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Conference report

The economy of the Maghreb – a motor for regional prosperity and integration

Wednesday 11 – Friday 13 July 2012 | WP1107

In association with:





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“People in North Africa want immediate solutions.”

Key points

- In the wake of the Arab democratic wave expectations are high - young people in particular are calling for employment opportunities in the context of more open and effective societies - politicians must be seen to respond fast.
- Regional economic integration is a pivotal factor to encourage local and foreign direct investment. Political will has been the main obstacle to turn rhetoric into action.
- A road map, with clear steps to achieve integration objectives, is the best tool.
- The Arab Maghreb Union is best placed to implement the integration framework already in place and should seize the window of opportunity presented by the October summit.
- Implementing plans to set up the Maghreb Bank is a priority.
- International financial institutions, such as the Africa Development Bank and Islamic Development Bank, have set an example through their commitment to the Maghreb.
- Education and developing skills is key - and an area where international support and engaging with business can be particularly helpful.
- European economic integration can provide a useful model of "dos and don'ts". The EU remains an essential partner with an opportunity to re-launch the relationship.
- The UK played a constructive role in Europe over the Maghreb. The forthcoming UK G8 Presidency is an opportunity to move ahead on achieving the aid plan set out at the 2011 G8 summit in Deauville.
- The African Development Bank, The Islamic Development Bank and The Union for the Mediterranean are well placed to play an important role, particularly in promoting projects and partnerships.

“ The Maghreb is the least economically integrated region in the world ... that shows how much potential there is for development.”

Introduction

1. The conference took place in the context of momentous economic change characterised by the shift of power away from established economies to emerging powers and regions with high potential; a process exacerbated by the lingering effects of the 2007 financial crisis.
2. It was held immediately after Libya celebrated its first national elections in four decades with victory going to the National Forces Alliance led by Dr Mahmoud Jibril, a technocratic moderniser.
3. Even prior to the Arab democratic wave - and moves towards political reform now underway - the Middle East /North Africa region was seen as having enormous capacity to develop. The events of 2011 have only served to increase that view and provide further impetus for constructive engagement to help underpin growing economies and contribute to the advancement of more open and dynamic societies.

4. The interests of European Union countries are closely linked to those of the southern Mediterranean. European security depends on the security and stability of its neighbours. The security and stability of its neighbours depends on the neighbourhood's economic prospects. And the benefits are felt by all - globalisation means that growth in one region is shared by others.
5. Political reforms have provided the impetus for deep and meaningful economic change. Multi-national companies have been alerted to the possibilities of investing in the region and the culture of entrepreneurship, already well-established among Maghrebi peoples, has been given a substantial boost.
6. But the process of regional economic integration, which would create a far more propitious climate for investment and trade, contributing, in turn, to the development of human resources, good governance and a vibrant civil society, has proceeded more slowly than originally envisaged,
7. To seek ways of making progress on this, the conference was asked to consider three questions:
 - Were all agreed that a more integrated approach to the economy of Maghreb was urgent?
 - What steps were needed to build on current momentum and increase the flow of goods, people and ideas between countries in the region?
 - Where, and how, might the international community's support be most effectively engaged?

“ An efficient and dynamic Maghreb Union can enable all the countries of the region to work together effectively.”

Opportunities and obstacles

8. The five countries of the Maghreb – Mauritania, Morocco, Algeria, Tunisia, Libya – comprise the least economically integrated region in the world; trade within the region accounts for less than 4% of the area's total while estimates put the share of external trade in North Africa, focused on Europe, at between 60 and 80%, turning Europe into a “hub” for Maghreb trade.
9. The potential is thus enormous. According to a 2006 World Bank studyⁱ, economic integration could boost GDP by 24% in Tunisia, 27% in Morocco and 34% in Algeria. Equally, according to the African Development Bank, the cost of non-integration could be as high as 2-3 percentage points.
10. The Maghreb was an area “ready for growth in a low growth world”. And it could benefit from the experience of others – to develop sustainable models for growth avoiding debt-fuelled consumption that had done so much damage in other parts of the world.
11. The impact of the euro-zone crisis, affecting southern countries in particular, was being felt and would have repercussions for migration flows and the level of remittances.
12. The Maghreb is an attractive market – with GDP at 600 million euros its purchasing power parity is equivalent to that of South Africa and, as an integrated unit, it would be far more appealing than separate markets totalling the same value, possibly rising as high as 600 billion euros PPP.
13. Economic integration has been an objective for the region since the 1980s. The institutional infrastructure has been in place since 1989 when the Arab Maghreb Union (AMU)ⁱⁱ was set up under the Treaty of Marrakesh. Its founding objectives include progressive achievement of the free movement of people, services, goods and capital between member states.
14. But, while other regions have moved ahead – as seen in the examples of the European Single Market, the North Atlantic Free Trade Agreement, the Southern Common Market (MERCOSUR) and the ASEAN Free Trade Area, progress in the Maghreb has been limited. “The results have not been at the level of our ambition,” said one participant.

15. Lack of political will was identified by several participants as the key factor. Long running disputes between countries have also played their part as well as structural macro-economic differences and, more recently, the impact of the global financial crisis.
16. The structure of each country's society varies also according to the degree of secular and Islamic influence.
17. It was also noted that security issues such as terrorism, trafficking of all types and humanitarian concerns, linked to refugee flows and migration, had tended to dominate pan-regional discussions. Monitoring the Sahel area, to the South of the Maghreb and currently posing an important security threat, remained a priority. For certain countries – Algeria in particular - these concerns were paramount. But they should not be allowed to stand in the way of economic integration – quite the contrary, integration could make a significant contribution to safeguarding security.
18. The AMU had a good track record of achieving co-operation on security issues and that same impetus should be applied to economic concerns - improving employment prospects in particular. "The best security is to create jobs," said one participant.
19. Some responsibility for lack of progress lay north of the Mediterranean. The Barcelona process, and other EU initiatives linked to European neighbourhood policy, had sometimes come across as an attempt to dictate to North Africa how integration should take place instead of being seen as an inclusive process. One unintended consequence of increased trade flows had been the creation of a European hub rather than the encouragement of intra-regional trade.
20. By working together, the regions could develop complementary economies based on their strengths, avoid overlap and still leave room for diversification. Managing shared natural resources and environmental challenges, such as safeguarding water supplies and desertification, could also bring enormous benefits. According to World Bank estimates, the region could lose up to half its water by 2050 which would have an enormous impact on the important agriculture sector. Desertification affects more than 80% of Maghreb territory.

" We have to develop a new philosophy for Maghreb Union."

The impetus for change

21. The "street" had spoken – using sophisticated tools of social media and other IT resources to demand progress for their societies. The generational shift had begun; the emerging middle class had found its voice.
22. Although the impact of colonialism lingered – it was pointed out that to send something from Algeria to Morocco you have to go via Marseille - these historic conflicts, and the impact of the cold war and its competing alliances, had minimal resonance for the bulk of the Maghreb population – 70% of which was under 35.
23. The "face book generation" – those under 25, who comprise more than half the population, needed an outlet for their aspirations; better education and training to develop skills and more employment opportunity backed by systems of good governance. They wanted mobility, effective infrastructure, communications and modern financial instruments. And there was a danger that they would demand change in a violent way if these calls were not answered.
24. Demographic pressures were also a factor. The population was set to rise to more than 100 million by 2020 and more than 122 million by 2030. It was estimated that 20 million jobs needed to be created by 2020.
25. Use of English was shaping the way people thought – and the spread of English- the international language - together with strong interest in IT innovations were positive factors for development.

How to make it happen?

26. With little time to lose in responding, a clear and detailed road map to achieve the outcomes of integration was called for.
27. These were already in place - setting up a free trade area, including dismantling all tariff and non-tariff obstacles to trade; a customs union with a common external tariff with the rest of the world; and a common market with no remaining restrictions on the movement of production factors.
28. Other related areas suggested for closer co-operation included food security, agriculture, education and health.
29. The AMU summit to be held in Tunisia in October, was an ideal opportunity to re-launch the concept of union and show genuine political will for achieving integration in keeping with a call from Tunisian President Moncef Marzouki that it should serve to create a “Maghreb of five liberties”: the freedom of movement, of residence, of work, of investment and of municipal elections.”
30. It was suggested that drawing up a detailed road map with clear targets should be one of the summit goals. The experience of setting up the European single market could provide useful guidelines. The following “dos and don’ts” were put forward:
 - Take the people with you
 - Be honest about what greater co-operation can achieve
 - Don’t pretend it is something it isn’t
 - Don’t do it by stealth
 - Avoid a currency union based on political ambition and optimism rather than economic reality
 - Don’t let rivalry with other countries get in the way
31. The Union for the Mediterranean, energised by its recently appointed Secretary-General, was also ready to play its part in ensuring better co-ordination between northern and southern Mediterranean.
32. It was suggested that the European example of incremental integration could be followed by the Maghreb. Libya, it was pointed out, was only now in a position to start building institutions.
33. The precedent of good trade links developed between Mauritania, Senegal and Mali showed that starting with modest aspirations could create momentum and achieve significant results.
34. Using existing institutions in a “joined-up” network to increase their impact was a good way forward. For example, chambers of commerce – linked to create a Maghreb Chamber of Commerce.
35. The Casablanca Stock Exchangeⁱⁱⁱ was ready to serve the rest of the Maghreb. The Moroccan financial sector is the second most developed in Africa after South Africa. Casablanca Finance City^{iv}, a financial centre set up two years ago designed to act as a catalyst for growth in north and West Africa, should be seen as a regional resource. More than 2,500 international businesses were already based in Morocco – looking to expand and take advantage of untapped potential in the region. Casablanca Finance City could be the link between north and West Africa helping investors to navigate barriers and making it easier for them to do business.
36. The suggestion was welcomed but the language barrier between French and English speaking countries was seen as a factor to take into consideration. It was pointed out that while Casablanca wasn’t looking to compete with London – its aim was to be an effective regional centre, taking advantage of infrastructure advantages such as good

airline connections - it did need to promote itself more in London which was the centre of global markets.

37. Tunisia was already using the exchange, with good co-operation in place, and Algeria was invited to look to Casablanca as a place to list Algerian companies.

“ Skills are the global currency of the future.”

Creating the right climate for business and investor confidence

38. Investors like a stable climate and predictable conditions. The Maghreb is in competition with other emerging markets to secure investment. Labour costs might be low in relation to Europe but were higher than in other emerging markets such as South-East Asia. Moving ahead on creating effective and credible structures for economic integration, capable of withstanding political change, would give the Maghreb a greater degree of predictability than might be found in some of its competitors.
39. According to OECD^v guidelines, two types of policies were needed – foundation policies to create the right framework of a “rules-based system” with legal security provided by the court system and effective competition policy, and active policies to build skills and create a flexible workforce that harnessed talent with particular attention to integrating women.

“ If we don't create jobs we will not be able to meet the political challenge.”

Issues to address

Infrastructure

40. Considerable work had been done on building roads in particular. The Algeria East-West highway project has been the backbone of Maghreb integration. But gaps need to be addressed. “It's the kilometres that haven't been built that matter rather than those that have,” said one participant.
41. The Maghreb sits on a natural trade route but transport costs and speed do not fully reflect these advantages. Limited intra-Maghreb trade leads to limited shipping schedules which, coupled with some disproportionately long voyage times, create inefficiencies and a low volume of activity that make shipping relatively costly.
42. Linking road and rail links to provide alternative shipping routes would bring real benefits.

Free trade

43. While the Maghreb has many regulatory similarities there is still scope for more alignment - an incomplete regulatory framework is a substantial obstacle to free trade. The existence of an effective competition act is also a condition for a successful liberalised trade policy. The implementation of this regulation is still non-compliant with international standards.
44. There is also a shortage of information about preferential trade agreements. At present, there is an extensive market in contraband, dumped and low-priced European and, sometimes, Asian goods in the Maghreb. Establishing a free trade market on tariffs would facilitate trade diversion, creating more opportunities to address these needs through local manufacture, job creation and keeping value added within the Maghreb.

The labour market

45. There was a real need to put in place effective mechanisms for consultation between business and government starting with labour ministers – again this is something the AMU could facilitate.
46. There was a flourishing sector of small scale businesses which reflected an entrepreneurial culture – for example, of 250,000 grocery stores across the region, only 30,000 were part of large supermarket chains and the proportion was changing slowly.
47. The importance of building on this by providing support for small and medium sized enterprises (SMEs) was stressed throughout the conference.

48. There were examples of world class entrepreneurial capability too in the Maghreb, and in the abilities of some Maghreb graduates, which simply needed the right environment to flourish. Multinational companies such as Unilever and Shell were committed to developing human capital. Unilever had worked very successfully with the INJAZ^{vi} programme which harnesses the mentorship of Arab business leaders to help inspire a culture of entrepreneurialism and business innovation among young people, with very encouraging results.

Education - developing skills

49. Education at the basic level remained a concern with illiteracy rates of up to 50% in some rural areas in Morocco for example. Improved literacy is a key factor in moving people out of poverty into the middle class and fostering productivity and growth. Aid programmes needed to work at this as well as at the higher levels.
50. A tier of well- trained executives had emerged but there was a need for more middle management and vocational training to provide a balanced work force. Fostering links between colleges and universities and business, and between foreign investors, enterprises and training, meant education was geared to labour market needs.
51. Trans-national education also provided opportunities for multi-faceted partnerships in both research and teaching. It allowed students greater choice and flexibility and brought mutually beneficial opportunities for universities to increase research capabilities and excellence in teaching. The British Council^{vii} was committed to fostering such links between UK universities and the Maghreb.

Incorporating women in the workplace

52. Estimates of unemployment levels ranged at between 10% and 20% and were acknowledged to be much higher among women. Quality of employment was also an issue – the top jobs tended to go to men; second level, less well-paid jobs to women which was seen as a form of discrimination.
53. The OECD had policies in place to support the integration of women in the workplace. They accounted for 32 of the labour force compared to 50% in OECD countries but with considerable differences from country to country. Participation in Tunisia was high, close to 50%. And 52% of graduates were women. There were good role models – the head of the employers’ association was a woman.
54. Incubation systems could be very effective; including women’s business forums and websites.
55. But programmes designed to promote gender equality needed to take into account conditions on the ground. In Algeria, participation by women was estimated at 18% but more than half of the remainder were thought to be involved in some form of “cottage industry”.
56. It was unrealistic to expect many of these women to make the jump to a totally modern form of work. They were strongly influenced by traditional Islamic practise. But providing some education and support for their ventures, in the form of micro financing, would be very helpful.

Key sectors

Energy

57. The hydro-carbon sector was a wealth generator for the whole region. It contributed to developing skills, transferring knowledge and best practice and helped to accelerate the generation of wealth that drove other industries. It too would benefit enormously from greater integration. There was a huge export market for Maghreb Union gas and large, unused solar and wind resources with potential for energy export. Projected increases in population and GDP were drivers for gas growth; infrastructure connections from the Maghreb were good. The main exporters were Algeria and Egypt with Libya having

considerable potential to help meet regional demand and export to Asia and Europe. There was growing domestic demand in the region, in particular from Morocco which was looking to create jobs with an aim of obtaining 40% of its energy through renewables by 2020.

58. Reducing “resource nationalism”; greater energy integration with the EU; appropriate import infrastructure for liquefied natural gas together with fair market value pricing structures and functioning partnerships between national and international oil corporations (IOCs) could all help develop the sector through an integrated regional energy policy with Algeria as the key strategic player (although it was stressed that Algeria wanted to diversify from its dependence on the energy sector and develop its science and technology sectors). The IOCs were keen to play their part.
59. Again, it was important to make progress on this fast – the shale gas “revolution” would have considerable implications for the Maghreb affecting sources of supply and demand. It was a cheap resource and exploitation was growing fast. In 2001, 1% of US energy came from gas; currently the percentage stands at 36%. China has the largest resources of shale gas. Algeria has vast resources of shale gas but so does the Eastern Mediterranean, off the coasts of Egypt and Israel. And, environmental concerns over the extraction of shale gas notwithstanding, this was bound to impact on the Western Mediterranean as was the resumption of Iraqi oil production, set to double by 2020.
60. Concerns were also expressed as to the economic viability of renewables – some IOCs were scaling back investment in the sector.

Banking

61. Moving ahead to actually set up the Maghreb regional bank was also identified as a top priority. The bank, first mooted at a meeting of regional finance ministers in Tripoli in 1991, was due to open in 2011 following a meeting in Algiers in 2010 at which the five countries of the Maghreb Union had each agreed to contribute equal amounts in capitalisation. The framework is in place; “what are we waiting for?” said one participant. Again, the October AMU summit was seen as the obvious vehicle to generate political impetus.
62. Meanwhile, the African Development Bank^{viii} had proved its commitment to the Maghreb – with more than a third of its investment going towards the region. As a strategic partner to the New Partnership for Africa’s Development (NEPAD) the bank was the lead agency for infrastructure development and for developing banking and financial sector standards. Between 1968 and 2011, North Africa was allocated the highest cumulative loan and grant approvals of \$24 billion representing about 30% of total bank group loan and grant approvals. But despite this substantial effort, progress on alleviating poverty and inequality had been slower than expected.
63. The African Development Bank continues its engagement in the region, geared towards exploiting the full potential of regional integration in North Africa for the promotion of a new, inclusive, sustainable economic growth model. The Bank has proposed a regional roadmap around 6 main themes: (i) energy, (ii) climate change and environment, (iii) financial sector, (iv) trade facilitation and transport, (v) human development and, (vi) information and communication technology.
64. Development of the commercial banking system was very uneven across the region. Morocco, with a sophisticated system, was best placed to share experience with its neighbours. The private sector had been willing to engage both in Algeria and Libya but come up against considerable obstacles given the dominance of state owned institutions. Following the credit crunch, private sector banks had retrenched. A “level playing field” between government and private, national and foreign banks was essential to persuade them to adopt a more expansionist approach.
65. Three areas were suggested for development with a recommendation to focus on

achieving the objective rather than the process.

- Promoting a stronger credit culture
- Encouraging domestic bond and equity markets
- Encouraging co-operation between government regulators and market participants

66. Meanwhile, the Islamic finance sector was enjoying modest growth with many major banks setting up divisions to operate according to its precepts. Given that it was a strongly asset-backed form of banking, its appeal had grown in the wake of the credit crisis.
67. The Islamic Development Bank^x had continued its countercyclical role in the wake of the global financial crisis with total financing approved by the IDB group to the region standing at \$11.3 billion. Maghreb countries were founding members of the IDB, clients and shareholders of the IDB group and the Bank considered it both an opportunity and a moral obligation to help Maghreb countries manage the political transitions currently underway. To this end, particular emphasis had been placed on an initiative to create new opportunities for employment based education and an “aid for trade” project. The IDB Group had completed a Member Country Partnership Strategy (MCPS) for Mauritania and Morocco and just launched a similar partnership for Tunisia whereby the member country provides or receives assistance from other member countries to facilitate south-south capacity building and trade.

How can the international community help?

68. The key role to be played by regional institutions - the Arab Maghreb Union in particular - has been highlighted throughout this report. But there was a need for the international community to provide support also.
69. There were strong calls during the conference for continued engagement from the European Union. Its representative pledged to take careful note of comments and suggestions in the preparation of a policy document due by the end of the year and invited further input from participants.
70. The EU’s relationship with the Maghreb was, first and foremost, bilateral based on the principles of money, mobility and markets and centred around energy (integration with the European market); environment, transport and support for regional organisations.
71. The EU had experience of the integration process and wanted to put forward a document that showed the added value of integration. It was currently looking at a number of themes: including foreign and security policy, trade and environment policies.
72. There were calls for a new vision of co-operation with the EU based on a partnership of equals. The EU needed to open its own markets also: “Even if it is on the basis of your rules we can still sell you something.”
73. The UK was praised for playing a constructive role in the EU over the Maghreb. There were high hopes of the UK when it took over the G-8 Presidency in 2013. Frustration was expressed that, although the G8 had agreed a package of \$38 billion of support available to Arab Spring countries in the form of loans, grants, budget support and technical assistance at its Deauville meeting in 2011 – the G8 Deauville Partnership^x fund - much of this had not reached states in transition.
74. It was pointed out that the Deauville partnership did not have a secretariat and could not work on its own. The impression had been created that there were pots of money that could be sent to the region immediately, which was not the case. The impact of the euro zone crisis was a factor. But it was important to concentrate on what Deauville could do which was to leverage money and to concentrate on the trade and economic aspects of the communication which advocated promoting the single market and more open markets in general, the beneficial power of trade and investment and strong

support for deep and comprehensive free trade agreements.

75. The principles agreed for support at Deauville remained valid. These included
- Supporting involvement of the private sector – through improved access to finance
 - Supporting development of SMEs - removing legal and bureaucratic “red tape” constraints
 - Working on trade integration
 - Expanding the European Bank for Reconstruction and Development’s mandate
 - Contributing to education and, in particular, vocational training
76. The Union for the Mediterranean was set to adapt to the changing demands of the region “the Union of the Mediterranean of 2012 cannot look like the Union for the Mediterranean of 2010”. The regional challenges called for a regional approach to the 5 + 5 process^{xi}, which brings together the heads of the 10 Western Mediterranean countries. Job creation was a priority building on the Mediterranean for jobs initiative launched on 3 levels of action specific programmes for gender initiatives and leveraging local initiatives.

Conclusion: Creating ‘Brand Maghreb’

77. The Arab democratic wave has changed perceptions of the Maghreb; young people and the emerging middle class have found their voice creating a sense of vitality and drive for progress and reform – this is a real opportunity to build a successful *brand Maghreb*.
78. The results of the Libyan election, with victory going to a political force led by a technocratic moderniser, were seen as an encouraging factor in removing blocks to economic development and regional integration.
79. But the region had to compete with other emerging markets and move swiftly to implement the framework for economic integration which would leave it much better placed to do so.
80. Political and economic reforms need to go hand in hand but political change should not hamper this implementation which provides a solid basis for political and institutional development.
81. Rhetoric should be replaced by action. A series of summit meetings in the autumn – of the AMU, the 5 plus 5 dialogue of Mediterranean countries and of European and Arab ministers in Cairo on November 4 and 5 could serve to release political will for integration.
82. This could be further developed when the UK took over the Presidency of the G-8 in 2013 providing an opportunity to implement the aid plan agreed at the 2011 G-8 Deauville summit more effectively.

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- i <http://siteresources.worldbank.org/INTMENA/Resources/Maghrebpub.pdf>
- ii <http://www.maghrebarabe.org/en/uma.cfm>
- iii <http://www.casablanca-bourse.com/bourseweb/en/index.aspx>
- iv <http://www.mfboard.com/>
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- x <http://www.g20-g8.com/g8-g20/g8/english/live/news/declaration-of-the-g8-on-the-arab-springs.1316.htm>
- xi <http://www.5plus5.tn/english/historiquedudialogue.htm>