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POLICY BRIEF

OPENING THE GLOBAL GATEWAY: WHY THE EU SHOULD INVEST MORE IN THE SOUTHERN NEIGHBOURHOOD

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SUMMARY

- The southern neighbourhood should be a key focus for the EU's Global Gateway infrastructure programme – but the bloc has so far directed relatively little of its investment to the region.
- Strategic goals for the EU in the Mediterranean include promoting 'nearshoring' to shorten key supply chains including of energy; and improving regional connectivity, decarbonising economic activity, and creating jobs.
- The EU can propose more attractive investment offers than China and other players. The Global Gateway's use of grants rather than loans is central to this.
- Going beyond investments, the EU should promote inclusive growth by sharing technical know-how and supporting training to enhance the skills of workforces in the region.
- Protecting physical connections is of great importance. The EU should work hand in hand with southern neighbours to monitor Global Gateway-funded infrastructure.

Introduction

The European Union's Global Gateway programme is its initiative to promote investment in connectivity worldwide. It is an ambitious plan that could help the EU meet its geopolitical, economic, and climate goals.

However, more than a year after its launch in December 2021, the Global Gateway lacks a clear set of priorities and well-defined destination regions. It is not yet fully tailored to the rapidly shifting global context. This includes major shifts in globalisation and the consequences of Russia's war on Ukraine, which are leading countries to redesign the supply chains on which their economies depend. They are seeking to reduce the geographical distance of key suppliers or relocate them in friendly countries.

The EU has already established its goal to achieve strategic sovereignty and to reduce the vulnerability – and carbon footprint – of its value chains. To succeed in this, it will need to move these value chains to regions that are closer to Europe and that have a significant green energy potential. The countries of the southern neighbourhood – states along the south and east of the Mediterranean – are strong candidates to help meet this need. Yet the EU so far has failed to grasp all the opportunities available to help states in its neighbourhood develop their economies in this way. Moreover, despite remaining dominant in terms of trade and investments in the Middle East and North Africa, the EU is facing growing challenges in the region from the increasing presence of China and Gulf Arab states. If the EU does not deliver, southern neighbourhood countries will look elsewhere to develop their economies.

This paper argues that the EU should make a concerted effort to target Global Gateway activities on its southern neighbourhood. It can invest in green energy projects, support the regional quest for stronger infrastructure connections between states and with Europe, and focus on growing manufacturing sectors with shorter and more resilient supply chains. The depleted state of the southern neighbourhood's infrastructural endowment means there is much work to do in this area. But the region's geographical proximity and historical trade links make it well positioned to become a nearshoring hub for the EU. This is all the more so following a strengthening of energy relationships in the last year as Europeans seek new fuel supplies in response to the war in Ukraine.

To make the southern neighbourhood a feasible nearshoring destination, the EU should engage in the sharing of standards and know-how with regional partners. It should also shift its approach and conditionality system. It can do this by moving conditionality obligations from the political to the technical domain and investing in human capital as well as in physical infrastructure. Enhanced support for education and employment in the countries of the southern neighbourhood will promote social and political stability there.

The Global Gateway

The Global Gateway is the EU's framework to promote investment in connectivity links around the world. It brings together a wide range of investment tools under a single EU umbrella and aims to leverage €300 billion between 2021 to 2027 to build and improve sustainable energy, transport, digital, and other forms of infrastructure. Examples of these forms of infrastructure range from new electricity interconnectors, to new ports and railways, to new telecommunications infrastructure. Indeed, it supports only new infrastructure rather than the upgrading of existing infrastructure. The Global Gateway seeks particularly to target emerging economies to improve their infrastructural endowment. The EU has also stated that the Global Gateway forms part of its wider efforts to support the green transition outside its borders.

The EU's adoption of this programme also signals its wish to engage in global competition in the realm of infrastructure. The EU currently faces an intensifying antagonism between major powers and volatile global trade growth that is pushing countries across the world to reduce the risks they face in their supply chains. The US-China rivalry – lately embodied in a trade war on tech components – and reactions to the Russian war on Ukraine have led countries to more urgently explore 'reshoring', 'nearshoring', and 'friendshoring' opportunities. A rising awareness of vulnerabilities and disruption is causing states to try to shorten their supply chains. They are also taking account of the need to decarbonise their economies, including for imported goods and services. And they are acutely aware that states may increasingly use these connections to wield power over others: governments have identified the strategic need to shield critical know-how, sensitive technologies, and energy supplies from sudden political upheaval or international tensions. Relocating production facilities or processing plants closer to home reduces transport costs and improves oversight of value chains and strengthens their resilience.

Europeans' role in funding and supporting infrastructure investments is crucial to shaping their place in the world. Infrastructure matters in relations between states. The EU is a success story of political and economic openness and constitutes a market of 450 million consumers and 30 million firms, but the bloc is also one of the most vulnerable economic regions in the world. It largely lacks commodities of its own and has long relied on external suppliers of semi-finished products. European industries are now directly experiencing how major powers can weaponise their economic relations for geopolitical ends.

The EU can respond to this situation by supporting the development of infrastructure in other countries. This can improve political relationships, create jobs at home and abroad, and help boost the competitiveness of the destination economies. Supporting the construction of infrastructure in other countries allows the extension of European standards, which are often highly technical but crucial to improving economic links. For example, smoothly connecting a smart container port with a freight railway requires both to operate with the same – or at least compatible – standards. Writ large, influencing the construction and control of critical nodes helps protect one's interests, including against rival powers that may want to operate in the same location.

To this backdrop, the European Commission is aiming to create a "geopolitical Europe". It is no secret that the EU drew up the Global Gateway at least in part because of China's launch in 2013 of its Belt and Road Initiative, a strategy to develop infrastructure on a global scale that has grown to encompass 147 countries. Yet, the Chinese endeavour has met with mixed success: while infrastructural investments have indeed expanded Chinese influence abroad, not all of them have proved economically viable. This competition was acknowledged by European Commission president Ursula von der Leyen shortly after the Global Gateway's launch.

Yet, despite its ambitions, the commission is facing internal divisions, with the Global Gateway at risk of falling prey to diverging preferences among member states. With different foreign policy priorities, different member states have an interest in seeing the Global Gateway fit their own agenda. Responsibilities for its implementation are still unclear within the commission's directorates general and other EU bodies; the European External Action Service and the International Partnerships DG vie for leadership of the programme. This situation risks slowing its implementation. Additionally, the areas of action of the Global Gateway are numerous, ranging from health and education to energy, but the EU has established no hierarchy among them.

Crucially, the initiative remains detached from essential elements of the EU's external projection. The Global Gateway is yet to become a structural component of the EU's energy security strategies and external action planning, meaning that investments under the Global Gateway umbrella are not serving EU goals of strategic sovereignty. For the time being, the Global Gateway is more of a supporting tool than a structural element of European external action.

The Global Gateway makes funding available for projects across the world, but it sets no priorities among its destination regions, apart from a focus on emerging and developing economies. In its first year of life, the prospective projects funded under the Global Gateway for 2023 were allocated to places in Africa and the Indo-Pacific, with Latin America a distant second and countries of the Middle East and North Africa last. In fact, the southern neighbourhood was awarded only three: the Medusa optical fibre cable connecting North African countries with Europe; a high-voltage electricity link between Tunisia and Italy; and a desalination plant in Jordan. These are all important in fostering connectivity and contributing to the fight against climate change, but overall Global Gateway-funded activity in the southern neighbourhood is modest in comparison to what the EU has earmarked for other parts of the world.

Regardless of the competing attractions of the economically dynamic Indo-Pacific or the natural resources of sub-Saharan Africa, such levels of investment fail to reflect the potential contribution the region can make to addressing European geoeconomic challenges, and by a significant margin. Firstly, its geographic proximity would reduce both the length and the vulnerability of supply chains in nearshoring perspectives. Secondly, this proximity also helps in terms of present and future energy connections, making the realisation of links both cheaper and easier compared to other areas. Finally, improved investments in the southern Mediterranean will also enhance connections to sub-Saharan Africa and thereby improve the EU's geopolitical options in relation to a wider range of partners.

The EU and the southern neighbourhood

Russia's war on Ukraine has pushed EU countries to turn to the southern neighbourhood, elevating the region's importance to European economic and energy policymaking. The EU therefore has a clear political interest in reinforcing its partnership with Mediterranean countries. Working with them to develop significant infrastructure plans would also provide economic opportunities and help bring about stability in the region. However, the EU has only patchy rewards to show for its efforts, both lately and over the longer term.

Policy and practice

The EU's policy approach to the Mediterranean has long proceeded along parallel economic and political tracks. Economically speaking, in the last three decades the EU has sought to promote the inclusion of countries in the Middle East and North Africa within the global market by focusing on economic development and engaging politically with governments in the region. To operationalise this approach and empower action in the Mediterranean, in 1995 the EU launched the Barcelona Process (also known as the Euro-Mediterranean Partnership). It then followed this up with "two pillars" of EU action in the Mediterranean that remain standing to this day: in 2004, the European Neighbourhood Policy and, in 2008 the

Union for the Mediterranean.

These approaches proved only partly successful: despite sustained levels of economic growth in the southern neighbourhood (notably from 2000 to 2007), political instability, the prevalence of authoritarianism, structural economic deficiencies, and persistently high unemployment rates have hindered regional stability and prosperity. The Arab uprisings of 2011 and their aftermath have demonstrated not only how precarious the previous political equilibrium was but also how difficult transition is. Drawn-out instability and security challenges have led the EU to progressively distance itself from deeper engagement with the challenge of democratisation in the region and it has remained muted on promoting intra-regional cooperation and engagement. This weak record has left the EU without a neighbouring region made up of reliable partners with shared values. As Europeans look for viable nearshoring opportunities, the southern Mediterranean does not yet meet its full potential.

In addition, over the last couple of decades, the EU's approach has been unable to counter the growing political, economic, and military presence in the neighbourhood of Russia and China. These do not form a united bloc in the region, but both have consolidated their influence and begun to openly challenge the Western position in recent years. If Russian activities in the region have been mainly connected to the military sphere, as Wagner Group's presence in Libya testifies, Beijing has increased its trade and investments across the Middle East and North Africa. Substantively, the United States' recent gradual retreat from the Middle East and North Africa has not been matched by an adequate European capacity to fill this political vacuum. In addition to Russia and China, regional players such as Turkey and Gulf Arab states have also scoped out relatively broad room for manoeuvre. To regain ground, the EU will need to show southern neighbourhood governments that it is a viable partner willing to commit political and economic capital. The Global Gateway therefore represents an opportunity – possibly the EU's last chance – to do this.

In 2021, the European Commission adopted the New Agenda for the Mediterranean, which is an updated framework for managing the relationships with southern neighbourhood countries. The New Agenda openly acknowledges the difficulties in fostering change in the past and is orientated towards current challenges such as the green and digital transitions. It maintains a focus on governance and human rights issues. However, so far little has come of this, and the changes it announced in terms of political reforms and economic investments have not yet materialised.

The New Agenda is accompanied by the European Commission's Economic and Investment Plan for the southern neighbours. Its key headlines are broad but fail to give prominent space to economic development measures. Yet, the overall financing scheme is set out in the new Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI-GE) framework. This is the new tool adopted to finance EU external actions. The NDICI-GE allows for some flexibility and opens up the opportunity to mobilise both guarantees and grants in a competitive way, in particular through the European Fund for Sustainable Development Plus (EFSD+). The NDICI-GE instrument entered into force in June 2021, and was created from a merger of previously separate EU external financing tools. It is now a unitary framework that covers all grants, guarantees, and blended finance related to cooperation with third countries.

Conditionality mechanisms are a controversial point of previous projects agreed as part of the Barcelona Process and the Union for the Mediterranean, as they are in most EU external assistance schemes. A system of prerequisites and controls in international engagement is essential but conditionality can also stymie cooperation with partner countries. Some southern neighbourhood countries such as Egypt are reported to be coming to resent an approach that perpetuates an asymmetrical relationship. In this respect, the New Agenda presents innovations on the question of conditionality, mainly prioritising the socio-economic elements over the purely political ones. While it remains essential to maintain oversight in respect of human rights and democratic reform, a less intrusive and more results-orientated approach could be helpful, focusing on conditionality along the course of financed projects rather than as an upfront prerequisite to any support.

In a challenging regional environment, the EU is still in a strong position to work with southern neighbourhood countries to develop infrastructure to mutual benefit. The EU accounts for the lion's share of North African countries' external trade and holds an important position as a provider of expertise to build high-quality infrastructure. Additionally, and arguably equally importantly, the EU is also better placed than its competitors to share technology, materials, and know-how for the maintenance of such infrastructure. Economic growth is a core preoccupation of North African governments, which are open to working with a variety of partners to obtain foreign direct investment. The EU can go further in meeting their needs and developing projects of joint benefit.

Economy, employment, and connectivity

Many countries in the southern neighbourhood are currently in a weak position to make the sorts of investments that would strengthen economic links with Europe. Despite high energy commodity prices, the Middle East and North Africa region is in troubled economic waters. Economic growth in 2022 was boosted by higher fossil fuel revenues connected to Russia's war on Ukraine, but, more broadly, the outlook for North African economies in particular is difficult. Oil importers are witnessing limited economic growth, with Tunisia's GDP expected to increase over this year by 3.3 per cent and Jordan's GDP by 2.4 per cent according to the World Bank. Despite higher gas revenues and new contracts signed with EU member states, Algeria's growth is estimated to have been 3.7 per cent in 2022 but is projected to slow to 2.3 per cent in 2023. It stands out as the only oil exporter whose primary fiscal balance is deteriorating during an oil boom. The fiscal situation of the region is even bleaker: the balance sheets of nearly all governments in North Africa are in negative territory and look set to remain there for the coming year at least.

This problematic fiscal outlook hinders the considerable growth and nearshoring potential of the southern neighbourhood. Governments are further constrained by rising interest rates and growing costs for servicing debts, meaning they are unable to provide for significant public infrastructure investment. Additionally, the prospect of sustained rate hikes in most developed economies may further reduce the inflow of foreign direct investment, as less risky markets are becoming more profitable. While the public sector in the southern neighbourhood has generally provided a large share of overall infrastructure investment, investment levels regularly fall short of what is required. In 2020, the World Bank estimated the region would require average spending on infrastructure of at least 8.2 per cent of GDP in order to reach 2030 objectives; yet this figure currently stands at 3 per cent.

The Middle East and North Africa region is also contending with a number of socio-economic problems. One is that the region has the highest youth unemployment rates in the world as well as some of the youngest populations in the world. Poor employment prospects are a driver causing thousands of people to migrate to Europe each year. Unregulated flows of people into the EU pose challenges to the bloc and its member states in terms of their political consequences and management.

A further challenge is southern neighbourhood countries' poor regional integration. Although many of these countries have relatively intensive trade links with the rest of the world, largely based on the export of oil and gas commodities, the physical connections between them are highly underdeveloped. Many southern neighbourhood countries perform poorly in the Logistics Performance Index, which measures performance on trade logistics; the solution to this is for these countries to upgrade their infrastructure. Trade and people-to-people exchanges are also weak. Intra-regional trade averages 6 per cent of overall trade, and for all countries in the region their main trade partner is external: only for Oman, Jordan, and Lebanon does trade within the Middle East and North Africa account for at least a fifth of their total trade in intermediate goods and services. Meanwhile, although the average tariff is comparatively low, political tensions between different states act as a barrier to trade and economic cooperation; for example, decades of friction between Algeria and Morocco have hindered integration. Finally, an overall lack of transparency, associated with cronyism, and diverging requirements on a vast array of products prevent intra-regional economic integration.

To take one example of where the EU could promote intra-regional connectivity, recent years have seen increased investments in constructing railways in southern neighbourhood countries. Indeed, these represent the lion's share in many places: as of July 2022, rail constituted 67 per cent of active transport investments in Algeria ($22.4 billion), 59 per cent in Egypt ($66.2 billion), 40 per cent in Tunisia ($4.1 billion), and 71 per cent in Morocco ($12.7 billion). However, the level of investment remains far from the sums needed and, importantly, this is largely focused on national projects. Little investment in cross-regional links is forthcoming. One major multinational roadbuilding project is currently under construction and is co-financed by the EU, Algeria, and Morocco. However, large gaps remain in North African connectivity, especially with regard to Libya, which has limited cross-border links. Political instability largely puts Libya out of scope for infrastructure investments in the near future, but in neighbouring states it should take place with a view to eventually linking the Suez hub with the Maghreb.

Increased regional connectivity is essential to develop North Africa into an industrial and energy hub close to Europe. Divergent economic policies, limited cross-border links, and a poor infrastructural endowment all limit the growth potential of markets in the region. They prevent economies of scale that would benefit southern neighbourhood countries and increase the return of European investments in the neighbourhood.

Finally, the post-pandemic relaunch plans of states in the region also require additional investment and could help meet decarbonisation objectives. Reducing the carbon footprint of southern neighbourhood countries is a particularly important matter in light of the EU's planned introduction of the carbon border adjustment mechanism (CBAM) – essentially an environmental tariff for products entering the EU. In order for their goods to remain competitive in the EU, states in the region will need to work to significantly lower the carbon intensity of their industries. The EU has a clear interest in supporting this path, as it will also enable nearshoring as well as help meet broader climate goals.

Nearshoring

Europeans are planning to shorten the supply chains on which they depend in critical sectors. This is an important part of their efforts to achieve strategic sovereignty and encompasses a wide range of sectors, from manufacturing to energy. An early direct consequence of the war in Ukraine was European countries' turn to the southern neighbourhood to replace Russian natural gas. The EU has since signed gas supply agreements with Algeria, Egypt, and Israel.

Within southern neighbourhood countries, Morocco is emerging as the main nearshoring destination, helped by previous investments in logistics, infrastructure, and industrial capabilities. Tunisia and Algeria, on the other hand, have untapped potential that would benefit from significant economic and public sector reform. Algeria recently adopted a new investment law, which eases administrative procedures and removes rules that obstructed investment by external partners. It does not cover all sectors of the economy but is a powerful hint that the country aims to be more than just a gas supplier. Egypt too represents an attractive nearshoring partner for the EU thanks to its large market, educated population, and previous investment in infrastructure. Connectivity both within the Middle East and North Africa region and across the Mediterranean is essential to developing the industry and infrastructure needed to make nearshoring in the southern neighbourhood a reality.

In fact, the European Commission appears to be partly following such an approach already – towards sub-Saharan Africa, which is often described as the priority destination region for the Global Gateway. In February 2022, the commission unveiled 11 strategic corridors it wishes to see built out to better connect the EU and Africa. Unfortunately, North Africa is largely absent from this network and features only as the starting point of the Cairo-Khartoum-Juba-Kampala corridor, which would link Egypt with central and eastern Africa. While some additional corridors connecting North African countries have been considered by the European Commission – the 11 strategic corridors have been selected from 55 potential links – it has not included them in its priority projects. More broadly, the main limitation of this approach within the Global Gateway's activity to date has been to largely conceive of North Africa as the endpoint of corridors for manufacturing and critical raw materials in Africa rather than as a nearshoring destination to be directly integrated within EU supply chains.

Energy

Some states in the southern neighbourhood have ambitious clean energy strategies, but others lag behind; the recent boons from sky-high gas prices are likely disincentivising some from developing clean energy infrastructure at a greater pace. Morocco is leading the energy transition in the southern neighbourhood – it has reformed its energy subsidies, rapidly deployed renewables capacity, and built one of the largest solar plants in the world. Algeria is still wary of committing to a green energy path; Egypt has devised ambitious plans but remains keen to exploit fossil fuels.

The EU and southern neighbourhood countries are already starting to cooperate on green energy generation. They should strengthen this existing partnership through the Global

Gateway. It should not limit itself to funding green energy plants but could include joint research and development schemes between the EU and states in the region to develop entire clean energy value chains. As an example of fostering nearshoring in this strategically critical area, building components such as solar panels in southern neighbourhood countries would also help the EU reduce problematic dependencies on single external suppliers. With Chinese firms controlling around 80 per cent of global solar energy supply chains, investing in southern neighbourhood manufacturing capacity would reduce European vulnerability.

Gas and hydrogen

In no other area is southern neighbourhood countries' importance to the EU as immediately evident as in the supply of natural gas. Forced by the outbreak of the war to wean itself off Russian gas, the EU along with its member states looked south. Partly through making use of the available pipeline capacity, partly through liquefied natural gas (LNG) transported by tankers, southern Mediterranean countries quickly rose in prominence and increased their share of gas supply to Europe.

The EU plans to reduce its 2030 gas demand by 52 per cent compared to 2019 levels as part of its RePowerEU initiative to reduce dependence on Russia. Global Gateway initiatives in southern neighbourhood countries could assist the bloc to reach this goal. The EU could provide support to improve the efficiency of both energy production and distribution, bolstering the currently ailing infrastructure in the region to minimise gas leakages, waste, and flaring. This may also involve constructing new gas pipeline infrastructure, including as part of infrastructure commitments linked to new energy contracts.

However, the European Commission should strike a balance between short-term needs and long-term objectives; between the current dash for gas and the need for reliable clean energy sources in the future. It should communicate this firmly and openly to partner countries to avoid ambiguity and ensure funding does not go to infrastructure that risks becoming stranded assets. While a renewal of existing energy infrastructure is necessary, member states, energy companies, and EU institutions should work together to assess any emerging proposals to construct new pipelines in the light of future gas demand expectations. Every euro spent on unnecessary gas infrastructure is one euro less that could support greener options.

In this regard, green hydrogen also represents a significant opportunity in a renewed energy relationship with states of the southern neighbourhood. Green hydrogen is currently more expensive than fossil fuels but is forecast to become competitive with natural gas by 2030. It could be a major tool in the decarbonisation of hard-to-abate sectors, such as the steel industry and the production of chemicals. With the EU anticipating it will import around half of its green hydrogen needs, southern neighbourhood countries could become a reliable supplier to Europe. The EU plans to import 10m megatonnes a year of green hydrogen by 2030; a steady supply in close proximity would help shorten this key supply chain.

Promising signs in this regard include Egypt's unveiling at COP27 of a low-carbon and green hydrogen strategy, and its memorandum of understanding with the EU on developing a partnership in this area. Recent pilot projects in Morocco are also promising, from membrane electrolysers to split water molecules to a micro production system in the Benguerir Green Energy Park. Nonetheless, to realise the southern neighbourhood's potential and build an integrated green hydrogen economy, the EU should channel significant investment into this industry. However, the EU should also take care that its green hydrogen import quotas do not have a knock-on impact in exporting countries; it should ensure that they do not switch to burning more fossils to power domestic generation because the renewable capacity is fully dedicated to produce hydrogen for exports. It is therefore essential to support southern neighbourhood development of renewable energy capacity alongside support for green hydrogen.

That being said, green hydrogen is no decarbonisation silver bullet. Its infrastructure requires long and costly construction and spare renewable capacity. The EU will need to undertake a careful assessment of the hydrogen strategies of countries in the region (and the feasibility of their roadmaps) before committing to financial support – this is to avoid supporting the building of white elephants – costly assets whose revenues do not match construction and operational costs. There also remains great uncertainty about the feasibility of an LNG-like market for green hydrogen. Retrofitting existing gas pipelines for hydrogen is possible but takes years and sizeable investment, while liquefying hydrogen for long-distance sea transport is also a complex and expensive operation.

A more cost-effective area of action could be for the EU to support the production of green ammonia in the southern neighbourhood. Exports of this have already begun and it can serve as a fuel, an energy storage system, and a chemical component. The extremely low temperatures required to create liquefied hydrogen from its gas form would be more expensive and complex to produce.

Renewable energy

In the end, the cheapest and most convenient clean energy that Europeans can obtain from North Africa is electricity produced from renewable sources and delivered through undersea cables – which are also easier to deploy than gas or hydrogen pipelines. The EU will not meet its ambitious carbon reduction targets without maintaining a clear focus on renewable energy. The EU is set to remain a net energy importer even after reaching its 2030 targets for renewables. Therefore, ensuring a steady and secure supply of renewable energy from southern neighbourhood countries will be essential to achieve energy security and meet EU and Paris agreement decarbonisation objectives. A more integrated southern neighbourhood could provide a significant contribution to European energy needs.

North Africa holds great renewable energy potential. Morocco is already boosting its solar and wind production, while Algeria's potential is largely untapped as the country's economy remains governed by rentier state logic. European support and expertise could assist in addressing this. But, beyond this, the EU should negotiate with Algeria to agree a new energy partnership that provides adequate incentives to a reluctant partner and establishes a realistic roadmap for the transition. And, as noted, the CBAM means that nearshoring in the southern neighbourhood will only be effective if powered by clean energy and with a reduced carbon intensity of products. The EU also needs to consider how to improve the electricity grids of partner countries and increase their efficiency and capacity. This would free up a larger share of energy for export and the production of green hydrogen.

Infrastructure security

The war in Ukraine has been a dramatic reminder of how vulnerable and exposed large-scale infrastructure can be. Russia may well have been involved in the September 2022 explosions on the two Nord Stream 1 gas pipelines and one Nord Stream 2 pipeline, which prevented the transfer of gas to Germany and contributed to keeping prices high. Several weeks after those incidents, cables vital to the functioning of the railway in northern Germany were severed, and from the Faroe Islands to the Mediterranean undersea cables were mysteriously cut in several locations. In an era of increased tensions, competition, and weaponisation of energy and digital links, it will be important for the EU to ensure its Global Gateway investments in the Mediterranean also work to protect critical infrastructure built under its aegis.

In the southern neighbourhood, instability is affected by the presence of a significant number of non-state armed groups, which creates a situation in which malicious actors could carry out sabotage both physically and through cyber-attacks. The threshold to cause damage to critical infrastructure – especially undersea cables – is low, making the pool of potential attackers large. Despite this, the numbers of European monitoring and repairing assets – such as surveillance ships, submarine drones, and repair vessels – have not increased to match this changing risk profile. Only two vessels – the French *Raymond Croze* and the Italian *Elettra* – are available to repair submarine cables operated by the Mediterranean Cable Maintenance Agreement

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In December 2022, the EU adopted a directive that mandates member states to adopt national strategies to reduce vulnerabilities and increase protection of critical entities. This envisages the strengthening of cooperation with NATO. The expertise of the Atlantic alliance as well as its surveillance capabilities in terms of aircraft, intelligence gathering, and Earth-observation satellites will be crucial in protecting critical infrastructure. Parallel to this, resilience – the ability to monitor and address threats and the physical capabilities of infrastructure to withstand damage and be repaired – is emerging as a collective requirement that cannot be adequately addressed on a national scale. The transnational nature of most European critical infrastructure already by itself calls for shared initiatives, something that is all the truer for undersea connections like pipelines and cables, which encompass different policy domains. Additionally, the places that need to be monitored are so extensive as to be beyond the capabilities of a single nation. This has been shown to be the case for the North Sea and the Baltic Sea, let alone the even larger Mediterranean Sea.

Actors present in the southern neighbourhood

China

China has strongly increased its investments in the southern neighbourhood, largely through the BRI, in the energy, transport, and construction domains. Between 2005 and the first half of 2022, Beijing invested in or directly constructed projects in southern neighbourhood countries that together reached a total value of $82.1 billion. The actual figure might be even larger, as the China Global Investment Tracker – the sole comprehensive dataset publicly available – only lists transactions above $100m.

Algeria's recent decision to apply for BRICS membership suggests that China has acquired significant political clout in the region, as does Egypt's expression of interest in joining the grouping. Additionally, in December 2022, Algeria signed two agreements with China on BRI development and economic cooperation, which substantially upgrade the partnership between the two countries.

The EU's relationship with countries in the region may at first appear to be characterised by a growing distance, with integration initiatives struggling to advance. The EU's engagement has been further damaged by the war in Ukraine and the warm ties that many regional actors have with Moscow.

However, China is not supplanting the EU as the major infrastructure development partner for southern neighbourhood states. EU Aid Explorer data, which displays figures for Official Development Aid from EU institutions and member states, shows that total EU assistance to the southern neighbourhood between 2007 and 2022 came to €57.92 billion. Not only is this in the same order of magnitude as Chinese commitments, but it is even more remarkable considering that is made up almost exclusively of grants. In contrast, BRI financing comes in loans, which partner states must of course repay, and not always on terms that prove favourable. Beijing was the pioneer in assembling large-scale infrastructure investment on a global scale. But its initiatives' drawbacks have become clearer over time, ranging from a lack of transparency to the implicit "debt trap" linked to its use of loans (and refusals to allow borrowers to restructure their debt) to its questionable environmental sustainability.

In addition, since the launch of the BRI, the European Investment Bank (EIB) has approved or provided support for projects worth €16.4 billion in southern neighbourhood countries. Finally, net foreign direct investments in this region from EU countries between 2013 and 2020 totalled more than €36 billion.

The EU also more than matches China in terms of trade: it outstrips China in the share of total external trade with the southern neighbourhood, and by a factor of at least two for most southern neighbourhood states. Figures confirm that the EU accounts for more than half of Algeria's total trade and a quarter of Egypt's. Considering that both countries are increasing their gas supply to Europe in the context of Russia's war on Ukraine, such a strong trade relationship is likely to endure.

Those trade links create a solid basis on which to forge stronger links in manufacturing and green energy. The EU's open declaration of China as a systemic rival constitutes a powerful argument for containing its expansion in the region and for the EU to step up its action to achieve this. Such a goal, however, should not come at the detriment of cooperation in areas where the two share interests, chief among them the fight against climate change. Such common ground was acknowledged by both sides at the EU-China Summit in April 2022, and support for the decarbonisation of activities in the southern neighbourhood – through investments as well as technical assistance – would address shared concerns on climate issues while creating economic opportunity. As both the EU and China are net energy importers they do not (unlike Gulf Arab states) have fossil commodities that they can weaponise. A less carbon-intensive southern neighbourhood – which some Chinese technology can help develop – would be in the EU's interests.

Gulf Arab states

Gulf Arab states such as Saudi Arabia, the United Arab Emirates (UAE), and Qatar are also extending their investment – and consequently political – reach in the southern neighbourhood. This could create new opportunities for EU-Gulf cooperation. Since October 2021, Saudi Arabia's Private Investment Fund has reinforced the reserves of Egypt's central bank and announced massive acquisitions in Egyptian companies. Such investments could also constitute a powerful tool to shape the Egypt of tomorrow, according to Saudi political and economic objectives. In June 2022, the two countries signed agreements on the development of infrastructure, clean energy, and green hydrogen – which suggests that Riyadh's commitments go beyond shoring up President Abdel Fattah Al-Sisi's rule and other short-term issues. Similarly, the UAE is strengthening its partnership with Morocco through investments, trade links, and cooperation on clean energy projects. Qatar is also courting Morocco with proposals for a free trade agreement while further expanding its economic links with Algeria, profiting from its recent investment liberalisation.

While Gulf Arab states' political economy goals might diverge from those of Europe, they neighbour the Mediterranean and are well equipped in terms of financial resources. The EU could adopt a pragmatic approach towards them and leverage existing common interests – namely, political stability and economic growth – while looking to channel Gulf investments into mutually beneficial projects. Nonetheless, in adopting such an approach, the EU should remain wary of the risks created by energy interdependency with Gulf countries, which might use such new value chains to influence Europeans in support of their own goals in the southern neighbourhood. While countermeasures to this would not be simple to draw up, the EU could adapt the Global Gateway to incorporate a strict framework governing the inclusion of Gulf Arab states in projects of joint interest.

Turkey

A privileged relationship with Turkey will remain indispensable for the EU to deal with issues ranging from Russia's war on Ukraine to supporting Syrian refugees. Existing infrastructure projects of importance in this regard include submarine cables connecting the eastern Mediterranean with Europe and the prospective EastMed pipeline. Turkey has stated that it wishes take part in building and operating energy connections between the eastern Mediterranean and Europe. For some years, tensions have simmered around the delimitation of exclusive economic zones (EEZs) and Turkey's claims in the eastern Mediterranean, with several other states in the region opposed to its claims. This has hindered the EU's ability to diversify the routes of gas pipelines (and therefore potentially also of hydrogen in the future) and undersea digital cables.

Turkey has indicated that it wants to be consulted about any infrastructure in the areas it claims. In the past, it has prevented surveying ships from carrying out work related to the planning of infrastructure. In this regard, the Global Gateway could provide an important European lever for a more productive dialogue with Ankara. When set alongside Turkey's recent economic travails, the opportunity join such a vast project could help soften Turkish positions on a number of issues, including in the eastern Mediterranean itself, which could be a prime candidate for Global Gateway investment.

Recommendations

The EU has long been concerned to tackle the causes of instability in the southern neighbourhood. Its Global Gateway has the potential to allow it to support this goal by promoting building infrastructure, improving regional connectivity, generating economic growth, and providing employment. Governments in the region are keen to work with external partners on economic and social development.

Europeans have the opportunity to demonstrate that they can be a more strategically valuable partner than Russia – particularly a Russia under strict Western sanctions – and that they can not only compete with China in the provision of economic benefits, but that the EU can prove to be a superior partner.

Europeans can achieve these goals by honing the activities of the Global Gateway in several ways.

Promote inclusive growth

The EU should deploy the Global Gateway in the southern neighbourhood to improve connectivity, create new socio-economic opportunities accessible to the widest possible strata of the population to drive inclusive growth, and promote the green transition. Global Gateway investment should include workforce training for underemployed and unemployed people in these countries. This would enable the relocation of production facilities and processes currently deployed elsewhere while also addressing drivers of migration towards Europe.

To boost this, the European Commission should focus on the flexible components of Global Gateway's financial arm to support economic development first and foremost. It can draw on the EU's strong existing trade and investment links and support the integration of southern neighbourhood countries into European value chains. The commission should move aid and assistance support into strategic investments in key sectors. Foreign direct investments from EU countries already play a big role in southern Mediterranean economies; paired with guarantees and grants from European development institutions, they are inherently preferable to a Chinese-style approach based on loans.

Nonetheless, material aid and assistance financing still dominate EU external development expenditure: switching some of those resources towards strategic investments in connectivity and energy would spur growth and support European objectives. In concert with the Council of Ministers and the European Parliament, the European Commission should revise the NDICI instrument and its priorities, so that it focuses more on economic development and relatively less on humanitarian assistance or human rights. While these two areas should remain cornerstones of the EU's external action towards the southern neighbourhood, they are already largely dealt with by the four thematic pillars of the NDICI and could prove sensitive to some regional governments. Such a shift can also help answer the question of how to work with other powers active in the region. It would transform the Global Gateway into an instrument capable of enabling cooperation with select states from beyond the southern neighbourhood on strictly technical issues.

The EU can also support progress by reducing upfront political conditions attached to Global Gateway financing. But, in parallel, it should increase the technical requirements for financing projects, such taking steps to ensure interoperability with EU standards and promote the transparency of procedures adopted by regional authorities and participating firms. Linking some (political) conditionality elements to environmental, social, and governance (ESG) reporting standards would help the EU achieve its broader goals while avoiding a heavy-handedness that could deter cooperation. To this end, it should establish an additional ESG credit line within the NDICI. This would not only improve the accountability of projects supported through the Global Gateway but also act as a driver for climate and sustainability goals. The commission could also revisit a guarantee scheme within the NDICI Global Europe Action Plans to ensure the EU's external engagement remains compatible with European values and commitments. As noted, the New Agenda for the Mediterranean, launched in February 2021, presents innovations on the question of conditionality. The EU should further extend this revised approach by replacing conditionality mechanisms with technical requirements.

In addition, the EU could introduce requirements for stricter and more transparent financial reporting to access funds such as the ESG credit line. This is to help tackle existing significant obstacles to investment such as corruption and would address the southern neighbourhood's weak economy by incentivising governments to foster a more stable business environment. Still, such issues are deeply embedded in the political models of the region, and therefore require continuous engagement. But using the Global Gateway as an initial framework remains an option the EU should take up.

Finally, with the CBAM due to enter into force in late 2023, the EU should assist southern neighbourhood states to decarbonise their economies by providing know-how and technical expertise. Reducing the carbon intensity of industries in destination countries is essential to ensure the CBAM does not hinder the establishment of supply chains across the Mediterranean. To achieve this, European consortiums of firms could share knowledge of decarbonisation processes with southern neighbourhood states and industry. This is crucial not only to enhance the feasibility of nearshoring but – equally importantly – to ensure that those countries do not turn to rival powers to support the decarbonisation of their economies.

Extend the TEN-T model to the Mediterranean

The EU should follow the model of its Trans-European Transport Network (TEN-T) to ensure the Global Gateway directs its investment to important Mediterranean trade hubs such as Tangier and Greater Alexandria. It should aim to facilitate the integration of North African economies into European supply chains. Here it should prioritise freight – rather than passenger – transport: notwithstanding the importance of the sustainable mobility of people, the movement of goods holds the greater potential for nearshoring and thereby addressing this question of strategic interest. It would therefore be essential for the European Commission to designate specific lanes and connecting corridors for the transport of goods. The EU, and more specifically the commission, would need to analyse flows of goods and economic opportunities, together with destination countries, and agree on a set of primary and subordinate connections to facilitate logistics. Ideally, such a scheme would link productive regions in different southern neighbourhood countries with industrial districts that have major ports.

To support regional integration, TEN-T should also inspire the creation of a 'horizontal' North Africa land corridor. The EU should invest in projects in partner states to ensure that the Trans-Maghreb Highway is matched by a Trans-Maghreb Railway. This would provide sustainable connections and play a part in reducing the carbon footprint of products traded once the CBAM comes into force.

Such corridors should go beyond infrastructure to enable the efficient moving of goods from freight trains to cargo ships, and thereby remove bottlenecks. The EU should therefore include the extension of compatible technological standards and procedures in Global Gateway-funded projects. This would ensure that partner countries converge towards shared procedures and infrastructural protocols while acquiring new technical capabilities. This would largely be the responsibility of the EU bodies involved in selecting and managing Global Gateway financing to ensure they all adhere to common European standards. Specified

EU-compatible standards should therefore be a prerequisite for infrastructure financing. In this regard, with the future of logistics becoming increasingly digital and automated, 5G cross-border corridors and undersea fibre cables should also be part of the infrastructure financed by the Global Gateway in the region.

To avoid the southern neighbourhood becoming a missing link between the EU's TEN-T network and the envisaged EU-Africa strategic corridors, the Global Gateway should define a number of transport corridors that it would help build to support sustainable freight mobility across the Mediterranean. This could include expanding the existing corridors to the eastern and southern Mediterranean: an "EastMed" corridor from Greece to Turkey and Egypt, a central corridor from Italy to Tunisia and Libya, and a western corridor from Spain to Morocco and Algeria.

Finally, the EU should ensure a higher share of co-financing for projects involving more than one southern neighbourhood country – a proposal envisioned by the G20's T20 Task Force on Inclusive, Resilient and Greener Infrastructure Investment and Financing. Providing trans-national projects with more generous financing conditions than those involving only one southern neighbourhood country would support cross-border connectivity and help bring regional actors together. To do this, the European Commission and the EIB could set up a dedicated facility within the NDICI-Global Europe budget to facilitate intra-regional infrastructure cooperation.

Balance today's energy needs with tomorrow's green ambitions

The supply of renewables-produced electricity and green hydrogen should constitute the backbone of any long-term energy partnership under a revamped Global Gateway in the southern neighbourhood. To fully develop the tremendous potential in the region for green energy – especially in solar and wind energy – the EU's strategy should give clear priority to scaling up the production of renewable energy in the southern neighbourhood so that partner countries are able to electrify their economies and maintain spare renewables capacity for export.

Equally importantly, the EU should demonstrate to partner countries that timely implementation of the clean energy transition can provide economic opportunities. It can do this by dedicating as many Global Gateway resources as possible to supporting the production and transfer of renewable energy and limiting fossil fuel engagement to what is truly necessary in light of the bloc's gas demand expectations. While gas will still play a role in the medium term, the EU should avoid funding infrastructure that might prove useful only for a relatively short timeframe given its own 2030 climate targets.

Invest in protecting critical infrastructure

The EU needs to improve its surveillance and resilience capabilities in order to adequately protect future Global Gateway investments and other key infrastructure. To do this, the EU should establish a 'shared responsibilities system' together with southern neighbourhood partners. They should together assemble the assets needed to monitor important infrastructure. This effort should draw inspiration from agreements that already exist between some firms and national navies and coast guards. Such a project could establish similar arrangements to, for example, monitor undersea cables, preferably within the framework of an EU mission rather than multiple national ones – a sort of Operation Irini for infrastructure, learning from the experience of the EU maritime mission to monitor illicit exports from Libya. Enhanced capabilities in this area would boost the credibility and reputation of the EU in the southern neighbourhood, including as a preferred partner for governments in the region.

With regard to land infrastructure in North Africa, surveillance would require both land and aerial assets that might not be at the disposal of southern neighbourhood countries. The EU should therefore engage with local military and law enforcement authorities to enable them to carry out this essential task in a shared system.

The EU alone will, of course, be unable to monitor all critical infrastructure in the vast Mediterranean region. The EU and NATO should therefore also agree to improve their existing partnership by establishing a joint task force for infrastructure protection in the region, as analysts have already proposed. Teaming up with NATO would allow the EU to learn best practices and improve its ability to guarantee the protection of Mediterranean infrastructure.

Make Turkey a Global Gateway partner

Including Turkey as a partner country in the Global Gateway would facilitate a solution to the ongoing crisis in the delimitation of the EEZs in the eastern Mediterranean. This part of the Mediterranean could host several strategic routes promoted by the Global Gateway, as can Turkish territory with regard to strategic corridors identified by the EU.

This means that the EU should involve Ankara in planning this new infrastructure. The EU should formally invite Turkey to join the Global Gateway. But Turkish participation in the scheme should only move ahead if states in the eastern Mediterranean reach an agreement on EEZs. To push this along, the EU can play the role of broker and host an international conference on sea delimitations. Beyond the proposal of inclusion in Global Gateway, the EU could offer to enlarge the number of goods included in the customs union as part of its overall discussions with Turkey, potentially giving it extra sway in the various disagreements that bedevil the development of the eastern Mediterranean. Making progress on this would help facilitate the construction and maintenance of physical and digital infrastructure financed by the Global Gateway in the member states' EEZs.

Ensure a greater role for multilateral and national development banks

European policy on the Mediterranean has long relied on multilateral, EU, and national financing institutions to support development projects in partner countries. Chief among these players is the EIB. Between 1959 and 2019, the southern Mediterranean region received roughly one-quarter of all non-EU funds disbursed by the EIB. Beyond direct financing, the EIB has the ability to leverage larger amounts of capital through de-risking mechanisms – attracting private investors that otherwise would not take part in a given project. While past attempts to establish a specific Euro-Mediterranean Development Bank came to nothing, the opportunity remains for greater coordination between financing institutions to strengthen both the cohesion and the coherence of European investments in the region.

While the EIB is already well integrated into the NDICI instrument, the European Bank for Reconstruction and Development (EBRD) also has a long history of activity in the southern neighbourhood, and does increasing work with local communities, rather than the mega-finance deals the EBRD is well known for. Parallel to this, the European Commission and the Council of Ministers should further involve the national development banks and financial institutions of member states in Global Gateway financing. Some member states' preferences towards the region diverge, with southern countries more interested in investing there. In this sense, not all national development banks will have the same priorities. There are therefore good reasons to formally include European development institutions in the Global Gateway. This is firstly because, even with some diverging preferences, significant common ground for cooperation remains. The EU's formal commitment to the New Agenda for the Mediterranean and the European Green Deal means there are ample guarantees that the national development institutions' efforts are largely pointing in the same direction. Additionally, including them in this way would not only reinforce the financial power of the Global Gateway, it would also help group the activities of all these initiatives under the same European umbrella and ensure that investment makes as significant an impact as possible.

Conclusion

The southern neighbourhood's rise in importance to Europeans as an energy provider and destination for nearshoring requires the EU to ensure the Global Gateway supports these strategic goals. The Global Gateway is an essential element in the EU's quest for global infrastructure leadership; EU leaders should not shy away from the political challenges the programme faces if it is to succeed.

If the EU wants to achieve strategic sovereignty, it should match its actions to its ambitions. Nearshoring processes are complex and costly, calling for both adequate funds and solid political commitment. Promoting the development of clean energy will support economic and political stability on all sides of the Mediterranean. Southern neighbourhood countries can play an essential role in supporting Europe's future supply chains and developing renewable energy. Yet this can only happen if the EU tailors its approach by providing due focus and investment on this region. The Global Gateway provides an excellent opportunity to do this, if the EU acts now.

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