DEPF - Studies

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MINISTRY OF ECONOMY AND FINANCE

Department of Financial Studies
and Economic Forecasts

Issues of the Maghreb integration
"The Cost of Non Maghreb"

October 2008

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Introduction

The integration of the Maghreb has become a vital economic necessity, especially at a time when regional blocks are facing intense competition. Without this integration, economies of the region could sustain big losses and would have trouble meeting challenges already on the agenda (tariff dismantling, eastward expansion of the EU, global liberalization of the textile sector, and vulnerability to shocks from extreme demand). Integration will undoubtedly be the driving force behind consistent economic growth and solid trade among countries of the region, thereby enabling them to secure a firm foothold in the global economy.

The growing trend of free trade, which is expected to connect both sides of the Mediterranean, also involves the Maghreb region and countries of the Agadir Round, of which Algeria is not a member state. This geographical discontinuity aside, the project of Maghreb integration should energize free trade among the countries of the Agadir Round, and would, therefore, constitute in itself a prerequisite to a successful integration within the Euro-Mediterranean zone.

If on-going work on Mediterranean Union proceeds as planned, it will help member countries to steer clear of pitfalls encountered in the past and head towards a closer South to South cooperation. The viability of plans for building this union and ensuring economic integration hinges upon a cooperation strategy endorsed with an organizational structure that is compliant with rules of joint decision.

In view of the importance of the Maghreb integration and the vital need for closer economic ties between countries of the region, it is necessary to highlight possible patterns of exchange, remove inhibitors impeding viable trade, gauge the full potential of this trade as well direct foreign investment and identify possible strategic measures that can enhance the entire project of the Maghreb integration.

1. Regulatory Framework for Economic and Commercial Cooperation

1-1 Creation of the Arab Maghreb Union

The Declaration for the creation of the Maghreb Union (UMA) was signed on February 17th, 1989. It was ratified by Libya, Tunisia, Algeria, Mauritania and Morocco with the following aims:

- Consolidating fraternity ties between member states as well as their people
- Promoting prosperity and safeguarding the rights of societies of member states
- Contributing to the preservation of peace based on justice and equity
- Pursuing common policies in various domains
- Working towards free circulation of people, services, goods and capital

The UMA proclamation, anticipated by Mohammed V in his memorable Tangiers Speech as early as 1958, was a response to the need for stronger economic ties in the region and less isolation of member states.

Alongside this proclamation, two agreements were ratified by countries of the Maghreb. The first agreement, concluded on July 23rd 1990, involves the trading of agricultural products and makes the following provisions:

- Gradual setting up of a customs union involving all parties with the aim of establishing a common Maghreb market for agricultural produce.
- Exemption of traded home grown agricultural produce from customs duties and non-tariff barriers on imports with the exception of taxes levied on local production in each country of the union.
- Setting up a food security commission to draw up a list of agricultural produce exempt from all tariffs.
- The second agreement relates to all trade and tariff aspects. It was concluded on March 10th, 1991 and makes the following provisions:
- Exemption from customs duties and non-tariff barriers on imports of traded domestic goods.
- Exemption of listed traded domestic products from all tariffs. Lists are updated taking into account legislation relating to phyto-sanitary and zoo-veterinary rules as well as to health and safety measures in force within the importing country.

1.2 Trade and Tariff Agreements

Following the Marrakech proclamation, several bilateral trade agreements were ratified by Algeria, Morocco and Tunisia.

The agreement between Morocco and Tunisian which came into effect on March 16th 1999, provided for a free trade zone for both parties over a transition period that ended on December 31st, 2007. The plan for tariff dismantling was laid out on the basis of the nature and sensitivity of products featuring on lists appended to the agreement.

The legal framework for Moroccan-Tunisian trade was also defined by other agreements such as Protocol for Technical Cooperation between the Tunisian ministry of commerce and the Moroccan ministry of industry, commerce and handicraft (1998), Agreement for the Promotion and Guarantee of Investments (1994), Framework Agreement for Industrial Cooperation (1987), Agreement between CMPE (Moroccan Center for Promoting Exports) and its Tunisian counterpart, CEPEX (1981) as well as the agreement pertaining to rules and regulations for the bi-national (Moroccan and Tunisian) Chamber of Commerce and Industry (1987).

The legal framework for trade between Tunisia and Algeria is governed by the trade agreement of 1981 which was, in turn, supplemented by a further agreement in 1984 providing for a franchising of custom duties and non-tariff barriers on domestic goods with a minimal integration rate of 50%.

On March 14th, 1989, Morocco and Algeria signed a trade and tariff agreement that mutually grants concessionary tariffs on trading domestic products from both countries.

This concessionary tariff status strictly involves products in compliance with the terms outlined in the agreement. These products include:

- Goods entirely produced in the exporting country (animal, vegetation or mineral related products or any natural resources).

- Products processed in the exporting country with a local valorization rate of less than 40% of the overall value of finished products.

- Besides domestic rules, granting concessionary rates is subject to compliance with the "direct transport' rule stipulating that products be shipped from the exporting country directly to the importing country and not via a third party country.

This agreement makes further provisions on the following issues:

- Speeding up trade procedures such as issuing import and export authorization
- Granting customs franchise on publicity materials and samples as well as products and tools needed for holding business forums such as trade fairs.

- Giving transportation priority to firms and domestic operators

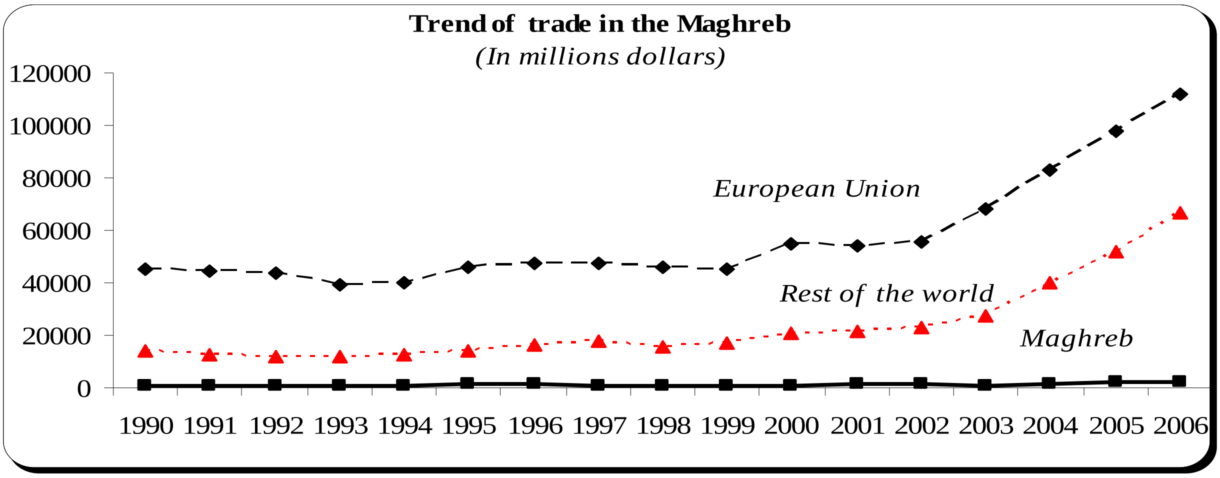
2- Inter-Maghreb Trade

A South to South Integration is crucial to a successful integration of the entire region. It could result in scale economies that would, in turn, expand domestic markets in member states and enhance the flow of foreign direct investments towards the economies of the Maghreb region.

2.1 Examination of the Current Situation

An examination of trade trends in the Maghreb region shows a noticeable improvement over the last decade. Trade, which barely reached $ 803 million in 1990, rested at $ 2.2 billion in 2006. Although trade of countries of the Maghreb with the EU and the rest of the world grew rapidly between 1990 and 2006, promising trade dynamics within the region has been gaining ground since 1998. This suggests that member states are becoming increasingly in favor of regional openness.

In 2007, trade between and the four UMA countries amounted to MD 8.9 billion[1]. Algeria is Morocco's leading partner in the Maghreb region with MD 7 billion worth of trade (6.4 of which is import related) and, hence, the most important trade partner in Africa.



Source: Chelem

The growth rate of intra-Maghreb exports rested at on an annual average of 14.5% between 1999 and 2006, following a drop of 0.7% between 1990 and 1998. The Maghreb's exports to Europe increased by 14.5% against 1.7% for both periods. Compared to the rest of the world, the annual average growth rate of Maghreb exports reached 24.8% and 1% during the same periods.

Imports have also followed an upward trend. The average annual growth rate of trade between the Maghreb and partners in the EU was set at 7.4% between 1999 and 2006 preceded by 1.3% between 1990 and 1998. Compared to the rest of the world, this rate jumped from 1.8% to 13.8 % respectively for the two periods (1990-1998 and 1999-2006)

Compared to other regional blocks, the Maghreb is, however, lagging behind. Intra-trade in the region remains insignificant and is yet to be developed.

- In 2006, the overall intra-Maghreb trade accounted for only 1.2% of foreign trade in the zone whereas intra-zone trade represented 32.7% of EU trade, 11% of ASEAN trade, 14.6 % of PECO trade and 7.9% of MERCOSUR countries.

- Trade between countries of the Maghreb accounted for only 3.1% of overall exports in Algeria, Morocco and Tunisia.

- In 2006, trade among countries of the Maghreb was very low in comparison to trade between UMA and EU countries. On average, countries of the region export 51 times more to the EU than to the Maghreb.

[1] Balance Commerciale 2007-edition provisoire de l'Office des Changes

2.2 Structure of the Maghreb Trade

For the most part, trade among countries of the Maghreb involves energy products, the share of which increased from 31.9% in 1990 to 45.5 % in 2006. Chemical products, for their part, knew a slight decrease, from 14.5% in 1990 to 13.8% in 2006. As to metal and steel goods, their share increased from 5.4% in 1990 to 7.9% between 1990 and 2006.

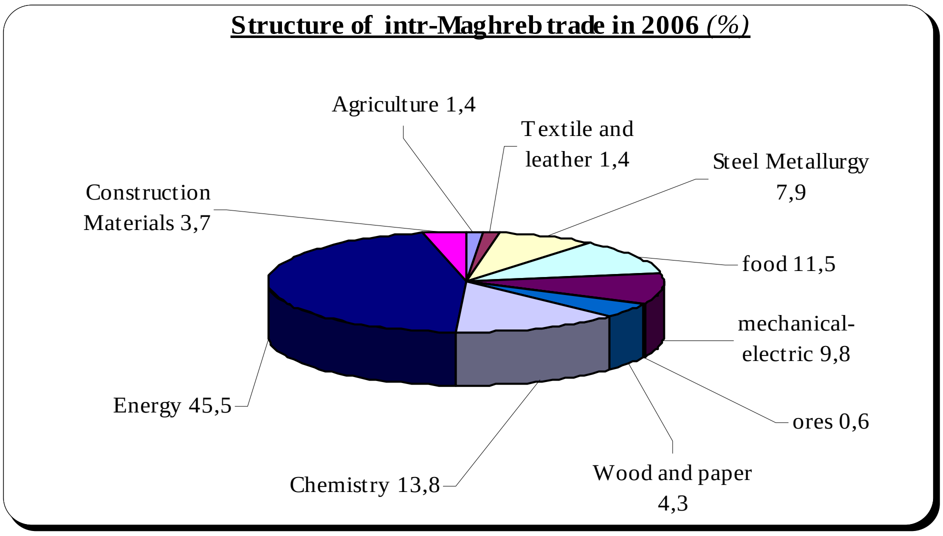
Conversely, the share of activity sectors (construction materials, machinery and electricity products, textile and agricultural goods) where Tunisia and Morocco have traditionally been always at a fair disadvantage is on the decrease. The situation, therefore, warrants a diversification of these sectors at the regional level. The potential trading of agricultural produce could, nonetheless, be seriously undermined by shortage in water resources.

Structure of the Maghreb Trade (on a percentile scale)

	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Textile and leather	8,4	12,5	8,9	8,6	3,2	2,2	1,6	1,8	1,9	1,5	1,4
Steel and Metal	4,7	5,9	10,4	8,2	5,9	5,9	7,2	8,1	10,2	6,9	7,9
Foodstuffs	7,0	10,8	12,5	15,0	11,3	10,4	14,3	17,1	11,1	12,3	11,5
Electrical Mechanics	10,0	8,4	8,7	6,9	6,5	7,9	8,3	12,3	8,8	8,7	9,8
Minerals	0,8	0,6	0,6	0,7	0,5	0,7	0,6	1,0	0,8	0,6	0,6
Construction materials	3,8	3,4	3,7	2,8	3,2	2,7	3,5	5,2	3,9	3,9	3,7
Energy Products	45,3	36,0	27,3	36,1	50,3	49,0	41,2	28,6	39,7	45,7	45,5
Chemical products	13,8	15,5	19,6	15,9	13,4	14,5	16,6	18,6	16,7	14,5	13,8
Paper and Wood	3,7	4,7	4,9	3,7	3,5	3,5	4,7	4,8	4,8	4,3	4,3
Agriculture	2,5	2,1	3,4	2,1	2,3	3,3	2,0	2,6	2,1	1,5	1,4

Source : Chelem ; calculs DEPF

Structure of the Maghreb Trade in 2006 (%)



Source : Chelem ; calculs DEPF

An examination of trade patterns in countries of the Maghreb shows that exchanges are for the most part unilateral and complementary.[2] The potential for expanding trade in the region is readily available. Algeria is a promising market for agricultural produce and processed foodstuffs from Tunisia and Morocco, countries that alternatively constitute thriving markets for energy products from Algeria and Libya.

3. Reasons for Limited Trade among Countries of the Maghreb

3.1 Similarity of the Maghreb economies

Similarity of economic patterns, especially those of Tunisia and Morocco, is one of the reasons behind limited trade among countries of the Maghreb. The Finger Kreinin index[3] shows that Tunisia's exports to the EU are more than 70% similar to those of Morocco.

Similarity Index of UMA Exports to the EU

	1996-2000	**2000-2006**
Morocco - Algeria	2,7%	4,9%
Morocco-Tunisia	78,6%	71,2%
Algeria-Tunisia	13,3%	11,1%

Source : Chelem ; calculs DEPF

Similarity in economic patterns is the direct consequence of a viable manufacturing structure in Morocco and Tunisia, especially in the textile industry. The two countries benefited from concessionary customs rates granted by the EU as part of passive perfection plan and remodeled their production systems accordingly, making of the EU their most favored trading partner.

Tunisia and Morocco had to compete for trade opportunities in EU markets. In fact, 68% of Tunisian exports to the EU pertain to sectors where Morocco has a strong presence on the European market. Algeria's exports to EU remain vaguely similar to those of Morocco and Tunisia.

It is clear that various impediments undermine the full potential of the Maghreb integration. The removal of such barriers requires a strong political will of cooperation, especially at a time when other regions in the world organize themselves around blocks so as to take full advantage of globalization.

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[2] Trade cab be broken in three categories depending on the similarities and overlaps in unitary values:

- -Unilateral trade: overlaps between exports and imports is virtually nonexistent
- -Bilateral trade of similar products (variety trade): noticeable overlap and major discrepancy in unitary value.
- -Bilateral trade of vertically differenciated products (quality trade): noticeable overlap and major discrepancy in unitary value;

The scale of these three different trade categories indicates the degree of complementariness among countries in view of the competition they face.

[3] This index shows the degree of similarity in exports of the two countries on the market of the same partner.

3.2 Structural Complementarities

One might wonder whether the insignificant scale of trade among countries of the Maghreb (1.2%) matches the structural potential or there are institutional factors that interfere with inter-trade development in the region.

An analytical assessment of the potential for integration in the Maghreb region would entail a comparison of import patterns of one partner with the export patterns of another partner. The extent to which two partners complement each other and, by extension, their degree of integration will be considerably higher than the offer on international markets and almost the same as the demand of the other partner. This will lead to a trade balance in so far as exports of one partner will match the imports of the other partner.

The FEMISE (Euro-Mediterranean Forum of Economic Institutions) estimate suggests that trade patterns in the Maghreb region are barely complementary[4]. The complementariness index was set at 0.856 in 2000 and 0.738 in 2006. For the sake of comparison, the same index was estimated at 0.48 in countries of the EU for the year 2006. Poor complementariness of trade patterns is also evident in the trend of market shares; which suggests that promoting trade in the region entails exploring potentially productive areas of specialization in each of the countries.

This situation further corroborates the findings of studies suggesting that countries with more diverse trade geography are usually those that potentially offer more complementary trade patterns.

The fact that export patterns are at odds with demand within the region could be one of the reasons behind underdeveloped trade. IMF Studies have shown that the complementariness index of production in the Maghreb region is, on the whole, similar to other integrated zones such as the ASEAN and MERCOSUR. For the period 1970-2000, the share of intra-zone trade increased from 36% to 50% in NAFTA countries, from 11 to 25% in South America, and from 2% to 11% in countries of the Andin Pact.

The above figures show that countries of the Maghreb are yet to explore the full potential inter-trade in the region. An open market endowed with a fully developed infrastructure could lead to specializations with steady returns and developed trade in differentiated products. In fact, similarity of production patterns clears the way for a competitive environment that is governed by factors such as renewed market patterns, steady profitability as well as customized specializations that emphasize quality and technological innovation.

4. Trend of Direct Foreign Investment in the Maghreb Region

Direct foreign investments towards countries of the Maghreb have increased remarkably over the last decade, from DH 1.9 billion in 2000 to 9.7% in 2006. This upturn is, for the most part, the result of direct foreign investments in Tunisia that reached a record high of $ 3.3 billion followed by Morocco with $ 2.9 billion and Algeria with $ 1.7 billion for the year 2006.

[4] The index value varies from 0 to 1 and the closer the value is to 0, the greater is the complementariness.

The Maghreb's share of direct foreign investments in developing countries has also improved, moving from 0.7% to 2.9% for the period 2000-2006. However, at the international level, this share has not witnessed a significant increase, moving from 0.3% to only 1.6% for the same period.

An examination of the geography of direct foreign investments in the region for the period 2000-2006 shows that Morocco is the most attractive destination. This country's attractiveness was enhanced by the process of privatization and the conversion of external debts into investments. Foreign investments in countries such as Libya and Mauritania are very low on account of delays in implementing the process of privatization and other economic and institutional reforms.

With the exception of Morocco and to a lesser extent, Tunisia, there are three main factors undermining the potential attractiveness of the Maghreb with regard to direct foreign investments. First, the business environment is not investor friendly and laden with excessive red tape. Second, corporate legislature is not sufficiently developed. Third, the pace of infrastructure development is somewhat slow.[5]

Other factors relate the economy and finance. Economic growth in the region is, on the whole, below the average performance of other developing countries. This is due to endemic drought and political instability that plague some countries in the region. The small scale of markets, together with the absence of integration dynamics in the region, seriously affect the attractiveness of these countries. Besides, financial markets in the region offer little support to productive investment while banking systems are not sufficiently competitive.

Social factors that affect financial attractiveness in the region relate to skilled labor and job market regulation. As to social stability, the average growth rate of the GDP per capita is still low and does not compare favorably with those of other emerging economies that have successfully integrated the global market.

5. Impediments to The Maghreb Integration

Trade agreements among countries of the Maghreb did not translate into an adequate liberalization of inter-regional trade. In fact, structural factors have inhibited trade in the region and seriously undermined the overall consistency of the current plan for integration.

5.1 Divergent Economic Policies

Up to the 1980's, the state in each of the economies of the region invariably wielded strong influence. This was in fair keeping of the self-centered model of development that they

[5] With reference to the report "Doing Business 2009", which issues every year international ratings of countries on the basis of reforms and business environment, Morocco comes in 128th place ahead of Algeria (132nd place) and far behind Tunisia (73rd place).

have adopted. Since then, countries of the Maghreb have launched, at varying degrees, programs of economic liberalization.

Morocco and Tunisia put in place structural adjustment plans in 1983 and 1986[6] respectively. They both engaged in association agreements with the EU in 1996 and in May 1995.

Political instability, compounded with the civil war in Algeria, interfered with the process of economic liberalization for about ten years. The country did not adopt its structural adjustment plan until 1994 and its association agreement with the EU was not concluded until April 2002.

The enhancement of the process of economic liberalization and openness of the Maghreb countries to world trade should lead to convergence of their economic policies and facilitate their transition to a system of market economy. Several studies, such as those conducted by the IMF, tend to set up a correlation between the extent of openness and the degree of inter-regional trade intensity.

5.2 Inadequate Transport Infrastructure

In addition to non tariff restraints, problems relating to transport structure interfere with trade opportunities among partners in the Maghreb region. Direct land and maritime lines are virtually nonexistent; which drives up transport costs and drastically affects the price competitiveness of traded products.

However, the launch of a direct regular maritime freight line connecting the port of Casablanca to the port of Rades in Tunisia is expected to energize bilateral trade. With an average frequency of one departure a week, this connection will reduce the shipping period from 14 days to three and a half days. Vessels will not have to call at a third port and hence avoid transboarding goods from one ship to another. These benefits combined will help cut the cost of trade between the two countries.

Concessionary bilateral agreements stipulate that fiscal benefits are subject to compliance with the rule of 'direct transport'. The transit of a product via a third territory is a violation of this rule and is ground for subtracting the profit from the concessionary scheme.

Poor infrastructure for loading and unloading operations is an inherent inconvenience for transporters and exporters alike. The FEMISE report suggests that inefficient land and maritime transport in countries of the Maghreb constitutes in itself a major non-tariff barrier.

Like other transport sectors, maritime transport is state-owned. Maritime companies operating in countries of the Maghreb claim that state regulations have driven shipping costs. This situation works in favor of national and public transport companies and inconveniences private companies that do not have access to the entire range of port services.

[6] Tunisia was one of the few countries to undertake Structural Adjustment Programme although it was in need of debt rescheduling.

This special treatment of the transport sector features among the sector-based commitments made by countries of the Maghreb within the framework of the GATT[7]. In fact, this sector is exempt from the status of the Most Favored Nation Status.

5.3 Incomplete Institutional Framework

Some form of legislation that potentially deters anti-competitive practices is a crucial component in all policies of trade liberalization.

To this effect, Morocco, Algeria and Tunisia (no information is available on Libya and Mauritania) implemented laws regulating competition in order to protect manufacturers and consumers and ensure transparency in trade transactions. Such policies are crucial to countries of the Maghreb. In fact, the market scale is not developed enough to reach the levels of growth that result from competitive pressure; hence the need for a competitively conducive environment.

This type of legislature is far below international standards. In some sectors, the virtual absence of competition gives birth to rent situations to the detriment of both consumers and the entire production sphere which, in turn, becomes less competitive on international markets.

5-4 Scarcity of Information on the Concessionary Plan

Scarcity of information[8] on the concessionary framework for trade partners in the region is a major obstacle in achieving results expected from such a cooperation plan. This information deficit puts at a disadvantage Moroccan exporters who resent the fact of not fully benefiting from trade agreements concluded with Arab countries, particularly in the Maghreb region.

For the period 1996-2000, Morocco's exports to the countries of the Maghreb carried out within the concessionary agreement are little over $ 23 million, which is an average of 0.13 % of the overall value of the country's foreign trade. These exports, however, account for 71% of those directed within the concessionary framework to developing countries.

For the same period, the sales of countries of the Maghreb conducted on the Moroccan market within the concessionary framework amounted, on a yearly average, to $ 153 million (36.2% of the overall imports within the said framework). On a percentile scale, Algeria accounts for 48.5%, Libya 31.2% and Tunisia 20.4%.

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[7] General agreement on WTO services

[8] A survey conducted by the Ministry of Trade and Industry on Economic operators' use of trade and tariff agreements has reached the following conclusions:

-More than 50% of enterprises are not aware of concessionary agreements, 30% of these enterprises have not conducted a single operation within this framework. On the basis of operation type, 25% of the concerned enterprises use the concessionary plan for exports whereas 15% use it for imports.

More than a third of enterprises conducting export operations within the concessionary framework claim to have faced several constraints such as shipping cost (60%), the lack of maritime lines (40%), risks of insolvency (30%), non-tariff constraints (20%) and non-updating of products lists annexed to the agreement (15%).

More than half of enterprises using the agreements are in favor of replacing these agreements with free trade agreements.

6. Cost of Non Maghreb Integration

An integration of the Maghreb will undoubtedly have a positive impact on trade and increase direct foreign investments in the region. Such integration entails the removal of obstacles, the diversification of trade, the promotion of scale economy and steady profitability.

A close examination of inter-Maghreb trade yields the following observations:

- With the exception of energy products, the volume of Algeria’s trade with countries of the Maghreb remains insignificant.

- Morocco is not strongly present on the Tunisian market for products on which it has a comparative advantage. These products include sea products that are almost exclusively imported from Italy.

- In spite of geographical proximity, energy products imported from Algeria between 2000 and 2006 accounted for only 5%, on an annual average, of Moroccan imports of these products and no more than 0.5% of Algeria’s overall exports of the same products.

- For the same period, sales of foodstuff products on the Algerian market accounted for 0.6% of Moroccan exports and 0.3% of Algeria’s imports of these very products. Curiously enough, up to 40% of foodstuff products come from France and Spain.

- The bulk of Algeria’s textile purchases are made in Turkey, China and Spain. Morocco and Tunisia are hardly present on the Algerian market. Their market shares represent but respectively 0.9% and 0.8% of Algeria’s textile imports, which is 0.3% of Morocco’s overall textile exports and 0.1% of those of Tunisia.

- In spite of their significant part in Moroccan exports to Algeria (an annual average of 36% between 2000 and 2006), chemical products account for 0.8% of our overall sales and 2.7% of Algeria’s overall imports of these products.

Despite the concessionary framework for trade in the region, bilateral trade is still underdeveloped in comparison with some Mediterranean countries that diligently engaged in South to South trade. Cyprus, Syria, Jordan and Lebanon now demonstrate higher levels of commitment towards their neighboring countries. Turkey and Algeria show higher levels of trade intensity than with the EU.

For all the above constraints, trade in the Maghreb region grew remarkably towards the end of the period under study. This suggests that this trade can develop further as shown by indicators of trade intensity which rests around 0.5% for Morocco’s exports to Algeria and Tunisia. This percentage is 50% lower than the actual leverage these countries can have in the global economy.

Several international and regional organizations have estimated the cost incurred from Non-Maghreb integration. The Tunisian government maintains that the cost of non-Maghreb integration affects economic growth by one point less every year (1%). In other words, if a

Maghreb Union existed, it would have yielded an added value of the amount of $ 10 billion for the five countries, which is 5% of their cumulated GDPs.[9] For his part, the UMA Secretary General maintains that delays in implementing the integration process cost each country of the region 2% of its annual growth rate.

Officials at The World Bank are convinced that a stronger integration in the Maghreb region that takes into account the liberalization of services and reforms of the investment environment could increase the actual GDP per capita for the period (2005-2015) by 34% for Algeria, 27% for Morocco, and 24% for Tunisia.[10]

The Department of Economic Studies and Financial Forecast report suggests that under the right political and regulatory circumstances, the intensity of bilateral trade could be brought to a level similar to that of some regional blocks such as the ASEAN region. The loss which trade suffers in the Maghreb region is estimated at around $ 980 million annually (energy products are not included in this estimate) and $ 2.1 billion, which represents 1% of Algerian and Libyan imports of energy products.[11]

Discrepancies in estimates of the cost of non-Maghreb integration made by various organizations reside mainly in perspectives on variables such as trade of services and the flow of direct foreign investments. The World Bank's estimate, for instance, takes off from the premise of a solid integration that is prompted by the liberalization of the service sector and the reform of the investment environment with the aim of strengthening competition on the market and extending integration in the EU. The DEPF's estimate, on the other hand, strictly considers benefits to be drawn from the trade of goods and takes into account factors such as production capacity and the scale of trade opportunities in the region.

Such benefits will directly impact all economies of trade partners in the region. Morocco's exports within the Maghreb, which now rest at 1.6 % will increase to about 6%. Those of Tunisia will jump from 2.5% to 10%. By contrast, Algeria's potential trade with countries of the region, except for energy products, would remain limited. However, an increase in Algeria's sales of energy products in the Maghreb could bring the share of the country's exports in the region to a level comparable to that of Morocco, that is to say 6%.

A readjustment of the production apparatus in member states is crucial to achieving the above benefits and meeting the increasing demand from trade partners. The benefits will be even greater to the extent that they will pave the way for genuine trade instead of a simple streamlining process that does not significantly impact economic growth.

7. Challenges of the Maghreb Integration

The Maghreb has a critically important position on both the international and regional scenes. It faces challenges that member countries must address in a concerted manner.

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[9] "Le cout du Non Maghreb," *Jeune Afrique*, May 19th, 2006
[10] La Banque Mondiale: Une nouvelle vision pour l'intégration économique du Maghreb, novembre 2006 (Chapitre III, page 94)
[11] DEPF's calculus use the Chelem database which now includes Libya.

Demographic Challenge

Demographic increase in countries of the Maghreb leads to massive urbanization that further widens the gap city-countryside, disturbs the food balance, deepens the housing crisis and ultimately gives birth to large Metropolises such as Casablanca and Algiers. 70% of the Maghreb population is expected to be living in cities by 2025.

Unemployment is yet another challenge facing countries of the Maghreb. The unemployment rate could reach 15% and even higher than that amongst the young population. In fact, population in the Maghreb remains predominantly young although countries of the region are in a demographic transition period. The increase in the number of women on the job market and migration from rural to urban centers increase the severity of unemployment.

In view of the tremendous demographic increase, the rate of economic growth is not high enough to narrow the income gap between the two sides of the Mediterranean. Countries of the Maghreb should turn this demographic situation to their advantage and speed up economic growth in the coming years.

An increase in migration influx will be crucial to meeting the needs of the Mediterranean job market. This influx will alleviate unemployment among the young in countries of the South and allow countries of the North to tackle effects of an aging population. By 2030, the section of people aged 75 and above is expected to represent 13% of the entire European population against 8% in 2000.

Ecological Challenges

Regional cooperation will be a viable measure in the face of ecological challenges facing countries of the Maghreb. Risks of environmental degradation in the Mediterranean basin stem from factors such as human activity (intensive agriculture, industry, mass tourism, ever-increasing heavy maritime traffic), geographical specificity of some territories and demographic trends.

To meet ecological challenges, countries of the Maghreb need to cooperate with their counterparts on the northern shore of the Mediterranean. Possible areas of cooperation include fighting desertification. Priority will be granted to large scale state-run projects such as “Green Dams” and the prevention of natural disasters, particularly flooding and fire through a Euro-Mediterranean information and alert center.

Other areas of cooperation relate to water management and fighting sea and river pollution. Clean up operations of the Mediterranean Sea, already on the agenda of the Union for the Mediterranean (UPM), would be an interesting area of regional cooperation. Besides, concrete operations could be conducted to reduce the level of pollution in urban, industrial and agricultural zones. Such operations would range from sustainable conservation and valorization of natural resources (on land and at sea) for tourist and economic ends to the adoption of environment friendly techniques of fishing.

Energy Challenges

In view of the increasing need for electricity and desalted water, demand for energy in the Maghreb region is expected to increase at an average annual rate of 3% by 2030.

To meet energy challenges in the future, ensure energy security and upgrade conversation systems, countries of the Maghreb must have in place a genuine and viable energy policy.

- They must gradually devise policies on the rational use and management of energy and explore ways of developing renewable energy.

- They must also promote the production and use of renewable energy, particularly wind energy, and therefore reduce dependence on fossil fuel from outside markets. Energy success stories, such as Portugal's, must be emulated by countries of the Southern Mediterranean.

Countries of the region must use to their advantage the energy complementariness of the Mediterranean Zone. This entails closer cooperation in terms of using trade infrastructure (gas and wind energy production facilities), viable patterns of North and South markets, and concerted energy policies (electric inter-connection). This will pave the way for a sound management of energy supplies within the framework of a regional market for electricity and natural gas and, consequently, a profitable trade with countries of the Euro-Mediterranean zone.

Security Challenges

Strengthening cooperation in the Maghreb is now a pressing matter, given the wide range of challenges facing the entire region. Countries of the region must jointly address issues relating to the environment such as water and energy management, climate change, epizooties, and locusts, sanitarian concerns, migration problems and issues pertaining to security and terrorism. Cooperation must include the following aspects.

- Promoting the culture of security and peace, of cultural Trans-Mediterranean dialogue as well as the notion of sustainable development. Any approach to the culture of security and peace must be endorsed collectively in the Mediterranean zone.

- Prompt settlement of dispute over the Sahara. This issue must not hold hostage 100 million people of the Maghreb. As suggested by the DEPF (Department of Economic Studies and Financial Forecast), the cost incurred from the absence of an integrated Maghreb is rather high for the economies of the region and is estimated at 1% of the GDP.

- Developing cooperation programs with NATO on issues of maritime surveillance and military participation in civil protection and air safety.

- Stepping up the initiative for security in the occidental Mediterranean, an initiative that brings together 5 European countries (Spain, France, Italy, Malta, Portugal) and the five countries of the Maghreb

- Putting in place a security apparatus that involves countries of both sides of the Mediterranean, a system that could supersede several security frameworks. In fact, Euro-American competition for leadership in this strategic zone interferes with the setting up of a viable security policy in the region.

- Strengthening cooperation in matters of security and policing tracks of illegal immigration that plagues both sides of the Mediterranean. Holding in check illegal immigration through an exchange of information among concerned countries and failing this, the resort to possible deterrents (readmission policy, surveillance of land and sea borders)

Security concerns must not override liberty rights. The new concept of human security, which favors natural laws and moral concerns over sovereignty issues and legality, put the human individual at the center of all concerns. Such is the growing trend in normative apparatus of international humanitarian law.

8. Maghreb Integration and New Dynamic in the Region

Given the number of constraints that beset the region of the Maghreb, regionalization appears the right course of action to open up trade to potential partners. The level of development in the Maghreb is significant. The regional setup, therefore, provides an excellent opportunity for Maghrebine enterprises to enhance their trade experience and, by the same token, preserve a competitive edge. In other words, prospects for regional integration are, on the whole, quite promising.

Economic patterns in UMA member states are sufficiently complementary, however, factors such as the persistence of political fallouts, competitive economic structures, single-minded search for solutions outside the communitarian scope of the Maghreb, and the absence of coordination simply strip the integration project of its core and virtually reduces it to meaningless trade agreements.

If the Maghrebine integration project has suffered several setbacks, a project of regional integration could then provide a rescue plan, especially at a stage of economic globalization when the state is required to ensure an investor friendly environment. Regional integration could, as a matter of course, evolve into a genuine partnership among economic partners in the region.

Enterprises in UMA countries can handle the dynamics of integration by developing intra-Maghreb trade and channeling direct foreign investments to readily available opportunities in the region.

Although Euro-Mediterranean space will offer greater opportunities, its scale will not be complete unless it is perceived as a logical extension of Maghreb. Making of this space a substitute or an alternative to UMA is very likely to undermine the economic potential of each of the countries in the region and, consequently, slows down the process of economic development. Through systems of complementary specialization and enterprise investments from the developed countries of the region, solid economic ties could enhance the economic dynamics in the region.

Under these circumstances, consolidated economic ties will boost economic efficiency and credibility judged crucial to political stability of member states. It must be stressed that political stability is the ingredient that ultimately vouchsafes the increasing flow of foreign investments into the region. From this perspective, closer integration of UMA countries to the European market could be a springboard for a more confirmed and successful integration in the wider international context

8.1 Union for the Mediterranean: Opportunity for the Integration in the Maghreb

Launched on July 13th, 2008 in Paris, the Union for the Maghreb (UPM) appeared in a regional context of disparity not only between the northern and southern shores of the Mediterranean (development gaps, demographic gaps, social gaps, infrastructure gaps) but also between third party Mediterranean countries, especially countries of the Maghreb.

Taking into consideration the implicit acknowledgement of the limitations of the process of regional integration and its inability to serve as leverage to economic growth in member states of the southern Mediterranean, the Union for the Maghreb offers a new perspective on North-South partnership that rests on joint decision, a substantial content as well as on an agenda that lends sufficient credibility to these economies.

Projects conceived within the scope of the Union for the Mediterranean are diverse and consistent. They seek to promote member states' compliance with European standards and enhance their endorsement of trade and investment trends in regional blocks of Asia and the Americas. Areas of cooperation revolve around key issues relating to the environment and sustainable development, higher education, transport infrastructure, economic and social development, cultural dialogue and energy security.

In view of the aforementioned, the re-launch of the process of the Maghreb integration is crucial to boosting economic growth, increasing the region's attractiveness of direct foreign investments and inducing the birth of novel intra-regional specializations that can pave the way for a profitable integration of the Maghreb to the global market.

The rationale of such an imperative resides in the initiative of the Union for the Mediterranean. The proposed global partnership is expected to serve as an axis of rebalancing the South of Europe by reshaping and reinforcing trade ties. To this very end, countries of the Maghreb are called upon to embrace a culture of dialogue and cooperation and set aside feuds and conflicts that come with a cumulative cost. Major global shifts are taking place and the Maghreb could secure a favorable foothold in the Mediterranean region and serve as a crossroad for Europe, the Middle East and Africa.

Countries of the Maghreb need to take full advantage of opportunities offered by Union for the Maghreb and forge alliances that can better prepare them for negotiations with their European partners on different aspects of integration. Given the challenges and threats facing both the Maghreb and the whole Mediterranean region, all partners must work in a concerted fashion towards new setup of relations between a North that is integrated and developed and a South that is still in search for economic development and political integration.

Viable dynamics for regional development could be the underlying factor in an environment that is peaceful, stable and conducive to trade development and productive complementariness. These dynamics should stimulate competitiveness and allow countries of the Maghreb to catch up with other developing economies.

Conclusion

Extending Maghreb integration should stimulate growth, increase the region's attractiveness of direct foreign investments and entail new trade dynamics.

Such a trend should give birth to new forms of intra-regional specializations that can pave the way for a profitable integration of the Maghreb to the global market, differentiate trade and put in place systems of steady profit and scale economies.

Should these dynamics be the driving force behind the development of wider trade network in countries the Maghreb and the emergence of complementary factors, it would no doubt put the whole region at a competitive edge and ensure greater autonomy to the process of development. However, undertaking a project of such a scale involves stronger commitment on the part of UMA members to proceed with plans of extensive modernization, closer cooperation, and greater financial and economic liberalization.

For this project to see the day, some conditions have to be met. Borders must be opened to allow the free circulation of goods and people. Transport infrastructure must be upgraded and geared towards regional integration. New social regulations must be put in place, particularly with regard to the job market. The mobility of specialized occupations must be increased and the dynamics of structural reforms must be coordinated. The regulations of services such as telecommunications must be consistent so as to avoid a fragmentation of the market.

Legislation, rules, procedures and codes (competition, investment, rules of origin, accounting principles, intellectual property, customs codes). Strengthening economic cooperation in these areas would stimulate domestic investment in sectors tradable goods and services.

Prospects of trade in the region of the Maghreb will improve when the following measures are taken. Transaction costs decrease as they interfere with trade development. Support programs must be put in place for small and medium size enterprises with the aim of upgrading their trading capacity. Financing tools and risk coverage plans must be available on concerned markets.

Effort must be geared to an efficient allocation of savings among member states. Developing a regional cooperation aimed at regulating financial markets has become vitally important. Under no circumstances should competition in financial markets compromise the security of investors and operators. An institutional framework must therefore be in place to regulate the allocation of these savings at the Maghrebine level.

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