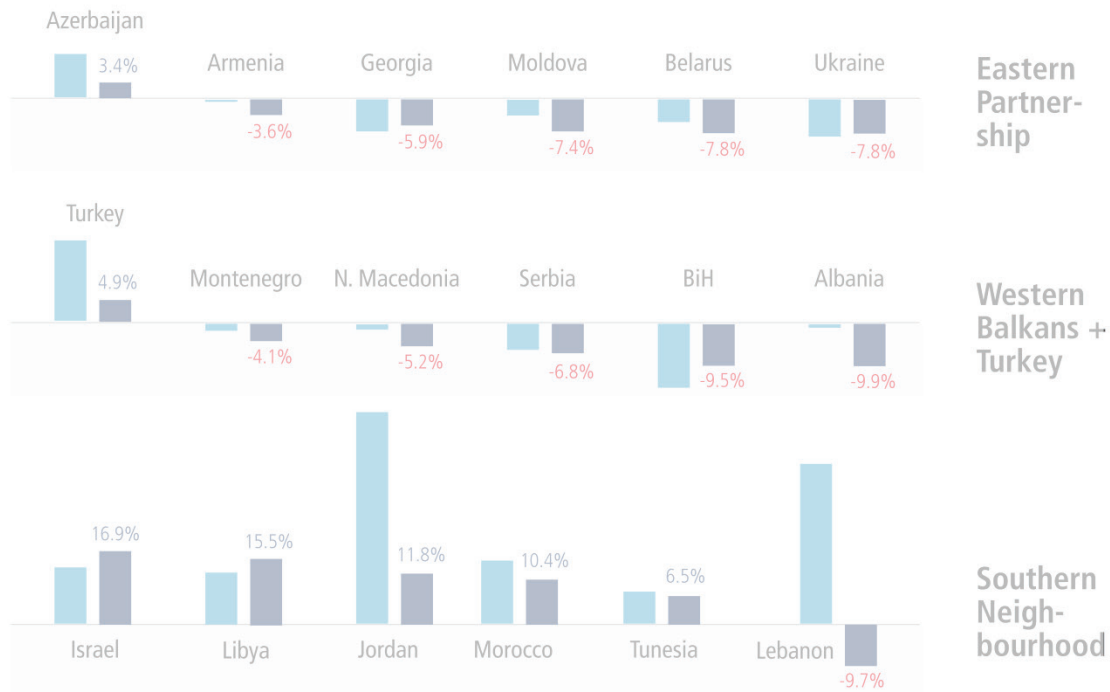
Make "virtual labour mobility" easier

Support circular migration

Help to improve labour conditions in neighbourhood

Reduce "brain waste"

Focus more on Southern Neighbourhood





## Carrots and sticks: How the EU can make friends + win influence in its neighbourhood

### 1 Bigger carrots:

- More access to EU market + technical assistance to maximise upside
- More budget support + investment (especially energy + green potential)
- Better private sector incentives to crowd in more financing + near-shoring

### 2 Tighter relationship:

- Partnership approach on standard-setting, regulation + foreign policy
- Digital market integration
- Increased student exchange

### 3 More effective sticks:

- Tougher conditionality on reforms, standards, transparency + foreign policy alignment
- Strengthen Euro as reserve currency + work with US to use combined €/\$ power to influence neighbourhood countries

