

Peterson Institute for International Economics

**Prospects for Greater Global and Regional Integration in the
Maghreb**

**Washington, DC
May 29, 2008**

Recommendations to Revive Regional Integration

Draft



Recommendations to revive regional integration¹

Attempts at reviving the AMU have been unsuccessful, mostly hampered by tense political relations between members. However, some cooperation can be observed between Maghreb countries at a bilateral level. For example, Tunisia and Morocco have made good progress in port infrastructure and air traffic rights. The Tunisian project to build a deep water port in Enfidha will complete the Tangiers-Med plan and establish a direct maritime link between Tunisia and Morocco. In November 2007, the two countries signed an air traffic agreement to liberalize the carriage of passengers and cargo, and the Tunisian Minister of Transport has expressed a willingness to extend the agreement to the rest of the AMU.² Those and similar initiatives could pave the way for regional integration.

To foster integration, the region needs to develop a strong institutional framework, and make additional progress on trade liberalization and facilitation. The United States and the European Union could play an important role in promoting needed reforms, especially as both parties are already involved in various trade and investment agreements and aid initiatives with the Maghreb countries.

US-Maghreb economic ties. The bilateral trade and investment relations between the United States and each of the Maghreb countries are summarized in table 4. The extent of economic association with the United States varies widely across the region. At one end of the spectrum stands Morocco which signed its FTA with the United States in 2004; at the other end is Libya, which has no trade or investment agreements with the United States and is not currently eligible for the Generalized System of Preferences (GSP).

In fact, Libyan economic relations with the United States were non-existent until the lifting of US sanctions in 2004. Not until June 2006 did the United States remove Libya from the list of states sponsoring terrorism. Economic ties between Libya and the United

¹ This section was principally authored by Claire Brunel.

² “Bientot Une Ligne Maritime Directe Avec Le Royaume” (Soon a Direct Maritime Line With the Kingdom), *Comtex*, February 22, 2008.

States are thus new in the making. The recent blockage by Libya of a UN resolution, sponsored by the United States, to condemn violence in the Middle East may again put a strain on political relations.³ The U.S. Congress also recently amended the Foreign Sovereign Immunities Act to allow pre-judgment attachment of Libyan government assets even though Libya has been removed from the U.S. government's list of state sponsors of terrorism, a move that also has caused strained relations.

Tunisia and the United States have signed a Trade and Investment Framework Agreement (TIFA) as well as a Bilateral Investment Treaty (BIT). The two parties are contemplating negotiations for an FTA.⁴ While economic relations between Algeria and the United States include a TIFA, political relations are fragile. In March 2008, Algeria accused the United States of interfering in its internal affairs by expanding a dialogue with Algerian civil society and welcoming opposition parties to Washington.⁵ Mauritania has been designated as a Least Developed Beneficiary Developing Country for the GSP program. Mineral fuels (principally oil) accounted for 99 percent of US imports from Mauritania in 2006.

In addition to trade and investment agreements, the United States provides Maghreb countries with technical and financial assistance. The two most important vehicles are the Middle East Partnership Initiative (MEPI) and the Millennium Challenge Corporation (MCC). The MEPI program funds reform in politics, economics, education and women's empowerment in Algeria, Morocco and Tunisia.

Currently, the Millennium Challenge Corporation (MCC) only provides assistance to Morocco and Mauritania. The MCC approved a grant of \$697 million over 5 years for Morocco, to fund programs in three sectors, namely agriculture (specifically fruit trees),

³ John Heilprin, "Libya Blocks UN Council From Condemning Fresh Violence in the Middle East", Associate Press Newswires, March 6, 2008.

⁴ Unpublished reports indicate that Tunisia is also considering FTA negotiations with Japan.

⁵ "Algeria Officials "Accuse" US of Interfering in Country's Domestic Affairs", *BBC Monitoring Middle East*, March 5, 2008.

small-scale coastal fishing, and artisan crafts. In December 2007, the MCC selected Mauritania as the latest eligible country. Mauritania will participate in the MCC's two-year "threshold program" which awards smaller grants to achieve progress on specific indicators, with the prospect of qualifying for larger grants in the future.

EU-Maghreb economic ties. As detailed previously, EU relations with the Maghreb countries are governed by the Barcelona Process. However, another large project is also underway, namely the proposal by President Sarkozy of France for the creation of a Mediterranean Union. Originally, the Union was to involve only those countries bordering the Mediterranean. However, at Germany's request, it was agreed that all European Union members and all Mediterranean countries would be invited to join.⁶ The new project, jointly proposed by the France-Germany tandem, significantly dilutes France's original ambitions. The proposal was approved unanimously by EU leaders on March 13, 2008. Though a detailed plan to implement the new initiative has yet to be revealed, the Union is meant to revitalize the Barcelona Process. The first meeting of the Mediterranean Union is expected to be held in July 2008.

Some concerns have been voiced regarding the need to avoid duplication of institutions between the proposed Mediterranean Union and the European Union, and over the dual presidency concept.⁷ Most important, the prospect of using EU funds to finance the Union is controversial. Finally, some observers worry that this Union is being used by President Sarkozy as a way to sideline Turkey from entering the European Union.⁸

⁶ Countries bordering the Mediterranean are: Bosnia-Herzegovina, Croatia, Montenegro, Albania, Turkey, Morocco, Algeria, Tunisia, Libya, Egypt, Israel, Palestinian Authority, Lebanon and Syria. Jordan and Mauritania, although they don't border the Mediterranean, could be included as well.

⁷ The dual presidency concept for the Mediterranean Union calls for a country from the Northern bank (a member of the European Union) and a country for the Southern bank to share the presidency, which raises potential governance issues.

⁸ "Nicolas Sarkozy et Angela Merkel veulent convaincre l'UE de l'utilité de l'Union pour la Méditerranée" (Nicolas Sarkozy and Angela Merkel want to convince the EU of the usefulness of the Union for the Mediterranean), *Le Monde*, March 13, 2008.

One of the key issues between southern Mediterranean countries and the European Union remains migration. The Maghreb is both the source of large emigrant flows, and a transit platform for migration from the rest of Africa to Europe. Faced with these pressures, Spain is multiplying its immigration agreements with North and West African countries, including Morocco and Mauritania. The agreements provide for joint patrols, cooperation in training, and liaison officers.⁹ Some success in tackling the immigration issue will be important to enlist public support within the European Union for further economic integration with the Maghreb.

The role of bilateral agreements. Since both the European Union and the United States are working to raise their profiles in the region, it is important to suggest how bilateral trade agreements between one of the major parties and a Maghreb country can promote reforms at a regional level. The following sections detail salient features that the United States or the European Union might insist on, either in the text of a bilateral trade or investment agreement, or in a companion agreement designed to enhance regional integration.

Tariff barriers

A Maghreb partner of the United States or the European Union could be required to lower or eliminate its own tariffs on selected products imported from other Maghreb countries. The Enabling Clause could be used to justify the WTO consistency of these provisions.¹⁰ Ideally, tariff preferences granted by a Maghreb country to the United States or the European Union through a trade agreement would be extended fully by that Maghreb partner to its Maghreb neighbors. However, after negotiations, the Maghreb

⁹ “Spain in the Fight Against Illegal Immigration”, Parliament of the United Kingdom documents, available online at <http://www.parliament.uk/documents/upload/FRO%20166%20Spanish%20Embassy%2019.10.07.doc>, visited March 4, 2008.

¹⁰ In its decision titled *European Communities – Conditions for the Granting of Tariff Preferences to Developing Countries*, the Appellate Body ruled that the Enabling Clause did not require that countries grant identical tariff preferences to all developing countries but instead that the level of preference be based on the specific development, financial and trade needs of the developing countries in question.

preferences might be limited to a subset of products covered by the US or EU bilateral FTA.

Rules of origin

Rules of origin for the shipment of merchandise through cross-border supply chains can be particularly cumbersome when a country is a partner in several bilateral trade agreements. In the context of the Euro-Med Partnership, Algeria, Morocco and Tunisia apply full cumulation between themselves and diagonal cumulation with the other pan-European countries. Those provisions could be extended to Libya and Mauritania as well, especially as they are working towards full participation in the Barcelona Process.

The United States and any of its Maghreb partners, starting with Morocco, could negotiate agreements similar to the Qualified Industrialized Zones (QIZ) in Egypt, itself an extension of the US-Israel FTA. The QIZ agreement allows duty-free entry to the United States for Egyptian goods produced in the QIZs that use Israeli inputs.¹¹ QIZs for other Maghreb countries, starting with an extension of the US-Morocco agreement, could help the Maghreb integrate regionally and with the global economy.

As a larger scale version of the QIZ, the US could allow for the cumulation of inputs across the Maghreb in meeting rules of origin. This approach could be coupled with a requirement that Maghreb countries lower their own tariff barriers for shipments within the region.

Aid for technical assistance and capacity building

A World Bank study shows that the benefits of a regional trade agreement between MENA countries could be multiplied by three if accompanied by trade facilitation measures.¹² Detailed models for Morocco and Tunisia suggest that flexibility in the

¹¹ To qualify, a good must be “substantially transformed” and must have at least 35 percent of its value added in the QIZ factories.

¹² Allen Dennis, “The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East North Africa Region”, *World Bank Policy Research Working Paper 3837*, February 2006.

markets for capital, labor and land would increase the payoff from trade liberalization by a multiple of six.¹³ Rigidities in factor markets include delays in securing finance, controls on land and construction, and restrictions on majority ownership by foreign firms.

These econometric findings reflect a poor business climate throughout the Maghreb region. The World Bank report, “Doing Business 2008”, compares regulation and reforms in 178 economies, and finds that Algeria, Morocco and Mauritania rank in the bottom third, while Tunisia barely makes the top half.¹⁴ Mauritania is the lowest ranked of the Maghreb countries. Among Mauritania’s business handicaps are limited access to financing, an inflexible labor market, low educational attainment, and corruption and taxation levels that are among the highest in the world.¹⁵

The European Union has improved the business climate in Eastern Europe by accelerating reform. Through the framework of the Mediterranean Union, the European Union might do the same for the Maghreb. Bilateral US and EU trade agreements with individual countries could likewise contribute. A starting point could be the creation of systems for independent administrative and judicial review of customs determinations, but much else can be done.

As stated in the World Bank report on Maghreb integration, investment and services are particularly important.¹⁶ To this end, the United States and the European Union should encourage harmonization of investment and regulatory regimes throughout the region to the highest standards set forth in bilateral trade agreements. In addition, they should

¹³ Allen Dennis, “Trade Liberalization, Factor Market Flexibility, and Growth: The Case of Morocco and Tunisia”, *World Bank Policy Research Working Paper 3857*, March 2006.

¹⁴ Libya is not included in the report. “Doing Business 2008”, *World Bank Reports*, 2008.

¹⁵ “Enterprise Surveys Country Profile: Mauritania”, *World Bank Enterprise Surveys*, 2006.

¹⁶ Paloma Anós Casero and Ganesh Kumar Seshan, “Is There A New Vision For Maghreb Economic Integration”, *World Bank Report 38359*, November 2006.

promote sector-specific investment and regulatory reforms, in particular for the service sectors.

For example, the Euro-Med Partnership is seeking to complete the integration of electricity markets in the Maghreb.¹⁷ As of now, only some countries have linked their electricity grids, such as Algeria and Tunisia. Morocco and Algeria are in the process of setting up a joint venture to link the Algerian power grid to the European Union via Morocco.¹⁸ The ultimate goal is to connect all North African countries to the EU single energy market. The project would promote electricity generation at low cost plants and reduce the amount of spare capacity across the Maghreb. A trans-Maghreb power grid would also provide energy security for the region, but much remains to be done. Integration could likewise be fostered for natural gas, at both the production and distribution levels.

As another example, Maghreb partners could be asked to open their insurance and leasing sectors not only to US and EU firms but also to other Maghreb countries. Regulatory regimes for insurance and leasing could be harmonized across the Maghreb.

As a third example, the United States and the European Union could extend so-called “fifth freedom” rights to air carriers based in the region,¹⁹ provided the home nations accorded similar rights to other carriers based in the region.

¹⁷ In December 2003, in Rome, Algeria, Morocco, Tunisia and the European Commission (as “non-participant promoter”) signed a Protocol of Agreement for the progressive integration of the electricity markets of these three Maghreb countries into the EU electricity internal market. The long term objective is the signature of a Euro-Maghreb Energy Community Treaty, which would also include Libya and Mauritania. “Establishment of the “Rome Euro-Mediterranean Energy Platform” within the Framework of the Euro-Mediterranean Energy Cooperation”, Decree of the Minister of Productive Activities, October 15, 2004.

¹⁸ “Algeria Plans Power Export to Spain Via Morocco”, Reuter News, May 10, 2008.

¹⁹ “Fifth freedom” rights are the rights of an airline of one country to land in another country, drop off some passengers and pick up others, and continue traveling to a third country (rather than returning to their own).

Capacity building efforts and technical cooperation could be done through instruments similar to the Economic and Technical Cooperation (Ecotech) agenda of the Asia-Pacific Economic Cooperation (APEC). The Ecotech agenda was created to support the Bogor Goals for open trade and investment.²⁰ As an example relevant to the Maghreb, the United States and the European Union could provide assistance for the harmonization of standards throughout the region. A precedent was established in the US-ASEAN Trade and Investment Framework Arrangement (TIFA) and applied to pharmaceutical and agricultural products.

Likewise, while much of the Maghreb transportation infrastructure is relatively good, the United States and the European Union could encourage the World Bank to initiate selected projects for the improvement of ports, airports, roads and pipelines. Technical and financial assistance for transportation infrastructure should focus on transnational networks. In April 2008, the ten Western Mediterranean countries – namely Portugal, Italy, Spain, France, Malta and the five AMU members – signed a Memorandum of Understanding introducing a series of infrastructure projects including a high speed train and a motorway across North Africa.

Improving the efficiency of intra-regional shipments

The last set of features concerns the need to decrease the time and cost of shipments to Maghreb neighbors. At US or EU insistence, a Maghreb country might agree, for example, to streamline its customs procedures to ensure the faster release of goods, not only for goods arriving from the United States or Europe but also for goods arriving from its Maghreb neighbors. New procedures should strictly follow the principles of the Kyoto Convention which states that customs authorities must maintain formal consultative relationships with importers, and that custom formalities must be specified in national legislation and be as simple as possible.

²⁰ Six priorities were identified: developing human capital; fostering safe and efficient capital markets; strengthening economic infrastructure; harnessing technologies of the future; promoting environmentally sustainable growth; and encouraging the growth of small and medium enterprises.

Consistent with these principles, Maghreb customs authorities could permit express shipments by qualified traders and open all borders for certified truckers. The authorities could publish applicable laws and regulations on the internet and permit electronic submission of customs information prior to the arrival of shipments (whether by land, sea or air). Each Maghreb partner should apply risk management principles for customs control so that officers would only inspect shipments that are considered medium or high risk.

In addition, the Maghreb partner should allow broker guarantees to cover potential duties and taxes while goods are in transit through a country. This element is essential if businesses are to take advantage of the improved transportation measures. When goods are diverted or lost, the issuer of the guarantee would compensate the host country for duties or taxes that ought to have been paid.

Table 4. Bilateral Agreements Between the United States and Maghreb Nations

	Trade and Investment Framework Agreement	Bilateral Investment Treaty	Free Trade Agreement	Other Bilateral Agreements related to trade or investment	Generalized System of Preferences (GSP) Status
Morocco		Signed in 1985, entered into force in 1991	Signed in 2004, entered into force in January 2006	Agreement on Science and Technology cooperation (2006)	Not Applicable ** Western Sahara is a “Non-Independent Countr[y] [or] Territor[y]” that is Designated Beneficiary Developing Country (no goods restrictions)
Algeria	Signed in 2001			Investment Incentive Agreement(1990); Agricultural Commodities Agreement (1966); MoU Concerning Cooperation and Trade in the Field of Agriculture; Science and Technology Cooperation Agreement (2006)	Designated Beneficiary Developing Country (no goods restrictions)
Tunisia	Signed in 2002	Signed in 1990, entered into force in 1993		Agreement on Science and Technology Cooperation (2004)	Designated Beneficiary Developing Country (no goods restrictions)
Mauritania					Designated Beneficiary Developing Country Least-Developed Beneficiary Developing Country (no goods restrictions)
Libya					Not Applicable