



Partnership for Reform with North Africa

Economic integration as the first step towards a comprehensive EU-Africa cooperation

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Key Points

- Three guiding principles for a reform partnership between the EU and North Africa would have to be: more *integration* within North Africa and with the EU should enable self-sustaining growth. The *coherence* of the incentives in the European Neighbourhood Policy must be increased in order to improve the impact of reform support in the region. *Investments* from overseas must flow into the region in order to generate sufficient resources there for sustainable economic development.
- An important tool in this reform partnership should be so-called “development clusters”: special economic zones that can lead the way in the reforming of economic institutions and standards and in which EU provide particular support for investments through guarantees and other measures.
- At the same time, the EU should reward the reform pioneers: for instance, with a gradual opening of the EU agricultural market, along with a reduction in subsidies for certain products.
- Germany and the EU should support the accession of all of the region’s states to the WTO. However, over the long term, their integration into a common European economic area should be the aim.

Foreword

Borders in Africa are crossed with ease in many places.

"In Africa, there are no borders, not even between life and death." This quote is attributed to Senegalese statesman and member of the French National Assembly, Léopold Sédar Senghor. For Senghor, borders are an "un-African", a Western construct. While they did not play the same role for Africans as they did for border-demarcating Europeans back at the time of the Berlin Conference (1884), this is perhaps even more true today: national borders in Africa are crossed with relative ease in many places, especially with increasing state fragility.

The reasons for this have been known for a long time: poverty and famine, wars and unrest, lately also terrorism. Borders also tend to be crossed easily in Africa for other reasons: one can talk to the people on the other side in the local border traffic – after all, it is not uncommon for people to be related.

There is a long tradition of people migrating within Africa. What is new is the rapid population growth with growing, but underperforming, national economies, especially in densely populated countries. Migration is thus becoming virtually essential, and it is also becoming ever more conceivable for many people. Although one can speculate about the scale, there has so far been little reliable data. Nevertheless, it is clear that the number of those willing to migrate is obviously growing quickly.

A starting point would be the rigorous promotion of economic development.

If we assume that there is a connection between the various reasons for migration, then an important starting point would be the rigorous promotion of economic development, while also assuming that poverty and famine represent a fundamental problem. Rigorous in this context means two things: firstly, a concentration of all resources and interests (the state ones, the supranational and the private ones!) on economic development and, secondly, a concentration on selected "development zones".

The idea of concentrating these efforts on one or more zones in the North African area is partly due to the fact that Africa-wide support cannot be effective in view of the lack of means, but this area also offers a whole array of excellent conditions – when one is willing to think far ahead.

The people in Europe, North Africa and in sub-Saharan Africa will not have many options for action available to them if they do not begin to collaborate soon.

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North Africa is the most important link between the Mediterranean region and sub-Saharan Africa.

Introduction

The current political situation makes one thing clear: relationships between Europe and Africa need to be intensified. However, this cannot occur within the established structures alone. Instead, a new quality of EU-Africa relationships should be strived for. Such a development is needed urgently: firstly, the refugee crisis and in particular the growing migration flows across the various Mediterranean routes clearly show that for Europe, there is no alternative to closer collaboration with the states of origin and the transit states of migration. The joint summit of European and African heads of state and government in Valletta in November 2015, at which a range of joint measures to handle migration flows were decided, perfectly illustrated this. At the same time, a huge sales market and a rapidly growing pool of workers are developing in Africa – with a population of 1.3 billion people forecasted for 2030. In contrast, a converse situation will be observed in the EU: the internal sales market and the population of working age will shrink.

Despite further improvement in Africa as an investment location, which may be accompanied by economic stabilisation in wide areas of Africa, the demographic development in both world regions will not lead to a decrease in migration in the medium- to long-term. To improve this situation, increased economic and development-policy involvement by the EU and its member states throughout Africa is required. Particularly in view of the increasing influence of other international actors (including the large, newly industrialised countries) on the African continent, it must lie in European interests to remain a relevant local partner and intensify the existing partnership.

Naturally, Europe cannot achieve this alone. The initiative for this must be actively and equally supported by states in the region. After all, a closer collaboration and regional and interregional integration lie in the interests of all those involved. However, such an extensive renewal of the EU-Africa partnership will only work if Maghreb can first be turned into a model for success. The first step in achieving this is the existence of a reform partnership between the EU and North Africa that goes beyond current initiatives.

**1. Justification:
why we need a reform partnership with North Africa**

In order for a sustainable reform partnership to work, both the political and the economic development of Maghreb have to be boosted:¹ in many regards, Northern Africa is the most important link between the Mediterranean region and sub-Saharan Africa for Europe and can also play a central role in long-term economic development to the south of the Sahara. Due to the geographical proximity between both regions, Europe is directly affected by developments in North Africa: the hopes of an Arab Spring as well as the current economic and security situation have an impact on Europe, not least due to the large migration flows. These can be understood as vectors of the North African problem which present Europe with fundamental challenges. As a neighbouring region and the southern flank of Europe, North Africa is of fundamental importance for peace, prosperity and stability in the European Union – as well as in Africa itself.

This situation is also reinforced by the buffer function that North Africa assumes for sub-Saharan Africa: demographic development to the south of the Sahara and the difficult economic situation not least in the Sahel countries and in West Africa high-

light the crucial importance of the Maghreb states as a host and transit area: traditionally, people from these regions initially migrate to North Africa in search of work, particularly to Libya and Algeria which are rich in raw materials. The political and economic situation in North Africa means, however, that these migrants are now increasingly making their way towards Europe to seek a livelihood there. It is therefore in the interests of the EU to further increase this traditional capacity of the North African economies to absorb migrants from sub-Saharan Africa.

Lack of economic absorption capacity leads to consistently high migration pressure.

In part, the lack of economic absorption capacity in North Africa leads to consistently high migration pressure in the states of the European Union, both from the Maghreb countries themselves and also due to migrants from other states, who mostly use the central Mediterranean route.² However, a high level of uncontrolled migration also benefits neither the host countries nor those people entitled to asylum in view of the limited absorption and integration capacity of European states. At the same time, poor economic framework conditions support political instability, as was shown by the Arab Spring. No sustainable solution to this situation which is deemed intolerable is yet in sight. For instance, according to information from the ILO, youth unemployment in the states of North Africa is more than twice the global comparison, at an average of 30.5 per cent.³ The spread ranges from 18.5 per cent for Morocco to 51.2 per cent for Libya.⁴ Stronger involvement by Europe in its neighbouring region is thus not just a purely developmental contribution to prosperity in these regions, but also, conversely, an important step towards European security, stability and to maintaining our prosperity.

Migration pressure will tend to increase further for demographic reasons.

The medium-term prospects are also to be taken into consideration here: in Morocco, Libya and Algeria, around 30 per cent of the population is under 15 years old. In all three countries, the employment market will thus continue to be subject to severe pressure in the coming years and decades. Due to the lasting migration pressure from sub-Saharan Africa, this situation will tend to come to a head.

Almost 1.1 million asylum-seekers reached Germany in 2015 – such a high number triggered not only widespread political debates about the ability of Germany to absorb and integrate these migrants, but also a discussion of the underlying causes of fleeing and migration. This is also due to the fact that a not insignificant proportion of asylum-seekers made their way to Europe due to a lack of economic prospects in their home countries and, as economic migrants, they have no prospect of the right to remain as recognised refugees. Particularly for this reason, it is worthwhile to take a look at the economic situation in the European neighbourhood and in the countries of origin of the refugees.

Even if migration towards Europe currently appears to be declining, a further increase in the number of migrants via the Libya route is to be expected this year. The North African states, which have always been destination countries for migration, thus remain important as transit states. However, with further stagnation, they will also achieve greater importance as countries of origin for migration. The causes of fleeing must therefore be combatted in this region if it wants to relieve pressure on Europe over the long term.

The failure of transformation processes would have unpredictable consequences for the EU.

The restoration of the Mediterranean as a common economic space must consequently be a priority for European economic collaboration – also as a first step towards a comprehensive renewal of the economic partnership between the EU and Africa. The failure not only of political but also of economic transformation processes in Maghreb would have unpredictable consequences for the EU and would also be an obstacle to growth for wide areas of sub-Saharan Africa which benefit from the

supply of jobs and the return remittance associated with this. In the reverse case, the states of North Africa would have the potential to become a centre of growth for the entire continent, offering jobs and thus prospects to a dynamically growing young population.

2. New start on old foundations: need for improvement in EU-Africa relations

Prosperity and stability in North Africa thus lie in the mutual interests of all those involved. There is no alternative to increased cooperation and increased networking between Europe and Africa. For more than 20 years, the EU has therefore supported economic and political transformation processes and closer collaboration in its neighbourhood: in 1995 via the Barcelona Process, in which the then 15 countries of the EU and 12 further countries of the southern and eastern Mediterranean region were involved, then later with the Union for the Mediterranean. The region has also been part of the European Neighbourhood Policy (ENP) since 2004. Economic development is one of the areas of focus and comprises, among other things, support for small and medium-sized companies as well as infrastructure projects. The European Investment Bank (EIB) plays an important role in this. These efforts were supplemented by the start of negotiations on the signing of comprehensive free trade agreements by Morocco and Tunisia with the EU. Overall, the EU has pursued various strategies: sometimes the focus lay on a regional approach, sometimes the relationships had to be tailored specifically to each country in view of enormous differences, particularly with regard to democratic development. In its extensive reform of the ENP in 2011 – not least due to the Arab Spring – the EU boosted the conditionality element and made further offers of integration, for instance towards Morocco and Tunisia, in line with its 'moreformore' guiding principle. The communication on the review of the ENP in November 2015 nevertheless emphasises the limits of this guiding principle and, to a certain extent, further relativises the previously strong emphasis on conditionality.⁵

At the same time, the EU has been applying various tools to intensify the EU-Africa collaboration since back in the 1970s (then still as the EC) – initially mainly with a developmental, but increasingly also with a security and trade-related focus. At present, the relationships are framed by the Cotonou Agreement (but here as part of the ACP states group), and since 2007 they have been framed by the Joint EU-Africa Strategy and by a range of bilateral Economic Partnership Agreements with countries in sub-Saharan Africa. Since 2014, such bi-regional agreements have also existed between the EU and certain regional organisations in Africa, for example between the EU and the Economic Community of West African States (ECOWAS). Nevertheless, these initiatives and the collaboration with Maghreb countries function largely according to two different and separate logics. The aim of the EU must therefore be to improve coherence between these two processes.

The EU pursued various strategies in its southern neighbourhood.

The aim must be to improve coherence between the processes.

3. Current situation: North African asymmetries

Two elements in particular hamper economic development in North Africa: first, the region is now considered the least integrated in the world. While all the states of North Africa carry on intensive commerce with the European Union, trade within Maghreb makes up less than 3 per cent of the total trade in the region.⁶ Clashing nationalism in the states of the region and resultant long-lasting conflicts between states are part of the reasons for these findings. Existing initiatives to boost intra-regional trade, such as the Greater Arab Free Trade Area (GAFTA), the Agadir Agreement⁷ and the Arab Maghreb Union⁸, also do not include all the countries in the region and have so far only demonstrated few results. The degenerating state structures of Libya represent a special challenge for all integration and development initiatives. For this very reason, it is important not to restrict these efforts to those countries of Arab Maghreb bordering the Mediterranean, thus Morocco, Algeria, Tunisia and also Libya, but to include Egypt too, as it is a crucial variable in both a positive and negative respect due to its sheer size and economic power and could thus act as a driver for the integration of North Africa.

Trade links in Africa
still offer room for
improvement.

Despite strong growth in the past ten years, trade links between the Maghreb countries and sub-Saharan Africa still offer room for improvement. For instance, despite enormous growth compared with 2003, Morocco's trade with the other African countries in 2014 came to just 6.4 per cent of the country's trade balance, although, in turn, just 42 per cent of this (i.e. a total of just 2.7 per cent of its entire foreign trade) was accounted for by the countries of sub-Saharan Africa.⁹






Promoting agriculture
would increase
absorption capabili-
ties.

Secondly, the economic framework and economic institutions continue to show considerable weaknesses. A substantial proportion of the population is employed in the informal economy. In the corruption ranking by Transparency International, four out of the five states are listed in positions between 79 and 100, while Libya comes in at number 166 (of 175).¹⁰ The administrations in the region are barely able to provide the necessary framework conditions for economic development. Therefore, bureaucratic hurdles for instance continue to significantly hamper the founding of a company. In the *Doing Business Report* by the World Bank, Tunisia and Morocco are found in the middle of the pack (numbers 74 and 75 of 189), but Egypt (131), Algeria (163) and Libya (188) trail far behind.¹¹ Accordingly, the intensity of investments from the EU continues to be low, despite a small number of flagship projects – also because legislation in the field of investment law and public-private partnerships is in some cases in need of urgent reform. The region has its strengths not only in raw materials, in the textile industry and in light machine construction, but also in agriculture, which could be the most important employer in the North African states due to its work intensity – and could thus both help develop the rural area and prevent migration from these regions. Supporting agriculture in the region would therefore significantly increase the absorption capacity of North Africa.





Figure 1: Snapshot of North Africa



Economic data

 Morocco	 Algeria	 Tunisia	 Libya	 Egypt
Inhabitants (2014): 33.92 million	Inhabitants (2014): 38.93 million	Inhabitants (2014): 11.0 million	Inhabitants (2014): 6,259 million	Inhabitants (2014): 89.58 million
GDP (2014): USD 110.0 billion	GDP (2014): USD 213.5 billion	GDP (2014): USD 48.61 billion	GDP (2014): USD 41.14 billion	GDP (2014): USD 301.5 billion
GDP/head (2014): USD 3,242.92	GDP/head (2014): USD 5,484.20	GDP/head (2014): USD 4,419.09	GDP/head (2014): USD 6,572.93	GDP/head (2014): USD 3,365.71
GDP growth	GDP growth	GDP growth	GDP growth	GDP growth
2014: 2.4 %	2014: 3.8 %	2014: 2.7 %	2014: -24.0 %	2014: 2.2 %
2015e: 4.7 %	2015e: 2.8 %	2015e: 0.5 %	2015e: -5.2 %	2015e: 4.2 %
2016f: 2.7 %	2016f: 3.9 %	2016f: 2.5 %	2016f: 35.7 %	2016f: 3.8 %
Unemployment (2013): 9.2 %	Unemployment (2013): 9.8 %	Unemployment (2013): 13.3 %	Unemployment (2013): 19.6 %	Unemployment (2013): 12.7 %
Youth unemployment (2013): 18.5 %	Youth unemployment (2013): 24.0 %	Youth unemployment (2013): 31.2 %	Youth unemployment (2013): 51.2 %	Youth unemployment (2013): 38.9 %

Memberships

UfM Union for the Mediterranean	AMU Arab Maghreb Union	WTO World Trade Organisation Members / Observers	GAFTA Greater Arab Free Trade Area GAFTA
			
Additional members: EU, Albania, Bosnia and Herzegovina, Israel, Jordan, Lebanon, Mauretania, Monaco, Montenegro, Palestinian territories, Syria, Turkey	Additional members: Mauretania	Additional members: 159 others incl. EU Additional observers: 20 others	Additional members: Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, United Arab Emirates and Yemen. Candidate countries: Comoros, Djibouti, Mauretania and Somalia

Source for all economic data: World Bank

The individual responsibility of the North African states remains the foundation for support.

Nevertheless, stabilisation and development in the region can only hope to succeed when the region's ability to help itself is activated. The individual responsibility of the North African states remains the foundation on which European support must be based, so that self-sustaining growth becomes possible in a networked region. On the other hand, regional networking is an important prerequisite for the success of European involvement and could be called a condition of this approach. This initially applies directly to Maghreb itself, but its stronger integration with Sub-Saharan Africa must remain the ultimate goal of any European support. The important function of North Africa as a link, which is currently manifesting itself in various activities, would come into its own here. A good example of this is Morocco, which serves e.g. increasingly in air travel, but also in banking and insurance as a relay station between the EU or USA and sub-Saharan Africa and also otherwise adds a clear accent here in terms of foreign policy.¹²

Table 1: The agricultural sector in North Africa

	Morocco	Algeria	Tunisia	Libya	Egypt
Share of agricultural sector in GDP	14.2% (2013, IMF)	12.7% (2013, Office National des Statistiques)	8.5% (2012, GTAI)	0.8% (2012, Central Bank of Libya)	14.6% (2012/2013, CAPMAS)
Share of employed people in the agriculture sector	39.3% (2014, Haut Commissariat au Plan)	19.8% (2014, FAO)	16.4% (2013, Institut National de la Statistique)	0.02% (2014, FAO)	22.6% (2014, FAO)

4. Platforms for growth and stability: regional integration and development clusters

Besides political transformation, the supporting of sustainable economic development and the creation of jobs are crucial factors for stability in the Mediterranean region. This focus promises long-term success – not least because the states involved have a genuine personal interest in this. Statehood and functioning institutions are necessary prerequisites for a successful cooperation between the European Union and the states of North Africa, which must absolutely be accompanied by stronger integration of this region. In view of the great differences between the North African states, such integration will have to take place gradually and should initially start with the three countries Morocco, Algeria and Tunisia.

Successful integration forms the basis for increased creation of value.

Successful economic integration builds the foundation for increased creation of value in the region, from the region and for the region. At the same time, it boosts attractiveness for (European) investors by utilising economies of scale. Besides security considerations – i.e. legal security, physical security and investment protection – economic potential is naturally the key to sustainable private investments in the region. An integrated North Africa, from which the dynamically growing markets of sub-Saharan Africa can be tapped into, offers the best conditions for this.

Table 2: Interests of those involved

Investors	Maghreb states	EU
Legal security	Jobs	Stability
Investment protection	Tax revenue	Security
Tax privileges	Technology transfer	Cooperation partners
Physical security	Access to sales markets	Opening up of sales markets

4.1. New start of regional integration

North Africa is the world's least integrated region. Intraregional trade – particularly the trade in services – remains far behind its potential.¹³ Here, possibilities for additional prosperity gains remain unexploited. Previous attempts at regional integration in various constellations yielded little success in terms of economic influence – whether it be the Arab Maghreb Union or European initiatives such as the Union for the Mediterranean. Bilateral disputes as well as content-related and territorial overloading of efforts (a total of 27 member states were involved in the Barcelona Process, of which 12 were from the southern Mediterranean region) are just two possible reasons for these findings.

A new start of regional integration should thus, in terms of *territorial scope*, comprise the aforementioned five states of North Africa, their relationships between themselves and their foreign relations to the European Union. A *content-related* concentration on economic growth represents an ambitious, yet realistic approach that does not involve wanting to rectify all grievances at once.

Development clusters (see 4.2.) offer the possibility of selective constructive collaboration despite any unresolved bi or multilateral disputes. This new attempt, in principle gets by without new institutions and structures or a renunciation of existing and well-functioning tools. However, it also represents the supplementing of some new tools, improved structures and farther-reaching economic incentives for the Maghreb states.

The integration of North Africa must be advanced in various areas: networking through a transport infrastructure, through an information and telecommunications infrastructure, and – absolutely crucially – also through an energy infrastructure. In the same way, part of this also involves the reduction of tariff and non-tariff trade obstacles between the respective countries themselves and in relation to the EU-inclusive measures to facilitate trade. Meanwhile, economic integration must be boosted with measures to strengthen the establishment of administration and an economic institutional framework.

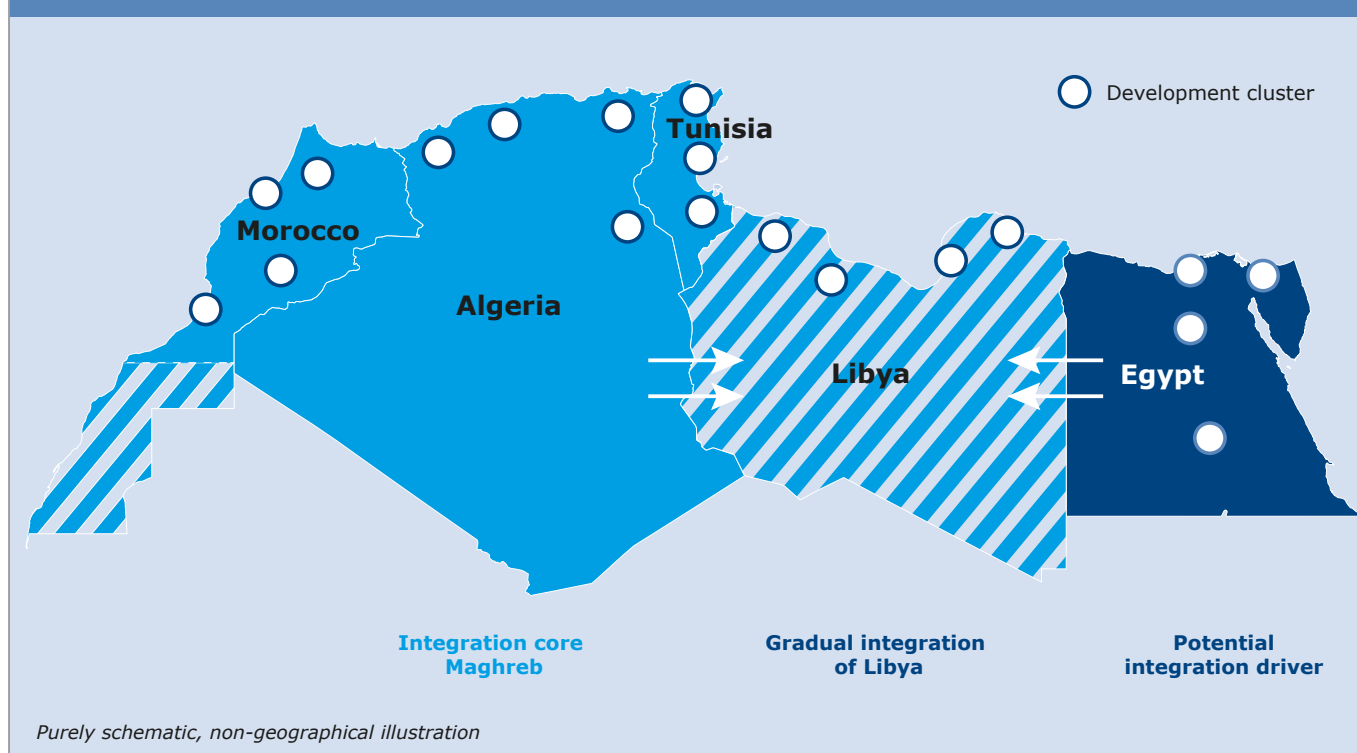
The aim here is to release previously unexploited potential in the region and thus make it possible to make use of the strengths of the region for sustainable development. Self-sustaining integration, which particularly opens up economic prospects for the young population of these states, also subsequently radiates towards other political areas. At the same time, the EU should also increasingly work towards closer bi-regional collaboration between the Maghreb states and, for instance, ECOWAS.

North Africa is the world's least integrated region.

The aim is to open up prospects, especially for the young population.

The second area of focus must be the strengthening of economic institutions, i.e. among other things, administrative reforms, strengthening of economic supervisory institutions (e.g. competition authorities, financial supervision, civil courts), in order to ensure that more investments can actually be made through an improvement in the investment climate.

Figure 2: Directions of integration in North Africa



4.2. Development clusters as a showcase and catalyst

Development clusters should be relay stations and showcases.

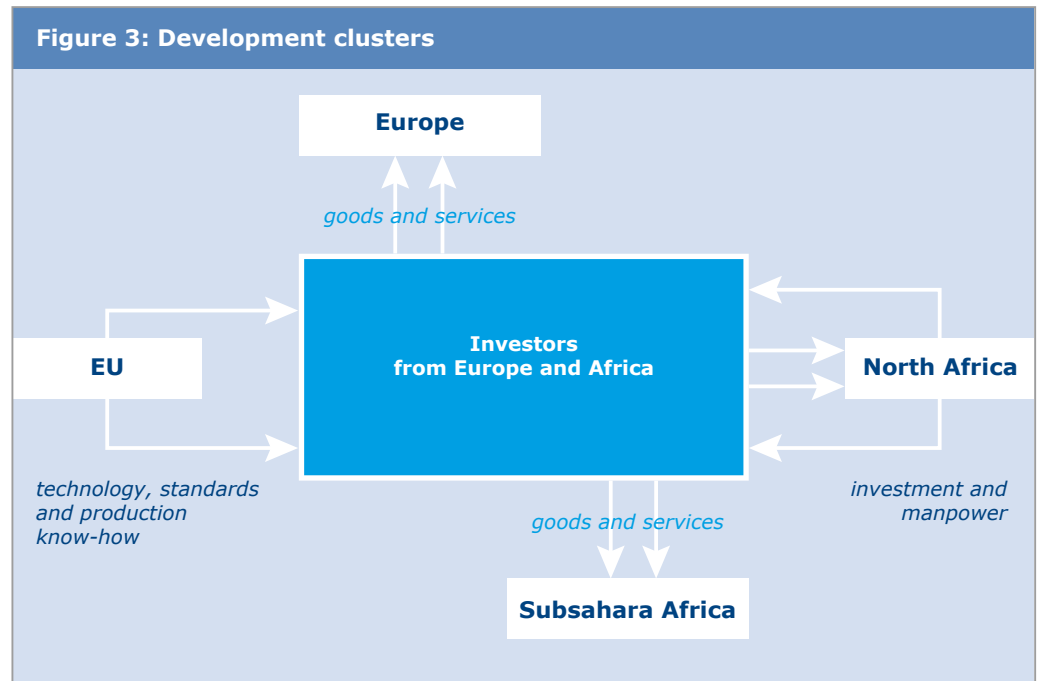
As a kind of special economic zone, locally limited development clusters can be catalysts for farther-reaching regional integration and for a deeper relationship with the European Union. They would thus become relay stations between Europe and the European industry as well as North Africa and the Northern African industry. At the same time, they would also serve as show windows for other states in Africa and make the potential of successful integration visible for them.

The targeted settlement of industries and the development of the infrastructures they require within the development cluster would mean that not just one company in this sector would be based there, but several such companies.¹⁴ The geographical proximity between educators, suppliers and manufacturers reduces costs and promotes specialisation. These qualifications then, in turn, attract new companies within the same industry. For these, there is then also a greater incentive to make targeted investments in the supply chain in the surrounding area and the region. Overall, there is hope that successful clusters will also be copied elsewhere and thus step by step, one could say mosaic-like, the economic situation of the entire country will be improved.

In contrast to traditional special economic zones, which take on an experimental role, foremost in relation to domestic (internal) policies, due to their simplifications for companies (e.g. through tax benefits, accelerated bureaucracy or lower wage

Measures can be implemented that would be impossible at a state level.

costs), development clusters are intended to take on an experimental role in relation to external policies between the affected states. The recommendations highlighted in this paper can be implemented in geographically limited areas as a priority and “put to the test”, so to speak. Through this geographical restriction and due to their ‘experimental nature’, measures for the integration and networking of these clusters between each other and with the European Union can be implemented, which would not be possible at a state level due to political considerations, limited resources or a lack of statehood.



In order for the development dynamism to also radiate from these clusters onto the surrounding areas, an infrastructural connection to urban centres as well as to rural areas is of crucial importance. The aim must be to make the investment conditions in the development clusters so attractive that a noteworthy quantity of jobs is created there. All of the state measures recommended here are reliant on the economy as a partner. Only in this way the necessary resources can be mobilised and sustainable success be achieved.

Political disputes – as shown for instance by the suspension of DCFTA negotiations between the EU and Morocco at the start of this year – often hamper the conclusion of extensive agreements at an intergovernmental level. Development clusters could contribute to improvements on the ground even before the conclusion of negotiations. At the same time, the development clusters also make it possible to allow for the different levels of statehood in the countries within the region.

In the medium term, this model (building on existing trade flows) could, in turn, be expanded to relationships between the drivers of growth in sub-Saharan Africa and North Africa. Such development clusters could also be established over the long term in the major conurbations of certain West African countries – particularly of those states that have also achieved progress as part of their political transformation process.

5. Recommendations

Three guiding principles stand out: integration, coherence, investments.

The aims shown here are undoubtedly ambitious and a long-term vision. Achieving them requires a systemic approach that aims for reforms in many areas at the same time in order to prevent stagnation in one political field from blocking the entire reform partnership. Only with clear objectives and only when applied as a package can the individual measures proposed here unfurl their full effect.

Three guiding principles for a new reform partnership stand out: integration, coherence, investments. The following recommendations are assigned to them: First of all, there should be more **integration** within North Africa and with the EU in order to enable self-sustaining growth. Secondly, the **coherence** of the incentives in European Neighbourhood Policy must be increased in order to improve the impact of reform support in the region. Thirdly, **investments** from overseas must flow into the region in order to generate sufficient resources for sustainable economic development.

5.1. Integration

Integration depends on facilitating and expanding trade.

Integration between the states of North Africa but also with the European Union depends on the provision of the necessary infrastructures for transport, energy and telecommunications, but above all on facilitating and expanding trade. The same applies – perhaps even more so – to integration with the countries of sub-Saharan Africa. The European Union has already acknowledged the importance of intensive trade relationships with the states of North Africa and concluded corresponding Association Agreements with Morocco, Algeria, Tunisia and Egypt as part of the Barcelona Process. Even at that time, the aim of a Euro-Mediterranean free trade area was formulated – yet the path towards this has turned out to be longer than initially anticipated. Nevertheless, negotiations are now being held with Morocco and with Tunisia about a deep and comprehensive free-trade zone (DCFTA), and with Egypt there are talks being held about the commencement of such negotiations.¹⁵

Table 3: Contractual foundations of economic collaboration with the EU

	Morocco	Algeria	Tunisia	Libya	Egypt
Association Agreement	In force since March 2010	In force since September 2005	In force since 1995	–	In force since 2004
DCFTA	Negotiations since March 2013, temporarily suspended in March 2016	–	Negotiations since October 2015	–	Discussions since June 2013
other agreements	Agreement on agricultural and fishery products in force since October 2012	–	–	–	Agreement on agricultural and fishery products in force since June 2010

Due to its complexity and the different interests in individual political fields such negotiations are always a long process, as currently shown in particular by the negotiations between the EU and Morocco. Increasingly difficult conversations are

The aim of integration in the European Single Market should be highlighted.

also looming in the negotiations with Tunisia. Nevertheless, the trade agenda of the European Union with the envisaged DCFTAs is moving in the right direction: it is particularly worth noting here the aim of the integration of North African economies in the European Single Market through a harmonisation with the *acquis communautaire* of the EU and the ambitious scope of talks that also comprises important areas such as trade in services.

One aspect that is already set out in the Euro-Mediterranean partnership process by the European Union but is not yet sufficiently advanced is integration between the states of North Africa. Despite the Agadir Agreement and the possibility of diagonal cumulation of origin in the pan-Euro-Med zone (pan-Euro-Mediterranean preferential rules of origin), there are still significant gaps here that stand in the way of an integration of the region via cross-border value chains.

Algeria and Libya would have to be linked to their neighbouring states and the EU.

- To be specific, **Algeria would have to conclude preferential arrangements with Morocco, Tunisia and Egypt** that contain the panEuropeMediterranean rules of origin that already form the content of the Algerian arrangement with the European Union.
- In a further step, **Libya would also have to be linked via corresponding arrangements with its neighbour states in the region and also to the European Union.** Only in this way a common economic space can be created from Morocco to Egypt that enables an integrated value chain in trade with the EU. The European Union could offer its services as a broker between the states of North Africa in this politically difficult process.
- **At the same time, the establishment of the first development clusters in the states should be started,** with which complete diagonal cumulation is already possible. The setup work should thus be begun where this is already possible today – and, at the same time, an incentive should be created for the other states to lay the foundations for stronger economic integration. The development clusters can also be used to **put into force the DCFTAs** of the European Union with Morocco, Tunisia and Egypt **on a provisional basis and with local restrictions** even before the final ratification of all those involved.¹⁶ In a second step, development clusters can also be set up in Algeria and Libya, in which, analogously to the procedure described above, the outstanding preferential arrangements are put into force with local restrictions. In this way, the benefits of complete trade integration from Morocco to Egypt can be leveraged much more quickly. The same should also take place over the long term with development clusters in other reform pioneers in sub-Saharan Africa.
- Besides integration on the goods market, the **liberalisation of trade in services** in the region is also required at a later time in order to enable deeper and more complete economic integration. This would also make the regional market attractive to other industries beyond the industrial sector and exploit potential above all in the financial sector, in transport, in logistics and in the communications and information sector.¹⁷

The liberalisation of trade in services is also necessary later.

Beyond the relationship between the European Union and the states of North Africa, better integration in global trade is also a crucial step:

- The EU should therefore continue to support the **accession of Algeria to the WTO** and rapidly bring it to a conclusion. Libya has a much longer path to take here, its membership application was made much more recently and is still in its

infancy. Nevertheless, the EU should **also technically and politically support the accession of Libya to the WTO.**

Integration in the Single Market could take place according to the EEA model.

- **The gradual integration of the North African national economies into the European market**, which is provided for in the envisaged DCFTAs, should lead to real integration of the entire region into the European Single Market over the long term. This could take place according to the EEA model, i.e. below the threshold of EU membership. Such participation in the Single Market would also be an incentive for the involved states to constructively cooperate with the EU in other political areas, such as with migration controls or the securing of the EU's external borders. The degree of involvement in the Single Market could also be linked to criteria relating to the rule of law.

To enable North Africa to fulfil its role as a link between Europe and sub-Saharan Africa, further work should also be undertaken on the integration of the African continent. Here, the summit of heads of state and government of the African Union indicated the right path in June 2015 with its decision to start negotiations for the creation of a continental free trade area. This can take place through the merging of existing regional trade blocks: as members of the Common Market for Eastern and Southern Africa (COMESA), Egypt and Libya already have an agreement to create a Tripartite Free Trade Area (TFTA) with the states of the Southern African Development Community (SADC) and the East African Community (EAC).

Further work should be undertaken on the integration of the African continent.

- **Morocco, Algeria and Tunisia should work towards integration into this African economic area**, which would extend from Cairo to Cape Town, in order to gain links to the markets of sub-Saharan Africa via the traditionally better developed trade relationship to Western Africa and beyond.
- At the same time, the European Union should bring the ongoing negotiations for **Economic Partnership Agreements (EPA)** with the states of Central Africa to a close and accelerate the prompt implementation of the EPAs with the states in Eastern and Southern Africa.

5.2. Coherence

- In order to even create the conditions to enable investments to be absorbed and to improve the investment and corporate climate in the states of North Africa, the **strengthening and reforming of institutions** (administrative reforms, increased twinning with member states and institutions above all from Central and Southeast Europe that have already undergone similar institutional reforms) must be a priority for the European Union. This should also apply to economic institutions.

Maghreb possesses significant potential in the agricultural sector – this applies above all to Morocco and Egypt. At present, however, agriculture remains far behind its potential in all states within the region. This is partly due to the conditions of the European market, towards which producers, especially in North Africa, are oriented.

The opening of the EU agricultural market would trigger an extensive development boost.

- The gradual **opening of the EU agricultural market** without quantity or price restrictions would trigger an extensive development boost. However, this would only work if the complete opening is accompanied by the gradual **waiving of subsidies for European producers as part of the Common Agricultural Policy**. A reduction in protectionism with complete market opening and the enabling of fair international competition by avoiding one-sided preferential treat-

ment for local producers are two sides of the same coin that nevertheless promise prosperity gains for both sides: the states of North Africa could make use of their competitive advantages through lower production costs and also generate additional income; consumers in Europe could benefit from lower prices and an improved supply. The resources that are freed both in the decentrally managed budget of consumers and also in the centrally managed budget of the European Union could subsequently be used more efficiently. As a first step, the partially still time-limited market entry for certain agricultural products could be granted permanently.

- Such a **reduction in subsidies** would also directly benefit the countries of sub-Saharan Africa, which partially already enjoy preferential access to the EU agricultural market, but are currently often not able to compete there due to the competition-distorting effect of agricultural subsidies.
- Stages in the opening of the Single Market and the EU agricultural market should **depend on progress in the establishment of economic institutions, efforts to combat corruption and the boosting of administrative capacities**. This could take place within bilateral reform contracts between these countries and the EU to support the implementation of very specific reform undertakings (investment legislation, legal principles for public-private partnerships, etc.). A strong sign would be an asymmetrical opening of the European market (as the EU practices in the case of the DCFTA with Ukraine, for instance), i.e. the European Single Market would be opened more quickly than that of the respective North African partner country.

Asymmetrical opening of markets would be a strong sign from Europe.

In view of the willingness to migrate not only in the North of Africa, an opening of the EU agricultural market would be a contribution to rural development in these states and thus to avoiding migration, and also a contribution to creating more security and stability in Europe.

5.3. Investments

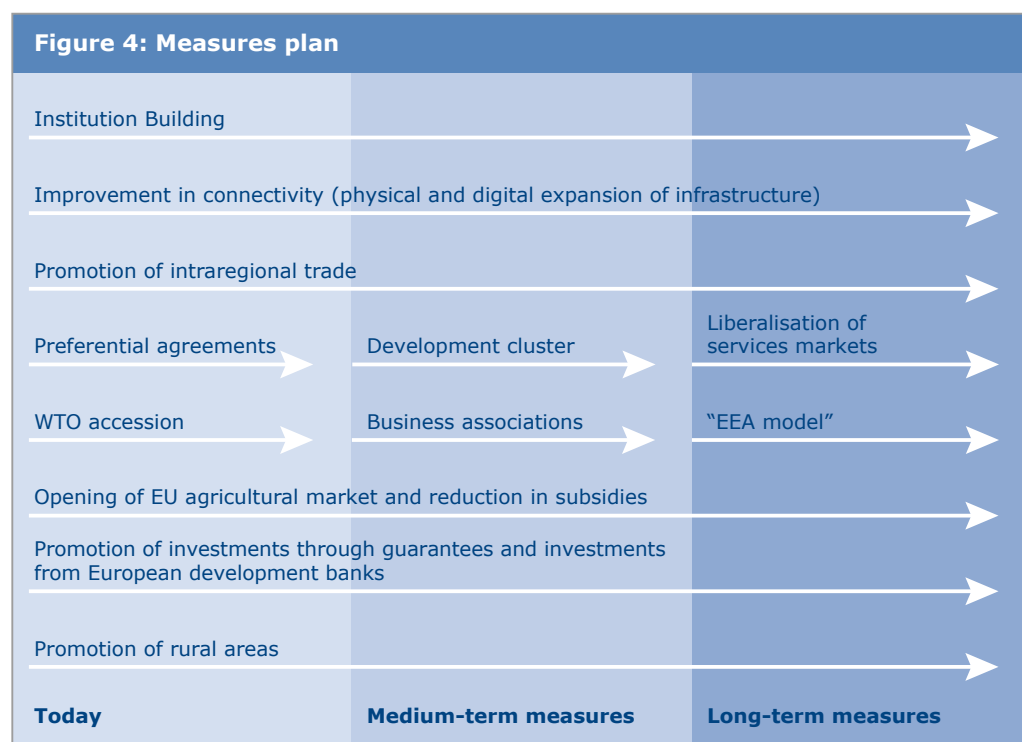
All of the stated measures can only unfurl their positive effect when the states of North Africa manage to attract a noteworthy quantity of private investments. The European Union can, for its part, also contribute to this through the **clever setting of framework conditions**.

- For instance, direct investments by European companies in North African development clusters could be given targeted support through **non-permanent involvement from the European Investment Bank (EIB) or the European Bank for Reconstruction and Development (EBRD)** – in addition to their existing projects expanded over recent years. This requires a significant increase in the means of the EIB for North Africa or, better still, the entire African continent. In addition, strategic investment projects in the Northern African states could be realised through **support by the European Fund for Strategic Investments (EFSI)**. For this to happen, besides cross-border projects in a narrower sense, measures in development clusters would also have to be possible, from which positive effects on the European economy are to be expected. In light of the growing commitment of both banks in the region, these specific support strategies should be formulated for the southern Mediterranean region and specifically for North Africa. In the medium and long term, the possibility of a separate bank to support investments in North Africa should be considered, possibly also with the creation of a separate facility similar to the EFSI.

EIB, EBRD and EFSI could support investment projects.

- **Investment guarantees** could be used in a targeted way to promote investments in North African development clusters and, where applicable, in outstanding projects in sub-Saharan Africa. In EU member states in which no such national investment guarantees are available, a **subsidiary claim to a European guarantee** should be created. Besides the better-known Hermes export credit guarantees ("Hermes cover"), investment guarantees are an important tool within foreign trade promotion in Germany. Through the guarantees, investors can, for instance, protect themselves against expropriations, military conflict, revolutions, terrorist acts, as well as against payment moratoria and conversion or transfer restrictions.
- The European coordination of member-state activities remains important: for **national measures** such as the reactivation of the development aid law of 1981 mentioned by German Federal Minister Müller¹⁸ it should be ensured that such **fiscal promotion of companies** would be compatible with EU law in connection with the systemic approach proposed in this paper.
- Small and medium-sized companies (SMEs) are not only the backbone of the German economy but should also become an important pillar for sustainable growth in the states of North Africa. SMEs in particular are dependent on simple and transparent rules. Common **rules of origin** which permit cumulation can only influence investment and production decisions in the desired sense if they are designed so simply and feasibly that they can actually also be applied by SMEs. In this sense, the previously mentioned panEuropeMediterranean preferential rules of origin are to be verified in terms of their applicability and, if required, adapted. Furthermore, the EU can help the partner countries develop incentives for the legalisation of small and medium-sized companies operating in the informal sector.

It must also be possible for common rules of origin to be applied by SMEs.



- 1] *Transformation processes that are successful over the long term must be embedded in a comprehensive value-based approach: a successful economic transformation cannot take place independently of a political transformation process, which, among other things, involves the strengthening of political institutions, pluralism and rule of law. The present paper focuses on the economic reform process, although without relativising the relevance of the political reforms also necessary in the region.*
- 2] According to Frontex, around 154,000 migrants took the central Mediterranean route in 2015, while the figure was as high as 170,000 in 2014: <http://frontex.europa.eu/trends-and-routes/central-mediterranean-route/>
- 3] Cf. International Labour Organisation (2015): *Global Employment Trends for Youth 2015*. URL: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_412015.pdf [last accessed on 17.5.2016].
- 4] Cf. The World Bank (2016a): *Global Economic Prospects 2016*. URL: <http://www.worldbank.org/en/publication/global-economic-prospects> [last accessed on 17.5.2016].
- 5] Communication of the European Commission and the European External Action Service on a Review of the European Neighbourhood Policy, 18th November 2015. URL: http://eeas.europa.eu/enp/documents/2015/151118_joint-communication_review-of-the-enp_de.pdf
- 6] Cf. The World Bank (2010): *Economic Integration in the Maghreb*. URL: <http://siteresources.worldbank.org/INTMENA/Resources/Maghrebpub.pdf> [last accessed on 17.5.2016]. The spread ranges from 1.5 per cent (Algeria) to 6 per cent (Tunisia).
- 7] The Greater Arab Free Trade Area (GAFTA) is a free trade zone established in Amman in 1997 between initially 14 (now 18) of the 22 members of the Arab League. The Agadir Agreement between Jordan, Tunisia, Egypt and Morocco on 25th February 2004, which goes beyond the previously agreed GAFTA regulations, represented a milestone. The Arab League has since agreed to expand the Agadir Agreement to all 22 member states by 2015 and to create a common economic space (with its own Secretariat) by 2025.
- 8] The aims of the Arab Maghreb Union are increased collaboration in terms of foreign policy, domestic policy and cultural policy and the creation of a regional economic community between the member states. A permanent Secretariat based in Tunis was established in 1966. The first Maghreb summit took place in Marrakech in 1988, the union was formally founded one year later.
- 9] Ministère de l'Economie et des Finances du Royaume du Maroc: *Relations Maroc-Afrique, l'ambition d'une nouvelle frontière*, July 2015. URL: http://www.finances.gov.ma/depf/SitePages/publications/en_catalogue/etudes/2015/Relations_Maroc_Afrique.pdf [last accessed on 17.5.2016].
- 10] Transparency International Corruption Perceptions Index 2014
- 11] Cf. The World Bank (2016b): *Doing Business 2016*. URL: <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Chapters/DB16-Mini-Book.pdf> [last accessed on 17.5.2016].
- 12] The states of Sub-Saharan Africa are the most important destination for the shuttle diplomacy of the Moroccan king. This is also reflected in other political areas: for instance, states such as Mali, Senegal and Guinea are systematically integrated into Moroccan imam education. This gives Morocco symbolic and political influence in West Africa, from which the country also expects economic benefits.
- 13] Cf. The World Bank (2010): *Economic Integration in the Maghreb*. URL: <http://siteresources.worldbank.org/INTMENA/Resources/Maghrebpub.pdf> [last accessed on 17.5.2016].
- 14] Examples of such economic clusters are the automotive cluster in the Stuttgart region and the chemical cluster in the Basel region. The fact that such cluster formations also work in developing and newly industrialised countries is shown by the automotive cluster in the Mexican city of Puebla, which Volkswagen has been developing since 1964. In the process, all supplying companies had to first be painstakingly qualified by VW so that these could meet the automobile manufacturer's standards. Today, 90 per cent of the fabrication is exported. In 2007, Volkswagen de México, with its production site in Puebla, was the third largest automobile manufacturer in the country.
- 15] Cf. KAS Country Report Morocco dated February 2014 "Freihandelszone mit der EU: Marokko als Vorzeigemodell der transmediterranen Partnerschaft". URL: <http://www.kas.de/wf/de/33.36929/> [last accessed on 17.5.2016].
- 16] The authors are aware of the legal problems of such limited parallel organisations. However, they appear to us to be a pragmatic way of enabling modernisation showcases that can later radiate to other communities and organisations.
- 17] Cf. The World Bank (2010): *Economic Integration in the Maghreb*. URL: <http://siteresources.worldbank.org/INTMENA/Resources/Maghrebpub.pdf> [last accessed on 17.5.2016].
- 18] This was mentioned by German Federal Minister Gerd Müller on 26.4.2016 in his speech to open the Agency for Business & Development in Berlin.

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We also refer to the regional programme '**Political Dialogue and Regional Integration South Mediterranean**' by the Konrad-Adenauer-Stiftung based in Tunis/Tunisia. The programme promotes dialogue, partnership and cooperation among the countries of the mediterranean basin and with the EU. The programme aims at developing integrated responses to transnational and transregional challenges.

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