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**TOWARDS A  
EUROPEAN PARTNERSHIP POLICY (EPP)  
WITH THE SOUTH AND THE EAST**

FOSTERING DYNAMICS, FIGHTING ROOT CAUSES OF MIGRATION

Interim Report (November 22nd, 2017)

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## Abstract

The aim of the project is to design a policy to promote political and economic stability in the European neighbourhood, to increase its economic dynamics, and to strengthen good governance. The European partnership policy aims to not only provide investment and finance, but also to stimulate endogenous firms and technologies through a cooperative approach discussed with governments, regional authorities and civil society in the neighbourhood countries. The new approach should build on the existing initiatives and the strengths of the neighbouring countries, on programmes at the European level as well as those of international organisations and NGOs. The new policy aims to counteract populist and nationalist movements as well as disruptive emigration. The "European Neighbourhood" refers to regions which are geographically close to the EU, but which do not belong to the EU and do not have any prospect of accession, i.e. Africa (including Sub-Sahara), the Middle East, the Black Sea area and the successor states of the Soviet Union (Eurasia).

The current paper provides a number of elements of a successful partnership, some of which are well known, but which are developed further here. Together, they complement the existing European Neighbourhood Policy as well as Development Policy and lead to an active Partnership Policy which should be welcomed by either partner due to its potential to increase dynamics and well-being and to reduce the potential for conflict and disruptive migration. The EU-Africa summit in November 2017 and the planned renewal of the existing compact of the EU with Africa, the Pacific and the Caribbean (Cotonou) under the Austrian Presidency in 2018 are the rationales behind the timing of this interim report<sup>2</sup>.

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<sup>2</sup> A more extended analysis may be found under Aiginger - Handler (2017a).



# 1. WHY EUROPE NEEDS AN ACTIVE PARTNERSHIP POLICY

## 1.1 DYNAMIC MARKETS HELP TO OVERCOME EUROPEAN GROWTH FATIGUE

Economic dynamics have slowed in Europe, even before the financial crisis, but more significantly in the period thereafter. The process of catching up with the US in terms of per capita income – a stylized fact since WWII – stopped in the nineties. In the years following the financial crisis, European growth was very slow, such that output in 2016 (measured by the real GDP of the EU 28) was only 5.2% higher than in 2008, compared to 12.4% in the US and 60% in China (cumulative figures). Unemployment approached 10% (2014) in the Euro area, and 8% in the EU 27, dropping slightly during the recovery of 2016/17.

In contrast, most neighbourhood countries are dynamic markets. The Black Sea countries, North Africa, Turkey and the Middle East are reporting GDP growth rates of 3% or higher. Catching up even persists under political instability. Medium and long-term growth is predicted to lie above 3% p.a. These would be highly dynamic markets for European exports, but also vivid locations for products which depend on low production costs yet profit from shorter geographic distances compared to other locations.

**Table 1: Development of real GDP 1970 until 2022**

	Real GDP			Real GDP per capita		
	1970/2000	2000/2017	2017/2022	1970/2000	2000/2017	2017/2022
	% p.a.					
World	3.6	3.8	3.7	1.8	2.5	2.7
Advanced economies	3.2	1.7	1.8	2.5	1.2	1.4
USA	3.3	1.8	1.9	2.3	1.0	1.2
Emerging and developing countries	4.1	5.7	5.0	2.1	4.3	3.8
China	8.6	9.3	6.1	7.0	8.7	5.8
EU 28	2.5	1.5	1.8	2.2	1.2	1.7
Central and Eastern Europe	2.2	3.3	2.9	1.9	3.6	3.3
Black Sea Region	3.2	4.7	3.5	2.5	4.8	3.2
CIS (incl. Russia)	1.7	3.9	2.2	1.1	3.8	2.0
Middle East and North Africa	3.9	4.4	3.3	1.1	2.3	1.5
Sub-Saharan Africa	2.4	5.1	3.6	-0.4	2.2	0.9
European Neighbourhood	2.7	4.5	3.1	0.7	2.4	1.1

Notes: **Central and Eastern Europe:** Bulgaria, Estonia, Lithuania, Latvia, Poland, Romania, Slovenia, Slovakia, Czech Rep., Hungary; **Black Sea Region:** Armenia, Azerbaijan, Georgia, Moldova, Turkey, Ukraine; **CIS:** Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan; **Middle East and North Africa:** Afghanistan, Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen; **Sub-Saharan Africa:** Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe; **European Neighbourhood:** CIS, Turkey, Middle East and North Africa, Sub-Saharan Africa.

Source: IMF, World Bank, UNO. 2017 until 2022 IMF forecast.



**Table 2: Development of population 1970 until 2050**

	1970/2000	2000/2017	2017/2050	1970-2000	2000-2017	2017-2050
		% p.a.		% cumulative		
World	1.7	1.2	0.8	66.1	22.9	29.4
Advanced economies	0.7	0.5	0.2	23.1	9.4	7.1
USA	1.0	0.8	0.6	34.5	15.1	20.1
Emerging and developing countries	1.9	1.3	0.9	77.8	25.4	33.2
China	1.5	0.6	-0.1	55.6	9.8	-3.2
EU 28	0.3	0.3	0.0	10.4	4.4	-1.2
Central and Eastern Europe	0.3	-0.3	-0.5	9.4	-5.6	-15.8
Black Sea Region	0.7	-0.2	0.3	22.9	-2.5	9.2
CIS (incl. Russia)	0.6	0.2	0.0	19.2	3.0	1.2
Middle East and North Africa	2.8	2.0	1.3	131.3	41.0	55.6
Sub-Saharan Africa	2.8	2.8	2.4	130.1	61.2	116.9
European Neighbourhood	2.0	2.0	1.8	83.3	39.3	77.3

Notes: see Table 1.

Source: IMF, World Bank, UNO. 2017 until 2022 IMF forecast.

## 1.2 STABILITY LIMITS ILLEGAL AND DISRUPTIVE MIGRATION

The European population is ageing, and the potential workforce (if defined conservatively by constant employment shares per age group) is predicted to decline by 20 million by 2030. Even if life expectancy and participation rates are increasing and the skill mismatch is reduced (Aiginger 2016), some net migration will be needed to stabilise labour supply. Raising the number of children per woman would help to limit the burden of pensions per active worker (replacement ratio) and limit pension reforms which amplify the danger of old age poverty.

**Table 3: International comparison of real GDP in 2017**

	Real GDP per capita		Real GDP		
	2017		2000	2017	2022
	USD	World=100	Percentage shares		
World	11,167	100	100.0	100.0	100.0
Advanced economies	46,320	415	81.6	57.9	52.7
USA	53,287	477	28.3	20.5	18.7
Emerging and developing countries	4,955	44	27.6	37.9	40.2
China	7,163	64	5.0	12.0	13.4
Euro area	40,504	363	25.1	16.2	14.7
EU 28	36,946	331	32.5	22.3	20.3
Central and Eastern Europe	16,359	146	2.0	1.8	1.7
Black Sea Region	16,801	150	1.4	1.7	1.6
CIS (incl. Russia)	8,354	75	2.8	2.9	2.7
Middle East and North Africa	6,765	61	3.5	3.9	3.8
Sub-Saharan Africa	1,420	13	1.0	1.6	1.6
European Neighbourhood	4,792	43	8.7	10.0	9.7

Notes: see Table 1.

Source: IMF, World Bank, UNO. 2017 until 2022 IMF forecast.



However, the potential migration from Africa is predicted to amount to 80 million people (WIIW, 2012). This continent's population will rise from currently 1.2 to 2 billion in 2050 and then to 4 billion in 2100. Europe primarily needs medium to highly skilled immigration, while the actual qualification of migrants is very heterogeneous across different countries (higher from Syria, lower from Afghanistan and Sub-Saharan Africa). This implies that the larger part of the solution has to be to stimulate dynamics and job creation in the neighbourhood countries themselves: economic policy here has to create domestic jobs (for Africa, 20 million new jobs are needed per year), but also to upgrade skills and qualifications.

Only when neighbouring countries provide jobs for the larger part of their increasing populations can rules for legal migration be defined and enforced. Migration in this case could follow demand in the countries of destination. Furthermore, it could be circular migration, promoting learning instead of a brain drain. If the migration potential is a multiple of the deficit in labour demand in Europe, populist and xenophobic parties will become stronger. Fences and military forces will be needed, illegal routes and disruptive migration will dominate. This holds *a fortiori* if political conflicts or environmental catastrophes are the source of migration. Jobs near the countries of origin, e.g. in special zones or peace oases, allow for the return of migrants after crises have subsided.

**Table 4: Worldwide distribution of population and nominal GDP**

	Population			Nominal GDP		
	2000	2017	2050	2000	2017	2022
	Percentage shares					
World	100.0	100.0	100.0	100.0	100.0	100.0
Advanced economies	15.7	14.0	11.5	79.2	60.5	56.1
USA	4.6	4.3	4.0	30.4	24.4	22.8
Emerging and developing countries	83.6	85.3	87.8	20.8	39.5	43.9
China	20.9	18.7	14.0	3.6	15.1	17.8
EU 28	7.9	6.7	5.1	26.4	21.6	20.3
Central and Eastern Europe	1.6	1.2	0.8	1.2	1.7	1.8
Black Sea Region	1.4	1.1	0.9	0.9	1.3	1.3
CIS (incl. Russia)	4.6	3.8	3.0	1.1	2.5	2.5
Middle East and North Africa	5.6	6.4	7.7	3.2	3.7	3.8
Sub-Saharan Africa	9.8	12.8	21.4	1.1	1.9	2.1
European Neighbourhood	21.3	24.1	33.1	6.4	9.4	9.7

Notes: see Table 1.

Source: IMF, World Bank, UNO. 2017 until 2022 IMF forecast.

### 1.3 HISTORIC RESPONSIBILITY

In addition to economic arguments, Europe has an obligation to support stability and recovery in its Southern neighbourhood due to its historic responsibility and partial guilt. In the past, Europe often colonised these countries by force; it defined borders in disrespect of history or cultural homogeneity, it installed governments and exploited the resources of its colonies without providing or improving economic structures or increasing the food supply, supporting endogenous firms and respecting environmental limits. In more recent times, Europe exported agricultural goods in oversupply, thus implicitly reducing the potential of an endogenous food industry in the countries of destination. At the same time, it maintained non-tariff barriers for imports of agricultural products from Africa. 'Hard' imperialism in past centuries and soft economic dominance in more recent decades, to some extent combined with inefficiencies and a lack of property rights, prevented the development of endogenous structures and learning.

Recalling these historical facts does not mean that European nations, governments and civic organisations did not also promote and enhance development and improve wellbeing (e.g.



health). As far as military power is concerned, Europe has not interfered in the last decades as an aggressor, but has also not prevented conflicts *ex ante* or offered conflict management. Reluctantly, Europe did connect to secular bottom-up movements like the Arab Spring. In most cases, it has not made democratic principles or gender rights a condition for trade and investment. However, weapons have been provided to all regimes whenever possible. As a consequence of past failures and recent negligence, the image of Europe in the neighbourhood countries is not the best, a factor which has to be taken into account in delineating a new strategy.

Europe can either try to develop fair partnerships with its neighbourhood and support economic and political stabilisation or it will be confronted with new political structures indifferent or even hostile towards Europe. There may also be a fight for regional leadership between countries attempting to regain "past glory" and geographical extension. The better the economic development and the more Europe is seen as a fair partner, the fewer disruptions there will be and the less the negative spillover for Europe.

## 1.4 THE EUROPEAN NEIGHBOURHOOD AND ITS CHARACTERISTICS

The European Neighbourhood in this document<sup>3</sup> refers to non-European regions which are geographically close to the EU, but which are not members and do not have the intention or prospect of accession. This region comprises Africa (including Sub-Sahara), the (Near and) Middle East, the Black Sea area and other successor states of the Soviet Union (labelled as the Commonwealth of Independent States by the IMF). Russia should also be included in a European neighbourhood policy (Eurasia), even if this currently appears beyond the realm of European policy.

In this definition, the European Neighbourhood is very heterogeneous. It comprises rich countries with stable governments, but also extremely poor countries. Many countries are rich in resources; in some these are successfully used for the export of manufactured goods, while others require foreign capital and management to even exploit resources and provide food. Human resources are abundant; the rule of law is generally limited and corruption widespread, as documented by international comparisons (Fraser Freedom Index, WEF ranking), but again very heterogeneous across different countries. There are democratic systems (of different types and quality), while others are autocratic and/or absolute monarchies. Gender equality, the engagement of young people in the grass roots movements and the use of social media and the internet are also different across the various countries. Inequality and the role of inherited wealth in the economy, society and policy are high in all neighbourhood regions, and even higher in southern countries.

Analysing all regions and designing a special policy for each is far beyond the scope of this analysis. However, our conclusion is definitely that there cannot be a homogenous policy approach for such a heterogeneous group of countries. Nevertheless, for Europe, it is very important to engage with the neighbourhood for economic reasons as well as to shape globalisation and economic development in countries close to Europe. A dynamic and stable neighbourhood mitigates migration, reducing conflict potential and negative spillovers. Diversity and cultural heterogeneity may make policy cooperation more difficult, but also provide potential for a welfare-increasing partnership.

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<sup>3</sup> Note that our definition of European is not entirely identical with that of the official documents about the European Neighbourhood Policy (ENP).



## 2. PAST AND PRESENT ATTEMPTS

### 2.1 RECOVERY PROGRAMMES AFTER WORLD WAR II

History is full of the attempts of countries in a better position to “assist” undeveloped countries in their development. The reason for this was always a mixture of egoistic and altruistic motives, although the actors and lobbies in the active countries (the conquerors, investors, missionaries) increasingly shifted their focus towards egoistic motives, thus accruing wealth and grabbing countries and resources. These historical experiences have to be kept in mind when designing a European Neighbourhood Policy. Europe is richer and better organised than its neighbourhood, but its system is not superior in all respects.

#### 2.1.1 The Marshall Plan and the ERP

One major assistance programme initiated after World War II by the US is generally considered a success: the so-called Marshall Plan, in which the US decided to invest their taxpayers’ money in supporting the reconstruction of the European economy on the condition that the goods bought with this money were imported from the US. Weighing the danger of supporting a potential competitor vs. the advantage of creating a vast market for US products and preventing a depression, the US decided to invest money in rebuilding European industry and supporting the Community of Iron and Steel, which later developed to become the European Union. Thus, the drivers behind the European Recovery Programme (ERP) were a mixture of altruistic – preventing famine and poverty in Europe – and egoistic motives, of market creation and US investment opportunities, as well preventing Europe becoming communist.

Total assistance was estimated at USD 13 billion for 1948-52, which amounts to around USD 130 billion at today’s prices (Machado, 2008). It may have amounted to up to 12.5% of US GDP at the time, and the importance for the recipient countries may have amounted to as much as 10% of their GDP. As far as the effect of the programme is concerned, its contribution to economic growth has been estimated at 0.5% p.a. by Eichengreen (1996). Because of the large and immediate transfers, the US taxpayer first had to accept higher taxes, and only after the programme succeeded in boosting growth in Europe was it probably also a benefit to the US from a narrow, egoistic and materialistic perspective. In addition to this, it provided for a peaceful integration of Europe into the western economic system as well as, for most countries, into NATO.

To summarise, the ERP demonstrates that financial help is feasible and that it is helpful for the recipient, even if the motives of the “donor” are to some extent egoistic. The programme highlights that soft governance and adherence to rules can be monitored without micro-interventions, and that innovative activities in recipient countries can be initiated or accelerated by a mindful donor.

#### 2.1.2 The Fulbright Program

The ERP, which supported the import of goods, increased intra-European trade and boosted tangible investments, was complemented by a programme for intangible investment, concentrating on knowledge transfer and improving cultural relations and mutual understanding. Fulbright commissions now exist in more than fifty countries. 150 countries are participating in the programme to a certain extent, and Fulbright chairs are provided at universities. The programme started in 1961 with the Fulbright-Hays Act, with the goal to “provide the improvement and strengthening of the international relations of the US by promoting better mutual understanding among the peoples (of the free world) through educational and cultural exchange”.

As in the ERP, egoistic US goals are combined with altruistic attempts to spread information. The positive impact on Europe has been experienced by generations of European students and researchers who have improved their knowledge and that of their home country through participation in the programme.



Such an exchange of knowledge and research is absolutely essential for the relationship of Europe to its heterogeneous neighbourhood, and Europe should learn from this programme and adapt it to its needs and those of the neighbouring countries.

### **2.1.3 Differences between post-war Europe and the European Neighbourhood today**

Learning from ERP and Fulbright, we should bear in mind that the circumstances existing in the European Neighbourhood today are not identical to those at the time of the post-WW II programmes.

Western Europe before WWII had been a highly developed and industrialised area, with a skilled workforce and a resolute will to rebuild the destroyed industrial base and infrastructure. Today's European Neighbourhood, as defined in this analysis, is far more heterogeneous across regions, across countries and even within most countries. In many of them, no stable government exists, regions are often ruled by tribes and production is dominated by agriculture. Technology and machines are to a large extent imported, the education system is elitist, no vocational training schemes exist, illiteracy dominates in rural areas and youth unemployment is very high. No administration exists which could monitor the process of the fair and efficient distribution of financial assistance, no bureaucracy which could apply for funds, guarantee its own operation, or prevent corruption.

However, one should also not overemphasise the differences as, in Europe too, after WWII, a system of planning institutions had to be established, while cooperation between countries needed to be fostered and trust and institutions "cleansed" or rebuilt. We conclude from this that a policy for the European Neighbourhood has to be a multi-level policy which respects the differences between different sub-regions and countries. Different strategies are necessary for countries with internal fighting and external conflicts about borders and those with relative stability, those with their own financial resources due to oil and other natural resources and those without, as well as those seriously endangered by climate change. We feel, however, that a differentiated policy based on trial and error is by far better than no policy since, in the latter case, the negative spillovers will come regardless.

## **2.2 DEVELOPMENT POLICY**

The literature on development policy is rather controversial. On the one hand, many authors and organisations are calling for increasing the public and private means for development, criticising that spending goals are not being fulfilled, or that development assistance is less than military expenditure. On the other hand, there is the critique that the support of industrialized countries to developing countries may have no effect or even a negative impact, instead of positive effects.

In September 2015, the United Nations proclaimed the 2030 Agenda for Sustainable Development as a "plan of action for people, planet and prosperity". The driving idea has since been "to free the human race from the tyranny of poverty". The agenda is based on the 17 sustainable development goals (SDGs) listed in Appendix 2, and 169 defined targets (see UN, 2015). As an integral part of the 2030 Agenda, the Addis Ababa Action Agenda was adopted in July 2015 to provide a global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities.<sup>4</sup> The EU supports these goals.

The OECD's Development Assistance Committee (DAC) suggested that official development assistance (ODA), such as grants and concessional loans, should amount to 0.7% of gross national income (GNI). DAC members have generally accepted this target, at least as a long-term objective, although actual implementation has only partially been successful. Over a longer time horizon, the absolute real contributions to ODA have risen. The estimated global development co-

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<sup>4</sup> See <https://sustainabledevelopment.un.org/post2015/transformingourworld>.



operation flows for 2015 (gross figures, at current prices) amounted to USD 156 billion<sup>5</sup>. The EU and its Member States are collectively the world's biggest contributors to development assistance, providing EUR 75.5bn in 2016 (European Union, 2017)<sup>6</sup>.

Criticism of the effectiveness of development has been voiced concerning the paternalistic approach of the superiority of the donor countries, as exemplified by the wording "development assistance" (as often used by the WTO). Under a new approach, a partnership for development and the wording "development cooperation" have been proposed, favoured by the World Health Organisation (WHO), for example.

Together the programmes of international organisations, this provides a patchy system of aid and assistance with the overarching aim of mitigating the income and wealth differences between the developing and industrialised world.

## 2.3 CURRENT POLICIES AFFECTING THE EUROPEAN NEIGHBOURHOOD

Complementing programmes of the UN, the OECD and other international organisations, the EU has a history of commitments to Eastern and Southern neighbours in order to foster stability, security and prosperity. The main instrument is the European Neighbourhood Policy (ENP), which comprises joint programmes with partner countries in key priority areas. These include (i) good governance, democracy, the rule of law and human rights, (ii) sustainable economic development for stability, (iii) security, as well as (iv) refugees, migration and mobility (European Commission, 2017). A key element of the ENP is to strengthen and promote the role of local civil society actors in the reforms and democratic changes taking place in the Neighbourhood countries. Towards this end, various additional EU initiatives and programmes are supporting civil society in the region, such as the European Instrument for Democracy and Human Rights (EIDHR), the Non-State Actors and Local Authorities thematic programme (NSA-LA) and the ENI Civil Society Facility.

The goals of the European Neighbourhood Policy range from short-term assistance (securing proper housing, nutrition and healthcare for people on site as well as for refugees) to longer-term policies including education and the catching up of incomes and well-being. The ENP was launched in 2004 and covers 16 countries to the East (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine; Russia takes part in Cross-Border Cooperation activities under the ENP, but is not part of the ENP as such) and to the South (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine<sup>7</sup>, Syria<sup>8</sup> and Tunisia) of the EU. The ENP remains distinct from the process of enlargement, although it does not prejudice for European neighbours how their relationship with the EU may develop in the future, in accordance with Treaty provisions.

To accommodate the political developments in the Neighbourhood, the ENP was last revised in 2015 following a new approach which is guided by the following principles: (i) differentiation in order to recognise the different aspirations of each country; (ii) joint ownership, based on both partners' needs and EU interests; and (iii) more flexibility in the use of EU instruments. The intensity of EU support follows the "more for more" principle, and thus depends on the progress a partner country makes on reforms.

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<sup>5</sup> Total ODA from the current 28 DAC member countries amounted to USD 131.4bn in 2015, together with USD 17bn from non-members and USD 7bn beyond DAC efforts. This adds up to a total of USD 156bn for development assistance in 2015 (OECD <http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/non-dac-reporting.htm>).

<sup>6</sup> The EU's development policy goes back to 1958, see Frisch (2008).

<sup>7</sup> This designation should not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

<sup>8</sup> The EU suspended all its bilateral cooperation with the Government of Syria and its participation in regional programmes in 2011.



Summarising, the main function of the ENP is twofold: it provides an external reference point which domestic political actors in the Neighbourhood countries can choose to utilise when it aligns with their agenda (both pro-EU or anti-EU); and it serves as a loose framework for socialisation which involves both the EU and the ENP countries (Sasse, 2008).

Major instruments complementing the ENP and grossly in line with its priority areas are the European External Investment Plan (EIP), a number of bilateral and regional trade agreements, the European Partnership Agreements (EPAs), sector-specific Voluntary Partnership Agreements (VAP), the Instrument contributing to Stability and Peace (IcSP) and the Partnership Instrument (PI) for cooperation with third countries. For an overview of all EU external financing instruments for the period 2014-2020, see Table 6.

The European External Investment Plan (EIP) is an approach to boost investments in Africa and EU Neighbourhood countries. It calls for new partnerships, notably to mobilise private resources and to apply innovative financing models. The EIP rests on the Addis Ababa Action Agenda and is fully consistent with the G20 Africa Partnership launched by the German Presidency of the G20 (see European Union, 2017). Its goals are therefore to provide support for the harnessing of domestic resources; to provide investments for neighbouring countries and to secure international public finance, including official development assistance.

The main pillar of the EIP – apart from technical assistance to help develop attractive projects, and activities improving the investment climate and business environment – is the European Fund for Sustainable Development (EFSD)<sup>9</sup>, which was passed by the European Parliament in July 2017 and kick-started in September 2017. The EFSD's main objective is to promote inclusive sustainable development by providing an integrated financial package of EU funds, national and private financing which, in the period up to 2020, could raise as much as EUR 88 billion. Although the main official aim of the EFSD is the fight against poverty in Africa and the European Neighbourhood, it is also considered an instrument to tackle irregular migration.

The EU's Economic Partnership Agreements (EPAs) with a number of ACP countries were initiated in September 2002, based on Article 35(5) of the Cotonou Agreement. An example is the EPA with the East African Community (EAC) partner states (Burundi, Kenya, Rwanda, Tanzania and Uganda).<sup>10</sup> The EPAs with African countries have been heavily criticised as coercing countries into a process they actually resist.<sup>11</sup> Voluntary Partnership Agreements (VPAs) exist for specific sectors such as one with timber-producing countries outside the EU (see <http://www.euflegt.efi.int/vpa>). The EU FLEGT Action Plan utilises VPAs to ensure that only legally harvested timber is imported into the EU from partner countries. The EU Instrument contributing to Stability and Peace (IcSP) was established in April 2014, focusing on crisis response, crisis preparedness, conflict prevention and peace-building. It can furnish short-term assistance to countries where a crisis is unfolding, or provide long-term support to mitigate global and trans-regional threats. The IcSP funds some 250 projects in 70 countries with a total budget of EUR 2.3 billion for 2014-2020. Finally, the Partnership Instrument (PI) for the cooperation with third countries intends to promote policy cooperation with countries of strategic interest to the EU and will allow the EU to establish a wider political dialogue with emerging partners. It will also support the EU's relations with countries that are no longer eligible for bilateral development aid. The PI has global reach and the aim of addressing global challenges such as climate change and energy security, and supporting the external dimension of EU policies (e.g. competitiveness, research, and innovation) and specific aspects of the EU's market access, trade, investment and business opportunities (see <https://eu.boell.org/en/partnership-instrument>).

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<sup>9</sup> See <https://plan-international.org/european-external-investment-plan-concerns-and-recommendations>.

<sup>10</sup> See [http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc\\_153845.compressed.pdf](http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153845.compressed.pdf).

<sup>11</sup> Melber (2013), analysing the rather unsuccessful example of Namibia, generally holds that the EU loses more than it gains, at least in terms of reputation and acceptance concerning its Africa policies. In Melber's view, the EPA negotiations did not meet the criteria for coherence with other fundamental principles of development policies by EU member countries, such as support for regional integration.



### 3. DILEMMAS AND TRADE-OFFS

Support or partnership can be organised and shaped very differently. Before we present our strategy for the European Neighbourhood (see the following chapters), we should be aware that any such strategy faces not only the problems of diversity, inefficient structures and diverging opinions within Europe, but also certain dilemmas and trade-offs that characterise all policies which a country is willing and able to implement for other countries. In the following analysis, while being fully aware that any activity must be enshrined in a partnership-based approach, we call the supporters the “steering region” and the country into which investment or finance flows the “recipient”.

#### Need for conditionality vs. prevention of imperialistic attitudes

The countries in the steering position are spending their taxpayers’ money, which requires well-defined objectives and control of the flows. Recipients, on the other hand, have their own goals, historical priorities, organisation and management, and may thus favour a set of conditions which is different from those of the steering group. A complete absence of conditions is obviously also neither acceptable for the donor nor optimal for the recipient. A fair process of defining goals together involves admitting that joint learning is essential to overcoming the trade-off. The trade-off between the necessary conditionality and the unacceptable dominance and superiority of one partner has to be taken into consideration; neither unconditionality nor dominance will be optimal for the results. The solution may lie to use a “more for more” approach which is activating, while the alternative “less for less” policy is discouraging.

#### Modern industrial structures vs. upgrading agriculture and SMEs

In the globalised world, large enterprises with networks of supply and distribution dominate. Leading technologies are characterised by the economies of size, scope or networks and high market shares of a few transnational firms, some of which only produce for the world market. In emerging economies, small and medium-sized firms dominate, often producing agricultural products or selling only regionally; they are less efficient and lack any export experience, but are better adapted to local needs, resources and knowledge. Increasing the scope of activities is easier if technology is important, but endogenous technologies would provide a more sustainable competitive position.

The recipient countries can promote rapid industrialisation, and would benefit from foreign capital. Upgrading agriculture would better serve the goal of further reducing poverty and famine, but domestic food production is threatened by highly efficient imports heavily subsidised by the European Common Agricultural Policy. The same holds for small and medium-sized and regional firms. Larger industrial clusters will boost some incomes and definitely boost exports, but could imply a division between people capable of working in larger enterprises and those left behind, in addition to exacerbating already wide income differences. Some form of industrial policy supporting clusters of firms and larger regional networks is needed, and temporary protection from currently more efficient and better organised countries must be tolerated (infant industry argument).

The trade-off is whether the recipient countries should try to industrialise as quickly as possible and scale up company size because of the growth in demand for manufactured goods, or whether emerging countries should first improve the agricultural sector as well as small and medium-sized firms.



**Table 5: Agri-food trade between EU and Sub-Saharan Africa**

	Imports		Exports		Trade balance	
	2012	2016	2012	2016	2012	2016
	mn €					
Agri-food	10,713	13,924	8,275	8,496	-2,438	-5,428
Agricultural food and feed products	9,011	11,866	5,095	5,183	-3,916	-6,683
Commodities	6,069	7,756	2,663	2,787	-3,406	-4,969
Other primary	2,330	3,442	1,333	1,450	-997	-1,992
Processed	611	669	1,099	946	488	277
Food preparations and beverages	118	201	2,853	2,971	2,735	2,770
Food preparations	84	164	1,697	2,035	1,613	1,871
Beverages	34	36	1,156	936	1,122	900
Non-edible	1,584	1,858	327	343	-1,257	-1,515

Source: European Commission ([https://ec.europa.eu/agriculture/sites/agriculture/files/trade-analysis/statistics/outside-eu/regions/agrifood-sub-saharan-countries\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/trade-analysis/statistics/outside-eu/regions/agrifood-sub-saharan-countries_en.pdf)).

### Importing best technology vs. endogenous development

The trade-off is between rapid development via imported technology versus less rapid investment in endogenous technologies and, thus, creating a more sustainable competitive advantage. The industrial policy in East Asia has successfully applied a strategy of copying plus improving and adapting (in a non-linear way bringing in new aspects). Digitalisation can also be steered toward different uses; it can limit employment due to higher efficiency levels or create new products serving heterogeneous preferences. International technology usually boosts labour and capital productivity, although for emerging economies it would be preferable to enhance resource and energy productivity. Innovation, education and a reformed tax structure could support the "redirection of the technical progress". Favouring resource and energy productivity reduces emissions and would lead to a trajectory different from that of quick-starting development via technology imports.

### Improving energy grids vs. developing decentralised alternatives

Raising incomes and boosting internationalisation, closing trade deficits and increasing employment in the export sector increase the demand for energy, transport and energy-intensive basic goods. Water usage for large-scale agricultural production and evolving cities explode, leading to the straightening and water abstraction of rivers and the building of huge dams. Efficient grids, highways and pipelines are usually recommended for transporting and exporting.

Yet alternatives exist or should be attempted which do not accelerate urbanisation and monocultures. They promote cooperation between smaller farmers, handicraft producers and small firms *inter alia* in the energy sector and the decentralised production of energy. Energy can be produced more locally through solar or wind technology, and energy and water use can be reduced through new technologies and smart cities; reforestation will provide new resources and limit airborne emissions. Decentralised energy production reduces the need for power grids and pipelines, all the more so if storage facilities improve. Developing such alternatives and scaling them up with new technologies is easier than competing with old technologies not suited to the region. Countries catching up could become experienced platforms for new technologies also needed in industrialised countries. The trade-off between known, efficient technologies (with economies of scale and powerful grids) versus alternative decentralised technologies becomes more visible when the long-term "external" effects for society and the climate are highlighted by national and international emissions trading or taxes. A partnership strategy should also address this aspect.



## Copying industrialised countries vs. heterogeneous visions of progress

Foreign dominance is not acceptable in the long run, but inward orientation has disadvantages, too. Leading families, tribes and old male networks will influence the political system. The role of woman will be traditional and family-centred, young people have to closely follow the tradition of their peers. The trade-off is between an unconditional opening with pre-set standards, on the one hand, and developing an own vision, on the other. This will lead to a diversity of social and economic systems, which is regarded in management science as an advantage for firms, which may have positive repercussions for societies and development. External pressure, global financial markets and international agreements accelerate change; a national vision can make development compatible with cultural habits and different development trajectories. The UN Sustainable Development Goals offer a set of objectives providing space for diversity. Partnerships should respect or even support visions of the recipient country, but also explain the value system of the steering country.

## Family planning vs. overpopulation

High rates of global economic growth during recent decades and the UN millennium goals have led to declining child mortality and longer life. This has contributed to rapidly rising populations, specifically in Africa. Catching up in terms of income per head and increasing female employment rates are being limited by rapidly increasing populations. On the other hand, development (specifically education) may reduce the number of births per woman, as formal employment, nascent health and pension systems reduce the importance of offspring as a form of old-age pension. The trade-off between increasing populations and social progress was addressed by China in its "one-child policy", and an alternative route has been emphasised by Jeffrey Sachs – namely the importance of educating women in order to reduce births per woman.

## Summary

Even if they cannot be eliminated, these dilemmas should be kept in mind in a European partnership strategy with its neighbours. Formulating them first, perhaps in a dichotomous way, is helpful to at least partially overcoming them later.

## **4. THE LEVEL FOR DESIGNING AND NEGOTIATING THE PARTNERSHIP**

When negotiating a partnership model with European neighbours, a number of possible constellations may come into play: contracts can be drawn up between individual countries or between the EU and a block of countries or any combination thereof. In addition, private partners may also be involved. And it must be acknowledged that solutions need not cover total countries or blocs as entities, but could pertain to sub-national regions or local experiments.

### Bloc to bloc (industrialised vs. developing countries)

The most comprehensive approach would be an agreement between one multilateral organisation of the steering bloc and one of the recipient regions. Such a solution would bundle interests on both sides and design the strategy by means of bilateral negotiations. Operationalisation and monitoring success would be easier than in the case of decentralised models. The disadvantage of this solution is that a consensus may be difficult, first within both groups and then between them. Any agreement would take a very long time to reach, need to undergo a democratic process in many countries and will ultimately not be easy to implement. Trade deals (TTIP, CETA) come nearest to this model and some of their problems would extend to development assistance. Another model would be international conferences, in which many countries in the industrialised as well the developing world formulate long-term goals and design strategies or agreements to which countries can subscribe like the climate pacts (from Kyoto Protocol to Coop 20).



## Europe to bloc, to regional blocs, to country (decentralisation on the recipient side)

Trade agreements, technology transfer and security issues are often discussed between a European organisation and a group of neighbouring countries. Both partners profit if they cooperate with other international organisations, but even Europe does not speak with a single voice; this is demonstrated by the distribution of competencies within the EU Commission, where four Commissioners are responsible for external relations. The Annual Report on the implementation of the EU's instruments for financing external actions in 2015 (European Commission, 2016) also provides vivid examples of the variety of pertinent EU activities.

### Bilateral: Country to country

Some countries in Europe have closer relations with individual countries or sub-regions in the neighbourhood. It makes sense to use these relations to upgrade the partnership between Europe and its neighbours. The partnership has to be based on an equal footing, and this is even more relevant if Europe invests in regions with historical problems or relations.

New bilateral negotiations have arisen as a result of recent migration flows. The majority of asylum seekers in EU Member States in the years 2015 and 2016 came from Syria (697,500 persons), Afghanistan (361,300) and Iraq (248,600), followed by Pakistan (94,100) and Nigeria (76,100).<sup>12</sup> This led to questions of border control, the existence of inhumane refugee camps and forced repatriation. In some cases, Europe pays countries (e.g. Turkey) for not allowing migrants to transit to EU Member States.

### Private donors / NGOs / sponsoring, responsible investment

An increasing number of initiatives come from non-governmental organisations. Some are truly international in nature and have a specific focus (social, environmental and/or political), some have rather comprehensive development goals, like those of Caritas, Oxfam and Greenpeace, others are more regional (Help Africa, Support Arab Spring), and yet others are very specialized, either in terms of their purpose (AIDS or malaria prevention) or region, such as Menschen für Menschen, in Ethiopia, or Helping Hands for Africa, in Uganda. Prominent sponsors (George Soros, Buffet Warren or Bill Gates, to name but a few) are engaged in the transfer of technologies (access to water, waste and hygiene without water) that save lives. Some pension funds and sovereign investment funds invest in certified responsible projects, excluding projects with negative social or environmental impacts. A multitude of initiatives stem independently from recipient countries,<sup>13</sup> but these also require funding, knowledge transfers or at least recognition.

### Contested regions and failed states, refugee camps, exterritorial zones

Special situations arise in countries without stable governments or with military regimes and autocratic leaders who suppress existing conflicts and minorities. Similarly, the problems of failed states without governing authorities and of countries that have to take up a disproportionately large number of refugees (Jordanian and Lebanon) may reach far beyond the normal aid that international organisations can provide. In such cases, exterritorial zones, charter cities (Romer, 2010) and peace oases may be experiments which can be supported by Europe, if possible, in cooperation with international organisations. There could be special zones, either with different judiciary rules (less bureaucracy, quick starts for new firms) or with different political authorities or both – perhaps learning to some same extent from Hong Kong and other special zones in China. Food production, reforestation and alternative energies could be priority projects and sectors in these areas. It should be ensured that refugee camps avail of adequate schools and job

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<sup>12</sup> Source: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Asylum\\_statistics#Main\\_tables](http://ec.europa.eu/eurostat/statistics-explained/index.php/Asylum_statistics#Main_tables).

<sup>13</sup> Millennium Africa Recovery Plan (MAP) and Omega Plan for Africa the New African Initiative (NAI), African Development Bank, Initiative for East and South Africa.



opportunities. The duration of such experiments should be limited and their structures eventually integrated into the official governing authority.

### Learning from grassroots movements and experiments: examples that work

Stanzel and Bramhas (2016) developed an alternative way to cope with the refugee crisis called FRIEDENSOASEN (OASES OF PEACE). The aim is the reforestation of desert areas, accompanied by food production, in stable states in North Africa and Middle East in cooperation with sponsoring organisations from an EU Member State, such as Austria. The refugees benefit from a new self-contained life, the host country from expanded agrarian land and increasingly well-trained specialists for further recultivation measures. The political benefit for Europe lies in a third way for refugee aid to reduce mass migration by offering more efficient integration measures at home or at other safe destinations.

Another example is the *Yumbe Experiment*. Refugees in the north of Uganda are free to move, have the right to work and should become independent through agriculture in the long term. The refugee camps are supported by aid organizations through which economic impulses emerge.

The political system in Rojava is based on the democratic confederalism and the population is structured in self-organized communes and neighbourhood councils or village community councils. International help is limited to private social and political initiatives.

The organization *Menschen für Menschen*, largely supported by donations, develops entire projects in rural Ethiopia to help the regions and their inhabitants in all spheres of life from water to agriculture and health to education. The aim is to enable people to free themselves from poverty, thereby becoming independent from foreign aid after about 10 years.

(For more examples see Appendix 1)

### Summary

Our proposal is that the EU streamlines and upgrades its initiatives, and opens them for different experiments and to non-governmental organisations. A parallel organisation in the neighbourhood countries (perhaps one per larger region) should be established, with a majority of members from the recipient countries on the board and NGOs participating. In this context, the EU would also have to address counter-productive spending associated with aspects of its agricultural policy or by exporting weapons, and allowing its enterprises to use tax shelters. It should more closely link the surveillance of borders and measures to limit illegal migration. Job opportunities should be opened for asylum seekers, while finding job opportunities near their country of origin – be it in peace oases, charter cities or special zones – is definitely the preferable alternative.

## 5. FUNDING REQUIRED AND METHODS TO RAISE IT

The financial scope to be mobilised to implement a European partnership policy is not easy to determine, nor is it trivial to estimate how much is being spent today by Europe and other countries. Among the reasons are the following: (i) the financial requirements depend on the ambition of whether to provide only short-term relief or a deeper strategic change improving the situation also in the long run; (ii) most estimates are limited to one or a few regions; (iii) estimates may refer to development assistance, partly also to peace building as well as military and security expenditures, or include support after catastrophes and epidemics; (iv) flows are often cumulated over a period, they can refer to investment or include operational costs; (v) costs may be covered by internal financing or depend on public spending and capital markets; (vi) figures can refer to European expenditures or just plans or expenditures by other countries (US and China) and international organisations.



## The financial goal envisaged in this paper

We make the courageous assumption that an additional amount of EUR 100bn per annum would be required for indispensable investments and operational costs. This money should be spent on long-run projects including upgrading skills, schools, management expertise and governance alone. The geographical reach is primarily Africa and instable countries in the Middle East.<sup>14</sup> Money spent on security and refugee programmes, fighting illegal human trafficking and smuggling remain outside of this estimate. The EUR 100bn assumption looks ambitious in relation to existing programmes, but is a lower estimate compared to the USD 600bn estimated by the UN for achieving the SDG goals and the 20 million jobs needed in Africa alone annually.<sup>15</sup> EUR 100bn would be equivalent to 3% of the current GDP of Africa plus Middle East and 0.6% of Europe's GDP.

## Estimate of current efforts

The overall financing of external activities from the EU budget and the European Development Fund (EDF) amount to EUR 82bn for the period 2014-2020. Funding flows through various instruments which are organised according to thematic and geographical topics.<sup>16</sup> The majority of these instruments are at least partly concerned with neighbourhood and development issues. On an annual basis, official development aid by the EU, including bilateral ODA from Member States, is estimated to amount to some EUR 20bn.<sup>17</sup> According to the European Commission, spending mobilised by the External Financing Instruments (EFI) amounts to EUR 17.4bn for 2014-20, composed of EUR 15.4bn via the European Neighbourhood Instrument (ENI) and EUR 2.0bn via EU Emergency Trust Fund (EUTF) plus some funds for the migration compact. All these figures are cumulated over a planning period and have to be divided by seven to obtain an average annual flow. After also excluding expenditures for military and humanitarian help, the existing expenditures for the European Neighbourhood could be about 10 bn per year.

## Closing the gap to the goal for development assistance (ODA spending)

Most rich countries have by far not reached the UN goal of spending 0.7% of GNI on development assistance. The countries in the OECD Development Assistance Committee (DAC) currently donate only around 0.32% of GNI<sup>18</sup>; for the EU, the figure is 0.51%. To approach the targeted level of spending from EU countries alone would thus require some EUR 28bn of additional funding. Since national budgets are strained and most member countries promise to cut deficits, the additional expenditure must come from a reduction of other expenditures. Cutting subsidies for agriculture would give a double dividend since it reduced the cost disadvantage of this important sector e.g. in Africa (see below).

## Extending the idea of the "Juncker Fund"

The Juncker Investment Plan for Europe, with its major pillar being the European Fund for Strategic Investments (EFSI), deployed EUR 5bn of the European Investment Bank resources and EUR 16bn of guarantees to trigger EUR 100bn per year (for some three years) in economic activity (European Commission, 2014).

Inspired by the success of the Juncker Investment Plan, the European Fund for Sustainable Development (EFSD) was launched during our work on this project in September 2017. It intends

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<sup>14</sup> Eastern neighbours (specifically ex-USSR countries) and the West Balkan region are not included since existing pre-accession or regional European programmes are in place; other Arab countries are excluded because of their own financial resources.

<sup>15</sup> The World Economic Forum (2017) estimates that some "15 to 20 million increasingly well-educated young people are expected to join the African workforce every year for the next three decades" (p.9).

<sup>16</sup> See [https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/sources-funding\\_en](https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/sources-funding_en)

<sup>17</sup> The Africa-EU Partnership, see <http://www.africa-eu-partnership.org/en/about-us/financing-partnership>.

<sup>18</sup> <http://www.oecd.org/dac/development-aid-rises-again-in-2016-but-flows-to-poorest-countries-dip.htm>.



to boost private and public investment in partner countries to address some of the obstacles to growth and root causes of irregular migration. Although such investment might be seen as riskier and therefore could trigger lower crowding-in of investments, the expected rates of returns could be higher (if used for investment and not for operating costs) such that one can expect a similar multiplier effect: with an input of EUR 4.1bn from the EU budget and the EDF, investments of EUR 44bn are expected. If Member States match the EU contribution, the overall result could also double to EUR 88bn (European Commission, 2016b, Chadwick, 2017 but remind that these are not annual figures, but accumulated over several years). Extensions of this concept should be explored and marketed to international investors, but also government, civil society, youth and NGOs in all partnership countries.

### New financial products

A major source of the funds needed could be provided by various new capital market instruments, e.g. the so-called Development Impact Bonds (DIBs), that would enable private and institutional investors to commit their available funds to investments in the regions neighbouring Europe. As an example, we can take the EIB Climate Awareness Bonds, which is a form of Green Bond.<sup>19</sup> The European Investment Bank (EIB) has raised over EUR 11bn from Green Bonds, EUR 3.8bn in 2016 alone. The same could be done with an African/Middle East Development Bond, where at least EUR 1bn per year would be a realistic scope, given that these bonds will return higher yields as the projects are riskier, but can be secured by the guarantees of international institutions and the EU. Providing a rather stable investment opportunity enriched with social and environmental goals would be welcomed by the markets and pension funds in a time of lacking investment opportunities and critique on the speculation and greed. A common European bond for Africa would be much easier for Member States to implement and accept than Eurobonds.

### Raising contributions of international organisations

Besides the national governments providing a significant amount for the setting up and initial costs of our envisioned Marshall Plan (see Chapter 6), international organisations would also need to contribute more. This could be done via expanding and strengthening major programmes and initiatives such as the European EIP and the EDF, the Programme for Infrastructure Development in Africa (PIDA) and others. But it can also take the form of established international organisations providing the necessary personnel and technical assistance.

### Closing loopholes, illegal transactions, tax shelters

We aim to finance investments in general by avoiding additional taxes, as the tax level in Europe is already higher than in other regions of the world. An exception could be an international tax on financial transactions (not on new stocks issued). Here, an EU initiative could be successful, given Brexit and the new government in France. Fighting tax evasion could be another revenue source without burdening the taxpayer, but its possible receipts have already been claimed for many other purposes.

### Redirecting money parked in successor funds of the US Marshall Plan

Finally, across Europe, the funds stemming from the repayment of old Marshall Plan continue to be reinvested on a revolving principle. For example, in January 2007, the German government reorganised the ERP Special Fund and contributed EUR 4.65bn to KfW as equity capital and EUR 3.25bn as subordinated loans. In many European countries, the old funds are still available and could be redirected to Europe's neighbours.

### Summing up

All the resources mobilised can be expected to have positive second-order effects if stability and dynamics increase, and organisation and governance are improved. Although the proposed

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<sup>19</sup> [http://www.eib.org/eib.org/investor\\_relations/cab/index.htm](http://www.eib.org/eib.org/investor_relations/cab/index.htm).



amount of an additional EUR 100bn per year may seem ambitious, it is not beyond reach if the strategy for the European Neighbourhood is comprehensive, includes civil society and relies on innovative experiments including reforms in Europe as well.

## 6. ANALYSIS OF SIMILAR NEIGHBOURHOOD COMPACTS

The success of the post war US-initiated Marshall Plan (the idea of a massive engagement of a country in a favourable position to the benefit of a region considered less successful or unable to catch up) has induced various ideas concerning follow-ups, be it for the developing world as a whole or for a specific region. In recent years, proposals have centred around Africa, since this continent has experienced many of conflicts and been afflicted by epidemics (AIDS, Malaria, Ebola). We mention only three initiatives in this direction, issued by the German government, by the Senat der Wirtschaft jointly with the Club of Rome, and finally by the Friends of Europe.

### 6.1 THE GERMAN “MARSHALL PLAN MIT AFRIKA”

The initiative of the German Ministry of Economic Cooperation and Development (BMZ, 2017) calls for a Marshall Plan with Africa which is built on three pillars: (i) economics, trade and employment, (ii) peace and security, and (iii) democracy and the rule of law. Germany calls for respect of international social and environmental standards as well as stopping harmful exports, and demands that free trade be substituted by fair trade. Furthermore, arms exports should be reduced, tax shelters closed and illegal transactions stopped. Intra-Africa trade should be increased, the African Union (AU) and existing regional organisations should negotiate an African Continental Free Trade Area (CFTA)<sup>20</sup>.

Existing funds and facilities for Africa should be used. The plan mentions the African Peace Facility (APF), the Bekou Trust Fund, the EUTF fund (which addresses the causes of migration, but also illegal migration) and the EIP in general. For the extent of assistance needed, the plan recalls that, worldwide, USD 50bn of development aid flows to Africa annually, in contrast to the USD 600bn estimated to achieve the SDG goals according to UNCTAD (2016).

The title of the plan was eventually changed from plan *for* Africa, to Plan *with* Africa. But the German philosophy and ownership of the plan cannot be overseen: Africa has to start its reform by improving “general economic conditions” (the notorious German *Rahmenbedingungen* as opposed to industrial or structural policy). And the text returns to the mentality of the patronising teacher when it declares that “we have to take Africa at its word”. Measures for upgrading agriculture are lacking. Yet it appears helpful that the division of “giving and taking” should be replaced by a partnership-based system.

### 6.2 SENAT DER WIRTSCHAFT/CLUB OF ROME

This document (Senat der Wirtschaft, 2016) also envisages a Marshall Plan for Africa. It starts by analysing dangerous global trends and also highlights that Europe is losing the support of its citizens. Ideas favouring a planned economy arise, on one side of the political spectrum, and renationalisation on the other (where right and left-wing ideas overlap in populism). The

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<sup>20</sup> The Assembly of Heads of State and Government of the African Union, 2012, adopted a decision to establish a Continental Free Trade Area (CFTA) by an indicative date of 2017. The Summit also endorsed the Action Plan on Boosting Intra-Africa Trade (BIAT) which identifies seven clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information, and factor market integration. The CFTA will bring together fifty-four African countries with a combined population of more than one billion people and a combined gross domestic product of more than USD 3.4 trillion. The main objectives of the CFTA are to create a single continental market for goods and services, with free movement of business persons and investments, and thus pave the way for accelerating the establishment of the Customs Union.



postulations that social and environmental elements should be part of economic development have yet to be translated into trade agreements and WTO rules. This plan for Africa centres geographically on North Africa and the MENA region, and refer to the Sahara and the Arab desert a Joker for Africa's future, since these regions could potentially provide any energy needed without resorting to fossil-based sources.

Much higher volumes of investment are needed than today's development assistance, maybe by a factor of four, given OECD estimates of deficits in infrastructure. But more funding is a necessary, not a sufficient, condition for improving the situation. Partnerships with countries and institutions in Africa are essential, and the G20, UN and OECD should be brought on board.

The plan acknowledges differences but also common elements, of the Marshall Plan 1947 and the new one in 2017. What is identical is the consensus of partners that substantial financial transfers are needed, as well as conditionality regarding governance and economic conditions.

A radical proposal is that WTO compatibility should be softened as goods identical in function (for the user) should be treated differently with respect to different social and environmental standards in all sections of the supply chain. A "Future Fund for Africa" should be established which, by 2030, should amount to some EUR 120bn, financed chiefly via capital markets. Money transfers should be conditional on social and environmental standards (which themselves could depend on the stage of development) and a minimum level of performance in terms of anti-corruption and transparency standards. And – innovative but important – private sector remittances which today primarily go into consumption, should be directed into labour-intensive investment. Wage subsidies, training programmes, job search services for women as well as upgrading agriculture could enhance the impact on jobs.

### **6.3 FRIENDS OF EUROPE**

This document (Hughes, 2017) is closer to the Senat proposal; it has partly similar goals but a different underlying philosophy if compared to the document of the German government and has a broader pro-future strategy than that of the Senat.

Maybe its most important point is a vivid critique of the recent preoccupation of EU policy in relation to Africa with the problem of EU-inward migration (the "refugee problem"), which, according to Hughes, has led to increasing EU-Africa tensions since the November Summit 2015 in La Valetta. Returns and readmissions are a priority, as are border controls and tackling human trafficking and smuggling. Significant portions of the EU Emergency Trust Funds and ODA are now subordinated to migration (partly reducing previous assistance designed for small and medium-sized firms).

The overarching mission of European policy should comprise the long-term development of Africa, maybe followed by short-term instruments and, only as third priority, Europe's own problems with refugees. Another important proposal is to rely less on negative conditionality ("less if less") and more on positive conditionality ("more for more"). Hughes advocates a pan-African policy instead of buffer-zone ideas within Africa and a focus on specific countries. Should negative conditionality nonetheless be necessary, Europe should stress the problems inflicted by a regime, but remain connected to the people (see Schumpeter's proposal in Chapter 9) including civic society in all negotiations.

Summarising these experiences, the overarching priorities for an EU-Africa partnership would be to work together to limit climate problems, invest in young people and jobs, gender and demography. The inclusion of civic society should be enforced. The five challenges are governance, conflicts, agriculture, demography and infrastructure. The main instruments should be entrepreneurial support, economic investment and growth, better governance and anti-corruption efforts as well as education and training.

Renewed criticism of the patronising approach of Europe arose specifically after the G20 meeting in Germany this summer. To the disappointment of Africa, the documents presented had been worked out without the participation of African governments or its civic organizations (Collier, 2016). Africa would prefer to make its own commitments. If people are "able to earn a decent life,



they don't need humanitarian assistance". What is needed is to improve African infrastructure and stimulate private investment.<sup>21</sup> It would make sense if the process started with a summit during which African governments themselves could make commitments (presenting rules and guarantees). Perhaps initiatives of regional economies blocs in Africa would make more sense than waiting for an initiative of the African Union.

An even more fundamental criticism – following a line in development theory – is that help could in fact hurt more than improve the situation (as expressed, for example, by the Kenyan economist James Shikwati, 2017, founder of the Interregion Economic Network), and that cooperation without starting by involving citizens in productivity cannot be good cooperation. Upgrading agriculture and better education are the keys to African development. There are currently many signs that Africa has already "woken up", at least in terms of young people being supported by civic society in many countries. The Agenda 2063 is a good start; many smaller and larger, private initiatives and NGOs have followed.

## 7. SPECIFICS OF THE POLICY CROSSOVER APPROACH

The Policy Crossover Approach draws on the historical experience of past approaches to carve out certain principles for a new partnership between Europe and its neighbours. This does not need to start from scratch since international organisations, the European Union and NGOs have already been working to improve neighbourhood relations.

A new strategy should predominantly be based on the following elements: (i) adopting a three-stage strategy – decision of recipient countries, assistance, partnership, (ii) applying a multi-level approach with decentralized start, (iii) favouring autonomous efforts of the recipient countries, (iv) assigning education and innovation as top priorities, (v) fostering Schumpeter–Al-Idrisi exchange programmes, (vi) striving for sustainability, (vii) removing obstacles created by Europe, (viii) building trust, (ix) maintaining long-run goals even in the face of the refugee crisis, (x) recognising the importance of a European partnership policy for all member countries, (xi) finding a partner in "responsible globalisation" in mind, and (xii) relying on reform facilitators revealed in successful transformation.

### Three-stage strategy: decision by recipient countries, assistance, partnership

The process should ideally start with the decision of the neighbourhood countries to accelerate development and catching up. They know best their situation, strengths, possibilities and problems. After this "declaration of intent", Europe can, in a second phase, fine-tune its strategy for assistance, its conditions for management and operationalisation. In this way, assistance programmes can deliver their full benefits without any paternalistic dominance on the part of the steering countries. In the third phase, the complementary roles of steering versus receiving fade away, and a true partnership of equals emerges, although the historical and cultural backgrounds and income levels may be significantly different.

Two or three-stage processes may be needed also in other areas, from schools to city planning, agriculture and manufacturing. If property rights are defined as well as the agricultural products to be produced, massive investment in machines, storing, cooling, logistics is necessary to close the efficiency and quality gaps. Similarly, a manufacturing sector will be necessary in the medium run in all countries, but a substantial number of these firms should develop from former small and medium-sized companies.

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<sup>21</sup> Deutsche Welle, G20 summit: 'a disappointment for Africa', 5 September, 2016. <http://www.dw.com/en/g20-summit-a-disappointment-for-africa/a-19528089>



## The need for a multi-level approach with a decentralized starting point, learning and converging

Central to our proposal is that there is no single blueprint for a partnership and no single actor on each side. There is a multitude of actors on the steering side: the EU, international organisations, sponsors, NGOs and sector initiatives. And there are governments, regions, civic society and often local organisations on the recipient side. Waiting for agreements between all steering countries and all recipient countries would unduly delay assistance. To accelerate these processes of learning, there could be coordination bodies in each country and one for all partners on each side. And international conferences and blueprints for treaties make sense if they coordinate rather than prevent multi-level activities.

## An indispensable autonomous component of the recipient countries

The impetus for catching up and improving material wellbeing usually comes from outside. Industrialised countries are willing to assist other regions to catch up – based on a mix of egoistic and altruistic motives. The better long-run strategy is to develop countries' own priorities and alternative technologies, better fitting the regional circumstances. This enables more independent development and longer-lasting advantages. Some technologies are better suited to small and medium-sized firms or to countries with an agricultural base. There are also advantages for newcomers, in as far as they can more easily overcome a past technology choice that has eventually becomes inferior. The incumbents are often unable or unwilling to accept a new technology due to "path dependency".

An autonomous component is only possible when governments refrain from top-down strategies and encourage bottom-up elements. The participation of young people is necessary, women should play a larger role, NGOs have to be included. Catching-up countries have in general relied on programmes to limit the overarching influence of foreign capital and technology and to invest in their own priorities, even at the cost of some discrimination against imports of goods and capital (the "infant industry" argument supports this approach).

## The all-important role of education, vocational training and innovation

Physical investments are the centrepieces of international cooperation programmes, development assistance and catching up ambitions. However, the most important driver of growth and wellbeing is education, defined in a broad sense, from early age to recurrent learning. Yet education is also all-important for catching up. It improves health, reduces child mortality and extends life expectancy. The role of education has specifically been highlighted for Africa by Jeffrey Sachs (Sachs, 2017) as the most humane way of reducing overpopulation. Education erodes the power of inherited structures and clans, and works against prejudices as well as authoritarian rulers. It reduces the attraction of solving conflicts by force, and the feelings of superiority of certain nations. Literacy enables communication, the use of new technologies and the positive consequences of digitalisation. Education was the basis for the Arab Spring (Lungu 2016), for toppling dictatorships, and for the integration of migrant and refugees in European society.

It is not only the average level of education that determines the performance of economies, but also its distribution. Gender differences or other forms of discrimination exist not only in the developing world. Educational choices are very much inherited, dependent on the education level of the parents, the region and sometimes also religion.

## Schumpeter-Al-Idrisi exchange programmes for students, teachers, internet users, NGOs

Europe should invite its neighbourhood to study at its universities, to exchange scholars individually or as whole classes, starting no later than at secondary school level, and provide inter-cultural holiday camps. Researchers and innovative employees should be invited to spend sabbaticals at European firms, business schools and government training academies.



The system of vocational training should be offered to all neighbours interested, with European teachers setting up facilities in neighbourhood countries, if these countries invite them. Experiments could start with mixed teacher teams from assisted countries. The exchange should in principle be bidirectional. Teachers and professors from neighbourhood countries should teach for one term in Europe, and European professors should teach the other semester in a neighbourhood country. Split professorships should be envisaged, where professors recurrently spend one term in a neighbourhood country and one at a European university. Each class in Europe and in the neighbourhood country should have a "mirror" class in the other region for learning, chatting and playing. This would also be an efficient method of countering fake prejudices and news.

The proposed Schumpeter programme is a modification of the US-sponsored Fulbright Program after World War II, which connected US academia with European elites. The Schumpeter programme extends this model to non-researchers and non-leaders and should be open to many experiments. It could be financed by a special European fund but, would preferably be cofounded with expatriates from the neighbourhood countries.

Schumpeter was a great innovator, stressing not only technical but also societal innovations. The funding of the "soft component" of a new partnership between Europe and its neighbours would qualify as a rather radical innovation, even if the process had to start with small steps. Al Idrisi was an African writer, cartographer and scientist with a multicultural background born in Ceuta in the year 1100. His reputation is acknowledged in the title of the Erasmus Mundus Programme which connects North African and European universities (Wurm, 2017).

### The chances of sustainability, from decentralised energy to smart cities

Economic growth is often seen critically as it causes emissions, deforestation, land use and waste (the environmental footprint). It may also weaken personal contacts, empathy and leisure. Therefore, strategies have to be designed which rely on reduced emissions and improved social relations as drivers of development and assets to be exported. Africa can be the lab for a new sustainable development path. Arab countries have the money for large investments but can use these funds for oil-based skiing facilities or for alternative energy and social experiments. Black Sea countries can either opt for military systems and internal repression or become the bridge between Asia and Europe. Africa can become the vanguard of locally produced alternative energy, successful reforestation, water sourcing and use under difficult circumstances.

Progress should no longer be measured by GDP alone, but by a mix of social, environmental and health indicators as provided by the Sustainable Development Indicators or Beyond GDP goals. Social innovation allows new forms of cooperation, alternative villages and cities. This requires pre- and post-school education and fosters cultural understanding. Different religions should cooperate; teachers and students should interchange between schools and regions, the same holds for different nationalities.

### The necessity of removing obstacles created by European policy and a lack of international coordination

Although Europe is already investing in and cooperating with its neighbouring countries, it also has a number of institutions which tend to restrict development, specifically in Africa. Removing them would often be optimal for both partners, and would cost less than large assistance programmes, require less organisational effort and less micro-intervention.

An important example is the European Common Agricultural Policy, which provides large subsidies to large European farmers. Industrialised agricultural techniques allow for the long-range transport of semi-finished products. Because of comparatively low prices, these are even sold in Africa (examples are tomato paste and frozen hens), preventing endogenous production and their local distribution or export to near neighbours. Similar arguments hold for fishing rights which are sold by some African governments in violation of international law and to the detriment of endogenous fishing. Africa is also hampering its own progress by subsidising fossil-based technologies or



allowing illegal capital exports<sup>22</sup> and arms purchases. And, in all these cases, Europe abstains from stopping such welfare-reducing activities. In international trade agreements, Europe usually does not consider upgrading standards, and there is no differentiation based on the production technique used.

### Building trust, improving the external view of Europe, partnership based on diversity

A partnership between heterogeneous countries is difficult to manage. There is often a dolorous history of conflicts, land and resource grabbing and colonial regimes. Even if some of these problems between Europe and its neighbourhood happened long ago, it is vital to work on regaining or establishing trust at all levels, from governments, to media, schools and companies. The Schumpeter-Al-Idrisi programme would work in this direction, but it requires intensive efforts, and any drive to fall back on old patronizing ideas or proposals is a threat capable of undermining rising levels of trust. The trust of citizens in their own institutions is now accepted as important for growth and development, trust in the other country is all-important for good trade relations, cooperation in social and environment affairs and in accepting assistance.

### Partnership policy is in the interests of all countries in Europe, not of close neighbours only

European countries have always tended to pay more attention to countries in the immediate neighbourhood. Germany and Austria were heavily engaged in the transition of Central and Eastern European countries, France in Mediterranean policy, Spain and Portugal in globalisation versus Africa and South America. But today, the European Neighbourhood Policy also has to be a pan-European project, designed by the Commission, the European Council, the European Parliament and all Member States. This facilitates partnership with its neighbours and allows Europe to communicate with other global powers such as the USA and China.

### Long-run goals should not be overmined by the refugee crisis

Supporting growth and wellbeing in Europe is among the long-run goals of a European neighbourhood strategy because it helps increase dynamics, social inclusiveness, investment in new technologies and alternative energies in Europe as well as in the neighbourhood. Such a policy also contributes to solving the refugee crisis, as higher growth in the neighbourhood weakens the motives for emigration and promotes the integration of migrants in Europe. In the last two years, the threat has arising of solving the refugee crisis be "bribing" governments in the neighbourhood to hinder refugees from leaving their country, even by locking them up in prison camps. This is not sustainable for the neighbourhood, as it decelerates development, democratisation and increases instability and radical opposition. It is also not optimal for Europe, since it prevents early integration and better allocation of migrants according to their skills and job opportunities in Europe.

### Partnership policy is an integral part of a responsible European globalisation strategy

In recent decades, Europe has not been a visible shaper of globalisation. Social goals and environmental concerns have not been implemented in trade and investment compacts. With the US to some extent retreating from globalisation and China entering as a new global power, it is becoming more important for Europe to engage in designing a responsible globalisation strategy. Europe needs to apply these principles (see Aiginger and Handler, 2017b) in its neighbourhood policy and invite partner countries with similar value systems (Canada, California) to join.

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<sup>22</sup> Capital flight is estimated to be EUR 40bn per year. This money is often transferred to European banks or tax shelters tolerated by Europe. Global arms expenditures in 2015 are estimated by the Stockholm International Peace Research Institute (SIPRI) to have amounted to USD 1760 bn, of which 397 bn are coming from Europe (see also <https://www.sipri.org/sites/default/files/2017-09/yb17-summary-eng.pdf>).



## Reliance on reform facilitators, derived from successful transitions

Political experience points out certain instruments and principles that facilitate long-run and deep transitions (see Aiginger, 2016). These are, in particular, overcoming resistance, bundling reforms, engaging new actors (young people, women, NGOs, grassroots movements, the internet generation and social media), aiming for comprehensive goals and being open to compromises. These and more facilitators are essential to development assistance.

## 8. SUMMARY

The European Partnership Policy does not need to start from the scratch, as many programmes are under way at the EU level, but also in agreements between Europe and its neighbourhood. They are partly reflected in proposals for specific compacts (e.g. with Africa, often in the context of the Marshall Plan), and they can be found in the European Neighbourhood Policy of the EU Commission, in the resilience initiative of the European Investment Bank and in the documentation of international organisations.

In our twelve game changers, we partly assign existing ideas a higher importance or a slightly different meaning than other proposals. We believe that the principles set out above are critical to success in future. A central message is that the partnership will work only under strategies developed by each partner first and then coordinated between them. But it is important to put them together and improve them in a strategy developing synergies. And it is also important that both partners learn and improve policy decisions and wellbeing. The heterogeneity of the partners may not make the partnership easier, but it will make it more rewarding.

The upcoming EU-Africa Summit in Abidjan is an opportunity to stress the importance of the partnership with Africa, another one will be the redrafting of the Cotonou Agreement – due in 2018 during the Austrian EU-presidency. Our document is work in progress, with the aim of increasing awareness and improving on existing strategies.

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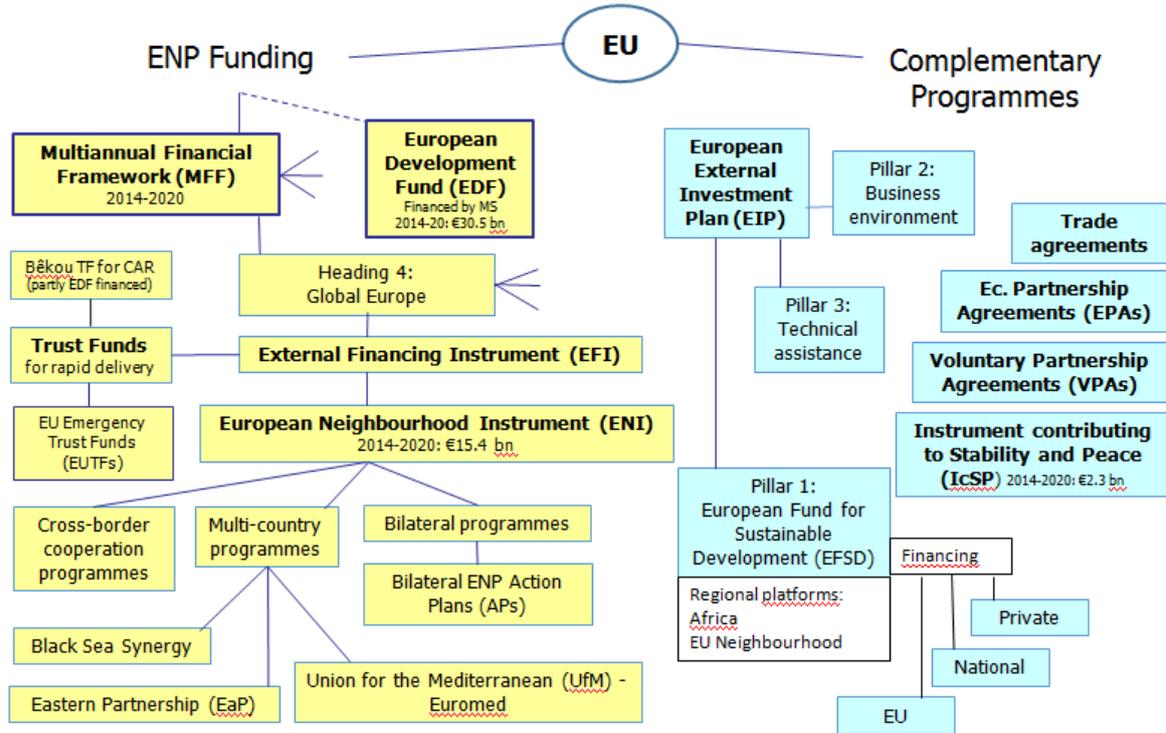
## APPENDIX 1: GRASSROOTS EXPERIMENTS CALLING FOR REPLICATION

Initiative	Focus/Aim	Steering countries	Receiv./implement. countries	Financing/ Support
<b>Bill and Melinda Gates Foundation</b>	Priorities: Global Health Division, Global Development Division, U.S. Program, Global Policy and Advocacy Division.	Headquarters in Seattle; offices in Washington, D.C., New Delhi, India, Beijing, China, London.	Worldwide	Bill and Melinda Gates Foundation; contributions from Warren Buffet
<b>Peace corps</b>	Volunteer projects in agric., comm. economic, educ., environment, health, youth develop.	US	World wide	Donations
<b>Menschen für Menschen</b>	The aim is to help regions and free themselves from poverty.	National organisations in Austria, Germany, Belgium.	The project areas in Ethiopia cover approx. 57,000 km <sup>2</sup> .	Donations
<b>UNICEF</b>	Protects children from hunger, violence and exploitation; ensures health care, access to drinking water and school.	Headquarters in New York; eight regional offices and 34 national committees	World wide	Voluntary contributions
<b>Helping Hands for Africa</b>	The aim is to help orphans and to provide a perspective for street children in Africa.	Headquarters in Frankfurt.	3 proj.: Osubi (Nigeria), Batoke (Kamerun) , Nungua (Ghana)	Supported by donations and sponsors.
<b>SOS children's villages</b>	Accomod. with SOS mothers for children who have lost parental care, or who risk losing it.	Over a hundred national associations across the world	The organization manages 546 villages worldwide.	Donations, governm. subsidies, institutional funding.
<b>Erasmus Mundus – Al Idrisi II</b>	Exch. between Europe and North Africa. Scholarships for undergrad. and master students, doctoral candidates, post-doctoral fellows and staff.	Scholarship scheme between EU countries and Algeria, Egypt, Libya, Morocco and Tunisia		Co-financed by the <b>European Commission</b> in the framework of the <b>Erasmus Mundus</b> programme
<b>Rojava-Democracy in the Middle East</b>	Political syst. based on democratic confederalism. Self-organ. Communes, neighbourhood councils or village community councils.	Model developed in Rojava. Cooperation between Kurds and North Syria.		International help is limited to private social and political initiatives.
<b>Jordan Compact: Special econ. zones (SEZs)</b>	Jobs for refugees while boosting an ailing economy, by offer. businesses tax concessions, perks on the cond. they employ Syrian workers.	European Union	Jordan	\$300 million World Bank loan; companies create jobs
<b>Yumbe Experiment</b>	Refugees in North of Uganda are free to move, have the right to work and should become independent through agriculture.	Uganda		The refugee camps are supp. by aid organiz. There are more than 30 in Yumbe alone.
<b>Friedensoasen (oasis of peace) proposal by Bramhas and Stanzel</b>	Reforestation of desert areas by refugees. Protection by military, self-determined work and human rights combined with labour and ecology.	European project; Austria should start, other countries could follow	Stable regions in conflict ridden African and Middle East countries.	Cooperation with Austria looking for sponsors , management capacities



## APPENDIX 2: FRAMEWORK FOR EUROPEAN NEIGHBOURHOOD POLICIES

### Framework for European Neighbourhood Policies





## The Policy Crossover Center: Vienna-Europa

The platform Policy Crossover Center: Vienna – Europe (PCC) is an interdisciplinary discussion platform for developing ideas and solutions for economic, social and ecological problems in Europe. The aim is to provide integrative, open solutions as opposed to “my country first”. Europe is a peace project and should counteract populist and nationalist tendencies through cooperation, economic dynamics and social responsibility. It has a responsibility to its neighbors and could help shape globalization. Empirical and interdisciplinary evidence provides the basis for reforms, which are pluralistic, bottom up, and based on the support of the population, new actors and youth..

### Research Topic 1: "More or less Europe?"

New challenges such as climate change and fighting tax evasion can only be dealt with internationally. Europe-wide regulations can actually lead to a greater scope of action at the national level. Innovative, problem-specific solutions can then be developed based on national priorities due to the fact that international restrictions and leakage effects are eliminated. We demonstrate this in the case of tax regimes, fiscal and climate policy, and for globalization. Best practice examples are regional and research policy..

### Research Topic 2: "Europe taking the lead in responsible globalization"

Globalization has led to overall welfare gains, but the effects vary according to countries and groups. Europe is definitely no loser of globalization, but it did not shape the rules. As the world's largest economic area, given the retreat of the US from globalization, and the quest for leadership by China with its different socio-political model, Europe should switch to a more active role. This would give the chance to promote social and environmental standards as well as European values. A vision of a "responsible globalization" is delineated

### Cooperations

Cooperations partners: European Dialogue, Ökosoziales Forum, Österreichische Gesellschaft für Europapolitik (ÖGfE), Österreichisches Studienzentrum für Frieden- und Konfliktlösung (ÖSFK), We build Europe, WinQuadrat, Wirtschaftspolitischer Club, WIWIPOL – Arbeitsgemeinschaft für wissenschaftliche Wirtschaftspolitik.



Cooperations with organizations and platforms are welcome! A special concern of the Policy Crossover Center is the involvement of youth. The younger generation will decide Europe’s future and hence decide upon nationalist versus open solutions.

### Membership

- Analyses, comments, policy briefs and flash papers
- Reading recommendations for articles and books
- Invitation to exclusive discussion rounds and collaboration on central topics
- Newsletters on activities, collaborative projects and members’ publications

We offer three types of membership (the membership fee refers to a period of 1 year):

Standard Membership/Persons*	Institutional Membership	Supporters
150 €	1.000 €	10.000 €

\* The first year is free for students, after that the fee is 75 €.

If you are interested, please contact [vanessa.koch@querdenkereuropa.at](mailto:vanessa.koch@querdenkereuropa.at).

### Who we are

Karl Aiginger, Heinz Handler, Anna Kanduth, Vanessa Koch and Alina Pohl. draw up concepts and coordinates, complemented by a core group of 20 experts in economics, social sciences and policy advice.

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