

**TO THE  
COMMISSIONER  
FOR  
NEIGHBOURHOOD  
POLICY**

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*You should bring four large, in some cases more distant, neighbours into neighbourhood policy – Iran, Russia, Saudi Arabia and Turkey – and be more realistic about the prospects of EU membership for some current official neighbours*

#### **STATE OF AFFAIRS**

The European Union's official neighbourhood policy extends to 16 countries, most of which are immediate geographical neighbours via land and/or sea, to the south and east. Six of these neighbours (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) are on the same land mass of Europe, and the other ten are in north Africa or the Middle East (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia). The combined GDP of the 16 is about \$1,350 billion, with three of the neighbours being responsible for about half: Algeria, Egypt and Israel. In the slightly wider neighbourhood, Iran, Russia, Saudi Arabia and Turkey have a combined GDP of around \$4,200 billion, close to a quarter of EU GDP. Only one neighbour is regarded as wealthy in a general sense – Israel – and many are regarded as quite unstable, with Ukraine and Egypt being particular, though not exclusive, examples currently.

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#### **Ukraine**

Looking at the recent troubles in Ukraine as a specific example, one might quite quickly come to the conclusion that the EU's neighbourhood strategy has not been a success. The same could be said about Egypt and Libya, two of the other most troubled countries that border Europe.

As part of this assessment, one can ask: what was the specific strategy towards these countries as neighbours? Did Europe really have a clear outward strategy? Did or do these countries regard the EU's official treatment of them as part of the neighbourhood strategy as being relevant? In all three cases, they probably regard their relationship with the United States as more important, and in at least two of the cases, Ukraine and Egypt, other countries, namely Russia and Saudi Arabia, have had at least as much influence as the EU, if not more in the past twelve months. A valid question is: was this inevitable, and is this something that the EU must accept, or is there a smarter, more positive alternative?

## CHALLENGES

A useful starting point for a more productive neighbourhood strategy is to think about the future shape and size of the world economy by 2050, highlighting the world's largest emerging economies in terms of their population. Of the four so-called BRIC nations, Russia is the EU's most important reasonably close neighbour. Of the 'next 11' most populated emerging economies, Egypt is one, and two others, Iran and Turkey, are essentially also close neighbours. Crucially, like Russia, they have significant interests in the EU's immediate geographic neighbours.

Russia, Egypt, Iran and Turkey have close to 250 million people between them, which is about half as many as the current EU, and their populations dwarf the other 15 countries identified as immediate geographic neighbours. Russia is the ninth largest economy in the world. Turkey is within the top 20. If they, and Egypt and Iran, were to pursue productivity enhancing paths, they would all likely contribute at least one percent of world GDP by 2050, and would possibly all be within the world's top 20 economies. Saudi Arabia, not a geographic neighbour, but a country of major influence over some geographic neighbours, especially Egypt, does not have a large population but its GDP is about the same as Turkey. While Saudi Arabia is not likely to be one of the world's top 20 economies in 2050, it will be close.

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Russia, Egypt,  
Iran, Turkey

The official neighbours (the 'N16'), with their combined GDP of about \$1,350 billion, are currently in economic terms less than 10 percent of the size of the EU. By 2050, the combined GDP of the N16 could be about \$7 trillion in current values, more than five times larger. Given

# *EU trade with larger but less close neighbours would presumably offer the greatest potential*

the EU's slower growth potential, the N16 could become nearly 20 percent of the size of the EU.

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## **Wider neighbourhood**

The four countries in the wider neighbourhood – Iran, Russia, Saudi Arabia and Turkey – could increase their GDP from about \$4,200 billion today, around three times more than the N16, to about \$18.5 trillion in 2050, a fourfold increase to about half the GDP of the EU.

If you add the four to the N16, to make a broader list of EU neighbours of 20, this would suggest a current GDP of around \$5,500 billion, bigger than Germany, and a 2050 potential of around \$25 trillion, nearly 70 percent of the size of EU GDP. Having a clearer strategy towards this group would seem to be very beneficial to the EU. Many of these countries are currently rather volatile and challenged, but they have the potential to be much more successful and therefore helpful to the EU.

In terms of 'enlightened self-interest', EU trade with the larger but less close geographic neighbours would presumably offer the greatest potential to the EU collectively, although of course, for individual EU countries, their trade with some immediate closer geographic neighbours might be more important. But, as mentioned already, many of these neighbours are greatly influenced by events in the larger, more populated nations, so their prospects are at least partially a derivative of their neighbours' fortunes. Consider the examples. The sphere of influence of Syria, an official neighbour, depends greatly on Iran, Saudi Arabia and Turkey. Obviously, all six geographic neighbours in eastern Europe are influenced to varying degrees by Russia, so surely your neighbourhood strategy needs to be, at least partially, thought of in terms of what can be done to help the EU relationship with Russia.

# *Opposition to Turkish membership of the EU cannot be justified on the grounds of economics*

## **RECOMMENDATIONS**

A supplementary way of thinking of the EU's neighbours is to consider if each of them is likely to become an EU member in the future, as presumably that will influence significantly how you choose to engage with them. In the context of the previous section, the same thought process should be applied to the other 'broader neighbours': Egypt, Iran, Saudi Arabia and Turkey.

From this starting position, perhaps three sub-categories can be considered: countries that the EU would definitely want to be EU members in the future; countries that the EU highly likely would neither want nor expect to be so; and those that the EU is currently unsure about. A probable immediate objection to such an approach is what might be called the 'Turkish dilemma', meaning you might not want to be so clearly specific about dismissing a country's desirability as a future EU member. There are two valid responses to this. First, countries would not necessarily have to be permanently in the same group, and the EU would have the right to change its view. Second, more clarity might enable a more productive policy towards these neighbours.

In some ways, Ukraine is a good example of why such an approach might be more helpful. The lack of an apparent strategy with respect to its potential to become an EU member – a kind of 'it's out there' stance – could arguably be one reason why the EU has not had a coherent strategy to tackle the current malaise, especially as the EU also might not have thought too much about its neighbourhood strategy with Russia. Classification of Ukraine as, for example, a neighbour that is most unlikely to ever be an EU member, might have led to a different engagement with Russia, ahead of the ongoing crisis. Some observers might argue that the Russian strategy was motivated by concern that

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Catagories of  
neighbour

Ukraine might be dragged towards becoming an EU member. Now that the crisis is upon us, you appear to have a position forced upon you of wanting Ukraine to be closer to the EU. Is this coherent?

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## Turkey

Of the four large populated 'broader neighbours', none, with perhaps the exception of Turkey, would be thought of as future EU member. As is well known, in reality, neither is Turkey. Why not make this clear? Turkish policymakers have realised in recent years that some of the original attractions of being an EU member might not be what was once thought, especially given the financial and economic crisis and the subsequent slow recovery of the euro-area economies. Turkey has realised that it is well positioned to benefit more from the rapidly growing economies of its own immediate neighbours to its east and south, as well as those of 'older' neighbours to the west.

From a simple economic perspective, the case for Turkey becoming an EU member has always struck me as being highly attractive. The nation has a young vibrant population and a labour force that is likely to grow in the future. Its demographics are everything that the EU currently does not have but needs. Of course, with current chronic unemployment, especially youth unemployment, and recent events in Turkey, the resistance to Turkish EU membership is likely to be strengthened.

By 2050, Turkey has the potential to be one of the top 15 economies of the world, and bigger than any EU economy except France, Germany and the United Kingdom. It is likely to be larger than Italy.

Of course, Turkey also has a unique combination of a strong Islamic religious faith and acceptance of liberal capitalist economics. It already has some global competitive companies such as Beko, the washing machine specialist, and Turkish Airlines.

Opposition to Turkish EU membership is not unanimous within leading EU countries (the UK is favourable) but remains the dominant opinion, though opposition does not make good economic sense. The opposition can perhaps be justified on the grounds of compatible politics and religion, but not economics. These are important points to recognise more clearly because the EU needs to consider more carefully when engaging with its neighbours what precisely the terms of engagement are.

# *Recognise more frankly what will motivate neighbour countries, especially in terms of what they need*

Another reality of the EU relationship with its neighbours is to recognise more frankly what will motivate neighbouring countries, especially in terms of what they need. Egypt and Ukraine are starkly contrasting examples. Following the removal of the Muslim Brotherhood in Egypt, which took place without a democratic election, the balance-of-payments-constrained nation needed quick financial support, for which it turned to Saudi Arabia, a country where policy-makers were happy to back a new Egyptian leadership opposed to such a form of democracy. Such an environment is clearly inconsistent with many of the beliefs of the EU but you need to recognise this kind of reality when trying to set your own terms of engagement. While we embrace democracy for ourselves, is it best always for everyone else, especially those at much lower levels of development and wealth? The stark answer is not always, and it is better to acknowledge this than pursue pretence.

The delicate matter of Ukraine needs to be thought about not least because similar issues could easily arise with other official neighbours. When Ukraine needed financial support in late 2013, this did not appear to be a major priority for the EU, and Russia was only too happy to step in, but of course on their terms. If the EU was not prepared to accept this relationship, it needed to have had a credible response, which was not forthcoming.

For the future, do you want to engage Ukraine as a neighbour that has potential to become a much larger economy and trading partner, or do you want to encourage them to become an EU member? If it is the latter, then you need to take a more proactive and supportive position, irrespective of the EU's perceived internal constraints.

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Ukraine

Against this and given the constraints facing the EU, it might more realistic to not pretend that EU enlargement can occur any time soon. Clarity on this would free you to concentrate on helping neighbours achieve their potential, without the straitjacket of thinking of them as potential EU members. Given the concerns within the EU about immigration, housing and social welfare availability and youth unemployment, such a clearer stance may boost the credibility of the EU within its current member states.