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Re-thinking the EU's development paradigm: views from Morocco and Tunisia

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BACKGROUND

The discrepancy between growth driven development and socio-economic stagnation in the Middle East and North Africa (MENA) region remains striking: despite the progress on many macroeconomic indices, growing social inequalities and limited access to basic social services persist or have even deteriorated. Rather than questioning the prevailing development paradigm based on economic growth as a motor for development, the decade of the European Neighbourhood Policy (ENP) has followed the model of *business as usual.*

Most ENP resources and most tangible results remain within a financial framework, with a concentration on market-driven reforms in relation to economic and social change. For the European Neighbourhood and Partnership Instrument (ENPI) programming period of 2011-2013, the biggest percentage of financial assistance was allocated to trade, investment, regulatory alignment and reform (31%) whereas for socio-economic development it had been reduced from 27% to 20%. The additional resources allocated through the relatively new SPRING programme did not reverse this balance. Emphasis on economic growth has been reinforced by an enormous amount of statistical data and qualitative studies, confirming the necessity and inevitability of free market reforms without considering non-quantifiable factors, such as the share of 'grey' economy and black market in the Maghreb region.

The current atmosphere represents an historical opportunity for rethinking the EU development paradigm fostered in the region. The increasing demands for social justice and human dignity by the Arab people, being disillusioned by their governments as well by the impact of the negative social consequences of economic liberalisation, highlighted the importance of paying more attention to socio-economic rights both by domestic governments and by international actors including the EU.

Critical engagement with the local voices regardless of their non-conventional views and limited institutional impact can play an invaluable role in the process of learning from the recipients of EU foreign policies. Drawing on extensive field work in Morocco and Tunisia, this policy brief highlights limitations and contradictions of EU socio-economic development policies. It does so through the experience of actors in Morocco including unrecognised Islamic movements such as Badil Hadari (Alternative Civilisation), Umma (Nation), Al Adl Wal Ihsan (Association of Justice and Charity), Salafist leaders and representatives from the two leading Islamist political parties: the Party of Justice and Development (PJD); and Tunisian Ennahda which due to their political orientation, domestic repression and political marginalisation have been excluded from the EU-Mediterranean dialogue.

STATE OF PLAY

Trade, investment, and regulatory alignment at the forefront

The recent initiatives of the EU such as the 2011 ENP review a remain embedded in the old prescriptions of free trade and economic liberalisation. More precisely, the negotiations of the Deep and Comprehensive Free Trade Areas (DCFTA) with willing and able partners are seen as the key to sustainable economic development and job

creation in ENP countries. This ranges from regulatory alignment, increased financing through the European Investment Bank (EIB) to graduate employability and employment generation in the private sector. For instance, the institutional support for Morocco's regulatory alignment accounts for more than 40% of the total National Indicative Programme (32% if taking into account resources added from the EU SPRING programme) whereas the financial assistance for the social sector has been reduced from 45% to 32% for 2011-2013. Over the same period financial assistance to Tunisia focused on the competitiveness of industry and services (85.5% of actual National Indicative Programme, 59% of all allocations if SPRING disbursements are included).

In general, political Islam has been highly favourable to free trade, private sector and the free market if Islamic principles and values are upheld in practice. Social justice, human dignity and social solidarity are central to Islamic paradigm of development. The need to stress the relevance and restoration of Islamic values keeps the potentially dysfunctional aspects of economic liberalisation in balance. For the representatives of Islamist groups, political Islam seeks to mitigate the negative consequences of economic liberalisation such as excessive consumerism, family decomposition, heightened levels of alienation, greed and selfishness. Accommodating political Islam into a global, predominantly neoliberal economy has raised high expectations as well suspicion among international and domestic actors. So far political Islam has dealt mainly with political and cultural rights and paid little attention to economic governance. While facing an economic crisis and increasing demands from Tunisian citizens for better living standards, the representatives from Ennahda have acknowledged its limited economic expertise. The lack of technical knowledge as well as weak lobbying bodies of the Tunisian industrial and agricultural entrepreneurs negatively affected their capacity to negotiate with the EU and its powerful technocratic apparatus. Given the previous repression of Islamists, exclusion from official politics and political sensitivity of their return to the politics due to mistrust and tensions between secular and Islamist actors in the Maghreb societies, it is not surprising that political Islam has not yet defined its economic strategy *vis-à-vis* the international community.

There has been consensus among Moroccan and Tunisian actors of Islamic orientation that the neoliberal roadmap to socio-economic development, promoted by the EU with other international organisations and the previous regimes, has failed to address the root of inequality and poverty. The motivations behind the mobilisation of 2011 revealed the perception that liberalisation has created unequal opportunities, to the detriment of large segments of population. It is precisely in the socio-economic domain that these actors share concerns of social justice, human dignity and fairer distribution of wealth.

Unfavourable circumstances for free trade

Local actors argue that the current circumstances are unfavourable for free trade because of the lack of subsidies for local producers and limited competitiveness on the international market. While increased trade volumes might be seen as an improved choice for consumers on both sides, the advantageous position of EU producers might be detrimental to local competition and hence indirectly curb creation of employment in given sectors. After a decade of progressive liberalisation of trade in goods, the EU continues to run a trade surplus both with Morocco and Tunisia. The volume of EU exports to these countries has risen faster than imports from these countries, suggesting that EU member states are more likely to benefit from trade liberalisation. From 2004 to 2013 the growth rate of Moroccan imports originating from the EU has been 96%, while exports to the EU grew at a smaller rate of 52%. The growth rate of EU exports to Tunisia reached 46%, while Tunisian exports to EU only grew by 38% (growth rate of trade in goods, from DG Trade data). And this trend keeps on growing over time: EU's trade surplus with Tunisia has doubled, while its surplus with Morocco has tripled.

Aspects of the critique are also supported by expert studies such as the Trade Sustainability Impact Assessment, conducted in support of DCFTA negotiations, which points out possible negative impacts along the same lines. The traditional leather goods sector in Morocco is expected to be negatively affected by the DCFTA, while other sectors might profit – predominantly industrial sectors such as machinery and transport equipment, causing the associated employment reallocation between sectors potentially problematic. Similarly in Tunisia, the potential increase in inequality is stipulated to accompany the increase in the average welfare level driven by changes in wages and prices. If EU policies enhance prosperity, more attention should be paid to inclusiveness with additional measures to compensate the most vulnerable rather than through fragmented project grants, especially in the short to medium term.

Quality and degree of foreign investment

At the same time, EU support for private sector development has been welcomed, with reservations. The main concern of local voices has been the quality, sustainability and long-term impact of foreign investment on the

Maghreb societies. The criticism was particularly directed against unconditioned economic liberalisation combined with few obligations and regulations for foreign investors. Inherited from the previous regimes, both countries have an investment law highly favourable to foreign investors, with advantages such as exemption on import duties or VAT. In some cases foreign investors can hold up to 100% of capital without any formal authorisation, with restrictions to strategic sectors. Despite these benefits, foreign investor concerns have been raised about tax evasion, the often questionable impact on the sustainable development, environment and poor labour conditions.

Furthermore, Islamist actors actively oppose privatisation of strategic sectors such as gas and oil, transport, mines and electricity in Morocco which have either not yet been privatised or in which the state is still the main share-holder. In their view, if private companies cannot implement their obligations stipulated in the contracts and ensure re-distribution, the state should continue to be the main share-holder. Certain commodities, namely natural resources, should not be privatised because of their strategic value for the community. A more profound critique has been voiced by Salafists who underline the exploitative nature of foreign investment and its negative impact on social structures and the environment. Interestingly, the destructive role of the business sector on environment, displacements and migration has been raised by the Western development community which could be reinforced by indigenous voices once again regardless of religion.

For Islamists in general, the goal is to encourage private property and creation of wealth while respecting private property rights, if obligations to other members of society are respected through, for instance payment of *zakat*, the only tax permitted by Quran. In both countries *zakat* is collected through a voluntary, anonymous and decentralised system. For Islamists in Morocco, if the collection of *zakat* were centralised, the money could be used in more coherent and strategic way for socio-economic development. In this sense Islam is favourable to commerce, wealth creation, private property and the free market if Islamic obligations of the Muslim community are practiced. More practical suggestions include reduction of offshore investment with stricter regulations for foreign investors, encouragement of transfer of knowledge to local producers in order to increase their competitiveness and local productivity, limiting export of the raw material (for example olive oil in Tunisia) and an increase of VAT on luxury products. The existing consensus among the Islamic actors on this front clashes with the concern that substantial adjustment of investment law could affect the interest of foreign investors and have destabilising effects on the economy – and particularly on the labour market.

Privatisation, social embedding and human rights

There has been consensus that one of the weaknesses of privatisation has been the lack of respect for workers' rights by the private sector, notwithstanding foreign investors. In the absence of clear labour provisions that protect workers' rights, privatisation can therefore translate into greater insecurity of employment, inadequate wages for sustaining basic living standards and lower working conditions. For instance, the private sector often provides employment contracts without any social security, delays in payments, or layoffs without any notice have become regular practice. If the EU cannot ensure accountability and full respect of the existing regulations and international conventions such as membership to the International Labour Organisation (ILO, joined by both countries in 1956) by Western companies operating outside Europe it becomes indirectly perceived as complicit in accepting such abusive practices. Recognising the importance of human rights, the European Parliament could stimulate the debates by bringing together different local and international stakeholders and facilitating monitoring of implementation of the ILO by European investors. Given the EU emphasis on trade and development, the human rights approach should be increasingly incorporated in its socio-economic policies.

Interviews revealed a perception that privatisation could exacerbate unemployment and poverty, especially if the state which has been the principle recruiter of labour in both countries is expected (or obliged) to reduce its public spending. These critiques meet with studies that have shown how in the past privatisation in the MENA region often correlated with significant declines in employment. Although it may be difficult to establish direct correlation between privatisation and unemployment rates, the EU should take into consideration the social costs of privatisation or more broadly of economic liberalisation. The EU assumption that the private sector will provide new job opportunities (as argued in the ENP review) needs to be therefore carefully scrutinised case by case. For instance the EU could launch feasibility and impact assessment studies via the newly established European Parliamentary Research Services in the European Parliament together with local social partners such as labour organisations, trade unions or Islamic movements which may be better equipped to estimate socio-economic impact of the neoliberal reforms. Given their potentially destabilising impact on the large segments of the Maghreb societies and keeping in mind the calls for return of the state as a primary employer, the EU may want to yield a listening ear in this respect.

PROSPECTS

The above observations are important for two reasons. First, the EU systematically repeats that free market reforms are voluntarily embraced, if not desired by the MENA partners. Enormous pressure has been exercised on its 'partners' in tandem with the local economic elites which have benefited from economic liberalisation. Within the DCFTA, the partner countries are expected to adopt rather than discuss the regulations and standards; the negotiations concern the scope and speed of adoption, not the substance, of these. In fact most advanced neighbours are invited to adopt the maximum amount of the *acquis* consisting of EU norms and standards. It has been widely acknowledged that there has been little room for manoeuvre for the negotiations with the EU, and international actors like the IMF or the World Bank.

Second, the EU´s socio-economic diagnosis of its neighbours has been shaped by the statistical and quantifiable data without taking into consideration other factors which are rarely included in economic analysis. This neglect is particularly problematic in the Southern Mediterranean countries with large informal economic activities, polarised societies and their contested social norms. On the one hand, EU policy can be seen as one of the many actors proliferating an approach of international financial institutions which dedicates insufficient attention to the social impact. On the other hand, in light of the EU's self-portrayal as a softer actor inspired by its norms and values and given the fragility and social context in its Southern neighbours, the EU approach could benefit from more receptiveness to the local context.

The EU could create informal platforms to discuss socio-economic policies, especially the impact of DCFTAs with local voices from all sides of the political spectrum. The focus should be on sustaining dialogue and active listening rather than a formal institutionalisation of tools. This could involve engaging more with workers unions and civil society organisations operating in the area of socio-economic rights; to foster a platform for exchange of heterogeneous views; promote an informal inter-parliamentary committee and a dialogue with the youth groups of political parties to foster mutual understanding with and within future generation of policy-shapers. Failure to count the costs of exclusion will only increase feelings of frustration, despair and resentment and the probability of conflicts. Given EU emphasis on the trade-development nexus, a human rights approach should be increasingly incorporated in its socio-economic policies, including focus on the impact of each suggested measure on human development in highly unequal societies.

The aim is not to suggest that the EU should behave in an altruistically or change the structural asymmetries inherent in the global economy. However, EU credibility in the region could be further undermined if it fails to engage with criticism raised by some of the local actors in the democratic transitions. Recalling the EU "listening mode", bearing in mind the volatility of the political scene in the region and the potential for rapid power shifts which often bring largely excluded voices to the forefront, the voices of opposition should not – and cannot – be neglected. It is unlikely that political Islam will disappear in the near future and it is therefore of great importance that the EU engages with the wider Islamic community including economists, business representatives, imams, or charities in order to map emerging narratives with which, despite the religious reference, may find a common ground. Given the deeply embedded secular character of the EU, it is an undoubtedly politically difficult step. But recent developments in the Muslim world requires a pro-active approach, regardless of political differences.

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