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In Brief

Maghreb Regional and Global Integration: A Dream to Be Fulfilled

Gary Clyde Hufbauer and Claire Brunel, editors • October 2008 • ISBN 978-0-88132-426-6

Rising terrorist activity has led the Maghreb countries—Morocco, Algeria, Tunisia, Mauritania, and Libya—to focus on antiterrorism efforts, with the unintentional effect of putting economic reforms on the sidelines. These countries have tightened border restrictions on the flow of people and goods, reducing commerce and depressing economic activity. Feeble economic performance and lurking political instability are both damaging the region's ability to attract trade and investment.

Average annual GDP growth was 2.5 percent over the period 2001–05, a disappointing record in comparison to South and East Asia. Intraregional trade among the Maghreb countries is one of the lowest in the world, and unemployment is high, often above 20 percent. Rigid economic structures, numerous nontariff and regulatory barriers, low productivity, and modest investment levels continue to hinder progress. Moreover, Maghreb countries do not look to their immediate neighbors as markets or sources of supply. Severe political tensions between Algeria and Morocco—which together account for 77 percent of the region's population and 66 percent of the region's GDP—represent a major obstacle to economic cooperation.

The Maghreb countries could reap significant benefits by pursuing enhanced integration, both within the region and with the wider global economy. Numerous political attempts have been made to achieve Maghreb integration but most have failed, largely due to political tensions between members and internal resistance to liberalization. Similar hurdles were, however, surmounted by regional integration initiatives in Central America and Southeast Asia. As in these regions, international technical assistance may be essential to success in the Maghreb.

Gains from Regional and Global Integration

Gravity model analysis suggests that a full-fledged free trade area among the Maghreb countries would almost double the extent of commercial relations within the region and might pave the way for future deepening of ties. Moreover, total Maghreb trade would expand by another $4 billion to $5 billion (3 to 4.5 percent) if the European Union and the United States were to separately establish free trade areas with the Maghreb countries and by nearly $9 billion (nearly 8 percent) if both were to do so. In this last and most optimistic scenario, total Maghreb inward foreign direct investment (FDI) stocks would increase by $5.8 billion (75 percent) and total Maghreb outward FDI stocks would rise by $3.9 billion. The significant two-way growth in FDI indicates that both the US and EU economies stand to gain from enhanced integration with the Maghreb region.

In the best case of an EU-US-Maghreb FTA, a computable general equilibrium (CGE) model predicts dramatic changes. The positive GDP impact reaches 10 percent in Libya, nearly 8 percent in Tunisia, 6 percent in Algeria, and around 4 percent in both Morocco and Mauritania. These large results reflect the "dynamic" model that entails compression of monopolistic markup margins plus returns to scale. Those assumptions generate higher returns than the standard CGE model. The gains from complementary policies— liberalization of services and trade facilitation—and the

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dynamic payoff from enhanced investment benefit the oil-exporting countries to the greatest extent. However, Morocco and Tunisia realize the largest export increases.

Sector-Specific Recommendations

This study proposes measures that could realistically be achieved in the short term and yield significant benefits in four key sectors: energy, banking, transportation, and food.

Energy. Energy remains the Maghreb's most significant strategic sector. The capacity of existing pipelines should be increased, as should the charge, paid in Algerian gas, that Morocco receives from pipelines passing through its territory. Connecting the different north-south gas lines, both current and under construction, could increase (by 2020) the volume of trade in the western Mediterranean to 18 million tons of oil equivalent, or 20 percent of all energy requirements in the region. Creating multiproduct pipelines between Algeria and Morocco would not only help meet local energy needs but also diminish the extensive smuggling of oil and gas products.

Banking. Maghreb banks currently hold large amounts of unused liquidity. New financial instruments could be created that are recognized and traded in the region. A North African equivalent to the United Kingdom's Financial Times Stock Exchange (FTSE) index would help draw financial markets closer. Beyond this, ensuring full currency convertibility, at least for Algeria, Morocco, and Tunisia, would ensure greater transparency and bolster capital markets. Finally, a Mediterranean financial agency, adequately financed and triple-A rated, would help to bring these and other initiatives under one roof.

Transportation. The most obvious measure is to reopen road and rail services between Algeria and Morocco—a task that would require only a few weeks' work. Other motorways need to be connected throughout the region for the sake of trade and investment. Ports should welcome transshipment to integrate the Maghreb economies more fully in the global value chain. In air transport, Casablanca could become a hub serving West Africa and South America, while Algiers could become a hub for North America and the Far East. Meanwhile, the Tunis/Monastir airport could become a favored destination for the mass tourism market.

Food. Agribusiness offers many opportunities for cooperation in the Maghreb, where patterns of production and consumption are similar and proximity is a potential asset. Economies of scale could be exploited. Vertical integration could draw upon the relative advantages of each country: water in Morocco, energy in Algeria, and food processing in Tunisia. Joint policies could be enacted, especially regarding the conservation of water, the protection of a fragile and often overfished coastline, and the further development of agriculture and tourism.

Global Recommendations

The Maghreb countries are trying to put their differences aside and work together to address common challenges. The authors outline a series of recommendations to accelerate integration. Maghreb countries need to cooperate not only in reducing tariff barriers (which they have done) but also in eliminating nontariff barriers and harmonizing regulatory regimes.

A US-EU-Maghreb FTA could transform the Maghreb economies by creating new industries and service activities, promoting faster growth and more jobs. Currently, EU relations with Maghreb countries are governed by the Barcelona Process. The new Union for the Mediterranean is meant to provide a fresh spur to regional

integration, but the project has been widely criticized. The main criticisms focus on the possible duplication of institutions and the dual presidency concept, which calls for a representative of a country from the Mediterranean's northern bank—a member of the European Union—and a representative of the southern bank, including the Maghreb, to share the presidency of the Mediterranean Union. The United States does not have a separate institutional framework to handle Maghreb affairs, but instead provides financial and technical assistance to the region through the Middle East Peace Initiative and the Millennium Challenge Corporation.

The authors urge the United States and the European Union to work with their Maghreb partners, flexibly with respect to institutions but in a manner designed to enhance regional integration. Bilateral trade and investment agreements or regional arrangements can provide the appropriate vehicles.