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# Regional Integration for the Arab Maghreb Union: Looking Beyond the Horizon

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## Introduction

Improving regional integration and intra-African trade levels have long been focal points for African policymakers. However, African Regional Economic Communities (RECs) have struggled to grow intra-regional trade levels, and regional integration remains a pipedream for many RECs. While the share of African exports to the rest of the world ranged from 80% to 90% between 2000 and 2017, the share of intra-African exports was a meagre 16.6% in 2017.<sup>1</sup> Regional political tensions and diverging trade policies offer clues as to why efforts have had mixed results.

The advent of the COVID-19 pandemic and ongoing finalisation of the African Continental Free Trade Area (AfCFTA) offers a chance to do things differently. Discussions thus far highlight the need to grow local manufacturing capacities in order to reduce reliance on foreign inputs, create new industrial sectors and improve competitiveness, and provide an enabling environment for e-commerce. These efforts can be furthered through regional integration, harmonisation of trade policies, and industrialisation plans. Although the pandemic offers a restart button, political will is fundamental for envisioning a new path for growth and development for the Maghreb region. To date, the Arab Maghreb Union's (AMU) efforts at economic development have been to look outwards, firstly at their European Union (EU) and thereafter select Arab and sub-Saharan countries for trading partners, rather than their immediate neighbours. AMU countries are partied to a variety of European and Arab-led initiatives focused on building closer economic ties and deepening cooperation. This has disincentivised efforts to deepen integration amongst themselves. Competing domestic interests and higher economic gains outside the region, combined with political deadlocks amongst AMU members, have resulted in neglect for regional integration efforts within the Maghreb. Despite these challenges, the African Union (AU) has identified the AMU as one of the building blocks to drive the AfCFTA's continental vision for integration. As the AMU's efforts at regional integration have been unsuccessful thus far their nomination raises questions as to how Maghreb states will garner political support for the AfCFTA's processes without first overcoming their internal political disagreements. It also raises questions around the AMU's willingness to enact economic reforms necessary for deepening intra-continental trade.

This policy brief discusses the AMU and the Southern African Development Community (SADC) through a regional integration lens. Discussions focus primarily on the AMU, drawing comparisons to the SADC region only in order to highlight common challenges or diverging approaches vis-à-vis regional integration efforts. This brief identifies measures that should be implemented to fast track reforms by examining three key factors for regional integration: (i) political dynamics at a REC level and identity challenges; (ii) intra-regional trade levels and efforts at intra-regional trade facilitation; and (iii) enabling the free movement of people. In doing so, this policy brief unpacks the status quo on intra-regional trade and regional integration within the AMU and identifies ongoing challenges. It thereafter provides a forward-looking assessment of how these three key factors could be better utilised to further economic gains.

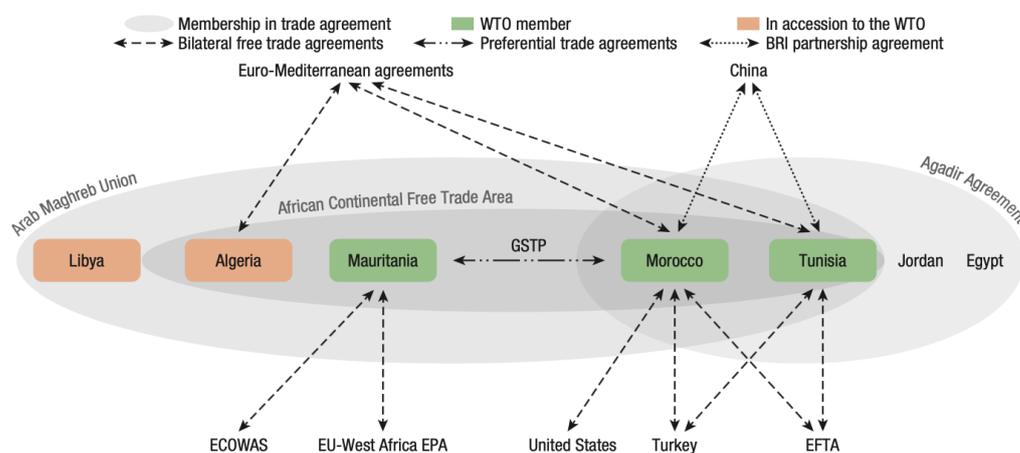
<sup>1</sup> UNCTAD (2019) Economic Development in Africa Report 2019: Made in Africa – Rules of Origin for Enhanced Intra-African Trade. Geneva: UNCTAD.

## Political dynamics within the AMU: laying the foundation for poor regional integration

The Arab Maghreb Union (AMU) traces its origins to the Marrakech Treaty signed in 1989 by its five founding members: Algeria, Libya, Morocco, Tunisia and Mauritania. At the opposite end of the continent, the Southern African Development Community (SADC) was founded in 1992. SADC is a far bigger REC with 16 member states at vastly different levels of economic development, with South Africa leading the way as the region's most developed economy.

The AMU was created to advance economic integration, strengthen peace and cooperation, and deepen intra-regional trade amongst its member states. SADC shares similar goals: the free movement of goods, services, capital and people are all end goals in the founding SADC Declaration and Treaty. Unfortunately, the AMU and SADC face socio-economic development challenges and difficulties in deepening intra-regional trade and integration. AMU member states are partied to a variety of EU-led regional integration processes broadly focused on (i) enhancing social and political cohesion (ii) addressing regional security concerns and (ii) building closer economic ties between southern Mediterranean countries. Such initiatives include the EU's Neighbourhood Policy, the Union for the Mediterranean, and the EU-Mediterranean Free Trade Area. As a result, the EU has shaped regional integration efforts throughout the Mediterranean area through its direct involvement as both a promoter and self-interested player in the region.<sup>2</sup> Maghreb countries are also members to Arab initiatives such as the Council for Greater Arab Unity (and its accompanying Greater Arab Free Trade Area) and the Agadir Agreement. As a consequence, the region has been divided into a variety of Pan-Arab, Euro-Mediterranean, Pan-African and Maghreb regional integration projects (Figure 1)<sup>3</sup> that have evolved in competition with, and in absence of, meaningful consultation with each other.

**Figure 1 – Main Trade Agreements within the AMU**



Source: IMF (2018) *Economic integration in the Maghreb – an untapped source of growth*. Washington DC: IMF.

To date, the AMU's efforts at integration have been lacklustre at best. A significant reason for this is the political regional rivalry between Morocco and Algeria. Despite being neighbours, Algeria and Morocco have not shared a crossable border since 1994. This is the result of a terrorist attack on Moroccan soil, in which Morocco accused Algeria of playing a role in the attack and responded by imposing visa requirements on Algerian tourists. This incident comes on the back of Morocco's invasion of Algerian territory in 1963 in an attempt to re-draw its borders and lasting tensions over Western Sahara.<sup>4</sup>

2 T. Behr (2010) *Regional Integration in the Mediterranean Moving out of the Deadlock?* Paris: Notre Europe

3 Ibid.

4 C. Rawhani (2017) *Morocco Joins the AU: Motives and Meanings*. SAIIA Occasional Paper 277. Johannesburg: South African Institute for International Affairs (SAIIA).

Despite a shared common culture, history and religion Maghreb governments have focused on their differences instead. An absence of political will and different domestic interests contribute to disappointing outcomes from the AMU. Like their SADC counterparts, Maghreb countries display a general reluctance to transfer powers to regional institutions that would regulate intra-regional trade and assist in resolving political deadlocks in the region.<sup>5</sup> As a result, the last AMU Summit to include all member states took place in 1994. To date, only six of more than 30 agreements have been ratified by all five member states.<sup>6</sup> These six agreements are focused on the establishment of the Maghreb Bank for Investment and Foreign Trade, on the exchange of agricultural products, encouraging and guaranteeing investments, land transportation of passengers and goods, agricultural quarantine, and rules for avoiding double taxation and income taxes.<sup>7</sup> The ongoing political deadlock between Morocco and Algeria, coupled with the continued political instability in Libya since 2011, has made it difficult to resolve regional conflicts and to deepen economic relations. A consequence thereof has been reduced economic cooperation, low levels of cross-border trade, and higher tariffs amongst the Maghreb countries.

### Regional integration: a hit and miss affair

The AMU has one of the lowest levels of intra-regional trade in Africa. Its modest performance is attributable to three key factors, which are discussed in greater detail below:

1. Poor intra-regional trade levels owing to an over-reliance on European markets;
2. Insufficiently connected regional infrastructure to enable smoother and quicker cross-border trade; and
3. The search for new markets amongst AMU's two most diversified economies, Tunisia and Morocco.

Intra-regional trade amongst Maghreb countries accounts for only 5% on average, and has been on the decline in recent years.<sup>8</sup> In 2017, intra-AMU trade accounted for only 2.7% compared with 3.1% in 2016, and an average of 3.2% over the 2012-2017 period.<sup>9</sup> This is largely the result of poorly coordinated trade liberalisation strategies, weak commodity prices, and the application of high tariffs to intra-AMU imports. For example, Algeria is the most protected market with an average tariff rate of 19%, compared to the regional average of 12%<sup>10</sup>. Select sectors (such as agriculture) are heavily protected in Tunisia (28%) and Morocco (31%) despite their relative open nature to trade<sup>11</sup>. High tariffs are also the result of a failure to establish a customs union and free trade area for the region.<sup>12</sup>

AMU countries face difficulties in production complementarity and export diversification (Table 1). Libya and Algeria are predominantly oil exporters while Mauritania's main exports are metal and gold. In comparison, Morocco and Tunisia are better integrated into global value chains (GVCs) through the development of manufacturing industry, low-cost assembly activities, and value-added exports dominated by low and medium levels of technologies.<sup>13</sup>

**Table 1 – Contributions of total industries and manufacturing industries to GDP in 2018**

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5 K. Megersa (2020) Supporting Development Through Regional Cooperation: Evidence from North Africa. Brighton: Institute for Development Studies. One of the biggest challenges facing regional integration in Southern Africa has been SADC member states' unwillingness to delegate decision making to regional institutions that are independent of their influence See A. Saurombe (2012) 'The Role of SADC Institutions in Implementing SADC Treaty Provisions Dealing with Regional Integration.' Potchefstroom Electronic Law Journal, Vol. 15, No. 2.

6 Y. Allouche (2019) Regional Power Rivalry and the Failure of the Arab Maghreb Union. TRT World Research Centre.

7 Arab Maghreb Union Secretariat <https://maghrebarabe.org/%d8%af%d8%ae%d9%84%d8%aa-%d8%ad%d9%8a%d8%b2-%d8%a7%d9%84%d8%aa%d9%86%d9%81%d9%8a%d8%b0/>

8 International Monetary Fund (IMF) (2018) Economic Integration in the Maghreb: An Untapped Source of Growth.

9 African Development Bank (AfDB) Report on Regional Integration in the Maghreb 2019: Challenges and Opportunities for the Private Sector.

10 Ibid.

11 Ibid.

12 T. Behr, op. cit.

13 A. Mahjoub (2019) 'Chapter 7: Maghreb Arab Union' in Annual Report on African Economies (2019) Rabat: Policy Centre for the New South.

|                   | <b>Manufacturing industries, value added as a % of GDP</b> | <b>Total industries (including construction), value added as a % of GDP</b> | <b>Main export products</b>   |
|-------------------|--|---|---|
| <b>Algeria</b>    | 27.2   | 39.6  | Gas and oil exporter  |
| <b>Libya</b>      | N/A  | N/A   | Gas and oil exporter  |
| <b>Morocco</b>    | 15.7   | 25.9  | Agricultural products (including fisheries), textiles, fertilisers, cars, aircraft and spacecraft |
| <b>Mauritania</b> | 7.4  | 26.1  | Metals, frozen fish   |
| <b>Tunisia</b>    | 14.3   | 22.7  | Electric components, light machinery, equipment parts, olive oil and textiles                     |

Source: AfDB (2020) *North Africa Regional Integration Strategy Paper 2020-2026*. Abidjan: AfDB.

The AMU's poor performance stands in stark contrast to the East African Community (EAC), the Economic Community of West African States (ECOWAS) or SADC, which have the highest levels intra-regional trade integration.<sup>14</sup> Intra-SADC exports account for 20% of the region's total trade with an increased focus on growing processed and industrialised goods. South Africa is the main source of intra-regional exports and the primary destination for other SADC country exports, representing up to 70% of their exports across Southern Africa.<sup>15</sup> However, a more nuanced analysis shows that SADC countries are located more upstream, which means they have relatively high levels of their value-added exports embodied as intermediate inputs into other countries exports.<sup>16</sup> SADC's regional integration levels are also informed by domestic interests. For example, Lesotho and eSwatini are more deeply integrated than even Mauritius, as their openness is in their interest and is explained by their dependence on trade via South Africa.<sup>17</sup>

Unfortunately for AMU members there has been limited movement towards regional integration. Even though goods produced within the region have a high potential for intra-regional trade they are not necessarily traded amongst member states. Fertilisers, clothing, electrical appliances, hides and skins, fish, crustaceans and shellfish are all examples of locally produced goods that should be traded amongst the Maghreb countries but are not.<sup>18</sup> Backward GVC integration (i.e. the share of foreign value-added imported and used in the production of exports) is comparable to the average for emerging economies only in Tunisia, low and improving in Mauritania and Morocco, and stagnated in Libya and Algeria.<sup>19</sup> Instead, the regional focus on importing goods heightens the AMU exposure to currency volatility and fluctuations in international supply chains. Low levels of regional integration have reduced diversification and industrialisation, and have undermined structural transformation amongst the Maghreb countries.<sup>20</sup>

Efforts at regional integration is further hindered by the various bilateral agreements between Maghreb countries and their main trading partner, the EU. The EU's support for trading with the AMU as a bloc is most visible through the EU-Mediterranean Free Trade Area, which is focused on removing barriers to trade and investment between EU and Southern Mediterranean countries. Despite this, EU members have obtained concessions by negotiating with Maghreb countries on a bilateral basis (through Association Agreements) for

14 UNCTAD (2019a) Key Statistics and Trends in Regional Trade in Africa, 2019. Geneva: UNCTAD.

15 A. Black, et al (2019) Spreading the Gains? Prospects and policies for the development of regional value chains in Southern Africa. UNU-WIDER SA-TIED Working Paper #38.

16 A. Black, et al, op. cit.

17 Ibid.

18 AfDB report (2019), op. cit.

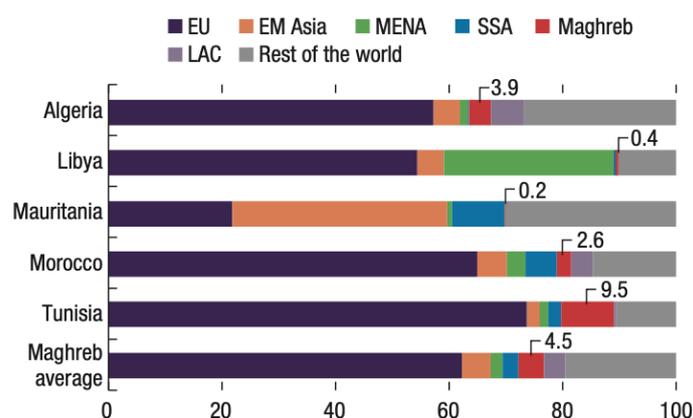
19 IMF, op. cit.

20 AfDB report (2019), op. cit.

North African goods entering the Euro-zone.<sup>21</sup> While such arrangements may be beneficial for AMU countries at an individual level in specific sectors, the long-term impacts have been detrimental for regional integration and RVC creation.

Developing an export base that meets the needs of these bilateral trade agreements has driven AMU countries towards vertical (rather than horizontal) integration.<sup>22</sup> This exogenous specialisation in the export of goods and commodities has developed in response to demands from major European industries,<sup>23</sup> rather than creating RVCs that build competitiveness, specialisation and strengthen the Maghreb economies as a collective. Each of the EU's Association Agreements with Tunisia, Morocco and Algeria are substantively different. This hampers product integration between Maghreb countries, effectively creating a positive discrimination in favour of European exports.<sup>24</sup> For example, although Morocco and Tunisia may not grant tariff advantages to EU imports, Algeria applies lower tariffs to its EU imports than to goods from Morocco.<sup>25</sup> This creates imbalances that disproportionately favour EU imports against locally produced goods in the region, while also raising concerns in terms of re-exports within the region. In comparison, the SADC free trade area caters for 85% liberalisation of intra-regional trade and tariff phase downs for sensitive products,<sup>26</sup> which resulted in total exports within SADC growing from 20% to 25% between 2000 and 2017.<sup>27</sup> The decision to liberalise their trading arrangements with partners sans internal consultation has caused regional asymmetries and a failure to harness their collective strengths in negotiating for the benefit of the region.

**Figure 2 – Inter-regional Trade by Destination (Percent of total exports)**



Source: IMF (2018) *Economic integration in the Maghreb – an untapped source of growth*. Washington DC: IMF.

Cross-border trade is dependent on well-functioning trade facilitation measures that apply to a broad range of importing and exporting practices and reforms to hard (i.e. physical) infrastructure and soft (i.e. digital technologies) infrastructure.<sup>28</sup> Smooth cross-border operations are essential for reducing corruption and simplifying cross-border administrative requirements. There are four modes of transportation between Maghreb countries (sea, air, road and rail).

21 Y. Allouche, op. cit.

22 A. Mahjoub, op. cit.

23 AfDB report (2019), op. cit.

24 A. Mahjoub, op. cit.

25 Ibid.

26 SADC Free Trade Area <https://www.sadc.int/about-sadc/integration-milestones/free-trade-area/>

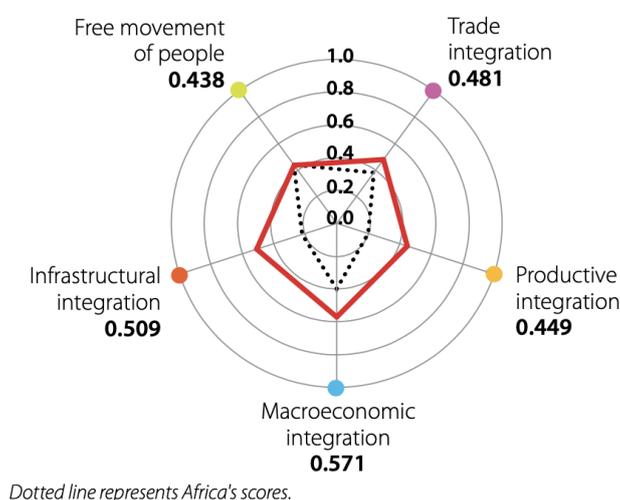
27 A. Black, et al, op. cit.

28A. Parshotam (2019) *Implementing the TFA: Trade Facilitation Activities in Zambia*. SAIIA Occasional Paper 298. Johannesburg: SAIIA.

Infrastructural integration within the AMU is dominated by Morocco and Tunisia, underscoring their well-developed productive integration and their ability to benefit from economies of scale.<sup>29</sup> In comparison, infrastructural integration is SADC's weakest link. Maritime transportation is the most well-developed across the Maghreb region as a whole (excluding Mauritania, which has low logistical connectivity).<sup>30</sup> In comparison, rail and road transportation models are not as fully developed.<sup>31</sup> "Some potentially important trade corridors are hampered by the absence of road links between Algeria and Morocco; railway links and standardization between Algeria, Morocco, and Tunisia; and highway links between Libya and Tunisia."<sup>32</sup> Despite these challenges, Maghreb countries are working on improving their overall cross-border infrastructure by implementing the Trade Facilitation Agreement and a variety of regional infrastructure projects supported by the African Development Bank (AfDB). This includes upgrades to port infrastructure, simplified customs procedures, establishing single window systems for exports, and increasing the use of digital systems for payments, verification of goods and risk mitigation.<sup>33</sup>

When measured against other African RECs, the AMU performs best on macro-economic integration and weakest on free movement of persons (Figure 3). To date, Tunisia, Morocco, Algeria and Libya have all been rated as amongst the least committed countries to the AfCFTA process owing to their restrictions on the free movement of persons – in contrast to their Southern African counterparts.<sup>34</sup> Mauritania is the only country offering visa-free travel for its Maghreb neighbours. Tunisia has made important progress in opening its borders for travel and modernising its visa system by issuing electronic visas.<sup>35</sup> However, opportunities for job seeking in neighbouring states remain stifled across the region, partially as a result of the Maghreb's enduring status as an emigration region. The free movement of persons is a vital requirement for the creation of any free trade area, including the AfCFTA. Future, long-term regional development cannot occur without support and buy-in for the AfCFTA's vision of a single market. This includes supporting labour mobility, visa-free travel, and job creation for the AMU's nationals.

**Figure 3 – AMU's Scores on the Five Dimensions of Regional Integration**



Source: African Union / UNECA *Regional Integration Index Report 2019*.

29 The African Regional Integration Index (ARII) measures African countries on the five key factors: trade integration, productive integration, macroeconomic and infrastructure integration, and free movement of persons. African Union / UNECA Regional Integration Index Report 2019.

30 UNECA (2020) Trade facilitation in North Africa for enhanced regional economic integration: challenges, opportunities and the way forward. Addis Ababa: UNECA.

31 IMF, op. cit.

32 M. Rouis & S. R. Tabor (2013) Regional Economic Integration in the Middle East and North Africa: Beyond Trade Reform. Washington DC: IMF

33 UNECA (2020) op. cit.

34 M. Kottoh et al (2020) AfCFTA Year Zero Report: An Assessment of African Governments' Commitment and Readiness for AfCFTA Start of Trading in light of COVID-19. AfroChampions / Konfidant.

35 AfDB (2019) Africa Visa Openness Report 2019. Abidjan: AfDB.

As a result of these challenges some Maghreb leaders have chosen to focus their efforts elsewhere. For Morocco, whose King Mohammed VI famously declared that the “AMU is dead”,<sup>36</sup> the approach to expanding trade opportunities has not been focused on deepening intra-regional trade levels but to look beyond the region’s borders to sub-Saharan Africa. Moroccan diplomatic trips across the continent are often accompanied with significant investment opportunities, particularly in the banking and telecommunication sectors.<sup>37</sup> In 2017, Morocco re-joined the AU and requested to join ECOWAS. This remains a fraught, ongoing discussion due to push-back from Nigeria.<sup>38</sup> In 2018 Tunisia joined the Common Market for Eastern and Southern Africa (COMESA).<sup>39</sup> Their actions illustrate a desire to build deeper relations with sub-Saharan African countries and to leverage their relatively diversified economies to its full exporting potential with its other African trading partners. Pre-COVID, Senegal, Mauritania, Cote d’Ivoire and Nigeria ranked as the top African export markets for Moroccan products, covering a wide range of agricultural products, machinery and chemical goods.<sup>40</sup> Tunisia has also begun developing expertise in higher-value goods and services including higher education services, information technology and medical services (which could be advanced through medical tourism).<sup>41</sup> Diversification of trading partners has two key benefits for Morocco and Tunisia: (i) it enables them to move away from a vertical integration trading model that has largely dominated trade with the EU to date and (ii) the ability to leverage above-average industrialisation and manufacturing capacity to garner new consumers across West African markets.

## Freedom of movement of persons and the rising unemployed youth demographic

Free movement of persons for travel and business is one of the cornerstones for deepening regional integration across Africa. Encouraging private sector growth and attracting foreign direct investment (FDI) are dependent on borders open to the free movement of persons, goods, skills and capital. Africa is the youngest continent in the world, which offers challenges and opportunities for its policymakers. A young demographic can make significant contributions to economic growth and provide the basis for growing a skilled workforce throughout the continent. However, the flipside of Africa’s youth bulge is rising youth unemployment – an unfortunate common trait in both the AMU and SADC. Southern Africa and the Maghreb countries have the highest levels of youth unemployment on the continent. Across Southern Africa, nine out of 13 countries experienced double-digit rises in youth unemployment levels, with the worst performers being South Africa and its immediate neighbours.<sup>42</sup> In comparison, Mauritania (which has a large informal sector) and Morocco’s youth unemployment stand at 15.2% and 19.4% respectively, and in all other countries it is above 25% and as high as 34.7% in Tunisia.<sup>43</sup>

The Maghreb countries are traditionally a source of emigration and job seekers have generally looked to EU countries for employment opportunities. However, the 2008 global financial crisis exposed the region’s vulnerability to external shocks and its overarching reliance on European markets. Despite this, Maghreb countries have not done enough to create a conducive local environment for job creation and skills development. The region does not have freedom of movement for job seekers, and difficulties in obtaining a residence card and a work permit further limits labour movements.<sup>44</sup> High levels of unemployment can also be the result of skills mismatch, limited economic diversification and an absence of pro-employment macro-

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36 M. Chatatou ‘King Mohammed VI Has Pronounced Maghreb Union Dead, Long Live Africa.’ Morocco World News

<https://www.moroccoworldnews.com/2017/02/208000/king-mohammed-vi-has-pronounced-maghreb-union-dead-long-live-africa/>

37 A. Dworkin (2020) A Return to Africa: Why North African States are Looking South. Policy Brief, European Council on Foreign Relations

38 N. Munshi ‘Morocco’s Ecowas bid sparks African fear and suspicion.’ Financial Times, 24 January 2019 <https://www.ft.com/content/f17bf958-f96b-11e8-a154-2b65ddf314e9> There are three clear reasons for concern amongst other ECOWAS member states: (i) a lack of clarity if Morocco will obey ECOWAS rules ranging from reduced tariffs to free movement; (ii) Morocco is far more developed than any other ECOWAS country and would join from a position of power; and (iii) Morocco’s bilateral agreements with the EU and China could create a potential tariff-free back door into West Africa for foreign companies.

39 A. Mahjoub, op. cit.

40 R. Fabiani ‘Although Morocco is aiming to diversify its trade relations into West Africa, political and social opposition within ECOWAS raises questions about its real intentions.’ Carnegie Endowment for International Peace, 28 March 2018 <https://carnegieendowment.org/sada/75926>

41 A. Dworkin, op. cit.

42 AfDB (2020a) The Southern Africa Regional Economic Outlook 2020. Abidjan: AfDB.

43 AfDB (2020b) The North Africa Regional Economic Outlook 2020. Abidjan: AfDB.

44 IMF, op. cit.

economic policies. The AMU has the additional burden of low levels of a female workforce despite their increased enrolment into educational opportunities. As a percentage of the total workforce in AMU countries, women employment ranges from 17% (Algeria) to 34% in Mauritania.<sup>45</sup> These figures are substantially lower than their peers in sub-Saharan countries. Reduced employment opportunities for women worsens gender parity in the region, resulting in them facing higher levels of poverty, socio-economic insecurity, and being forced to work under precarious conditions within the informal sector instead.

Solutions include skills development and encouraging unemployed youth to enrol in technical and vocational colleges, with links to traineeships in sector-specific businesses to ensure future employability. Modern industry can provide relatively well-paying jobs for large numbers of under-skilled workers, which would be reliant on developing a private-sector led manufacturing sector.<sup>46</sup> In addition, reducing red tape for the private sector can also assist in creating job creation for skilled unemployed youth.<sup>47</sup>

### Looking ahead: what are future opportunities for the AMU?

This year has been largely characterised by the spread of the coronavirus / COVID-19 pandemic. First identified in December 2019 in Wuhan, China, the respiratory virus has spread across the world owing to the highly connected nature of modern-day travel, tourism and commerce. COVID-19 is first and foremost a health pandemic. However, its economic impacts are equally wide-ranging and have been devastating for developed and developing economies. For African countries, the impact of the COVID-19 pandemic is a triple shock:<sup>48</sup>

1. Economic disruptions from the domestic health shock (i.e. business closures, disruption in supply chains and increased household insecurity);
2. Spill-overs from the global fall-out of COVID-19 (slow-down in international trade, reduced foreign direct investments and rising inflation); and
3. Commodity price shocks, especially for resource-intense African countries.

Across the world, the pandemic has been devastating for economies and society at large. North Africa is not spared from this socio-economic fallout. The region is expected to experience growth at -0.8% compared to the original projection of 4.4% pre-COVID.<sup>49</sup> Like many of its African peers, Maghreb countries have experienced sharp increases in debt-to-GDP ratios and worsened budget deficits.<sup>50</sup> Increased debt levels and reduced fiscal expenditure can hinder regional integration efforts, infrastructure projects, and the provision of social services. These constraints have to be factored into the region's long-term growth and must inform strategies to build resilience and competitiveness in combatting external shocks such as the current pandemic.

It is also likely that the global economic recovery will take several years to return to normalcy. This calls for a new approach towards economic growth and social development, and offers the AMU an opportunity to address persistent challenges. Strengthening regional integration depends on Morocco and Algeria resolving their political dispute or, at the very least, allowing for the cross-border trade in goods and free movement of persons. Comprehensive regional integration is also dependent on stabilising Libya. Although security issues are not the focus of this analysis, there are still ways in which AMU member states can move towards greater cooperation and improved economic ties amongst themselves. This can be done in three key ways:

1. Exploring new trade opportunities but deepening regional integration
2. Looking South and building new relationships
3. Creating opportunities for private sector growth, creating jobs, and investing in education.

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45 World Bank data indicators, <https://data.worldbank.org/indicator/SL.TLF.TOTL.FE.ZS?view=chart>

46 AfDB (2020b) op. cit.

47 N. Kabbani (2019) Youth Employment in the Middle East and North Africa: Revisiting and Reframing the Challenge. Washington DC: Brookings Institute.

48 International Monetary Fund (IMF) Regional Economic Outlook: Sub-Saharan Africa COVID-19: An Unprecedented Threat to Development, April 2020.

49 AfDB (2020b) op. cit.

50 AfDB (2020c) North Africa Regional Integration Strategy Paper 2020-2026. Abidjan: AfDB.

## Balancing a double-edged sword: exploring new trade opportunities but deepening regional integration

Tunisia and Morocco are amongst the top four African countries (including Egypt and South Africa) that share the highest rate of GVC participation on the continent, at an average of 60% GVC participation rate.<sup>51</sup> This is a benefit that can be leveraged for broad-based industrialisation, development of new industries, and export diversification. The COVID pandemic has highlighted the dangers of over-reliance on imports from specific countries and the need to develop local industries. The AMU's vulnerability to external shocks are further heightened owing to reduced prices for oil exports (for Mauritania and Algeria) and a slowdown in international trade in goods in the European market. These fluctuations underscore the need for Maghreb countries to develop greater resilience.

A futures-orientated approach to development within the AMU would be to leverage Morocco and Tunisia's already existing manufacturing capacities to cultivate wider-spread industrialisation and productive capacity throughout the Maghreb. For Morocco and Tunisia (and Egypt), intra-industry trade intensification could serve as an example for North African integration where several economic structures are similar.<sup>52</sup> A low hanging fruit would be to begin trading products already produced in the region (as opposed to importing these goods) and to identify products capable of backward GVC integration in the region. It is important for Mauritania and Algeria, which have lower levels of industrialisation, to identify priority sectors for future development. These should support the manufacturing of semi-finished products with possible integration into Moroccan and Tunisian industries as a short-term goal. Over time, reducing reliance on imports to feed into locally produced goods will become a long-term advantage owing to relatively low costs of production and labour and will help to create economies of scale.<sup>53</sup> This approach is beneficial for export diversification, product competitiveness, and job creation.

In the short-term Maghreb countries can remove barriers to the trade of equipment, machinery and related components that would help mitigate the often-high costs associated with importing machinery and related products. In the longer term, RVCs should be developed in accordance with industrialisation policies coordinated at a regional level. This will assist in identifying appropriate sectors and industries that can be competitively developed across the region with shared inputs and appropriate labour and skills delineation. Industries that reflect potential for long-term growth includes the renewable energy sector, developing an agro-industry and investing in smart agriculture (especially important as North Africa is vulnerable to climate change), and furthering specialisation in the automotive industry,

Greater industrialisation and manufacturing capacities will enhance the Maghreb's competitiveness at a global level and can help support the AfCFTA's goal of creating a single continental market. Supporting the AfCFTA's vision will enable Maghreb countries to build trade complementarities across an entire continent. For example, Morocco and South Africa's automotive industries can be enhanced through greater cooperation and collaboration that could create a variety of secondary value chains to feed into these industries across Southern and Northern Africa. Greater trade openness will also contribute towards poverty alleviation and will benefit the Maghreb's overall socio-economic development.

Maghreb countries have a lucrative geographical location that they have not fully leveraged beyond the needs of their domestic economies. They are uniquely positioned to act as conduits between Europe, Africa, the Middle East and the Americas. For example, in 2019 Morocco opened the Tangier Med Port 2, which is the largest in Africa and one of the 20 largest ports in the world.<sup>54</sup> Integrating their regional markets would make large-scale industrial projects economically attractive and viable through economies of scale, attracting FDI and boosting the overall performance of the region as a whole.<sup>55</sup>

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51 UNCTAD (2019a), op. cit.

52 AfDB (2020c), op. cit.

53 AfDB report (2019), op. cit.

54 UNECA (2020), op. cit.

55 AfDB report (2019), op. cit.

In order to play this facilitative role, however, Maghreb countries will have to lower tariffs between themselves and with sub-Saharan African countries. Complementing tariff reduction with ongoing trade facilitation reforms that include simplified customs procedures and reduced administrative requirements will send a positive message that Maghreb countries are open for business with their African neighbours. Eliminating these trade barriers also help foster goodwill with the AMU's immediate sub-Saharan African partners and will contribute towards building stronger relations with their ECOWAS neighbours. This will help build trust and partnerships between governments and the private sectors in each region, which can help alleviate current concerns regarding Morocco potential dominance in trade relations with ECOWAS.

As a long-term trajectory, China's prominence in the region cannot be overlooked and will require careful navigation to ensure the scales do not tip in favour of Chinese interests alone. All countries except Mauritania have signed Belt-and-Road Initiative (BRI) agreements with China. The BRI agreements focus on economic cooperation through infrastructure investment, technical assistance and trade facilitation.<sup>56</sup> Chinese imports account for 14.7% in 2018.<sup>57</sup> Partnerships with China can be beneficial for enhancing efforts to deepen regional integration (particularly support for regional infrastructure projects) and should be used to inform such efforts. AMU members should also use in the negotiating experience gained in building trade relations with the EU to inform their engagement with China – for example, reducing reliance on commodities exports and protecting against vertical integration. In order to improve its negotiating and trading position with China, it is imperative that the AMU speak with one voice, guard against the export of commodities and ensure that bilateral agreements with China are not detrimental to overall regional integration.

### **An Arab-African identity: looking South and building new relationships**

Part of the popular narrative of North Africa has been its physical and psychological distance from sub-Saharan Africa. The Saharan desert, dominance of Islam as the primary religion, and cultural practices distinct from its African neighbours have created a tendency to view the region as the “North African cousins”, as opposed to brothers in arms.

The AfCFTA should be seen as an opportunity to enhance already ongoing economic engagement between the AMU and sub-Saharan African countries. As discussed throughout this paper there are obvious commercial and economic reasons for greater engagement between North Africa and the rest of the continent. Morocco's and Tunisia's actions are illustrations of this and these efforts begun even before the AfCFTA negotiations begun. Deepening economic relations can be greatly advanced by business chambers and private sector associations playing a stronger role in fostering chamber-to-chamber relations. This will can advance business relations through continued dialogue, enable industry-level cooperation, share best practices and encourage intra-African investment.

Economic efforts also come on the back of already increased diplomatic presence and strategic engagement from AMU countries with its neighbours. This includes a focus on security cooperation. The threat of terrorism has propelled greater cooperation between North and West African to mitigate against potential security threats. These efforts are led by Algeria, which has historically played a large role in security-related concerns across the continent. Morocco's soft power efforts through religious diplomacy could provide long-term support for deterring the rise of Islamist radicalisation in the Sahel.<sup>58</sup> Enhanced cooperation on sensitive security issues could help in fostering trust and deeper relationship building with West African countries, which could also open doors for greater economic and cultural diplomacy between the AMU's member states and sub-Saharan Africa.

Greater diplomatic ties, establishing of embassies, sharing of exchange programmes for students, and encouraging intra-African tourism through visa-free travel are all part of the toolkit for cultural diplomacy.

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<sup>56</sup> IMF, *op. cit.*

<sup>57</sup> Y. H. Zoubir (2020) *Expanding Sino-Maghreb Relations: Morocco and Tunisia*. London: Chatham House.

<sup>58</sup> A. Dworkin, *op. cit.*

This can help foster deeper relations between Maghreb countries and the rest of the continent over a long-term period.

### Low wins: creating opportunities for private sector growth, creating jobs and the importance of regional infrastructure

Maghreb countries have already begun implementing reforms that will benefit the private sector and doing business conditions throughout the region. Low-hanging fruits that can bear short-term gains includes supporting banking sector reforms that enable easier access to finance for the private sector, one-stop shops that can support intra-regional investments, and greater dialogue between public and private sector. The latter is vital for informing policymaking that improves the overall business ecosystem in the region. Another equally important policy pursuit is skills development and vocational training opportunities for the youth. Private sector actors should be empowered to participate in developing vocational traineeships in collaboration with higher education institutions and technical colleges. This will help ensure skills development is undertaken in accordance with the needs of the market, opening opportunities for unemployed youth in the region, and encouraging job creation in sectors with long-term growth potential.

The Maghreb region should also look to cultivate industries that can support private sector growth, entrepreneurship and job creation beyond existing industrial focus on productive integration and trade in goods. Maghreb countries have higher levels of access to power and information and communications technology (ICT) infrastructure compared to many of their other African peers.<sup>59</sup> Leveraging these advantages to better develop trade in services, digitising trade and enabling e-commerce activities would create room for entrepreneurship and diversification of the economy outside of manufacturing. Although trade in services accounts for two-thirds of North Africa's overall GDP growth, openness to services liberalisation differs amongst the various countries.<sup>60</sup> There are short-term and long-term opportunities to deepen services sectors that are established (such as tourism) while also promoting growth of new industries such as the financial and telecommunication sectors. Continued services liberalisation in areas such as the tourism, medical, and financial sectors will require Maghreb countries to reduce current capital restrictions and enable the free movement of persons, as trade in services is strongly dependent on both these indicators for success and growth. This would be beneficial for both regional integration and increasing the attractiveness and competitiveness of AMU member states internationally.

Identifying key sectors for services liberalisation is an important first step that must be shared amongst all the AMU's member states. This will help in developing appropriate regulatory frameworks and ensuring harmonisation of requirements for the free flow of digital financial services, mobile money, and e-commerce activities to take place across the region. Trade liberalisation developed in accordance with the AfCFTA's various protocols will also ensure harmonisation between the AMU and the rest of continent, opening up new avenues for opportunities in the trade in services sector. The launch of the Maghreb Bank of Investment and Foreign Aid (BMICE) in December 2015 is an important step forward that can support intra-regional infrastructure projects and enable higher levels of intra-regional trade. Boosting private sector interest and investment in the region also requires relaxing foreign exchange regulations and controls of capital,<sup>61</sup> both of which are also important for driving the regional integration agenda. Together with the AfDB, the BMICE can play an important role in supporting financial integration efforts in the long-term across the Maghreb.

An important opportunity that can benefit private sector growth is fostering investment and growth in the renewable energy value chain. Electricity generation is currently dominated by the use of fossil fuels, which is unsustainable for long-term growth. Maghreb countries already coordinate their electricity sector through the Maghreb Electricity Committee (COMELEC) and all countries in the region complement each other at all stages of the energy value chain.<sup>62</sup> This working relationship can be leveraged for long-term growth through regional renewable energy strategies with appropriate incentives to encourage private sector interest and

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59 AfDB African Infrastructure Development Index 2020. Abidjan: AfDB.

60 AfDB (2020c), op. cit.

61 AfDB (2019), op. cit.

62 AfDB (2020c), op. cit.

investment. Developing regional projects to support clean energy generation for supply in the AMU region will be a game changer for job creation and open the door to trade in energy between the AMU and its partners.

## **Conclusion**

Greater integration with the rest of Africa requires a change of mind-set, an ability to appreciate the benefits that enhanced integration can offer the Maghreb economies, and a willingness to contribute to the continent's overall development. The AMU's neglect in deepening regional integration comes at a large cost for the region's overall socio-economic development. Integration between Maghreb countries (excluding Egypt) could generate a regional market of nearly 100 million people with an average income of around US \$4.000 per capita in nominal terms (comparable to South Africa) and around US \$12.000 in purchasing power parity terms.<sup>63</sup> Enhancing regional and continental integration would provide long-term redress towards poverty alleviation and can also assist in softening the long-term economic impact of the COVID-19 pandemic.

Deepening integration would enhance North Africa's appeal as a trading bloc, thereby increasing its attractiveness for FDI, improve resources allocation, enhance trade facilitation, and increase employment through the free movement of persons with the region. It would also strengthen private sector's participation in policymaking, enable greater economic growth, and improve trust in their relations with policymakers. All of these are vital prerequisites for greater regional integration that is widely beneficial for governments and citizens alike. Making this a reality requires strong policy coordination, harmonised rules for trade in services and goods and enabling the growth of new industries, skills and opportunities for job creation amongst Maghreb countries. The creation of the AfCFTA is yet another compelling reason for Maghreb countries to unlock their political deadlocks and strategically engage with one another to strengthen their bloc in trading relations with both their African and international partners. Ultimately there is much to be done and a clear 'to do' list – but getting it done depends on the political willingness to cooperate, coordinate and strengthen intra-Maghreb relations.

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<sup>63</sup> IMF, *op. cit.* See also: K. Megersa, *op. cit.*

### **About the author**

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